Chapter Four

The Plague of Debt

The Latin word, *Scientia*, from which the English word *Science* is derived meant *Knowledge*. Science nowadays, is generally only understood as empirical science or knowledge through experience or experiment. Modern scientific method consists in collecting relevant data from observable phenomena, analysing it and trying to determine behavioural patterns and fundamental relationships. If such do exist, then there is postulated some more or less plausible theory to account for it. This theory or scientific model is to be considered valid or true as long as future observations still support it. It must stand the tests of predictability and continued repetition.

The honest self's witness to integral becomingness is true, is truth. Scientific truth is synonymous with being mathematically or observationally consistent or free from contradiction. An honestly proposed theory or model can be considered true by its adherents until it is shown to be otherwise. Then it may need to undergo modifications or complete changes to accommodate new situations. If the proposed model implies conclusions which are empirically refutable later on then the theory is proved wrong or invalid. Science does not prove theories or anything like them to be true, but it does prove theories or ideas false. All honest theories have a degree of validity until they prove themselves to the contrary. Science is committed to experiential phenomena and the witness of Science is the witness of personal experience, of personal knowledge.

The scientific models of today are but echoes of the myths of ages past in which the becomingness of human minds has tried to give meaning to questioned existence and to what lies behind Nature's veils. Scientists, with few exceptions today, are not generally held in high repute by the average citizen. Weapons of war, atomic bombs, nuclear and toxic chemical waste from industries' technological dragons have damaged the esteem in which the men and women of Science were once held. If scientists wish to redeem themselves and fulfil their sacred priestly role of cultural leadership, they have the opportunity to do this by applying their understanding and methodology to exposing the unscientific selfish-functioning positive feedback systems in global Economics. Most orthodox economics as still taught in Academia and fostered in the media is not true. Its theories are logically inconsistent and the failure of their practice reveals their falsehood and refutes any claim for acceptance. This is nowhere so obvious as in matters of money and debt.

In the last half-century, developing countries have been persuaded to engage in a systematic approach to their economy based on the sequence, borrow Z invest Z export Z, then repay. This has proved a total failure. In not one year since 1960 has the total of Third World debt decreased. On the contrary, it has increased annually from $68 billion in 1970 to $2,300 billion in 1998. It has also increased as a ratio with respect to the total of debtor nation GNP (from 17% of GNP in 1970 to 33% of GNP in 1998). It shows no sign of decreasing or even levelling off.

There are some glaring absurdities about modern global debt. It is not just Third World nations that are sinking deeper and deeper into unpayable debt. The United States has a national debt that is fast approaching $6 trillion dollars. The UK's national debt stands at more than £400 billion; Germany's exceeds 600 billion Deutsch-marks. All other nations carry mounting national debts of proportional amounts. On top of these national debts, unpaid mortgages in the US total $4.8 trillion dollars; commercial debts top $4 trillion dollars. In the UK, outstanding mortgages have reached £420 billion and commercial debts exceed £300 billion.

How can the entire world be in debt? If all nations are in debt, to whom do they owe the money? How can the seeming richest and most affluent countries on this earth be in the contradictory state of financial insolvency. This extraordinary debt-bondage is in stark contrast to the real state of economic wealth enjoyed by all the developed nations.

Many people have confused ideas about debt. They know what it is to owe something to somebody. They know from personal experience the frustration and chains of personal debt and house mortgage. They are aware that the business world operates on loans and overdrafts, and all too often some become bankrupt with disastrous consequences for employees and creditors. They hear and read of National Debt and Government Budget Deficit and are generally confused about the two.

In every country there is a level of private and commercial debt which is directly linked to the money supply. The national debt of a country is completely separate from and in addition to this. The national debt or government debt is the money owed by the central government to domestic or foreign lenders. It is actually composed of pieces of paper called stocks, long-dated Bonds and short-dated Treasury Bills. These *gilt edged securities* are a form of government IOU and are issued because each year the government fails to collect enough in taxes to cover the expenses of government and of its social services like health, education, defence, law and order and the interest on money borrowed from the private banking system.

Most government budgets overshoot annually their estimated requirements by many billions. This necessitates borrowing. The total still outstanding on all its borrowing requirements from past years is understood as a country's national debt.

The technique of issuing these IOUs and accommodating the national debt is naively simple. To obtain the necessary money to cover its annual spending shortfall, carefully estimated numbers of government stocks and bills are drawn up by the Treasury. These are regularly auctioned off in the money markets to the highest bidder in order to meet the revenue shortages as they arise. They are generally bought by pension funds, insurance companies, banks and trust funds, i.e. wherever money accumulates as savings. These stocks and bills, usually in denominations of 1,000 or more dollars or pounds per unit bond, promise to repay a considerably larger sum at some future date, and are sold at a price that ensures a good return.

This is just the first act of a real life economic farce. When these government stocks mature and become due for payment, the amount of money promised on those stocks has to be found and paid to the financial institutions that bought them. Governments do not only lack the purchasing power money to pay what is already owing on their past stock issues, but they are also confronted by the current year's annual shortfall in taxation receipts. It was precisely because governments could not recover their expenditure through taxation that they issued stock in the first place. It is plagued with this annual shortfall and there is absolutely no way it can pay the money it owes.

It has made financial promises which it cannot keep, unless it repeats the cycle over and over again.

Governments obtain the money to meet the payments due on maturing national debt stocks by selling more government stock to the financial institutions, promising even more money in the future. Enough new stock to cover the repayments due on the old stock is drawn up. This is sold and the money used to pay off the old stock. When this new stock matures, the cycle will be repeated. The government pays or casts off one set of national debts, only to replace it with bondage to an even greater set. This increase is what is referred to as 'interest' on the national debt. It is not really interest in the usual banking sense, but a never-ending rescheduling of an otherwise unrepayable debt.

The national debt therefore grows at an alarming rate, increasing by the extra amount needed to remortgage the past national debt, plus the current shortfall in revenues to fund the public sector. In 1960, the UK national debt was £26 billion; by 1980 it had risen to £90 billion. The national debt at the turn of the Century stood at nearly £380 billion, and is likely to reach trillions of pounds within the next 20-25 years. In America, the national debt in 1960 stood at $240 billion; by 1997 it had reached the level of $5,000 billion, or $5 trillion! Today it is double digit trillions of dollars

This might seem a quite bad enough arrangement. But it must also be remembered that the money held by pension funds and insurance companies, or whoever buys the government stocks, is money that has had to be borrowed previously into existence. Governments thus create a second debt, an institutional debt, using already existing debt money. When the national debt is added to the total of private debt, there arises the absurdity that the nation owes far more on paper than what actually exists in the economy.

National debt systems have nothing whatsoever to do with citizens spending more than they earn nor do they imply present generations living at the expense of future ones. In conjunction with an impotent taxation system, they have become a vital part of the usurious money supply to bastard economies.

In the prevailing system of national debt, governments go to the most irrational lengths to inject money into the economy without actually creating it themselves. The effect on the economy of the sale of government stocks depends upon the entity who buys them. If they are bought by pension funds, insurance companies, or private individuals, money already in existence is recirculated into the economy. Rather than creating money itself, the government recycles money, drawing upon existing pools of money required in the future as pensions or insurance payouts. Thus money held as savings by the 'non-banking sector' is borrowed back into the economy and the government takes on added responsibility by assuming a debt.

If, however, a bank or any other lending institution, buys the government stock, new purchasing power money is created as a debt. The bank will purchase the government IOUs by drawing cheques on itself for the appropriate amount to the government. As when a loan is advanced, so new 'number-money' is actually being created. No depositor's account is lessened or altered in any way. In return for its stocks and treasury bills, the government is given an equivalent amount of bank-credit from the bank. This money will then be spent in the marketplace, quickly finding its way into bank accounts and thus resulting in increased bank deposits. In their purchase of securities, banks generally confine themselves to government gilt-edged securities, and avoid the vagaries of industrial shares.

By either drawing on money savings and mortgaging the economy to its own pension and insurance funds, or by permitting banks to create further money as interest burdened debt, a government uses its national debt to supply extra money to the economy. In both cases, the debt is recorded against such nation's assets and its repayment is dependent upon the economy's future income.

Generally, by its constitution, a National Government is responsible for the provision of the nation's currency. Its mint's contribution in the form of notes and coins is only about 5% of such currency. Whilst consumers and industry are shackled with the chains of mortgages and overdrafts, their government itself needs money to fund its public sector commitments. So what does the government do? Does its Treasury's own Reserve Bank, with the authority given to it by the Constitution, create the necessary money virtually interest free? By no means! To obtain the revenues it needs, the government instead borrows created interest-burdened money from private banks and creates more debt. The citizens are then taxed to pay the necessary interest on this unnecessary debt .

The rapid growth of national debt betrays the absurdities of the debt-based financial system. By recycling into the economy money savings that will be required in the future, the government is going to unbelievable lengths not to create money itself. Banks are permitted to create money in the acquisition of government stock. By allowing them to lend money to the government as a debt against the nation, the government is transferring to banks the ultimate in financial power. Not only can banks create loan money against the future income of individuals, they are also permitted to create and supply money as an interest-burdened debt to the government, the one and only institution with the true authority to create money. The future income of the nation is thus already mortgaged to them.

Why do governments allow banks to do this? There are many reasons, not the least being that political power is directly linked to the national debt. Governments can exert overall control over their economy if the latter is dependent upon national debt grants. Their authority positions them to stimulate and support the economy as they will, or by restricting the deficit, they can bring their economies virtually to a standstill. With this control, governments can exercise extraordinary power in deciding whether or not to *afford* something. Many industries have grown to depend on some kind of government subsidy. This renders their survival dependent on official whims.

The whole world today is in the bondage of exponentially increasing debt to its financial masters who would be like earthly gods with the right of life or death over all human beings and their enterprises through the usurped control of the lifeblood of the economic system. Today, there is no need to threaten destructive miracles of terror to persuade the rich, though very reluctant purveyors of the poor's daily bread, to effect a paternal forgiveness of debts and deliverance from the economic evils of wage-slavery and unemployment-dole. The monetary system is producing its own crop of self-destructive plagues.

Not only is all money a debt to the banking system but it is a debt on which compounding interest must be paid. This added interest money compounds the original debt which now grows exponentially, since the finding of this interest money, somehow or other, requires the foresight of its own initial make-believe future creation as a bank debt. A community can be understood as being made up of those who have money to lend and those who wish to borrow money for some reason or another. If the quantity of money in such a community were fixed, and the lenders charged interest on the money loaned, it is clear that all the community's money would eventually come into the greedy hands of the lenders at a rate proportional to the rate of interest charged.

Banks create debt-money out of nothing and sell it as a commodity, but their debt-money has to buy itself back into its former nothingness with further debt-money and must pay interest on its own purchase. To keep money in circulation where interest is charged, the money supply must be increased continually. If the banks themselves control these increases, then the debt of the community to the banks must continually increase.

By far the major part of the increase in the money supply arises from the overall credit expansion effected in bank lending. When a bank lends, say $1000 for a year at 20% interest per annum, it must be repaid $1,200 after one year. When this is done, the principal of $1000 has been taken out of circulation but the extorted interest of $200 remains furtively behind in the system as missing or stolen money and thus leaving a trail of quasi-permanent inflationary debt. It is make-believe wealth for the bank, but below-the-line interest-burdened debt for the community for all time unless some equivalent amount of real wealth is handed over to the bank and the interest-debt cancelled. It cannot do any useful work itself in the marketplace except to burn a hole in the pockets of those unfortunate enough to be victims of its usurious creation and circulation. Because any interest repayment frustrates and impedes real wealth from being efficiently used, it is positively disorganized or negatively available economic energy. A privileged few prosper to the detriment of the rest of the community who have to foot the bill for the necessary failures of its financial defaulters. Usury of any sort is a major factor in economic sickness. In the community's distribution and exchange of goods and services through money-power, the banks' avaricious extracting of interest-money renders the system uneconomical, because the lifeblood finances of its production-consumption system are being impoverished incessantly and need continual increase.

Banks do not directly produce real wealth: they only manufacture debt which is negative wealth. It is no use economists saying that the bank-created money or financial capital has enabled human genius and enterprise to create new real wealth out of natural resources when the only way that this new real capital wealth can be developed, exchanged and distributed is through the medium of further interest-shackled bank-debt. This is the very antithesis of an altruistic catalyst. Apart from the banking business, marketplace activities do not create money. They only exchange and distribute it. The interest does not create its own means of repayment nor can it cancel itself out of existence except by the waving of the magic wand of the omnipotent banking system. The latter's voracious positive feedback appetite does eventually accept forfeited real wealth in exchange for fictional negative debt wealth and the latter's perennial interest that its counter-feat has so successfully created and promoted.

As the cost of operating banks is not proportional to the amount of money loaned and hence to the amount of interest claimed, it should be clear that any increase in interest rates aimed to curb inflation, as naively taught by many economists, does in fact contribute to inflation, since interest charges are added onto costs of production. The latter's total cost is then passed on to consumers.

Once the loan-plus-interest reality is comprehended, then it can be understood how the debt of each nation is always bigger than the volume of money in circulation, no matter how fast the latter may circulate. Money can only come into existence as a cost in the production of goods and services, and the aggregate of those costs will always be greater than the aggregate volume of money which exists to pay those costs. The suggestion that the velocity of money circulation increases its ability to liquidate costs is a fallacy, though it is taught, not as a deceitful myth but as a fact by most economists. The situation that the national debt of every country under the influence of bank controlled debt finance is increasing exponentially at the most alarming rate is proof positive that the present financial system is not merely not self-liquidating, but is others-burdening with relentless increase. In boom times which are referred to by economists as proving that it is self-liquidating, the rate of increase of overall debt must of necessity be greater than in times of depression. In modern economies an interest burdened debt can only be liquidated by further debt, and pseudo-self-liquidation is accomplished and accompanied by larger other-debt generation. Doubling the speed of circulation of debt-money doubles the overall amount of debt-money in existence.

As money originally starts as a debt under the present system, it must ultimately find its way back to the banking system from whence it was first created in the form of a loan or overdraft. As long as money is travelling backwards in payment of costs and in satisfaction of earlier debts, no matter how many hands that it may pass through and no matter how fast and how much it may be split up, its economic energy is unavailable to do real work in the marketplace and achieve the production and purchase of a second lot of consumable goods.

To imagine that a dollar, passing through six pairs of hands, has settled six dollars worth of debt is blatantly deceptive. It is true that passed successively among six gamblers, one dollar can settle six one-dollar debts. Passing money more quickly among people who are only debtors to each other may accelerate their own little business cycles, but when dealing with banks in the marketplace, a totally different system prevails. When a business man accepts payment of a dollar, only a fraction of it belongs to him as his profit. The rest goes to pay his various costs. A one dollar coin may enable the exchange of a different purchase each time it is passed on, but on every one of these handlings it is merely substituting temporarily for a different dollar's worth of created credit money.

To imagine that a dollar, passing through six pairs of hands in the marketplace has settled six dollars' worth of bank debt, is like saying that one plug could be used to plug six leaking buckets, simply by putting it into each bucket in turn. Six manufacturers can each increase their overdraft by one hundred dollars to produce specific articles each retailing at the same price of $150. The first sells his to the second and in turn pays the third for his. The third buys from the fourth, who buys from the fifth, who buys from the sixth. The latter now completes the money-for-goods bartering cycle by paying the second for his. One hundred and fifty dollars of make-believe money wealth has helped play finance games in the marketplace ring as an intermediary barter or referee and is now back in the very corner from where it started. Economists absurdly adduce this as a valid example of the self-liquidation of debts. The banks who created the overdrafts certainly do not, for they still continue to demand that each of their manufacturing clients' outstanding one hundred dollars of fairytale credit be fully repaid with real legal tender if necessary and with interest ... or else.

Circulation velocity theory confuses the issues by reference to the passing of coins and notes from hand to hand. Coins and notes are substitutes for a minuscule amount of bank-created credit money. Most of the latter comes into existence as a loan or overdraft and remains in existence only until it is used to pay off a similar valued loan or overdraft. In today's marketplace, almost every business functions on continual make-believe bank-wealth in the form of a working overdraft. Coins and notes which are legal tender are used over and over again by the populace in small business and domestic affairs but bank-cheques which are not legal tender are generally used only once and then cancelled and destroyed once the bank has, figuratively, got the message.

One person can buy or exchange another's debt, or take over their mortgage, but that does not cancel the debt nor the mortgage. One debt can be made to liquidate another debt, but no debt is intrinsically self-liquidating. By the very fact that bank debt is created out of nothing means that there is nothing that a debt can do to change its own inertial state of negative becomingness. All that it can hope for is that it find its way back to the source which pulled it out of the conjurer's hat, by the illusion of virtual mirror-imaging, and so be cancelled out of existence. It is certainly true that when debt money finds its way back to the bank, the debt's principal is removed from circulation and the bank may then consider itself in a position to create a fresh lot of money by granting another loan. The velocity of the debt money in returning to the bank may make a difference to the times at which this fresh loan is granted. However, in a stable economy it is the quantity of money which matters infinitely more than the speedier circulation of much less. Six hundred dollars of bank debt can only be liquidated by six hundred dollars plus interest and six hundred dollars of bank debt in circulation does not grow its own interest. The economy must try to expand and borrow more interest-burdened money for complete new cycles of production and consumption in order to pay the interest on the money it has already used for former cycles and which no longer exists in the marketplace to do useful work as a means of exchange and distribution.

There is a limit to sane and ordered economic expansion and that limit is fast being reached. The end result will be that the industrial system, being unable to expand enough to pay the accumulated interest on its accumulated debt, will become the property of international financiers who are the real powerbrokers of this world and who dictate to governments and nations alike. Just what will happen when the noose of unpayable debt finally strangles, with positive feedback, all private enterprise is a situation that the banking system does not publicly contemplate. All the money that is capable of being created is useless without goods and services requiring some form of exchange and distribution. Industrial systems have no intrinsic need of banks for their production of goods and can be made to operate in a fashion without them. Banks, however, have no reason for existence without an economic system to be honourably served, or dishonourably raped.

The world as a whole is getting consistently further and further into debt. It is not, as the ordinary business man would say, paying its way and if it is not paying its way it is quite obvious that the price system demands of it more purchasing power than is available. A considerable fraction of actual current purchasing power must be put aside and used to help purchase its own purchasing power. Like heat energy in thermodynamics, this self-sterilizing uneconomical economic energy is internally disorganized and hence is unavailable for further useful work in the community's exchange and distribution of goods and services. This and other accounting costs like depreciation, taxation, insurance and the like, make for an irreversible financial deficiency and inefficiency in the operation of the economic system, a situation which exponents of physical science would aptly designate as economic entropy.

If you are running up a debt continually, you are not paying your way. The public pays all that it can and buys what it can. The failure to pay more is thus forcing the destruction of some of its production, while at the same time piling up debt. If it were to be really self-liquidating, the purchasing public ought to pay a great deal more than it is in fact paying, since the real price they should be asked to pay is what they do in fact pay plus the debt the system says they ought to pay. Under the present system, the true costs of production must of necessity be always greater than the purchasing power available in the marketplace for consumption.

The private monopoly of all credit leads inexorably to increasing debt and tax bondage. Individuals, businesses, industries, municipal councils, governments and ultimately whole nations are fettered in debt to the banks from whom they have to borrow, on their knees, the money to pay the interest on the money they have already borrowed and spent.

Under the present economic system, debts on public undertakings are debts in perpetuity since they are never repaid. Every time that Governments borrow money for public works, it is their community which is debited with perpetual liabilities, but it is never ever credited with newly acquired assets. Every Government loan is mostly used to renew or convert previous loans as they fall due, not to redeem them. Debt is compounded on debt and interest on interest. Public and semi-public utilities, such as water, sewerage and electricity authorities are all hopelessly debt-fettered, a fact which makes the cost of their service to the community several times what they need to be. A similar situation applies to Local Government where in many cases over half the rate revenue is required to service debt.

The lengthening and darkening shadow of debt results inevitably in increasing taxation. Governments sow debts and the people reap the bitter and intolerable harvest of escalating taxation. A large part of the latter is used in connection with servicing, that is, paying the perennial interest on what are called, national debts, war loans and the like. The owners of these debts and loans are for the most part, large financial institutions who created the debts in the first place by the lending of that money to the governments of warring nations and receiving in turn large blocks of national securities at absolutely no cost whatsoever to themselves.

Under our present deficit finance system, increasing taxation, whether direct or indirect is governed by a positive feedback network due to the nation's continual surrendering of its sovereign prerogative over the issue of money to private financiers whose motivation is self-aggrandizement, pride and power. The feedback bears an interesting analogy to the alchemical Uroboros, the serpent or dragon joined to and eating its own tail.

Under present-day Government and banking practice, all the money loaned by what were once Government banks, Commonwealth or State, or so-called banks of the people, is just as much a usury-ridden debt to the people themselves as money loaned by private banks. Indeed the latter, through political lobbying in the pursuit of the privatisation of all financial institutions, have now taken over control, to their own selfish advantage, of what were once founded for the advantage of the community in general. Perhaps the most incredible and inexplicable system in any country like Australia, with its own Reserve Bank or its equivalent, is why such a Bank which is but a mere department of the nation, should regard any credit which it costlessly creates for the Treasury, as an interest-bearing debt, on which the people, through taxation, pay interest in perpetuity. The dragon's own tail is consuming its head. All that a Reserve Bank does is to monetize the nation's credit by writing figures in a book. It does not create the national assets which back the loans. Such assets were or will be created by the people. Yet this effortless and costless transaction can be allowed to become the basis of national debts and of the resultant pitiless taxation which has to pay interest on it. It would seem that the laws of logic do not yet apply to Economics. An engorged tail continues to wag its enslaved dog who has been well trained to bark up the wrong tree.

Prevailing taxation policy attempts an impossible redistribution of an admittedly already inadequate pool of purchasing power. It tries to be a legislated robbing of the rich in order, ostensibly, to give to the poor. In practice the poor receive very little and the financiers get ever richer. The modern theory of taxation is fallacious. It presumes that the poor are poor because the rich are rich and hence the poor would become less poor if the rich were made less rich. Such a line of argument shows no real understanding of the industrial and monetary systems and no appreciation of the basic distinction between the production of things which money can buy and the production of the money to buy the said things. In taxing anybody except a banker, we are only increasing the value of the monopoly which bankers have of making money. With the money that the banks create out of nothing, they are able to buy War Bonds and other national securities for nothing, whilst a very large part of an unjust tax burden goes to pay the extortionate interest demanded by them for having created and appropriated for their own selfish misuse the National Debt. There is a positive aspect to a benign form of taxation which is discussed later in this book.

Money as a mere sign of make-believe wealth has no intrinsic value in itself. As a commercial catalyst, it can be both an efficient form of intermediary bartering as well as serving as altruistic financial capital for industrial development and expansion. Because of its unique usefulness, it can be made to have a scarcity value. If deceivingly treated as if it had a true commodity value, then the latter is greatly enhanced by keeping it in relatively short supply. Whatever true value money has lies in its exchange value which is its purchasing power and which is derived from its use as a unit of accounting. It measures the relative value in cost-accountancy terms of the barter-ability of various goods and services. It is essential not to confuse their relative value with price. Price is accountancy's estimate of marketplace money obtainability. The lower limit of price is the accountancy-cost and is made up in the case of goods by adding what is paid out in the course of production of those goods, plus whatever minimum profit will ensure the continued and efficient production of the articles in question. The upper limit of price is what the goods will hopefully fetch on the open market.

Any expansion of the money supply ahead of the factual production of goods for consumption tends to raise the level of prices. Because there is an increase in the supply of money relative to the quantity of as yet available goods, a situation known as *demand-inflation* may then arise. The effect of this inflation is to maintain the general scarcity value of money since this increase in money supply does not result in any effective increase in purchasing power. Demand-inflation is a relic of bygone days when there were physical shortages and has little real importance now, except academically. In the past it gave rise to the so-called *Law of Supply and Demand* and is still the only basis on which most present economists try to explain away the glaring effects of the inflationary spiral. They generally ignore or fail to explain correctly another type of inflation, *cost-inflation*.

A rise in prices lowers the purchasing power of the unit of money and hence of existing wages and salaries. Since this reduction in purchasing power is not accompanied at first by a diminution in the ready availability of goods and services, there is a natural and justifiable demand for some commensurate increase in wages and salaries merely to maintain the existing standard of living. However, if these increases are obtained, they enter into the cost of all forthcoming and future production and since the minimum price of goods is based on the cost of production, minimum prices will rise. This situation is known as *cost-inflation*.

On the other hand, if cost of living adjustments are not made to wages and salaries, the volume of goods sold will fall, unemployment will rise as manufacturers attempt staff economies and the distribution of incomes will be partly curtailed. This double feedback dilemma plagues most industrial nations today. Measures taken to control or curb or halt inflation do not work as predicted and the reason adduced for their failure is the very universality of the problem. Domestic inflation is said to be induced or aggravated by imported inflation.

Inflation, in general, may be defined as an increase in the money supply accompanied by an equivalent increase in prices. This results directly in the depreciation of the purchasing power of the unit of money. On the basis of this definition, inflation would simply be an irrational and inconvenient expansion of the figures in accountancy, but three other factors are involved. Individuals and institutions on fixed incomes are penalised to the point of extinction, while long-term contracts such as Insurance are vitiated, and where taxation is simply progressive the effect of inflation cannot be fully taken into account. Governments are two-faced in regard to inflation. They deplore the problems it causes, but are ever ready to profit from it, in regard to fiscal benefits accruing to them from progressive taxation levels and the effective diminishing value of fixed long-term contractual debts.

The standard current techniques applied to control inflation are increased interest rates, increased taxation, statutory control of all incomes and prices and the isolation of money in special deposits with the Central Bank, resulting in fewer bank loans and-or the calling in of overdrafts. These techniques slow down economic activity. If they are pressed or pursued for any considerable period of time, they bring about a recession, unemployment, business failures and bankruptcies. Their removal is generally followed by renewed higher rate inflation.

Monetary and fiscal measures do not in themselves directly affect the productive capacity on the factory floor level, but output is progressively reduced and there is the increased burden of fixed charges like interest, rent, maintenance, and so on, which thus increase unit costs. These increased costs are cumulative and when carried forward, they ultimately contribute to subsequent rises in prices when a period of recovery is manipulated. From after World War Two, there has been a continuous decline in all countries in the purchasing power of their unit of currency. The so-called means of fighting inflation have not only been without overall effect but their disrupting consequences on the economic life of the nations concerned have resulted in unnecessary bankruptcies and penal unemployment. The universality and intransigent persistence of this problem of inflation clearly indicates some plaguing underlying causal factor. If the methodology of Science were adopted by economists they would be forced to relinquish their invalid and inconsistent theories, to examine again and redefine their basic postulates and to construct new models for future economic management.

The basic cause of inflation is the irreversible inclusion of an increasing proportion of overhead business and working charges together with other entropic factors in costing at all stages of production. This is due to accountancy conventions and could easily be eliminated by bookkeeping adjustments. Industrial and business accountancy demands that all costs be recovered in prices and that a reasonable profit be exacted as an incentive to production and as a measure of efficiency. Apart from the cost of raw materials, the cost of production is made up largely of wages and salaries which, after redistribution to cover those diverse services other than the production of goods, make up the income of the community.

In addition to wages and salaries the cost of production includes depreciation charges to cover the continuing depreciation of plant and premises and also includes the cost of intermediate products or semi-manufactures. There are also the quite large costs set aside providing for taxation and the payment of interest on loans and overdrafts. The overhead costs to other organisations for their services of insurance, power, rent, banking facilities and advertising must also be met. Such payments made to other organisations are not paid directly to persons, though they may be subsequently paid, wholly or in part to individuals for further work done. In this latter case, they generate a whole new series of costs. Allocations for inflation, taxation, bank interest, the depreciation of plant and its replacement or improvement do not reflect any current income distribution and are mere bookkeeping additions to the cost of production. The prices of goods are thus made up of the cost of a considerable number of items, some of which are not represented by money anywhere in the marketplace. These non-monetized items are monitored as irreversible debts which steadily increase and can never be liquidated. Price increases are thus generated at a faster rate than increased purchasing power is distributed to consumers. The result of this is that prices in the aggregate are greater than incomes in the aggregate in relation to any given cycle of production, say, the total output over one year.

Wages are distributed in the provision of national services and the construction of government capital works. The community's pool of purchasing power receives the wages paid out in the production of non-consumable goods as well as in the production of consumable goods. Taxation lowers the level of this pool to pay the expenses of national services and capital works. The wages of individual politicians and civil servants are thus tax-funded by the community's collective wage. In the one industrial cycle of both the production of prerequisite and non-consumable goods and of the production of consumable ones, the costs of the former anticipate those of the latter since the latter can only be produced using the already existing former. The wage earners from the former will purchase their consumable goods from a prior cycle of production whilst such wages themselves have been distributed to them with respect to a future production of consumable goods. This time-factor produces an disequilibrium between the pool of purchasing power and prices in the marketplace. This fact that the community's pool of purchasing power is not static, being made up from wages and dividends from quite different cycles of production, has no favourable influence on the overall deficiency in the money-supply. Indeed the situation must continue to worsen as non-wage earning machines take over from human beings in industrial production.

In any given period of time, the amount of money that is free to buy consumable goods is steadily growing less than the total of prices of consumable goods that need to be sold in that same time if consumers' needs are to be fully satisfied and sellers are to escape a glut of unsold products. The proliferation of never-fully-paid-off or of overdrawn credit cards bears indisputable evidence of this money-gap whose existence most professional economists choose to ignore or deny.

Generally speaking, the only money immediately available to buy consumable goods is money in the form of wages, salaries, profits and dividends distributed by industry. The same money cannot be doing two different things at the same time. If money is paying for machinery or being saved up to pay for machinery, if money is repaying a bank loan, or being saved up to repay a bank loan and its interest, if money is lying in a fund for capital depreciation, or being used to pay taxes, its flow becomes disorganized so that it cannot at the same time be performing the useful economic work of buying consumable goods. It can only begin to buy consumable goods when at long and widely separated intervals, in varying quantities, it is turned into wages and the like and paid out in that form. With today's increasing mechanization of industry, the non-wages items in costs tend to become steadily greater in relation to the wages and profits items. It is obvious that wages, salaries and dividends which are the only money in a form immediately free to buy consumable goods, cannot purchase the total output of such goods at a price which has to include not only wages and such kind but all other items as well.

It is necessary to see economic systems in their totality and not to allow oneself to be lost in a maze of technicalities and political side issues. An Economy based on bank-debt as its lifeblood, can only increase in debt. A Capitalist system, where Capital is continually and irreversibly depreciating is subject to economic entropy where more and more money becomes unavailable for useful work in the production and consumption cycle. Prices in the aggregate are greater than incomes in the aggregate. On the mistaken denial of this proposition rests the validity of most modern orthodox economic theory and the measures that are taken to control inflation.

Any economic entity or self-contained self-functioning-feedback-system can be considered as a single unity with one or many different production units. That economic entity as a whole, will have interest, depreciation and other disordering charges additional to all the wages and salaries it pays out to its community. These charges can only be met by an expansion of the money supply. The latter can be effected by exporting goods to buy other nation's money as explained already, but on a world-wide scale this is impossible. It can also be effected by expanding the internal money supply through the creation of new money. So long as this new money finds its way into the economy as interest-bearing debt and in such a way as to increase charges on account of being financial capital, any nation's economy is committed to endless positive feedback expansion merely to hire the debt-money to distribute what has already been produced. There is a limit to expansion and it is because that limit is being approached that the whole world is now involved in the economic crises and self-destructive plagues of rising prices with concomitant rising unemployment.

In a finite or limited society, the fact of expansion cannot go on for ever and its rate gradually slows down as the capacity of the community to absorb its products approaches saturation point. Eventually only maintenance and-or plant improvement remain. Improvement brings its own train of difficulties since it almost always means an increase in output for some given amount of human labour or the same output with less labour and consequent redundancy of personnel.

Once a system of industrialization has been established and while it is still expanding, the effect is to render available to consumers a quantity, quality and diversity of products almost unimaginable in former days. In the absence, however, of innovations and as wants are satisfied, overall demand declines. Generally, durable consumer goods have a reasonable or considerable life span and many things, like cars and clothes can be made faster than they wear out. Built-in obsolescence is not without its serious problems of waste and disposal, not to mention pollution. The inevitable result of all this is a falling off of employment opportunities, the consequent increase in unemployment and a decreasing effective demand on the output of industry. This vicious chain characteristic of our present situation operates relentlessly with its positive feedback. The availability of goods remains as it was before, but financial access to them by consumers is blocked merely by the normal operation of totally inadequate, inefficient and disordered accountancy methods.

The present industrial system only operates through the progressive mortgaging of its future in order to sell the goods which it has already produced and which are in the marketplace searching now, and indeed begging through advertising for buyers. The systems of purchase by instalment, hire-purchase and lease are extensions of this process. Not only is future production mortgaged, but now through the dangerous system of credit cards and the like, future incomes are partly or even wholly already spent. Virtually costless pieces of plastic material now feed debt-data to computers and these electronic morons, guided by heartless financiers, now dictate the terms and conditions for the gradual controlled enslavement of all human beings on Planet Earth, prior to their own self-destruction through greedy individuals' insane positive feedback for more and more power and possessions.

It is still not too late to avoid the disasters consequent on the world's stupendous money indebtedness to its own financial structuring in which the money industry almost wholly depends for its prosperity upon the indebtedness or lack of prosperity of others. In the evolution of the modern money system, the creation of the monetary claims to wealth has passed from the real owners or producers of wealth to the banking system which, by issuing claims to make-believe wealth as an interest-bearing debt, purports in effect to own the nation's true credit. While the original conventions regarding the creation of money have persisted still to the present time, the trading banks now have become the instruments of centralized control which is exerted through the Central Bank's dictating the volume of cash in notes and coins and Central Bank Credit. This centralized control of money, combined with the inflationary issuing of it as an interest bearing debt, necessarily brings about a progressive economic and political centralization. A similar process is taking place on an international scale through institutions like The International Monetary Fund and The World

Bank. The control of all credit by a centralized authority confers enormous power to those financiers who claim the exercising of its fairytale creation as their own exclusive right.

The modern money structure is a very versatile bookkeeping system and it is the task and responsibility of the politicians in Government to make sure that the finance system functions to best serve the whole of society and not to enslave it in ever-increasing debt and taxation. An efficiently operating banking system must be maintained and private competitive banking should in no way be eliminated. Not only should private banking not be nationalized, but it should in fact be released from detrimental central controls which inhibit genuine competition. Banks must, however, be limited to acts whereby they perform the social function of interest-free catalytic credit creation and cancellation on a service basis only with the administrative charges for this service being based on the real cost of operating. It is authoritatively stated that a charge of a mere one per cent would provide the banking system with a more than adequate profit in return for its bookkeeping services.

It is the responsibility of any Government to make sure that the society which it serves does not get progressively into debt through being forced to borrow and then pay interest on its own real credit. It must also ensure that adequate credit money is always available to serve the community without inflating prices in the process. There are a number of ways this can be achieved and these will be outlined later on. Very little need be changed in the present structure to redirect the course of human history from the slavery of debt to the prosperity of aseistic common wealth credit.

Any economic system must have as its goal the management of an efficient production, evaluation, exchange and distribution structure whereby the totality of a society's demands and needs are fulfilled. Nature provides the free energy, raw materials and human ingenuity and resourcefulness to adequately feed, clothe and house all her children. The only reason why it is not accomplished is human stupidity, greed, ignorance and the lack of some motivating philosophy. The determining factor in an overall program of production should be the consumers' needs and choice of manufactured goods. Economics is concerned with the distribution of resources, natural or industrially processed. In a complex society, we cannot distribute the means of production, nor are most people interested in any common ownership of factories but simply possessing just the goods they produce. All the consumers need is a share holding in the production system as a whole, entitling them to a dividend which will enable them to purchase a chosen share of ultimate production.

In aseistic evolution, the logical economic system prevailing in a community should have as its basis the principles of any efficient self-other-functioning-feedback-system, where the system as a whole is as much a part of the system as are the separate subsystems that make up its network. Any positive feedback in a subsystem will distort and spell disaster for the system as a whole. A monetary system, as the lifeblood of the body economic, is a vital but subservient part of the whole economic system. It is the body's motherly servant not its unscrupulous master.

A properly functioning financial system should be derived from, and reflect the needs of the economic system and only enters into the Philosophy of Economics as a means to an end. Today, the roles are reversed. The present monetary system prostitutes its role as a handmaid serving exchange and distribution, and sets itself up as the beginning and the end of all economic activity. In doing so it is the omnipotent piper who both calls and plays the tunes to which all in the marketplace must dance, employers and employees alike, as well as the ever-increasing chorus of the unemployed. In any debt-functioning nation, every service-rendering and cultural asset can only be shared and distributed throughout the community by becoming its financial liability. In its overall global analysis at present, all this Earth's real wealth is distributed and exchanged through interest-burdened-debt. The more real wealth that a nation and its people possess, the greater must become its financial indebtedness to the banking system if it is to distribute and exchange its real wealth through the accepted medium of debt money. The richer it is through the endowments of Nature, the richer are the banks financially who monetize this real wealth with the money they call their own and the poorer are the generality of people who have no shares in the banking business. Banks claim as their very own this financial estimate of other peoples' real wealth so that when the latter is exchanged or distributed through the medium of money the community's real assets become the source or cause of its financial liabilities. Any seeming increase in a peoples' natural prosperity is only possible at the expense of the negative prosperity of increased usury-ridden debt. Incomes are effected through money and most money has its origin as an interest-bearing debt to the banking institutions.

The concept of entropy is very relevant to the study of the self-functioning-feedback-systems which are met with in the monetary-cycles of Economics. We have seen its role in both physical and biological sciences. Its presence is just as real for Economics.

Money as economic energy is something very good. Facilitating exchange and distribution in the marketplace, it becomes involved with problems similar to those of thermodynamics in Physics and metabolism in Biology. At first sight, the banking system appears to contradict the very first Law of Thermodynamics which denies the possibility to a closed system, of itself, of creating or destroying energy. Banks do create economic energy and do un-create it at their own whims and fancies. The irony of the whole situation is that their make-believe conception of economic energy is only the imaginary energy of number signs in an astute accounting system. Though most people would like to think there is something real about the commercial energy of money, it is only fairytale imaginary substitutional energy, and its contrived functional token or ticket value is but a legally sanctioned paper-fiction.

There is an economic metabolism too. Banks do ingest the credit of the community and after digesting it to their own advantage, egest their financial excrement of interest-burdened debt back to the same community. The whole economic structure of society, as it advances into a new millennium, is the resulting edifice of retrogressive social evolution, being built on a dunghill of usury-ridden bank-created debt. All nations and states today are species of unlimited liability corporations of which the community, with its citizens and workers, is the guarantor and the financial system the parasitic beneficiary.

In Australia which is one of the most richly endowed countries in the world with natural resources, the average family spends more than one quarter of hard-earned income merely to service debts, paying just the interest to the banks for the loan of the money which the banks create out of nothing and which, when virtually costlessly circulated, gives the community the financial permission and possibility to use its own real wealth and credit.

All servicing of debt demands that the outputs of goods-producing industries grow continually, not diminish. Consumption for the sake of mere consumption becomes the norm of existence in this, now throw-away society where only crass deliberate obsolescence will permit continual economic growth alongside the new industries of rubbish disposal and recycling. Maintaining a policy of full employment militates against industrial efficiency, for to achieve the former we must sabotage the latter by producing unwanted, shoddy and inferior articles. Creating such jobs for all can only lead to total environmental destruction.