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CONSEQUENCES OF DEREGULATION

With the exception of banks, bankers and their shareholders, the financial deregulation flowing from Campbell was an unmitigated disaster for Australians and the national interest. Deregulation resulted in a credit explosion fuelled by speculation (which transfers rather than creating wealth). When the bubble burst banks acquired a raft of bad debts. We are still paying for those through (internationally) relatively high interest rates.

Deregulation left interest rates as the principal means of implementing monetary policy. This is an extremely indirect mechanism for conrolling the money supply and has perverse effects. Increasing interest rates, by increasing the price of money, and therefore the price of almost everything, fuels inflation. Because the demand for money is quite price inelastic, this fuels a spiral of increased inflation and interest rates until confidence is lost and a rapid contraction of the money supply follows as outstanding debt is repayed. Budget and current account deficits since deregulation can be largely attributed to high rates of interest on outstanding debt.

ENSURING FINANCIAL STABILITY

The nature of modern financial systems is that they are inherently unstable with a tendency for excessive credit creation. The creation of central or reserve banks was to control this problem. The purported rationale for deregulation was that NFBIs, and indeed the banks themselves, were circumventing the regulatory system. Rather than attempt to control these circumventions, the banker controlled Campbell Inquiry opted for deregulation. Government abrogated its responsibilities to act in the national interest when it decided to follow the deregulatory path.

I submit, it is imperative that there be an increased regulation of the financial system through reserve controls if the objective of financial stability is to be achieved.

Furthermore, there should be a shift to increasing reserves over time as the money supply (which exists primarily of interest bearing debt to banks) must grow exponentially at the interest rate. Since the economy's (national income) growth rate is less than the interest rate, the growth of debt must outstrip our ability to repay it. Such a situation is untenable.

SMART CARDS

The Commission for the Future's recent report "Smart Cards and the Future of Your Money" raise concerns about the erosion of notes and coins as the monetary base. With purely electronic money, it will be impossible to control or trace the creation of credit with the attendant risks of hyperinflation and the couterfeiting of credit.

Rather than letting technology drive the system it is imperative to control new technologies in the national and public interest if they potentially undermine that interest.

I would like to make a large number of other points but unfortunately, time does not permit. However, I would welcome an opportunity to appear before the Inquiry to elaborate on these and other matters.

Yours faithfully

Richard Sanders