

TO: The Secretary
House of Representatives Communications,
Information Technology and Arts Committee
R1 Suite 116
Parliament House
CANBERRA ACT 2600

From: Peter D Glover ANZIM
46 Berrima Street
WYNNUM QLD 4178
BRISBANE

TELSTRA INQUIRY

Submission No. 14

SUBMISSION RE:

"Structure of Telstra"--Inquiry

That which follows is particularly relevant to Section 51, parts (iv) and (v) of the Commonwealth Constitution of 1901 that, as 'British Law' established the 'Commonwealth of Australia.

As your Chairman has probably told you, he is privy to the writings that constitute "an offer" of a financial nature made to all the shareholders of Telstra that would effect some beneficial changes to the 'structure of Telstra'. (Such writings, as copies, are hereby attached.)

Section 51(iv) of the Constitution of course refers "the Public Credit" and some studies have been made on "The Use and Disposition of the Public Credit". At this time, in Australia the "value" expressed in dollar terms, is given as \$9.2 Trillion---so with a population of less than 20 Million persons, there is enough to go around!

Section 51(v) refers to: "Postal, telegraphic, telephonic and other like services".

From that, at an earlier time, arose the Postmaster-General's Department, thence Telecom Australia, then Telstra.

As the Postmaster-General's Department, and Telecom Australia the rights of "ingress, egress and transit" over State Government's properties (pursuant to Section 109 of the Constitution of 1901) arising from Commonwealth Government ownership of the facility --the "copper wire".--ownership was quite clear and distinct, and undisputed.

With the advent of 'Telstra Corporation Ltd' with its now, part private part Commonwealth ownership (50.1%) form of ownership it seems a quite likely outcome:

"That if the Commonwealth Government divests itself from the ownership of the Corporation (or possibly just less than 50.1%) then the rights held from Section 51(v) of the Constitution of ingress, egress and transit over State Government properties revert to the States without the need for compensation."

and: "That the States being thus possessed of "the copper wire" et al would seek to lease back to the Corporation such facilities at an agreed rent and on suitable terms and conditions."

Such observations, of course, reflect upon the 'value' of the corporation..an item of interest to your Committee.

The point being just made here (and it is known to others) is that "the ownership" of the copper wire etc is vested not in the documents of establishment of the corporation but in the function of the Constitution of 1901---such situation and its assessment depends upon the level of ownership by the Commonwealth Government.

("This" also has an effect on the level of taxation to be paid by the corporation but that will be dealt with later in these writings.)

It is recognised that "you" as politicians with full access to advisers, and government departments and so forth can "draft legislation" that 'could' set aside such apparent doubts, just written...but in doing so, there would be manifestly a 'duality-of-purpose'..they are:

--prepare a Bill to 'get around' the Constitution
and --then 'get the money' from the sale certain.

As is often the case, where there is a 'duality-of-purposes, often accompanied by alacrity, there is often some re-consideration at a later date. In this instance that could include the High Court where anyone of the Six States has locus standi..for a more considered outcome and the purposes of it.

This 'matter' is not without prior discussion as it was (in part) raised with Dr Ziggy Switkowski in a letter of June 21 2001 (Telstra ref 1106-741) wherein, in commenting on the (then) a recent Telstra "pitch" to the 72 representatives of international bond dealing firms at an informal post meeting conference on the Gold Coast.

"About the Telstra offer!"

"What do you think of it?".."Well, its got cash. We like cash.
"Its a near monopoly. We like monopolies!" "\$500,000 is not much as bonds go. This is a wealthy country. Why do they/^{not} use their own money?"..."But they would not tell us about the status of the 'copper wire'!" " We do not like that!" "We smell a rat..so we leave it alone!"

That somewhat laconic report, not intended for publication or record was given over drinks at a Gold Coast function.

The 'opinion' thus formed was held by those in the 'recommendation business' of the placement of international bonds...and as far as it known, is still extant.

(Mention has been made of the Constitution of 1901, being as it was, and is now, British Law and giving it full recognition in its validity of use and recognition. 'That' aspect may have been interrupted by the events of January 10 1920 as to its uninterrupted continuity..but we do not need to concern ourselves with that here. There are also the Six States Constitutions and post June 6 2002 Queensland has one too!)

But you will be becoming impatient with comment on the "structure of Telstra" and that, due to timing, arises out of the ancillary items from the joint letter to Senators the Hons Nick Michin and Richard Alston that contained what amounts to a 'pro forma' offer. To that I will now turn.

(See the attachment relevant.)

When you read the "offer document" you will appreciate that the function of it is within the "escrow condition". 'Escrow' arrangements are not loose. The point of entry is clear as is the point of exit. To bring that about some 'executive actions' are required.

To arrive at the 'accelerated opinion' of..'but that means the Committee would own the Corporation' is but a transient thing'..and subject to the conditions of the 'escrow'. Let that not bother you further.

Asto the "Structure of Telstra" that appears to be best brought about, taking all matters into consideration by the following:

1. A Directorate of 12 persons. Six appointed from the States 'on the advisements of the Premiers to their Governors...and then a further Six to be elected by the (then) Stockholders in a postal ballot conducted in each State. (The ACT to be 'served' by NSW and the Northern Territory to be 'served' by SA).
2. At Head Office there to be A General Secretary, Five Executive Officers and One Public Relations Officer...supporting staff to be no more than Thirty persons.
3. The State Administration offices to be be similiary structured with the Two State Directors being kept fully advised for their monthly Board meetings at Head Office.
4. Head Office to be located away from the CBD im say Mittagong or in part of the Gold Coast...at all times away from the 'finance centres'...their job is administation, not deal arranging.
5. The responsibilites of the Head Office to be 'international traffic, intra state matters, and general policy. The Executive Officers, in brief to be responsible for:
 - retail matters
 - manufactureing sector
 - finance sector & allied
 - government requirements, Federal State & Local
 - primary industry including mining.
6. Services and maintenance, staff employment etc all to be a responsibility of the State Offices.
7. Accounts to be from a collection point of view, a State matter with consolidated accounts, arranged in Head Office.

You will appreciate, that within this (intended) structure that the "rights" of the States, over the 'copper wire' are given by deed, full recognition at all times and in no way subject to 'test or challenge' by whatsoever means. Their part is successfully incorporated.

Asto legislation of an enabling nature just a simple Bill would suffice such as:

"Telstra Re-Organisation and Recognition Act"

:an attached thereto as a schedule the (then) "Docuement of Establishment of the Corporation"..with provision for amendment from time to time...such legislation would encompass all the above structure and by legislation, duly codify it.

The 'Terms of Reference' (as published in the "Weekend Australian" of December 21 2002) make reference to:

- * Telstra shareholder value and its shareholders; and
- * the Commonwealth Budget."

Without undue definition of the meaning of the term "value" (with its often high subjective conclusions) let us look at what maybe found in the Annual Balance Sheet and the Accounts attached.

The Asian 'adventure' into Pacific Century Cyberworks and its later, item "Reach " are now given comment.

The former, PCCW is said to be the vendor of 'half the mobile phone market in Hong Kong'..and "Reach" is something to do with the 'rents that can be obtained from the use of an underwater cable system'.

Well, using the Arthur Andersen method, assuming the 'investment' is (now) \$4 Billion, as it has 'potential' that must be recognised. So, by writing up the value, (for potential) to, say \$5.5 Billion and the amount so increased located in the "Asset Realisations Reserve Account" then 'shareholders funds' are also increased as is the 'Asset Backing' per share.

Of 'Reach' as this has been set up so that the "profits go to the Bahamas and the losses arrive in Australia" the only value that can be given to 'that' is a query!

Then again one can use the "Old China Hand" approach for those trained by say, Butterworth & Swire or the Jardine side of Jardine Matheson which goes like this....'So you have a concession in Asia. Well if you break a couple of rice bowls and do not get your politics right then your concession is not worth a damn.

As both of those 'assets' stand at this time we give a dollar for the bit!

Annual Accounts that rely upon "General Accepted Accounting Standards" (a London based system) for their compilation lend themselves to a great deal of sophistry of presentation of the 'state of the corporation' on one day of the year. Balance date. Without any further discussion, let us observe a comment from a Senior accountant:

"Profits are an opinion, cash is reality!"

As others have observed, the Corporation has 'cash' so to determine true value (insofar as the reporting allows) then seek to ascertain the total cash flow (net) and then place a value on that.

As telephone communications are an international business with a large number of countries involved, many without a convertible currency, there is a very large volume of 'foreign exchanges' involved in the international traffic generating an account that many bankers would prize for its currency content of a continuous nature. It is thus, not surprising that in the earlier mentioned 'bids under preparation' of which Deutsch Bank is said to be a leading contender, the 'banks' are keen to 'get a piece of the action'...as collateral business.

Of the 'Common-Wealth Budget' there is a provision of the receipt of "\$30 Billion from the sale of rest of Telstra" (irrespective of this committee or any other opinion) and "provision for costs thereof of \$650 Million!".let us look at both items.

The notion that the "sale of Telstra (part) will enable government to re-pay debt..of which we have already repaid part etc" is a piece of nonsense. 'The Government' has repaid internal debt and doubled the amount from external sources. Then the idea of 'the government would be debt free' is rubbish. With an unfunded superannuation arrangements for civil servants, elected politicians, and members of the judiciary of over \$82 Billion, (secured on the Public Credit)..is but such a debt.

Perhaps this is the place to bring to the attention of members of the Committee sources of government funding; which are:

1. Taxation..which causes inflation but has no debt
2. Fiat Money..which causes inflation but no debt
3. Sale of Treasury Bills..which do not cause inflation but do give rise to debt
4. Bank Borrowing..which causes inflation and gives rise to debt.
5. Profits from State Owned Enterprises.eg Reserve Bank
6. Drawings on the 'Public Credit'..depending on method may not cause either inflation or debt.

Sections 55 and 56 of the Constitution of 1901 deal with the procedures that are to be followed by the Parliament in these matters.

It is noted in the last Budget that the (net) GST revenues of \$31.8 Billion are simply 'not there'..contrary to Sect:56 requirements..the reason given is "that GST is a State Tax!"..and yet no State collects it, no State has legislation for its placement etc..that comment is seen for what it is: 'An heroic assertion..devoid of credibility in function!'

And yet, such a 'document' was read three times in the House of Representatives and then The Senate..or so the record shows called 'hansard'. We can only assume, that as you all mindful of the Second Rule of Politics you in fact know what you are doing in the Parliament.

You will realise, that the sophistries of financial reporting found in The Treasury (and other places) within the above schedule, can produce a Budget of any presentation prior selected..and copious notes of some justification or other...whether 'Telstra 3' is sold for notional cash of receipt of stock will have no known effect on a future Budget.

That the 'government' should divest itself from ownership based on some unclear series of devoirs only found in 'politics' is the clearly seen need to effect such 'sale'. As noted in other writings, the actions of the Common-Wealth government, as largest shareholder, vendor, regulator, et al have been characterised by mis-adventure after mis-adventure...and for that reason, they should 'get out of it!'

Which perhaps brings us the alternative agenda of the said to exist "findings of the Committee" which alike all political committees has both an advisor content as well as adjudicatory.

What you have here, is competition between "finance capitalism" and "the People of Australia" as to who or whom shall have the benefits of the ownership of a large and vital industry...communications.

Let us look at the prior events.

Since before January 2002 Deutsch Bank has been preparing for the structure of an "offer" now given of an amount of \$30 Billion. You have been asked to look at the 'fee structure' of \$650 Million (as approved by you all in the Budget) as if that is all that the 'banks' would be able to get out of it. Well you could not be further misled if if you accept that!

Banks create credit. (At this point refer to the attachments written by Keith Macdonald for the AECJ and now attached)..In the March Edition 2001 of "Finance & Development" (an IMF Quarterly) Bulletin Section you will find the comment..."The Bank of International Settlements (based in Balse Switzerland) has approved the Capital Adequacy Ratio of \$1.60cents per \$100 for loans...Yes, the rest is "created".

Of the Deutsch Bank intention, now that they have established "Deutsch Asset Management" (as a capital fund) is to provide, from credit creation the full amount of the \$30 Billion said to be needed for "F3". The 'Asset Management' section will have the '\$1.60' bits allocated to it as an 'investment' and the bank will provide (by creation) the rest. Head Office, if required, may take part in the initial stages.

If 'this' is allowed to proceed then from 'Canberra' we will be given the 'benefits' of structure owned by finance capitalism with taxing powers..that is the clear outcome of that path..Oh yes, the 'government' gets its cash and we, get the detrious of the result!

In support of this as briefly set out, 'Telstra' has a 140 person strong Public relations outfit that in its senior ranks have quite a few past politicians. (See attached..and note the comment, from others..'a better cross section of refugees from unemployment would be hard to find!")

Then The Treasury, has priced in not only the Intended Receipt but also the 'fees' of \$650 Million. Perhaps on this point, Dr Henry, from his diary notes could assist the Committee in Inquiry mode, the detailed componentry of the fess structure and who or whom provided the figures.

On this matter of 'fees'..you maybe told, or already know, "that 'Glover' is after \$65 Million in fees"..well, in part correct.

The Keith Macdonald Memorial Fund (of which I am Executive Officer) does seek fees of \$65 Million..for the purposes of disbursements. Assuming the fee is paid the ATO advised..they want \$35 Million as Tax on income, which leaves \$30 Million but so asto provide the intended receiptients with tax >paid amounts a further \$15 Million would be thus applied. Leaving, \$15 Million..the other \$50 Million goes to 'the government' by what amounts to "clawback" arrived at by "deeming" by the ATO.

Such a 'taxation result' does not apply to 'banks' as from Section 36 derived rulings of the Banking Act 1959 they have long enjoyed 'internal assessment' of their taxation liabilities.

You may note that 'Telstra' as a 'government corporation' does not pay tax on its incomes but gives a part payment in lieu..such a situation of course changes upon sale etc.

This situation has a direct outcome on the "assessment of the value of corporation" and to make a taxation liability forecast could only be achieved by rank conjecture.

This submission will be quite different from all the others as it refers in part to an extant offer...not just to the 'government' but the other shareholders too. In doing that some relief is afforded to the 'T2' shareholders who in the words of Max Walsh.."were duded" by a combination of public relations and postulations.

It takes into account the 'constitutional position' which others may just see as 'inconvenient' and seek to ignore it.

Of the price arrived at..12 years past dividends and then 20 year 5% stock..if the Committee is convinced a higher price can be justified, of say, '15 years dividends..then by changing the stock to 25 years at 4%..such another figure could be found. (It will be realised that both examples take into account 'the Rule of 72').

There is no intention of entering into obligations, either now, or later that cannot be re-purchased.

You will also realise that a "Memorial Fund" has a certain permanency about it. If not received this time, then there is always another time. We are mindful of Eric Fromm words in "Man Must Prevail" which were: ..'the only constant is change'..and that applies to politics as it does to finance..the two components present here.

What has been written here is a distillate of 12 months writings to various Ministers of the Crown and in part, to some State Ministers. Acceptance has been varied but the arrival of this, as a conclusion will not be a surprise to quite a few.

We are supplying Senator The Hon Nick Minchin and Senator The Hon Richard Alston with a copy as they having been previous recipients of correspondence are also mentioned herein..thus for information.

As I understand it, your Committee is to meet in Canberra, Sydney and Melbourne and no where else. As I am, at this time an 'unreliable traveller' I advise that I cannot, thus, attend before you for further discussion. If however, it is thought fit to send a sub-committee to Brisbane, say of three persons, I will be pleased to meet them at my domiciliary residence.

If any further explanation is required, then do not hesitate to use the 'phone or letter as a means of communication.



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January 7 2003

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December 12 2002

Hon Senator Nick Minchin
Minister of Finance
Parliament House
CANBERRA ACT 2600

Hon Senator Richard Alston
Minister of Telecommunications
Parliament House
CANBERRA ACT 2600

Re 'Telstra Corporation' etc

Gentlemen,

Since January 8 2002 there has been various forms of correspondence with the Commonwealth Government from the Prime Minister to both of you..re 'Telstra' etc.

Well, attached is a 'preliminary draft' of a formal offer to be made to all shareholders, including 'you lot' based upon the precedent (and pricing) of the 'sale & purchase' of the Bank of England in 1946...ie. twelve years (past) dividends!

From the 'acceptance' of such offer a suitable form of directorate would be put into place and the 'government' contribution would be only from the States on a part recommendation basis.

The intent is that the 'corporation' will remain fully in the ownership of Australian citizens for some time to come..again with State administrations support.

Of the 'document' itself, the three proposed committee members are 'standing by' and pending your reply, if positive, will act and as given, will take place.

Yours sincerely

Peter D Glover

ENCLOSURE: 1

A large, stylized handwritten signature in black ink, appearing to be 'Peter D Glover', written over a large, loopy flourish.

DOCUMENT FOR THE ESTABLISHMENT OF "THE KEITH MACDONALD MEMORIAL FUND" CAPITAL ASSETS RECONSTRUCTION OF 'TELSTRA CORPORATION'
: BY THESE WRITINGS.

1. The Fund is established for the purpose as set out in its Title and in that regard sees fit to make offer to the existing shareholders of the capital assets of the Telstra Corporation as maybe identified by their shareholdings..:
2. In this way, to offer, in full and final consideration, the aggregate sum of arithmetical derived amount of Twelve Years Dividends...based upon the preceeding twelve years, as a full purchase consideration.
3. The instruments of such offer be from Stock issued by the Fund for a twenty year period at an annual interest return of Five percent.
4. The record of such Stock issuance to be maintained by a Registrar at no cost to the (then) stockholders. The Registrar may, on such suitable terms and condition, approve 'dealing and sale' of such Stock but in units of variously:
 - (i) For individual Stockholders in units of \$100 of Stock and such fractions as may occure to be acknowledged in legal tender.
 - (ii) For Common-Wealth Government stock holdings, then in units of not less than \$10,000 per certificate.
5. As there is anticipated some time interval between 'offer' and 'acceptance' the vendor shareholders are advised that it is a material condition that:
 - (i) The business of the Corporation be maintained in ways that are totally normal and customary and;
 - (ii) That all staff appointments and employment arrangements howsoever numerate, be uninterrupted and;
 - (iii) That allpremises whether owned or leased and such services that are offered be all fully maintained and all outgoings be duly paid and incomings accounted for.
6. To bring these matters about the Fund has appointed an "Interim Committee" of three persons whose signatures of recognition- of- participation hereby follow for the sole purpose of finalisation of what might be seen as 'negotiations'. The Committee will hold any certificates of beneficial ownership of the Corporation " In Escrow" pending the issue of the Stock by the Registrar and may act, during this period as an executive Committee.

Our joint assent to the above is hereby given in ways usual

..... Signature
 Signature
 Signature

Dated at..... on.....

Tel: Gloucester (01452) 398175
or (01452) 398080



BANK OF ENGLAND
Registrar's Department
Southgate House
Southgate Street
Gloucester
GL1 1UW

Please address any reply to
The Chief Registrar

quoting our reference:
RSOG 18. 5.01

18 May 2001

Mr P D Glover
46 Berrima Street
Wynnum QLD 4178
Brisbane
Australia

Dear Mr Glover

Thank you for your letter of March 15 which was received at the Treasury on 2 May. The Treasury have passed your letter to me to reply.

I am unable to provide you with information regarding the beneficiaries of the issuance of 3% Treasury Stock which was issued in 1946 in exchange for Bank Stock. The Bank's register is not open to public inspection and we would not reveal the information to a third party except with the written consent of the stockholders concerned.

However, I have enclosed copies of the letter of explanation which was sent to the holders of Bank Stock along with the form the holders completed and the particulars of the issue of 3% Treasury Stock. I hope that this information will assist you in your research.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'R E Page'.

Miss R E Page
Registration Officer

Reference

BANK OF ENGLAND,
LONDON, E.C. 2.

February, 1946.

Dear Sir/Madam,

I write with reference to the holding of BANK STOCK inscribed in your name.

In pursuance of the Bank of England Act, 1946, the existing Capital Stock of the Bank of England will be transferred to a Nominee of the Treasury on the 1st March, 1946; holders of BANK STOCK will receive in exchange 3 % TREASURY STOCK, of such nominal amount that the annual interest thereon is equal to the average annual gross dividend on BANK STOCK during the period of twenty years ending on the 31st March, 1945. As the average annual gross dividend declared during that period was 12 per Cent., the nominal amount of 3 % TREASURY STOCK to be received by holders of BANK STOCK will be four times the nominal amount of their BANK STOCK.

The holding of BANK STOCK referred to above amounts to £

The amount of 3 % TREASURY STOCK to be received in
exchange will be £

A certificate of title will be issued in due course in respect of the new Stock and instructions as to its disposal should be given on the form enclosed; the form, when completed, should be returned to the Chief Accountant in the accompanying envelope.

A full half-year's interest on the new Stock will be paid on the 5th April, 1946, and thereafter interest will be payable on the 5th April and the 5th October in each year. Failing directions to the contrary from the Inland Revenue, Income Tax will be deducted by the Bank from all payments exceeding £5 per annum; payments amounting to £5 per annum or less will be made without deduction but will be assessable to Tax in the hands of the recipients.

Distingas and other notices (if any) and instructions as to the payment of interest recorded in respect of holdings of BANK STOCK will be applied to the new Stock.

Yours faithfully,

W. H. NEVILL,

Secretary.

3 PER CENT. TREASURY STOCK.

TO THE CHIEF ACCOUNTANT,
BANK OF ENGLAND,
18, FINSBURY CIRCUS,
LONDON, E.C.2.

I/We hereby request you to forward by post to _____

at _____

the certificate for the sum of 3% TREASURY STOCK to be issued in exchange for the holding
of BANK STOCK inscribed in the name(s) of _____

Insert here the names
in full, addresses and
descriptions or qualities
of all the Holders,
whether surviving or
deceased, as recorded
in the Bank Books.

If a registered address
requires alteration,
both new and old
addresses should be
stated.

To be signed here by ALL
the Holders, Executors or
Administrators as the
case may be.

_____ 1946.

Exd. _____ Cert. despatched _____ A/c Page No. _____

This notice is not an invitation to the Public to subscribe, but is issued in compliance with the Regulations of The Council of The Stock Exchange for the purpose of giving information to the Public.

Particulars of an
ISSUE OF £58,212,000
3 per Cent. Treasury Stock.

The Stock is an investment authorised by the Trustee Act, 1925, and the Trusts (Scotland) Act, 1921.

The Stock will be issued on the 1st March, 1946, to the persons entitled thereto in accordance with the provisions of the Bank of England Act, 1946.

The principal of and interest on the Stock will be a charge on the Consolidated Fund of the United Kingdom.

His Majesty's Treasury reserve to themselves the right to redeem the Stock at par on or at any time after the 5th April, 1966, on giving at least three months' notice in the *London Gazette*.

The Stock will be registered at the Bank of England or at the Bank of Ireland, Belfast, and will be transferable by instrument in writing in any usual or common form in accordance with the provisions of the Government Stock Regulations, 1943.

The Stock will be transferable in sums which are multiples of 1d. Transfers will be free of Stamp Duty.

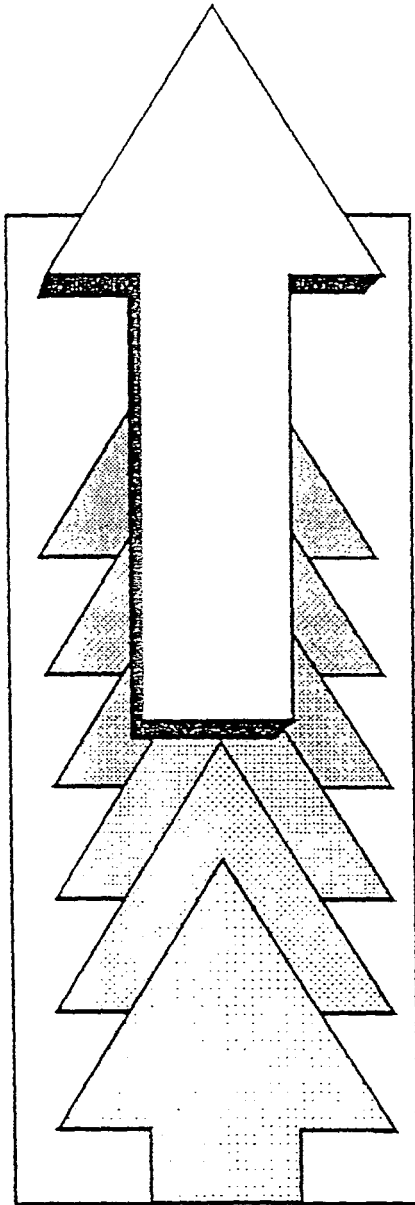
Interest will be payable half-yearly on the 5th April and the 5th October; a full half-year's interest will be paid on the 5th April, 1946, to those persons who, at the close of business on the 1st March, 1946, are registered as holders of the Stock. Income Tax will be deducted from payments of more than £5 per annum.

Copies of this notice may be obtained at the Bank of England, London, or at any of the Bank's Branches; at the Bank of Ireland, Belfast; or from Messrs. Mullens & Co., 13, George Street, Mansion House, London, E.C.4.

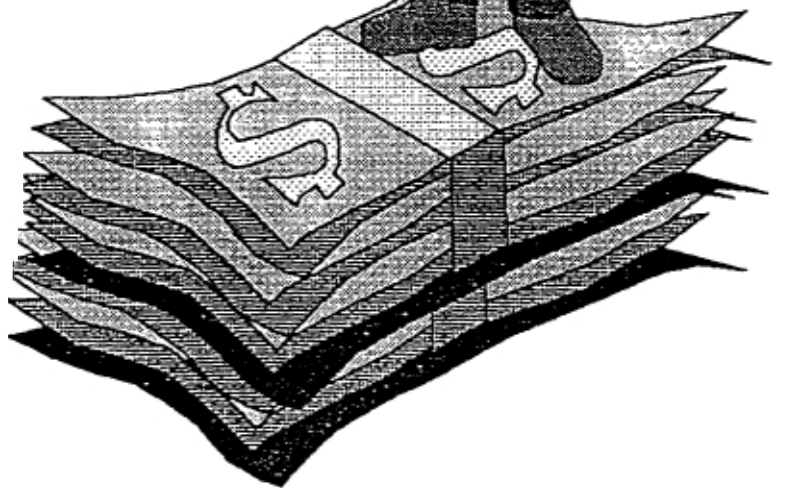
BANK OF ENGLAND,
LONDON,
23rd February, 1946.

Approved.
E.S. Croucher
Treasurer
21.2.46.

Do banks create money?



Tracing the money creation trail from as far back as 16th century Venice to today.....



Australian Coalition for Economic Justice (ACEJ)

Do banks create money?

by Keith MacDonald for ACEJ

“The process by which banks create money is so simple that the mind is repelled. Where something so important is involved, a deeper mystery seems only decent.” US economist J. K. Galbraith.

Is the money banks lend created out of nothing! The answer given by economists, bankers and other reliable sources quoted in this report is a resounding “Yes!”

Tommaso Contarini, Venetian Senator, 16th century

“Banks of deposit to number of a hundred or more came into existence in Venice in the thirteenth, fourteenth and fifteenth centuries. A considerable number also failed with varying degrees of resonance. Numerous efforts were made by the Senate at regulation, including such details as the hours that banks were required to be open and their obligation to count out the depositor’s cash in his full view.

“The results of the regulation were less than perfect. A sixteenth century senator, one Tommaso Contarini, told in a speech of the difficulties. As paraphrased by Charles Dunbar, he noted that a banker “...can accommodate his friends without the payment of money, merely by writing a brief entry of credit. The banker can satisfy his own desires for fine furniture and jewels by merely writing two lines in his books, and can buy estates or endow a child without any actual disbursement.”

[See J. K. Galbraith's *Money: Whence It Came, Where it Went* 1975 pp 18, 19]

William Paterson 1694

“Such created deposits also were a creation of money out of nothing, although bankers usually refused to express their actions...in these terms. William Paterson, however, on obtaining the charter of the Bank of England in 1694, to use the moneys he had won in privateering, said, “The bank hath benefit of interest on all moneys which it creates out of nothing.”

This was repeated by Sir Edward Holden, founder of the Midland Bank, on December 18, 1907, and is, of course, generally admitted today.” [Carol Quigley, *Tragedy and Hope: A History of the World in Our Time* pp 48, 49]

King William III granted Paterson and his colleagues a royal charter for the foundation of a bank in return for a loan of 1,200,000 pounds sterling [a huge sum in those days] at 8%. The charter gave the bank the right to issue bank notes up to the amount of the loan, which would go out to private borrowers who would pay interest at the same rate. The money was lent twice over. [*Encyclopaedia Britannica*, 1970, under the heading **Bank of England**]

Until 1910 banks in Australia used to print their own bank notes, and so, too, did the State of Queensland; but in that year the Fisher Labor Government put an end to the practice and took upon the government the responsibility for issuing Australian notes. It passed the job over to the Commonwealth Bank and then, when it opened its doors in 1960, to the Reserve Bank.



Australian Coalition for Economic Justice (ACEJ)

84 Park Road
Woolloongabba
BRISBANE Q 4102

Phone: (07) 3217 3142

Fax: (07) 3217 3028

Email:

Adam Smith 1776

Adam Smith dealt with the subject in *The Wealth of Nations*, 1776, Book 2 Chapter 2:

“The substitution of paper in the room of gold and silver money replaces a very expensive instrument of commerce with one much less costly, and sometimes equally convenient...”

“Let us suppose, for example, that the whole circulating money [That is gold and silver K.M.] of some particular country amounted, at a particular time, to a million sterling, that sum being then sufficient for circulating the whole annual produce of their land and labour.

“Let us suppose, too, some time thereafter, different banks and bankers issued promissory notes, payable to the bearer, to the extent of one million, reserving in their different coffers two hundred thousand pounds for answering occasional demands. There would remain, therefore, in circulation, eight hundred thousand pounds in gold and silver, and a million of bank notes, or eighteen hundred thousand pounds of paper and money together.”

Smith said that, since the million in paper money would meet requirements at home, eight hundred thousand in gold and silver could be used for purchases abroad, where the paper money would not be acceptable.

Lord Acton 1875

Lord Acton was the Lord Chief Justice of England in 1875 when he said, “The issue which has swept down the centuries and which will be fought sooner or later is the people versus the banks.”

“THAT TIME HAS COME” say McLean and Renton, the authors of *Bankers and Bastards*, 1992, on the very first page. [Published by Hudson Publishing, PO Box 537, Hawthorn, Victoria - 178 pages, price about \$17]

Reginald McKenna 1924

Reginald McKenna was Britain's chancellor of the exchequer, 1915-16 and in 1919 he became chairman of the London City and Midland Bank — now the Midland Bank — retaining the post up to the time of his death in 1943.

Addressing the Annual Meeting of the bank in 1924, he said, “I am afraid the ordinary citizen will not like to be told that banks can and do create money. The amount of money in existence varies only with the actions of the banks in increasing and decreasing deposits and bank purchases. Every loan, or bank purchase, creates a deposit... And they who control the credit of the nation direct the policy of governments and hold in the hollow of their hand the destiny of the people.”

[Quoted by Frederick Soddy, M.A., L. L. D., F.R. S., in his booklet, *The Arch-Enemy of Economic Freedom*, 1943].

Frederick Soddy 1877-1956

Frederick Soddy's first claim to fame was his collaboration with Ernest Rutherford in his investigations into the structure of the atom. Together they formulated the theory of atomic disintegration to account for the tremendous heat energy radiated by uranium. He became professor of chemistry at Glasgow, Aberdeen and Oxford, was awarded the Nobel Prize for chemistry in 1921 and was made a Fellow of the Royal Society. Besides his scientific publications he wrote several books on money and banking, including *Wealth, Virtual Wealth and Debt*, *Money Versus Man* and *The Role of Money*.

In *The Role of Money*, 1934, Soddy said: “The evils of genuine usury in the Middle Ages, through the shortage of precious metals and insufficiency of the medium of exchange, cried aloud to heaven for redress.

“But the genuine usurer did at least give up what he lent and that for what he received interest, whereas the banker does not, but levies upon goods and services of a nation for what he pretends to lend and upon



Australian Coalition for Economic Justice (ACEJ)

which he receives interest.

"It is bad enough to be put in the grip of the money-lender who does lend money, but it is a million times worse to be in the grip of the pretended money-lender who does not lend his money but creates it to lend...This is a surrender of the powers of life and death over the nation's economic life into the hands of irresponsible imposters."

John Maynard Keynes 1883-1946

Keynes published a book in 1930 which he called, *A Treatise on Money*. He devoted one chapter to explaining how banks create the money which they lend; and he warned that such a monetary system would possess "an inherent instability."

In "The Return Towards Gold", an article he wrote for *The New Republic* on March 18, 1925, Keynes said: "(It is) my belief that fluctuations of trade and employment are...the greatest and most remediable of the economic diseases of modern society, that they are mainly diseases of our credit and banking system."

R. G. Hawtry 1932

R. G. Hawtry was an official in the British Treasury. In 1932 he wrote *The Art of Central Banking*, a book which was reprinted without alteration in 1962. He repeated again and again throughout the book the fact that banks create money, probably having found out, like Galbraith, that people recoiled from the notion as from an inconceivable gigantic swindle. On page 290 he wrote, "When banks increase advances they create money, whoever the borrowers may be and whatever their purpose."

Graham Towers 1939

Graham Towers was the founding governor of Canada's central bank, the Bank of Canada, the equivalent of our Reserve Bank. In 1939 he appeared before Parliament's Banking and Commerce Committee. The following is an extract from his testimony:

Q: But there is no question about it that banks do create the medium of exchange?

A: That is right. That is what they are there for..That is banking business, just in the same way that a steel plant makes steel.

Q: Ninety-five per cent of all our volume of business is being done with what we call exchange of bank deposits - that is, simply bookkeeping entries in banks against which people pay cheques?

A: I think that is a fair statement.

Q: When the government delivers a \$1,000 bond to the bank, what does the bank use to purchase it with? Is it the creation of additional money?

A: It is the creation of additional money.

Q: Would you admit that anything physically possible and desirable can be made financially possible?

A: Certainly.

Q: Will you tell me why a government with power to create money should give that power away to a private monopoly (that is, the chartered banks) and then borrow that which Parliament can create itself back at interest?

A: Now, if Parliament wants to change the form of operating the banking system, then certainly that is within the power of Parliament.

[William Krehm, *A Power Unto Itself* 1993 pp 56-57]



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H. C. Coombs 1954

H. C. Coombs was the Governor of the Commonwealth Bank from 1949 to 1959 and then Governor of the Reserve Bank until he retired in 1968. On September 15, 1954, in a lecture he gave at the University of Queensland, Dr Coombs pointed out that "...when money is lent by a bank it passes into the hands of the person who borrows it without anybody having any less. Whenever a bank lends money there is, therefore, an increase in the total amount of money available." [The address was later published under the title, "The Development of Monetary Policy in Australia". McLean and Renton included the quotation in their book, *Bankers and Bastards* p 171]

E. L. Wheelwright 1990

E. L. Wheelwright was associate professor of economics at the University of Sydney for many years until his retirement, and he was the author of many books on the subject. He was a consultant to the United Nations and a director of the Commonwealth Bank. He contributed two papers to the book, *Questions for the Nineties* [1990], in one of which he said: "Bank profits have mushroomed: banks, of course, have to be licensed and although it is said that television stations are licences to print money, banks actually do." [pp 211]

The Reserve Bank of Australia

"Commercial banks are the creators of money through their deposit liabilities." The statement occurs on page three of "Reserve Bank and the Australian Financial System", a booklet published by the bank in 1989. It was written by Graeme Thompson, now a Deputy Governor of the bank.

UK Bankers Journal BRANCH BANKING July, 1983

"There is no more unprofitable subject under the sun than to argue any banking or credit point since there are enough substantial quotations in existence to prove to the initiated that banks create credit without restraint." [Quoted in *Banks and Bastards*, by McLean and Renton, 1992, pp 171-2]

J. K. Galbraith, 1975

J. K. Galbraith was for many years Paul M. Warburg Professor of Economics at Harvard University. He is a past president of the American Economic Association and was the US ambassador to India under the Kennedy administration. In 1975 he wrote, *Money: Whence it Came, Where it Went*. All who are interested in the subject should read it.

"...the pursuit of money, or any enduring association with it, is capable of inducing not alone bizarre but ripely perverse behaviour." [p 3]

"There are three progenitors of money: mints, treasury secretaries or finance ministers, and banks of one description or another. [p 18]

"The process by which banks create money is so simple that the mind is repelled. Where something so important is involved, a deeper mystery seems only decent." [pp 18-19]

"It's especially important that no one be put off by the fraudulent air of mystery that surrounds all questions having to do with banks and money." [p 73 *Almost Everyone's Guide to Economics* by Galbraith and Salinger 1978]



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Sir Josiah Stamp 1880-1941

"The modern banking system manufactures money out of nothing. The process is perhaps the most astounding piece of sleight of hand ever invented.

"Banking was conceived in iniquity and born in sin...Bankers own the earth. Take it away from them but leave them the power to create money, and with the flick a pen, they will create enough money to buy it back again...Take this great power away from them and all great fortunes like mine will disappear [he was said to be the second richest man in Great Britain] and they ought to disappear for then this would be a better and happier world to live in...But if you want to continue to be slaves of the bankers and pay the cost of your own slavery, then let the bankers continue to create money and control credit."

Josiah Stamp was an economist; he became chairman of the London, Midland and Scottish Railway and in 1928 a director of the Bank of England. The quotation is in *Bankers and Bastards* p 171 by McLean and Renton.

Encyclopaedia Britannica, 1970 — Banking Principles of, p 104 Vol. 3

"The distinguishing characteristics of commercial banks is that claims against them in the form of deposits payable on demand are themselves money."

"Money is defined as anything that is generally acceptable in exchange for goods and services and in the discharge of business obligations.. clearly, then, commercial-bank demand deposits must be viewed as part of the money supply. All contemporary literature on the theory of money and banking proceeds from the fundamental idea that bank deposits are a form of money."

The writer classifies deposits as primary or derivative. "A primary deposit is one that arise out of the deposit of cheques or currency at a bank...A derivative deposit, on the other hand, is one that results from a loan or investment by the bank...The creation of derivative deposits...is sometimes described as the 'monetization of credit'...A primary deposit, at most, may change the form of circulating medium, but does not directly alter the total volume. When derivative deposits are created...there is an increase in total circulating medium."

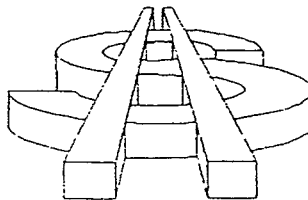
How is it done?

Because a depositor may draw on his or her account with a bank to make purchases or to pay debts, deposits are included in the volume of money. Last January [1998] it was \$333.2 billion, consisting of \$20.7 billion in currency and \$312.5 billion in deposits. [Reserve Bank Bulletins] Deposits, which are created mostly by loans and bank purchases, were more than 93% of the total.

When a bank grants a loan, it opens a cheque account in the borrower's name and credits it with the amount of the loan, which is shown as a deposit. Thus the money is created by a book-keeping entry.

Alternatively, the banks may issue cheques "straight off the loans", as they say, without opening a cheque account; or the loan may take the form of an overdraft; or it may be made by discounting bills of exchange. In every case, the loans issue from the banks as cheques, which are returned to the banks by those who receive them as deposits in their own accounts. It is the same with purchases: the banks issue their cheques which become deposits in the recipients' accounts. Reginald McKenna, in his statement quoted above, refers to the role of bank purchases in creating money and increasing the amount in existence.

In the last five years to June, 1997, notes on issue increased by \$4.9 billion, while the net lending of all banks, except the Reserve Bank, increased by \$134.5 billion. Where did the money come from?



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Schedule for Illustration of the anatomy of the supply of loan capital in terms of Sections 36 and 51(1) of the Banking Act 1959 with an attendant administrative declaration.

As current practice has it, 'banks' lend 16 times their deposits so to provide for a \$100,000 loan requires a prior deposit of \$6,250...now mentioned as 'funds employed'.

\$100,000 at 1% pa for 25 years with monthly rests.

1% per annum = 1/12% per month = 0.83%

Monthly payment = \$376.87...\$377

Weekly = \$94.25

Total over 300 months \$113,100.

$\frac{113,000}{100,000} = 1.131$

100,000

Annual Payment \$4,524

$\frac{4524}{6250} = 0.72384 = 72.384\%$

Now, a \$100,000 loan at 25 years at monthly rests = 300 months at 7%

Monthly Payment = \$707.78...\$707

Weekly = \$176.75

Total for 300 months = \$212,100

Annual Payment = \$8,484

$\frac{8484}{6250} = 1.35744 = 135.744\%$

All these figures are gross. No allowance has been attempted for expenses and/or the receipt of loan charges and administration fees and so forth.

Comment from J K Galbraith in "Money Whence it Came, Where it Went" 1967

The process by which banks create money is so simple that the mind is repelled. Where something so important is involved a deeper mystery seems only decent.

Wynnum Herald 1/1/2003

• Matthew Wieland is on the

Dr Watson

Preparing to cut cable

THE Manly West inventor of wireless office technology has received an \$80,200 grant from the State Government to get his ideas off the ground.

Paul Davis has developed an antenna that can be installed discretely in office ceilings to improve wireless networking so cables between computers, printers and network servers are made unnecessary.

"What we've done is create a wireless base station antenna, which can be integrated into a

ceiling tile," Dr Davis said.

"This means that it's totally camouflaged from view unlike current antenna alternatives."

Dr Davis began work on his idea as a PhD thesis in 1993 and continued it through his company Antepodi Technologies.

"I'm delighted to receive this grant as it will enable me to build a prototype and start contacting venture capitalists," he said.

State Member for Lytton and Minister for Innovation and Information Economy Paul

Lucas said the company was "an example of an innovative company with a smart idea that has the potential to be commercialised".

"At the moment it's common to have cables running from your computer to your printer and network server but wireless networking removes the need for all of these cables.

"This is what the smart state is all about, smart ideas that can be commercialised and lead to new jobs and new industries and can help all of us be better and smarter at what we do."



• Paul Davis.

XC

Telstra^{WFA.} ordered to alter call script

Gosia Kaszubska

TELSTRA has been ordered to change its call-centre procedures after the Federal Court found it deceived callers to its business directory hotline by favouring "priority advertisers".

The court found that people who called Telstra's Yellow Pages Connect service looking for local companies were automatically directed to businesses that paid higher advertising premiums, even if they were based out of the area.

While those businesses serviced the suburb requested by callers, operators were instructed not to tell people about non-priority companies physically located in the area, unless specifically asked.

Federal Court judge Ron Merkel said the deception breached the Trade Practices Act.

Following a complaint from a Melbourne hardware shop owner, the Australian Competition and Consumer Commission took action in late 2001 against Sensis, the wholly owned subsidiary of Telstra that runs the service.

**More than 15,000
use the service
daily, paying \$1.21
a call, plus
connection fees**

More than 15,000 Australians use the service every day, paying \$1.21 per call, plus connection fees.

In yesterday's judgment, Justice Merkel said callers were expected to "clearly indicate" they wanted a business located in a particular suburb but operators would offer premium listings out of the area even if they were asked for "a hardware store in Carlton".

"Sensis is not entitled to assume that the ordinary or reasonable caller will persist in his or her request for a business physically located in the area until that request is met," he said.

Justice Merkel said Sensis promised consumers the most accurate match for their requests but often failed in that undertaking.

Bank and is a lobbying firm Gov- ations Australia. ague and former ter Ralph Willis

and lobbying departments of Telstra and Optus boast networks of ex political staffers (see separate story). A senior businessman familiar

Names on the payroll include former Coalition communications minister Warwick Smith and former Victorian treasurer Alan Stockdale. Keating has advised the bank on its activities

watcher said. "They are in the politicians' faces more so than any other organisation I have seen. They are quite clever at keeping both sides of politics informed and briefed."

It's an emerging issue for bodies such as the Australian Shareholders' Association, which says such appointments should be viewed on a case-by-case basis. "We want to see senior pos-

far greater disclosure of such arrangements in future. "This is new ground," he says. "People aren't used to this level of scrutiny but there will be far more of it. Increasingly we live in a goldfish bowl world."

ing the dash for cash

move to Sydney ights the diffi- ntial conflict of dy knows what ow he's going

ave been privy ey discussions, advisories and erial musings owledge and s is not to sug- intoward — it's

zen and that's le are hired — and can — s be stopped? ring that min- or public ser- t work in the government set period (a 'S) there will ations of con-

Reith, oldridge have ion because of les, but hun-

dreds of staffers, advisers and more lowly politicians and bureaucrats have taken up private sector jobs without controversy.

It is obvious that if a ban is considered, then a decision has to be taken as to how far down the line it applies.

Is it fair to say to public servants, who work for considerably less pay than their private sector equivalents in many cases, that they cannot hope for a career in the private sector? And is it a good idea to discourage cross-fertilisation of the public and corporate sectors?

No. We shouldn't stifle opportunity and we should encourage diversity.

Political pointscoring is no way to construct or direct protocols for public service and political behaviour. Any changes to managing exits from the public service, such as extended gardening leave or prohibitions, need to be done coolly and without a particular scalp in mind.

Call goes out for political ring-ins

Michael Sainsbury
Geoff Elliott
• Telecommunications

NOWHERE is the nexus between politics and business been more evident than the telecommunications sector — a political football for more than a decade.

And it starts at the top.

Telstra chairman Bob Mansfield has long been close to Prime Minister John Howard. Before being appointed in late 1999 he worked for Mr Howard as a director of infrastructure projects.

Back-room boys and girls from both sides of politics have also been spectacularly successful in taking the coin of Telstra and Optus.

For much of past decade Telstra's corporate affairs was run by the formidable Deidre Mason, former adviser to Victorian premiers John Cain

WEA 2/12/2002
A phalanx of former Liberal staffers has joined what Switkowski recently described as 'our formidable public relations team'

and Joan Kirner. Mason gathered a bevy of former Labor staffers, including David Lording as national media manager in 1998.

Lording, now at Westpac, was well known in political circles as the spokesman for Ros Kelly during the unfortunate whiteboard affair.

But it didn't last. The Liberals were in power in Canberra and change was afoot, with Mason a victim of a corporate affairs purge by finance chief Paul Rizzo.

New chief executive Ziggy Switkowski brought in his own man, Brian Pilbeam, from Kodak Australia.

His first job was to run the Olympics for Telstra, before

moving to corporate affairs. Lording was replaced with Michael Grealy — late of John Fahey's NSW staff — and former Nick Greiner staffer Mark Gell was given a senior position.

Since then, a phalanx of former Liberal staffers has joined what Switkowski recently described as "our formidable public relations team".

And a few from the other side have survived.

King of the heap is group managing director for regulatory, HR and public affairs Bill Scales — previously Jeff Kennett's chief mandarin.

Others include Stephen Morrison (Lib, Victoria), Jason

Laird (Lib, Vic), Chris Newlan (Lib, NSW), Tim Scott (Lib, NSW), Andrew Steven Johnson (Nat, Qld), Greg Swain (Nat, Qld), Andrew Maiden (Lib, federal), Martin DeBelle (Lib, federal), Rosie Mulhally (Labor, federal), Liz Jurman (Labor, NSW), Catherine Rayne (Labor, federal).

Australia's No. 2 telco, Optus, attracted former communications minister Graham Richardson staffer Sam Mostyn to head PR at Optus Vision, and later Optus.

With her came fellow apparatchik Bruce Meagher, who later moved to Austar.

Optus's media spokesman these days, Stephen Woodhills, used to work for John Fahey. The coup de grace was to grab the telecommunications policy adviser from Alston's office, Paul Fletcher, who now runs legal, regulatory and corporate affairs.

Alumina	4.7
Ancor	8.1
Ansell	7.4
Argo	4.3
Aristocrat	4.5
AuckAlrpt	4.8
A Found	3.2
BHP Steel	3.1
BHPBilton	9.8
BankWest	3.7
Billabong	6.9
Boral	4.2
Brambles	4.5
Burns P	.50
CBA	27.25
CCAmal	5.25
CC Hellen cdl	23.43
CFSGandel units	1.39
CSL Ltd	20.10
CSR	6.17
CartrHolt	1.55
Centro stpld	3.90
Coal All	24.30
Cochlear	37.48
ColesMyer	6.38
CwithProp ordun	1.19
Deut Off units	1.25
Durban Rd cdl	7.53
Fairfax	3.19
FlightCtr	21.30
Foodland	17.60
FostersGp	4.55
GPT units	2.90
Goodman	1.80
Harvey N	2.58
JAG	2.68
Investprp stpld	2.13
J Hardie cdl	6.68
Jupiters	5.39
Leighton	9.75
L Lease	9.70
Lhhr Gld	1.35

NEWS

AFR 20/12/2002

Government cuts short Telstra break-up inquiry

Report Toni O'Loughlin

The federal government attempted to reassure financial markets about Telstra's future on Thursday by shortening its inquiry into breaking up the telco.

The chairman of the government-dominated parliamentary inquiry, Liberal Christopher Pyne, said the inquiry would be damaging for Telstra if it dragged on too long.

Mr Pyne, who initially suggested the inquiry should run until August, said on Thursday it would be better if it ended in March because of the uncertainty it created about the company's future.

"It was decided to have a short inquiry because it is important for the financial markets and the people in the industry not to have a drawn-out inquiry over the absurd proposal of the Labor Party," he said.

Labor's communications spokesman, Lindsay Tanner, prompted a debate within his party early in the year when he floated the idea of selling Telstra's retail arm and keeping its copper network in public hands.

Communications Minister

Richard Alston, who is implacably opposed to Labor's proposal, made it clear when the inquiry was announced on December 11 that the aim of the inquiry was to put political pressure on Labor.

But it has also put pressure on Telstra's share price, which has shed 12¢ since the inquiry was announced.

Telstra executives and Senator Alston's office deny there were any

'The inquiry is now exposed as a cheap political stunt.'

discussions during the week but it is believed the company's fury about the inquiry is understood by the government.

Mr Tanner said the timetable was inadequate for exploring the complex issues involved in structurally separating Telstra.

"The inquiry is now exposed as a cheap political stunt," he said.

"Having shot himself in the foot and caused a 10 per cent drop in the Telstra share price, Senator Alston is now beating a hasty retreat."