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**Re: Submission on Australia's Future Tax System**

## **THE SHIPS OF TARSHISH**

### **SUMMARY**

The current difficulties faced by the United States financial system are due to speculation in land. This has locked citizens into life-long mortgages, fostered the making of imprudent advances against illusory security and encouraged the creation of dodgy financial instruments.

Those difficulties are also applying, to some extent, in Australia and this will become dangerous if our terms of trade worsen.

Fortunately, there is an elegant, feasible & supremely intelligent way of basing our financial system upon a firm foundation. This way is "Site Revenue", which centres on our taxation system. All forms of taxation must be jettisoned and instead the annual value of sites privately occupied (as distinct from improvements upon them) collected as the sole source of public revenue.

If Site Revenue is adopted, the Australian economy will be stable & prosperous.

### **Fannie Mae & Freddie Mac**

The American "mortgage giants" Federal National Mortgage Association ("Fannie Mae") and the smaller Federal Home Mortgage Loan Corporation ("Freddie Mac") [hereinafter collectively termed "**F+F**"] are private companies which own about half the total US mortgage debt of US\$12tr. They are amongst the biggest financial institutions in the world. Originally they were "government sponsored enterprises" ["**GSEs**"] established under legislation after the Great Depression, at the time of the "New Deal", to assist low-income earners finance home purchase. They were publicly floated in 1968 - 1970 but insidiously retain the aura of GSEs, with preferential borrowing rights (at reduced rates) direct from the US Federal Reserve ["**Fed**"] and with an implicit government guarantee of viability.

F+F hold a peculiar sort of wealth -- mortgages, which are an asset (entitling repayment of principal & interest) in the hands of the lender. F+F do not make original secured advances to homeowners but operate instead as “secondary market corporations”. Banks sell their mortgages at a discount in order to minimize risk exposure, avoid having to manage them and gather fresh funds for on-lending again. F+F issues bonds to investors (such as superannuation funds & banks -- NAB holds AUD\$580m in F+F bonds) and use the cash to buy bank mortgages, which they package by area & term, a process called “securitization”. F+F then sells the securitized packages, often giving -- for a fee -- guarantees against loss. From 1995-2001 F+F acquired almost  $\frac{3}{4}$  of the US\$2.25tr. in new mortgage loans made by all banks and in the past few years has been increasing (to US\$55bn) its acquisition of subprime mortgages. However, the mortgages packaged by F+F were usually not the subprime mortgages (at above an 80%LVR) which precipitated the US financial crisis a year ago.

F+F operations serve to increase liquidity in, and to shore up, the housing market, having the effect (and intent?) of inflating house prices through creation of fictitious value, thereby increasing the size of mortgages needed to buy them and the interest payments that can be gouged from households.

### **F+F on the Rocks**

The principal owed (F+F’s “equity”) under these mortgages is about US\$6tr., or half of all mortgage debt owed by homeowners in the USA. However, as the original bank advances were made during a “housing bubble” period of inflated house prices, price collapse means the current market value of the real estate is no longer securing the amount originally borrowed. Even although the F+F mortgages (unlike the subprime mortgages which revealed the US malaise a year ago) were at a relatively modest 80%LVR, mortgagee auctions are now nowhere near covering debt. US homeowners are not bound by personal guarantees, as they are in Australia, and can effectively walk away from their homes and abandon them to the lender, with no further exposure.

F+F have long been ticking time bombs, existing in a highly debt-leveraged condition which is very dependent on healthy or rising real estate prices. F+F have recorded combined losses of US\$15bn. in the past year (during which their stock dropped 95% in value) and now have no nett worth. What with walk-aways & firesales, F+F’s losses were set to exceed its equity: it is suffering a cash-flow problem and can neither buy more securitized packages nor honour its guarantees to top-up the banks’ original advances. It is obliged to redeem US\$223bn. in bonds due 30-09-08.

### **Mortgage-backed securities**

Part of the madness in the past decade has seen these “mortgage-backed securities” [“MBS”] on-sold repeatedly, each time to borrowers who borrowed heavily, using the “ever-increasing value” of the MBS as collateral. Asian banks hold scores of billions in US MBS. Of course, ultimately the music might stop, leaving the current MBS-holder exposed to the risk that mum & dad homeowner might default. Insurance against such risk was obtained from a “monocline” bank by purchasing a “credit default swap” (CDS). For reasons that remain to be elucidated, many MBS packages that rapidly became effectively worthless were originally granted solid credit ratings which attracted investment from usually-sensible banks, superannuation funds and municipal authorities. When foreclosures did not cover debts, CDS holders called on the monolines and these were bankrupted, thereby souring trust & credit.

F+F have been inherently torn between their traditional policy purpose of fostering affordable housing and making money (increasing shareholder dividends). Their solution was to pass -- with guarantees -- some US\$3.7tr. worth of risk of their sub-prime securitized products on to market investors. They also used off-balance sheet entities to groom the appearance of profit -- an abuse which Congress refused to curtail (despite requests from the regulator) lest the housing boom be undermined. During the Clinton administration Fannie overstated earnings by US\$10.6bn.

## **Federal Reserve Dilemma**

The loss of such major “too big to fail” financial institutions threatens to further freeze liquidity in the US economy, forcing the Federal Reserve to offer F+F major loans, perhaps ultimately a total US\$1200 - \$1400bn by way of preference capital which would hold dividend & repayments priorities (to the extent these are not delusory) over those of both “common stock” and existing “preference” shareholders. These latter would effectively be squeezed out and F+F nationalized. Following the Bear Stearns’ bailout, this prospect is another example of the US Fed potentially using taxpayers’ funds as lender-of-last-resort to help private institutions to privatize their profit but socialize their loss and is a terrible example of “moral hazard” whereby greedy risk-takers collapse into supporting public arms.

The Federal Reserve is in a difficult spot. It can’t be seen to let two venerable institutions fail, with so many ensuing economic repercussions. Already for 9 months it has been injecting tens of billions into banks by way of loans at low interest rates (about 2%), in an effort to facilitate commercial on-loans & business solvency. This further depletes the yield of the \$US and makes both the currency and US government bond issues unattractive to investors. It cannot lower interest rates further. Nor can it raise interest rates, which would further constrain business borrowings & liquidity and prompt depression.

The entire edifice of the US financial markets is structured on the inflated value of US real estate and is as stable as sandcastle built on a beach. The US has a multitude of small banks and many more of these are doomed to collapse. The US has ceased to have a monetary system built on any rational foundation: it has become a credit system based on faith in its government. The same situation applies across the globe, in the UK, Europe and in Australia (where per capita borrowing actually exceeds that in the US). Government in all these countries positively fosters (rather than prevents) the harlot of private speculation in land & site monopoly: their currency-faith is based on *nothing*: and indeed on evil.

## **US National Debt**

For a decade US industry has been increasingly unable to compete with Chinese & Indian imports, partially due to excessive US management costs but largely due to low labour & environmental standards in those countries. Consequently, the US balance of payments has been worsening. This has been managed by the Fed selling about \$700bn annually in bonds (pieces of paper promising to pay a capital amount + interest at maturation, usually in 5-10 years) to Asians and oil-rich Arabs & Russians. The official US federal debt exposure (ignoring the extra incurred in the F+F rescue) is already US\$10tr. However total federal debt obligations (including Social Security and other unfunded mandates) are closer to US\$53 - \$85tr, depending on whose numbers you use.

After trimming off misrepresentation, the real US GDP is about US\$8tr annually. After wars, Bush’s tax cuts and pricey oil, this year’s US budget deficit will increase 153% to US\$407bn, not counting the recent US\$200bn for the F+F rescue package. This means that the USA is losing 8% of its GDP annually and is living on credit by printing fiat currency or selling bonds. US debt is now at a record 342% of GDP. The US economy is teetering on the edge of an abyss.

The only reason the US still breathes is that bond-buyers are addicted to the viability of the US\$ -- if this collapses, their chance of recovering redemption on earlier bond purchases evaporates. What the US treasury is to F+F, these bond buyers are to the US. One wonders just how deluded & insane these bond-buyers must be, as the redemption monies will be paid with future, inflated, US\$ -- probably itself raised by future bond sales. As the US struggles with financial instability and as its housing starts stall and costs rise, currency investors are turning to more stable -- if lower-yielding - - currencies such as the euro & yen. So if the US government can’t flog off more paper bonds ...

China (mostly the Chinese government) holds US\$376bn of long-term U.S. agency debt, mostly in F+F assets alone, and the exposure of the six biggest Chinese banks is about US\$30 billion, so the consequences of an F+F collapse would be catastrophic, perhaps completely derailing the current international financial system and certainly dumping the US dollar as common denominator.

In this context government intervention has been touted as inevitable. In legislation enacted 30-07-08 the US treasury was empowered to purchase F+F's debt or to take an equity position (which would almost certainly be by preference shares that rank over existing stockholders). The hope was that mere possession of this 'bazooka' would quieten the markets, however 2 months later there was no such result.

### **The September Rescue**

On 08-09-08 the Fed placed F+F under control of their regulator (the Federal Housing Finance Agency) and announced a desperate & dramatic plan to inject \$200bn by way of share capital in 'senior' preference shares outranking all others with (as a -- worthless? -- selling sop for taxpayers) a coupon for 10% p.a. interest payable quarterly. This effectively nationalizes F+F, demolishing the value of standard preference & ordinary shares, whose dividends have been cancelled, and diminishing to a degree the "moral hazard" involved in allowing privatization of profit but socialization of loss. Already 3 major banks [Bear Stearns, Merrill Lynch and Lehman Brothers] have failed, their debts unpayable as securities & MBS erode and credit evaporates. The effect on small US banks, many of whom had substantial holdings of F+F preference shares, remains to be seen. The rescue makes a mockery of the unregulated US finance market and is inherently unhealthy: ultimately, financial institutions including F+F should be totally privatized, smaller, more competitive & independent, forced to write down their toxic securities and never recipients of government rescue. Only in a Site Revenue context can prudential risk & speculation be eliminated entirely.

This \$200bn will come from Fed reserves (taxpayers' money), not from paper credits, and so will not be highly inflationary. However, it will siphon this huge sum (equivalent to the entire cash holdings of the US Treasury) away from domestic social, environmental etc. programs and into the hands of foreign bondholders. The new capital would be available to buy more MBS of dubious value, to redeem maturing bonds (quietening overseas holders) and to purchase banks' mortgages (thereby injecting them with fresh cash to on-loan, perhaps benefiting with lower interest rates a few people holding top security). It remains to be seen whether this charade of a rescue, this shovelling of garbage heaps about the Titanic's deck, tricks the Chinese, being US lender of first resort, into continuing to buy Treasury bonds ... until at least after the November elections ...

At the time of writing, this rescue created yet another stumbling false dawn. It gave the markets irrational hope for a day or two and they surged, only to drop again when it was realized that the underlying problem remains -- even now house prices remain high & uncertain so there is consumer reluctance or inability to pay them. Against a background of diminished competitiveness (against Asia), inflation & unemployment this atmosphere will not change soon. Furthermore, on the other side of the coin, nowhere near all the chickens come home to roost: existing & future defaults, under unaffordable mortgages reflecting 'bubble' prices, will continue for years and make this \$200bn injection a drop in the ocean. Add in highly-leveraged speculative hedge funds crippled by across-the-board downturn but now having to meet calls for supply at high prices, agreed especially in the days when oil price soared. A contagious disease of capital destruction is sweeping the US financial market.

The rescue means the US government assumes F+F's liability for some US\$5tr in corporate debt (eg bonds & guarantees) and the extent remains to be seen of punctured equity values & calls on guarantees -- 9% of US mortgagors are delinquent (in arrears). It is doubtful that the US government could make another such effort. Any further cash injections would come from paper credits, not

saved taxes, and would be highly inflationary. It is very dangerous to factor inflation in as normal (as happened in the 1980's) and actually taking this step would potentially triggering a whole chain reaction as the potency of US\$ further dwindles, imports cannot be afforded, savings are eroded, salaries & fixed incomes are diluted and domestic prices escalate.

### **Risks for Australia**

Australian debt per capita exceeds that of Americans and its land prices are just as inflated. Whilst land prices have flattened or diminished over the past year, as have share prices, they are still well above historical parity. Probably it is the influx of wealth from commodity sales which is allowing the Australian economy to sustain these prices.

The Australian dollar is heavily dependent on strong commodity sales (especially of metals & energy) for its strength against other currencies. The bulk of such sales in being made to the new Asian economies, China & India. However, the Chinese property bubble is also deflating and construction/manufacturing activity is slowing. This reduces competition and prices for Australian commodities. Consequently, the AUD\$ is losing strength, even against the US\$ (13% since July). Whilst this is good for some industries (e.g. tourism), this will lower the return we receive for exports. This fosters unemployment, whilst increasing the price we pay for imported goods especially fuel, and creates pressure for wage rises that are unaffordable. The combination of unemployment with inflated prices is "stagflation", not seen since the 1970's.

### **The Rock-Bottom Answer**

The one rational & moral key to establishing & maintaining a stable financial system is simple & elegant. It is to collect the annual rental-value of sites privately occupied as the sole source of public revenue (the old Henry George idea). Individuals would still own freehold in sites (they would not be nationalized), but would pay their rental-value (as set by the free market) just as they now pay local rates. The value of improvements on the sites would be ignored. All other forms of taxation, excise & duties would be abandoned.

This "Site Revenue" system makes total sense, as the value of bare sites (as distinct from their improvements) is created by the presence of the entire community, not at all by the siteholder. That value should be socialized, but probably this is all that needs to be socialized. Site Revenue would totally prevent speculation in land and would ensure financial prudence as bank loans would be secured only against the value of improvements, not against the "value" of the site as this would reduce to nil, given the site revenue burden accompanying it.

However, democratic governments are unlikely to even debate the Site Revenue solution because they are held in thrall by wealthy interests & their media and because the voting populace (wrongly) perceives its wealth as being based in the land under their homes.

### **The Hidden Agenda**

The hidden agenda by global bankers is to perpetuate the privatization of sites & resources, to suffocate all debate about Site Revenue by ignoring it (starving it of oxygen) and to feed off the carcass of the USA as a wasp sucks sustenance from a grub sealed into its mud cocoon. They will allow increases in US debt sufficient to keep the money flowing and, as the value of the US\$ deflates, gradually take over infrastructure assets. The danger is that, as it is slowly strangled & eaten and its oil supplied dry up, the USA may use its military might to strike out ...

## The Ships of Tarshish

This “eschatological” section can be severed from the foregoing by readers who think it is ‘nutty’. However, the writer believes that the symbolism in Biblical prophesy demands interpretation along the lines of Jungian depth psychology, and feels obliged to say it.

The God of the Bible is quite clear regarding the land position, but is not one to say things twice or spell out silly detail. “The land shall not be traded for ever: for the land is mine: ye are strangers and sojourners with me”. -- Leviticus 25:23. “Doom to you who buy up all the houses and grab all the land for yourselves - evicting the old owners, posting no trespassing signs, taking over the country, leaving everyone homeless and landless” -- Isaiah 5:8.

In Chapter 42 of Progress and Poverty Henry George speaks of how civilization may decline. He speaks of complacency with corruption, dominance by wealthy oligarchs, inequality, scrambling for wealth, the festering of volcanic forces, Christianity dying at the roots with nothing to replace it and abandonment of sensitivity to an intelligent Creator. The danger is that, if the US economy descends into ruins and the US-UK global financial hegemony disintegrates, their governments will have no option but warmongering to control resources and their own unruly populaces.

The dollar sign is derived from the traditional Spanish coat of arms, which depicts the two Pillars of Hercules wrapped with a S-shape ribbon. The symbol was used to demote the famous Spanish “piece of eight” which was in circulation throughout the Americas during the 18<sup>th</sup> century. The symbol (and the term dollar) was formally adopted by the USA in 1785.

Tarshish (later the Roman Tarsessos) was a Phoenecian city at the mouth of the navigable river Guadalquivir, on the Atlantic seaboard of Spain, near the mythical Atlantis (which sank) and the “Pillars of Hercules” at the straits of Gibraltar. From the time of King David (1000 BC) Tarshish was used by Jewish merchant seamen to reach France and England. Thus the phrase “the Merchants of Tarshish and the Young Lions thereof”, in the Book of Revelations, is interpreted as meaning Spain, the UK and its colonies (USA, Canada, Australia, New Zealand). This is substantially the configuration which invaded Iraq on 20-03-03 -- a war which has cost some US\$600bn to date.

In the end times the harvest precedes the vintage (Rev. 16 to 19). The frog spirits (croaking democracies originating from Parisian marshes), constituting the “king of the south” (Dan. 11:40), initially invade the Middle East whence the conflagration spreads globally as Russia (“Gog”) joins in (Ezek 38:4).

The “ships of Tarshish” are the powerful Anglo-American financial systems which have pervaded the globe. These are specifically listed for destruction (Isa. 2:10-19). The merchants of the earth will greatly lament loss of the prosperity the harlot brought (Rev. 18:8-19). The poor and the environment, ultimately (after much suffering & turmoil), may not, at least for 1000 years.

It is important for the future of the globe that Australia, the most-ancient stone-in-the-ocean continent, at the centre of the circle of the nations, dissociate itself from the ships of Tarshish by adopting site revenue.

Yours Faithfully,



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