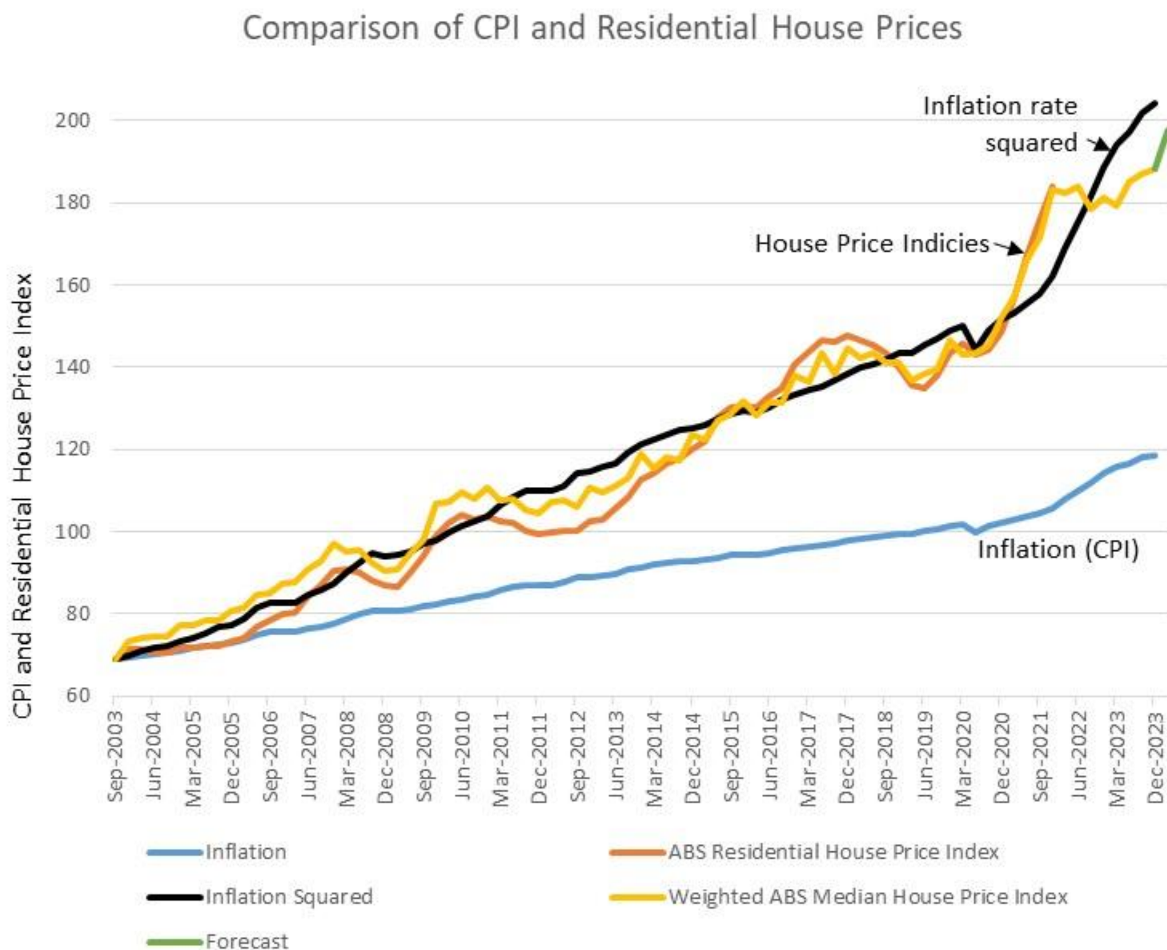
Submission by Leigh Harkness to the Senate Select Committee on the Cost of Living

The Select Committee on the Cost of Living has extended the closing date for submissions because it is interested to hear of solutions to address cost of living. Even so, the committee must first correctly diagnose the cause of rise in the cost-of-living before it can successfully implement a solution.

I have limited the scope of the cost-of-living to two factors: the rise in the rate of inflation and the rise in the cost of housing and address these. There are other specific factors such as the cost of oil, gas and electricity. However, oil prices are generally beyond the control of government and even if the committee could halve gas and electricity prices, they would not have had any significant effect upon the cost of living as these items represent a small part of annual household expenditure.

The following graph charts the rise of house prices relative to inflation and to the rate of inflation squared[1].



[1] Inflation squared is calculated as follows $(CPI_t/CPI_{t-1})^2$ where CPI_t is the CPI for quarter "t" and CPI_{t-1} is the CPI for the previous quarter. The result is applied to the index for the previous quarter to obtain a series of indices. In this case, the indices start at 69 for September 2003, which was the Residential Property Price Index ; Weighted average for the eight capital cities.

The chart shows that, in the long-term, house prices[2] rise at around the rate of inflation squared. What is important to understand from the chart is that the cause of inflation and rising house prices are related. Even if inflation were kept to the Reserve Bank of Australia's (RBA) target range of two to three percent per annum, it would mean that home prices would continue to rise at between four and six percent per annum. Therefore, the cost-of-living pressures would continue to rise for households.

There is a good reason for why long-term house prices increase at the rate of inflation squared. House prices rise according to the demand for housing, which is determined by the growth in bank lending for housing. However, prices in general rise by the square root of the growth in the money supply[3]. To be more specific, in an economy with floating exchange rates, (where international currency transactions do not affect the money supply), domestic prices rise by the square root of the growth in the quantity of money divided by the real growth in the economy[4].

Whatever the exact relationship, there is widespread consensus amongst economists that inflation is caused by monetary growth. The RBA shares this view because it uses interest rates to control the growth of bank lending to manage the money supply and control inflation. Even so, interest rates are recognised as being a "blunt" instrument for controlling the growth of the money supply in Australia. That is partly because higher interest rates not only slow the growth of new bank lending, they also slow the level of repayments on existing loans.

The growth of the money supply is equal to the amount of new lending less the repayment on the principal on existing loans. When faced with higher interest rates, borrowers must divert more of their available funds towards paying the higher interest costs, leaving them with less money to repay the principal. If loan repayments decline by more than new lending declines, higher interest rates can increase the money supply[5]. Therefore, the solution proposed to control the cost-of-living does not use interest rates. The RBA is free to continue to determine interest rates as it does now.

Rather, the proposed solution to the cost-of-living pressures is to use what economists call the trade multiplier and the accelerator. The trade multiplier uses the money earned from foreign receipts such as from exports, tourism and foreign students to stimulate the

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[2] The ABS index of the weighted average prices of residential property in the eight capital cities has been discontinued since December 2021. The ABS continues to publish statistics on median house prices for established houses in the capital cities and the rest of each state. However, it does not publish a weighted average of house prices for the country as a whole. To produce a graph of recent house price rises for the whole of Australia, I have calculated an index of the weighted median established house prices by weighting the ABS's median prices by the average of the ABS's numbers of dwelling transfers for each location. That index is shown in the chart as the Weighted ABS Median House Price Index. The latest ABS indices are for December 2023. For illustrative purposes, I have shown a forecast for the March quarter, 2024, using the Australian Property Market Update for the year to February 2024 (10.2%) and applying that to the Weighted ABS Median House Price Index for the March quarter 2023. See: www.buoyanteconomies.com/HousePriceIndex.xlsx

[3] The growth of bank lending for housing is a major source of monetary growth and, therefore, of inflation.

[4] To reconcile this relationship with the quantity theory of money, (PT=QV), real national income (Y) can be used as a proxy for the number of transactions (T) and velocity of circulation (V) is taken to decline at the rate that prices increase (i.e. 1/P) so that PY=Q/P which can be rearranged to P^2=Q/Y and to P=√(Q/Y).

[5] See paragraph 4.5 in *The Failings of Monetary Policy in Australia* https://buoyanteconomies.com/PAPER1.pdf .

economy. Currently, these funds are prevented from stimulating the whole economy. The solution proposed enables these sources to funds flow into the economy and contribute to the growth of the money supply. The funds are first directed at raising the incomes of the exporter producers and the service providers. It is important to note that such additional money does not drive up home prices and contribute to the cost-of-living pressures. This money add to real incomes as well as the quantity of money in the economy[6]. Therefore, it is not inflationary in the way that money from bank credit is.

The additional money earned from trade circulates through the economy, increasing spending on domestic products as well as on imports. When it is spent on imports, it can be lost to the economy. The amount that the trade income stimulates the economy depends upon how rapidly it is lost to the imports. If the proportion of spending on imports is a high, the multiplier effect will be low. If proportion spent on imports is low, the multiplier will be high.

Money from bank credit has a similar effect to money from trade. However, when money from bank credit is first received into the economy, it increases expenditure rather than income. Therefore, it can cause the economy to buy more than it has produced. Also, whereas money from trade can first increase foreign currency reserves, money from bank credit does not. Therefore, when the money from bank credit is spent on imports, it can deplete foreign currency reserves (to pay for those imports). That is what happened when bank lending was deregulated in the early 1980's. As a result, the government felt compelled to float the exchange rate.

Floating the exchange rate requires a foreign exchange market be establish and that market to trade foreign with domestic currency. It avoids the use of (and thereby preserves) the foreign currency reserves of the country. That is, it prevents the growth of money from bank credit from depleting the foreign currency reserves. Also, it prevents money earned from the growth of exports, tourism and foreign students contributing to foreign currency reserves and to the quantity of money in the economy. Instead, any growth in foreign income inflates the value of the currency to make imports cheaper and shift the spending of Australian consumers from domestic products to imports.

That shift in spending from domestic products to imports undermines the incomes of the producers of those products and can eventually destroy domestic industries. In particular, it destroys those industries that compete with imports[7]. Also, it contributes to cost-of-living

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[6] In the equation for prices $P=V(Q/Y)$, money from trade initially adds to both the quantity of money (Q)and real incomes (Y). That alone makes it less inflationary than money from bank credit which initially increases Q without increasing Y.

[7]The same effect has been experienced in the US Rust Belt and the industrial areas of the UK. Germany has to some extent been able to avoid this problem by being part of the Euro economy. The growth of exports in Germany has not raised the Euro, and not shifted demand to imports, as much as would have been the case had Germany retained the Deutschmark. That has allowed Germany to prosper from trade. However, the smaller rise in the value of the Euro that has benefitted Germany has caused other countries using the Euro to shift their spending to imports and that has made them poorer. China does not use the floating exchange rate system. Therefore, its manufacturing industries have been able to prosper. That does not mean that the Chinese economy does not experience any other problems. Also, the Reserve Bank of India has been

pressures because it lowers the incomes of Australians and makes the whole country less prosperous. That shift to imports has destroyed a wide range of industries in Australia, causing unemployment, lowering the tax revenue of government and increasing the cost to government of providing social security. Also, the loss of manufacturing industries has implications for national security. That may be beyond the scope of the committee's purview but is no less important to Australians and to government.

The floating exchange rate system has eliminated the trade multiplier from being a force in the Australian economy. Not only that, but it uses the exchange rate, which could otherwise be a powerful instrument of economic policy, to essentially protect the banks unrestricted ability to lend. I consider that level of protection, which is at a high cost to the economy as a whole, to be unreasonable. I would expect that some, if not all, of the committee members would agree.

If the trade multiplier is to be part of the solution to the cost-of-living problems, then it will be necessary to put in place a means of managing the exchange rate that would allow foreign earnings to contribute to the prosperity of this country. Also, it would be necessary to put in place an alternative system for managing bank lending so that it does not cause foreign exchange problems for the economy in future.

The banks will object to anything that they consider will affect their ability to lend and make profits. Banks are companies and their directors are obliged to act in their bank's interest, and not in the national interest. Also, they are powerful lobby group and do recruit former politicians and senior public servants to their boards to give them direct access to government. They should be made aware that the changes being proposed will improve the security of the banks, also. The subsequent growth in the economy will expand the capacity of consumers to borrow from the banks. Therefore, in the longer term, banks could expect to become larger and even more profitable. My own experience with a similar reform has been that bankers eventually come to appreciate the policy changes and are grateful for them.

Opposition to change can be expected from many other sources, even if there is considerable evidence in support of the changes[8]. If appropriate changes are not made to economic policy, it would be foolish to expect the cost-of-living pressures to go away.

My submission concludes with the following Guidelines for Stabilising the Cost-of-Living in Australia. I consider it inappropriate for Australian governments to be held responsible for outcomes over which they have no control. Therefore, the guidelines call for the establishment of a new Economic Policy Council (EPC) that would be responsible for not only determining the objectives of economic policy, but for determining the policies to attain them. The EPC is proposed to have the ability to manage the economy. The RBA has a role

intervening in its foreign exchange market and as a result, the economy is growing at 7.6% this year (see https://www.reuters.com/world/india/indias-forex-reserves-hit-record-high-2024-03-22/).

[8] Norman Dixon, in his book *On the Psychology of Military Incompetence* writes (p 30): *It seems that having gradually (and perhaps painfully) accumulated information in support of a decision people become progressively more loath to accept contrary evidence. As Edwards and his colleagues have shown, the greater the impact of new information the more strenuously will it be resisted.*

in assisting the EPC in attaining its objectives. These changes do not impinge upon the RBA's ability to determine monetary policy, in the way that it does currently, by setting interest rates.

It was the government's decision to protect the RBA foreign currency assets by floating the Australian dollar. The preservation of the RBA's foreign currency reserves should continue to be a government responsibility and these guidelines set out how that should be done. Also, it was government that determined how the exchange rate should be determined. These guidelines explain how they could be determined.

The RBA does have some limited responsibility for the stability of the currency, the maintenance of full employment and the economic prosperity and welfare of the people of Australia. However, those responsibilities are not exclusive to the RBA. The Commonwealth Government has responsibility, also, for these matters. It has the authority to use its powers, such as those related to trade and commerce with other countries, banking and currency to attain its objectives.

While the proposed solution addresses the cost-of-living pressures, in doing so it impinges on other aspects of the economy that need to be addressed, also. To avoid doing so could create new problems for the economy.

Briefly, the strategy is to stimulate the economy sufficiently using money earned from trade (rather than bank credit) to generate full employment and sustain economic growth at a rate that would maintain a high level of employment. The approach ensures that the stimulus is not coming from bank credit for housing that would otherwise have inflated house prices. To do that, the EPC sets guidelines for the RBA to purchase foreign currency on the foreign exchange market and add those to its foreign currency reserves. This approach injects money into the economy.

The process involves deflating the currency against a basket of currencies. That process does raise import prices which could be inflationary. However, the speed at which the currency is deflated is to be controlled to minimise imported inflation. It seeks to inject sufficient money into the economy to stimulate employment without excessively driving up the rate of inflation.

Bank lending is managed by requiring banks to hold a deposit, or reserve funds, with the RBA and to increase those in proportion to the growth of their lending. The more they lend, the more reserves they must hold with the RBA. Those reserves are increased when the RBA purchases foreign currency. When it does, it raises its own foreign currency assets, or reserves. The banks' reserves with the RBA are used to make inter-bank settlements. Therefore, any bank that lends excessively will deplete it's reserves and that would constrain it from further lending. Also, if a bank purchases foreign currency from the RBA or another bank, that could reduce their reserves, and lower their capacity to lend.

The rising level of foreign currency reserves held by the RBA would increase the security of the Australia's currency. The banks' rising reserves with the RBA would improve the banks' security, also. There are constraints on the banks' ability to lend if they do not maintain

sufficient reserve deposits with the RBA. Those requirements contribute to the overall security and stability of Australia's monetary system and economy, as explained in these guidelines.

Please contract me if you seek any further information to support the claims here. Also, I am willing to provide clarification and explanation if required.

Leigh Harkness

Guidelines for Stabilising the Cost-of-Living in Australia

PART A: INTODUCTION

1. Breadth of Reform

The rapidly rising cost-of-living pressures in Australia are a sign of imperfections in the way that the economy is managed. It is not possible to address the cost-of-living as a single issue. It is not a cut that needs a band-aid. It is a more like a disease and to cure it, it is necessary to address the ailments in the system. In doing so it is crucial to consider other factors such as employment, economic growth and financial and economic stability that may be affected. Otherwise, treating the symptoms alone could cause other complications. A solution will require a change in the manner by which the economy is managed. It is not possible to change the outcome without modifying the system.

2. Objectives

The main objectives of these modifications are to:

(a) facilitate price stability; and
(b) foster stable residential property prices.

However, it is vital that the changes made also:

(c) sustain full employment;
(d) stimulate economic growth;
(e) contribute to balanced fiscal outcomes;
(f) achieve financial stability; and
(g) foster economic stability;

3. Economic Framework

These objectives should be pursued within a framework that:

(a) contributes to economic independence and self-reliance;
(b) ensures economic policies attain just outcomes;
(c) nurtures all industries;
(d) avoids undue foreign debt; and
(e) fosters democratic principles and sound governance among institutions determining economic policy

PART B: INSTITUTIONS

4. The Economic Policy Council

(a) To achieve these objectives, it is proposed that a single institution, the Economic Policy Council (EPC), be established to determine the path of the economy. The EPC would be responsible for determining policies for the nation's economic growth, employment, price stability, foreign debt, industrial development, financial stability and economic stability.

(b) The members of the Economic Policy Council could be elected members of the Commonwealth and State governments. Ideally, to maximise the coverage of the Council, it would comprise members of National Cabinet together with the Federal minister responsible for sectors of the economy.

(c) The EPC is to elect a Chairman and a Secretary.

(d) The Chairman would be responsible for calling and the conduct of meetings, including the approval of the agenda.

(e) The Secretary would be responsible for the administration of the EPC, including ensuring that the decisions of the EPC are put into effect. The Secretary would be responsible, also, for the Secretariat to the EPC.

(f) The EPC would meet at least two times each year, one meeting being the annual general meeting at which the budget of the EPC for the following year would be approved.

(g) Unless the EPC chooses otherwise, the entities represented by members on the EPC would contribute towards the financial requirements of the EPC agreed in the budget. Those contributions would be in proportion to the number of members they have nominated to the EPC.

(h) The EPC would conduct an election of officers following every election of Commonwealth government. The EPC may fill any vacant offices at any general meeting.

(i) Any member of the EPC that ceases to be a member of an elected government would cease to be a member of the EPC.

5. The Reserve Bank of Australia

(a) The Reserve Bank of Australia (RBA) would be the national monetary authority responsible for:

- putting into effect the monetary policies of the EPC, including the bank lending to reserve ratio (BLRR)[9];
- implementing exchange rate policy[10];
- holding foreign currency reserves[11];
- selling and buying domestic notes and coins;
- monitoring bank lending activities; and
- ensuring that banks comply with the rulings and guidelines of the EPC.

(b) All banks are to establish a reserve deposit account with the RBA[12]. The reserve deposit accounts are to be used to make interbank settlements. Also, purchases and sales of domestic notes and coins are to be made through the reserve deposit accounts.

(c) The RBA would report regularly to the EPC on its progress in implementing its policies, upon the effectiveness of its policies and on any other matters that the EPC may require of it.

(d) If the RBA wishes to continue to engage in banking activities, it must divest its banking function from its function as the national monetary authority. Its banking activities must come under the same form of regulation as apply to commercial banks. Otherwise, it may undermine the effectiveness of the EPC in attaining its objectives.

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[9] See section 6.
[10] See section 8.
[11] See section 9.
[12] See paragraph 6(c).

PART C: POLICY INSTRUMENTS

6. Bank Lending to Reserve Ratio

(a) The EPC is to manage the growth of bank lending by regulating the Bank Lending to Reserve Ratio (BLRR). The ratio determines the additional amount banks may be permitted to lend relative to the growth in each bank's reserve deposits, or savings, with the RBA. An indicative range of BLRRs is presented in the following table. In that table, Foreign Currency Reserves are defined in terms of the equivalent number of months of imports. For example, if Australia's level of imports were in the order of $550 billion per annum and the Foreign Currency Assets and Gold of the RBA were in the order of $90 billion, then its foreign currency reserves would be the equivalent of about 2 months imports. The BLRR rates vary according to the rate of inflation and the level of Foreign Currency Assets and Gold held by the RBA. The rates apply to the growth each month in each bank's loans, guarantees and commitments.

	Indicative Bank Lending to Reserve Ratios					
Rate of Inflation	>10.0%	9.9%-7.0%	6.9%-5.0%	4.9%-3.0%	2.9%-2.0%	<2.0%
Level of Foreign Currency Reserves (in terms of Months of Imports)						
<3 0	1.0	1.5	3.0	4.0	5.0	6.0
3.0-3.9	1.0	1.7	3.7	5.0	6.0	7.0
4.0-4.9	1.0	1.8	4.3	6.0	7.0	8.0
5.0-5.9	1.0	2.0	5.0	7.0	8.0	9.0
6.0-6.9	1.0	2.1	5.5	7.8	8.9	10.0
7.0-7.9	1.0	2.3	6.0	8.5	9.8	11.0
8.0-8.9	1.0	2.4	6.5	9.3	10.6	12.0
9.0-9.9	1.0	2.4	6.8	9.6	11.1	12.5
10.0-10.9	1.0	2.5	7.0	10.0	11.5	13.0
11.0-12.0	1.0	2.6	7.3	10.4	11.9	13.5
>12.0	1.0	2.6	7.5	10.8	12.4	14.0

(b) For the purposes of these guidelines, banks are financial institutions that accept, hold and transfer deposits. Financial institutions that accept and hold deposits but do not transfer deposits are not to be classed as banks for the purposes of the BLRR. It is the ability of the financial institution to transfer deposits which makes them negotiable instruments and determines that they are an entity that must comply with the BLRR requirement. Also, financial institutions that guarantee the securities of other entities are required to comply with the BLRR. In addition, any institution that issues securities that are not guaranteed by a bank, yet are negotiable, is to be subject to the same requirements that apply to banks. The policies applying to banks apply to these institutions, in so far as they are relevant.

(c) From the date that the EPC determines, each bank is to establish a Reserve Deposit Account with the RBA and to raise Reserve Deposits (RDs) in line with the growth in their lending according to the BLRR. A bank may increase its RDs when it receives funds from inter-bank settlements, and by selling to the RBA:

- domestic currency (notes and coins);
- foreign currency; and
- during the first year of the BLRR requirements, for inter-bank settlement purposes, government securities.

The EPC may modify these options as it sees fit.

(d) Likewise, a bank's RDs may be reduced when they transfer them to other banks in the process of inter-bank settlements and by purchasing from the RBA:

- domestic currency (notes and coins); and
- foreign currency.

(e) The BLRR applies to the *growth* in bank lending relative to the *growth* in reserve deposits. Two forms of lending are to be regulated using the BLRR. These are loans that are shown on the bank's balance sheet and those in the form of guarantees of securities.

(f) Banks also issue guarantees for purposes other than securities. While these guarantees may not constitute part of the quantity of money in the economy, banks may receive deposits in exchange for these guarantees. Those funds should not be used to raise their lending capacity. Therefore, such guarantees should also be subject to the BLRR.

(g) To facilitate the regulation and monitoring of these loans and guarantees, each bank is to regularly advise the RBA of the total amount of its loans and guarantees. To establish the starting position, each bank is to advise the RBA of the total amount of its loan outstanding on its balance sheets and of its off-balance sheet commitments on the date from which the BLRR is to apply. (The amount of a bank's total loans outstanding on their balance sheet includes holdings of government and other securities.) This amount would be the bank's initial Certified Outstanding Loan Commitment (COLC). The amount of their off-balance sheet commitments for securities, including bank endorsed securities, will be the bank's initial Certified Security Guarantee Commitment (CSGC). All Other Guarantees and Commitments (OGC) will be the bank's initial Certified Other Guarantees and Commitments (COGC). The COLC, CSGC and COGC of a bank established after the introduction of the BLRR would be the opening amount of its Outstanding Loan Commitment (OLC), Security Guarantee Commitment (SGC) and Other Guarantees and Commitments (OGC) on the day that it was established as a bank.

(h) The BLRR is to apply to the *growth* in each bank's OLC, SGC and OGC above the amount of its COLC, CSGC and COGC. The EPC may redefine the components included in each of these categories and what are the reporting requirements, as it sees fit.

(i) Once the BLRR is in force, every month, each bank is to report to the RBA on the total amount of its OLC, SGC and OGC. If a bank's RDs are sufficient to comply with the BLRR, then the bank's reported OLC will be the bank's Certified Outstanding Loan Commitments (COLC), the bank's reported SGC will be the bank's Certified Security Guarantee Commitment (CSGC) and the bank's OGC would be the bank's Certified Other Guarantees and Commitments (COGC).

(j) The BLRR is to apply to the sum of the growth of OLC, SGC and OGC. If the balance of any of the OLC, SGC or OGC decline below their respective COLC, CSGC or COGC, that reduction cannot be used to increase the balance of the other forms of lending.

(k) Each month, the RDs that each bank is required to hold to comply with the BLRR for its COLC, CSGC and COGC are to become its Committed Reserve Deposits (CRDs).

(l) If a bank's RDs are insufficient to comply with the BLRR, then the bank may not increase its OLC, SGC and OGC until the RBA authorises it to do so. Even so, if the bank's RDs are greater than its CRDs, it may raise the amount of its COLC, CSGC and/or COGC as far as it is able to do so and remain compliant with the BLRR. To the extent that it does so, its RDs would become CRDs. A bank may continue to lend and/or provide guarantees up to the level of its COLC, CSGC and COGC if loan repayments or other actions reduce their OLC, SGC or OGC below their respective certified levels.

(m) A bank is not to engage in any activity that would raise its OLC, SGC or OGC while they exceed their respective certified amounts. When the bank is able raise its Reserve Deposits sufficiently to comply with the BLRR and cover its OLC, SGC and OGC, it may, with the approval of the RBA, raise its COLC, CSGC and COGC accordingly and continue its lending activities.

(n) If a bank's Reserve Deposits (RDs) fall below its Committed Reserve Deposits (CRDs) then the bank is required to respond and take action to raise its RDs to at least the amount of its CRDs.

(o) The following table sets out the restrictions to apply to a bank's activities while its Reserve Deposits are below the amount of its Committed Reserve Deposits. These constraints are intended to ensure that banks remain stable and do not trade themselves into difficulties. They come into effect one year after the Reserve Deposit requirements are put in place. In the first year of the BLRR arrangements, the banks may sell government securities to the RBA to meet their RD obligations and for inter-bank settlement purposes.

Reserve Deposits relative to Committed Reserve Deposits.	Default Restriction Apply to Banks with Reserve Deposits less than their Committed Reserve Deposits
<100%	The bank is not to raise its OLC above its COLC, its SGC above its CSGC nor its OGC above its COGC.
<90%	The bank is not to make any guarantees or commitments other than for securities.
<80%	The bank is not to secure or guarantee any more securities.
<70%	The bank is not to issue any further loans.
<60%	The bank is to dispose of any holdings of non-government securities and not purchase any additional non-government securities.
<50%	The bank is to dispose of any government securities it may hold and is not to purchase any additional government securities
<40%	The bank is to dispose of any other assets that are not necessary for its banking business and is not to purchase any other assets that are not necessary to its banking business.
<30%	The bank is to sell any remaining financial assets that may be sold to other banks or financial institutions.
<20%	The RBA is to negotiate with the bank and other banks as to whether the bank may be taken over by another bank or banks. Any bank that takes it over must have Uncommitted Reserve Deposits sufficient to enable that bank to continue to lend after it has taken over the target bank.

<10%	The bank ceases to be classed as a bank. It ceases to have access to inter-bank settlements. The RBA is to organise for it be classed as a non-bank deposit taking financial institution. Remaining Reserve Deposits may be used to settle any outstanding commitments to other banks and the remainder may be transferred to the RD's of the institution that is the banker for the former bank, or as agreed between the RBA and the former bank.

7. The Standard Currency Unit

(a) To achieve desired employment and unemployment levels, the EPC is to set guidelines for the trading range for the exchange rate of the Australian dollar. To do so, it needs to establish a Standard Currency Unit (SCU) against which the value of the Australian dollar can be measured and monitored. The value of the SCU is to be defined according to a basket of currencies. The EPC may from time to time modify the basket to take account of the changing world economic environment.

(b) The proposed default value of one SCU is defined as value of the sum of the amounts of the following currencies:

Currency	Code	Units of Currency
Australian Dollar	AUD	5.00
Canadian Dollar	CAD	4.60
Swiss Frank	CHF	3.20
Chinese Yuan Renminbi	CNY	46.70
Euro	EUR	12.70
Pound Sterling	GBP	5.60
Indian Rupee	INR	555
Japanese Yen	JPY	913
South Korean Won	KRW	4,426
United States Dollar	USD	13.40

8. The Exchange Rate

(a) The EPC is not fix or peg the value of the Australian dollar. Rather it is to determine the target rate of unemployment that it wishes to attain and apply guidelines for the RBA to modify the exchange rate to achieve that target. Also, the EPC is to provide guidelines to determine the pace at which the exchange rate adjusts to attain other objectives, such as rates of economic growth and/or inflation.

(b) Initially, the RBA is to apply a maximum exchange rate, or an exchange rate ceiling, defined in terms of SCUs that the EPC may determine. By default, the maximum exchange rate will be the exchange rate that the RBA determines is the average rate during business hours for the previous business day. The RBA is to offer to purchase foreign currency on the market at that maximum, or ceiling, price.

(c) Changes to the exchange rate should be done slowly to minimise speculation and allow the economy to adapt to the changes. The purpose of these adjustments is to inject money from trade into the economy. The net amount of those purchases should be between about five and ten percent of annual exports per annum. That would mean that each month the amount of foreign currency purchases should be approximately between half of one percent of annual exports (i.e.,

about $2.8 billion) and one percent of annual exports (i.e., about $5.6 billion). Indicative rates of adjustment for the ceiling or "cap" are presented in the following table.

	Indicative Adjustment Rate for the Exchange Rate Ceiling				
Rate of Unemployment	>5.0%	4.9%-4.0%	3.9%-3.0%	2.9%-2.0%	<2.0%
Adjustment rate when cap is Binding					
Rate per business day	0.010%	0.008%	0.005%	0.002%	0.000%
Effective rate per annum	2.5%	2.0%	1.3%	0.5%	0.0%
Adjustment rate when cap is Not Binding					
Rate % per business day	0.04%	0.03%	0.02%	0.01%	0.00%
Effective rate per annum	10.5%	7.8%	5.1%	2.5%	0.0%

(d) The ceiling, or cap, is said to be "binding" when the RBA has purchased foreign currency to enforce the ceiling in the previous business day. If the RBA has not engaged in purchasing foreign currency on the previous business day, then the cap is said to be not binding. The exchange rate ceiling could be stable or fixed against the SCU once the target rate of employment had been attained.

(e) The RBA's purchases of foreign currency injects additional money and income directly into the economy. Those funds go to raise the incomes of the industries producing the exports. It does not go to inflating home prices. It raises income and provides employment. The indicative rates of adjustment are suggestions only. The RBA should monitor and manage the funds being injected into the economy through its foreign currency purchases according to the limits suggested in paragraph (c) above. Even then, the EPC needs to monitor the effects of these limits on the economy and adjust them accordingly. It may be necessary to stop any further lowering of the ceiling if purchases are excessive and cause inflation. Also, if foreign currency purchases are too low to stimulate the economy and inflation is low, it may be necessary to speed up the rate of adjustment.

(f) To reduce inflation, it is necessary for the EPC to take money out of the economy. This is possible when the RBA sells foreign currency to the market. The following table suggests an indicative level for the floor to assist in the control of inflation.

	Indicative Level of the Floor below the Ceiling Exchange Rate					
Rate of Inflation	>10.0%	9.9%-7.0%	6.9%-5.0%	4.9%-3.0%	2.9%-2.0%	<2.0%
Level of Foreign Currency Reserves (in terms of Months of Imports)						
<3 0	2.0%	2.8%	3.6%	4.4%	5.2%	6.0%
3.0-3.9	1.6%	2.1%	2.6%	3.0%	3.5%	4.0%
4.0-4.9	1.4%	1.7%	2.0%	2.4%	2.7%	3.0%
5.0-5.9	1.2%	1.4%	1.5%	1.7%	1.8%	2.0%
6.0-6.9	1.0%	1.2%	1.4%	1.6%	1.8%	2.0%
7.0-8.9	0.8%	1.0%	1.3%	1.5%	1.8%	2.0%
9.0-12.0	0.6%	0.9%	1.2%	1.4%	1.7%	2.0%
>12.0	0.5%	0.8%	1.1%	1.4%	1.7%	2.0%

(g) The RBA would sell foreign currency to the foreign exchange market at the floor price to enforce that floor. Selling foreign currency is likely to reduce the RDs of banks and reduce their capacity to issue loans. Adjustments to the floor should not be made suddenly, particularly if they

are binding. A suggested or indicative rate of adjustment for the floor, or minimum, exchange rate is presented in the following table.

	Indicative Adjustment Rate for the Exchange Rate Floor				
Rate of Inflation	>5.0%	4.9%-4.0%	3.9%-3.0%	2.9%-2.0%	<2.0%
Adjustment rate when floor is Binding					
Rate per business day	0.020%	0.010%	0.008%	0.005%	0.002%
Effective rate per annum	5.1%	2.5%	2.0%	1.3%	0.5%
Adjustment rate when floor is Not Binding					
Rate % per business day	0.10%	0.06%	0.03%	0.02%	0.01%
Effective rate per annum	28.4%	16.2%	7.8%	5.1%	2.5%

(h) The RBA would continue to engage in the foreign exchange market to keep the exchange rate within the band (or such other limits that the EPC may determine) between the floor and the ceiling.

(i) In circumstances of excessive inflation, or excessive economic growth that may threaten inflationary pressures, it may be advisable for the RBA to raise the exchange rate floor and sell more of its foreign currency reserve assets.

(j) The effects of introducing the arrangements set out in these guidelines may be observed in the national account statistics in the first quarter after they are introduced but are more likely to be evident in the second quarter.

9. The Level of Foreign Currency Reserves

(a) The RBA is to hold Foreign Currency Reserves to ensure that the monetary systems can meet its foreign currency commitments at the exchange rates established. The EPC is to determine the target range for Foreign Currency Reserves in terms of months of imports. It may vary the target range as it sees fit. Also, the EPC may vary the BLRRs in response to the levels of their Foreign Currency Reserves to contribute to the stability of those reserves. The EPC manages only the Foreign Currency Reserves of the monetary system. Foreign currency reserves held by governments and the private sector are not available to monetary system and are not to be included in defining the level of Foreign Currency Reserves that the EPC manages.

(b) If the Foreign Currency Reserves are below the EPC's target range, then the RBA is to continue to purchase additional foreign currency.

(c) When the BLRR comes into effect, the banks, and other financial institutions to which the BLRR applies, may not raise the level of their foreign debt, either directly or indirectly, other than to hold the deposits of foreign banks and other foreign entities. That is, they are not to borrow from foreign markets to raise their RDs.

(d) If the RBA's holdings of foreign currency reserves are more than sufficient to comply with the EPC's foreign currency reserve targets, it may spend the excess national savings by purchasing domestic assets such as government securities.

(e) The EPC is to endeavour to maintain stable foreign currency reserves and, if necessary, may adjust the BLRR to do so.

PART D: STRATEGIES

10. Price Stability

(a) Price variations are a signal to the market and are an important part of how the economy functions. They should be considered a normal part of economic activity. Also, some price changes are beyond the control of the national economy. For example, a rise in international oil prices is likely to be beyond the control of the EPC. Therefore, it would be futile for the EPC to respond to such price changes. The EPC should establish a clear statement of its targets for inflation and identify those forms and sources of inflation that it is able to address.

(b) There are two basic sources of inflation that the EPC may wish to respond to. They are inflation from excessive monetary growth and inflation imported through the price of foreign products. Inflation from excessive monetary growth is to be managed primarily by managing the growth of bank credit through the RBA's purchases and sales of foreign currency on the foreign exchange market, and by using the BLRR. Establishing predetermined BLRR responses to inflation contributes to price stability and avoids the EPC having to meet to respond to a crisis. To adopt such an approach, the EPC needs to have a trigger rate of inflation for domestic products (other than in response to a natural disaster or other significant non-monetary events), above which a policy response is applied. The response may take the form of an array of options that the RBA could apply in response to price changes shown in paragraph 6 (a) for the Indicative Bank Lending to Reserve Ratios.

(c) The process of devaluing the currency to raise employment and provide economic growth can be expected to raise prices for imported products. These could feed through to raise the price of domestic products. Such inflation can be reduced by slowing the pace of devaluation by:

- raising the floor price, as shown in paragraph 8 (f) for the indicative level of the floor price below the ceiling exchange rate price; and
- varying the speed of adjustment, as shown in paragraph in 8(g) for the Indicative Adjustment Rate for the Exchange Rate Floor.

If the currency is stable and the economy continues to be confronted with excessive import inflation, the EPC may choose to inflate the currency against the SCU. It should be noted that this may have implications for the rate of economic growth and the level of employment.

11. Full Employment

(a) The EPC is to determine what it considers to be its target for full employment. That may be defined as a level of unemployment or comprise target levels of unemployment for a range of age categories. Also, the EPC may wish to define what it considers to be unemployment. The strategy for raising employment is to enable export income and other foreign currency receipts to stimulate the economy. The proportion of income spent on domestic products is to be raised by adjusting the exchange rate to generate full employment.

(b) The first step is to stabilise the exchange rate. Then, if demand is insufficient to attain the target level of employment, the EPC may slowly devalue the currency until the demand for domestic products is sufficient to generate full employment. There are indicative rates of adjustment for the exchange rate ceiling in table in paragraph 8(c). They are indicative only. The purpose of devaluing the currency is to inject income and money into the economy. The amount of money injected into the economy is more important than the speed of adjustment, as explained in paragraph 8 (c).

(c) Before the exchange rate can be stabilised, the EPC must set the Bank Lending to Reserve Ratio (BLRR) and determine the date at which it would come into effect. Also, it should determine the initial exchange rate ceiling or maximum exchange rate (preferably determined in terms of SCUs).

The maximum exchange rate may be determined as the exchange rate on a specific day or time, such as the close of business on the day before which the exchange rate policy is put into effect. Also, the EPC may define a minimum exchange rate at which the RBA would sell foreign currency from its reserves. Banks are required to provide the RBA with data on their lending commitments and establish their Reserve Deposit Accounts with the RBA. The RBA's purchases of foreign currency would be added to the RBA's foreign currency reserves. In exchange, the RBA would deposit funds in the respective bank's Reserve Deposit accounts. Those funds would immediately enter the economy as additional export income and other foreign currency receipts. When spent, they will generate additional employment.

(d) The EPC should provide the RBA with boundaries for the rate of economic growth it wishes to attain to achieve its targeted level of employment (or unemployment). The purpose of devaluing the currency is to increase domestic demand for domestic products and raise the income of exporters. Those actions should be evident in the growth of foreign currency reserves. If the EPC's target rate of economic growth were to be between 5 and 10 percent, then the RBA's purchases of foreign currency reserves could be equivalent to 5 to 10 percent of exports (and other services income such as tourism) each month relative to the exports in the same month of the previous year. It may raise these amounts to take account of inflation. If foreign reserves are growing slower than the lower boundary for growth, then the speed of devaluation could be increased. If the foreign reserves are growing faster than the upper boundary for economic growth, then it may be necessary for the RBA to slow the speed of devaluation. It may need to stop depreciating and may even sell some of its foreign currency reserves. Those sales of foreign currency would deplete the bank's RDs and reduce their capacity to lend. Also, it would directly take money out of the economy.

(e) The EPC may provide the RBA with other guidelines on the speed of devaluation such as shown in the table in paragraph 6 (c). If the rate of unemployment were at or below the target rate, then the exchange rate cap could be fixed and the floor raised to collar the exchange rate at that level. The rate of depreciation does affect the rate of inflation for imported products and this may be a reason for the EPC to further limit the rate of depreciation, as explained in paragraph 8 (c) and (d).

(f) The EPC may wish to provide guidelines for the floor price, as explained in paragraph 8 (f), (g) and (h).

(g) There may be circumstances, such as excessive inflation, that may impinge upon the EPC and the RBA's ability to apply the EPC's employment strategy. These should be expected. There are likely to be other constraints that affect the economy. These may influence the speed of change. The EPC and the RBA need to be able to respond to these as they occur. Also, it is worth noting that some parts of the economy will be slow to respond to the changing conditions. Therefore, the EPC and the RBA may need to be careful when lowering the exchange rate to allow those industries time to respond, to ensure a soft landing and avoid unnecessary inflation.

12. Economic Growth

(a) The strategy for achieving economic growth relies upon the growth of exports and other foreign income and receipts to circulate through the economy. Those funds raise total spending on both domestic products and imports. The additional foreign currency received finances the additional expenditure on imports and thereby make the process sustainable.

(b) The EPC may define its target for economic growth in terms of per capita incomes, national income or other measures of economic welfare. It has a range of policy options to raise and control the rate of economic growth, depending upon the circumstances of the economy. The strategy for attaining full employment is to raise the proportion of domestic spending on domestic products.

That approach raises the trade multiplier and shifts existing demand towards domestic products (by making domestic products relatively cheaper than imports). The strategy for sustained economic growth employs the trade multiplier to further raise incomes. That is, it requires the growth of export income and other foreign receipts to flow into the economy and stimulate it further.

(c) Economic growth is achieved by creating disequilibrium in international trade: that is, by ensuring that international receipts are greater than international payments. When the economy reaches equilibrium (where international receipts and payments are equal) it stops growing. At that point receipts and payments are equal. Therefore, the economy has no further stimulus. The task of creating economic growth involves moving from the current equilibrium position towards another equilibrium position with higher income. Therefore, the task of raising economic growth requires the continual increase of exports and other foreign receipts which in turn raises imports and other foreign currency payments.

(d) The lower exchange rate also raises demand for Australian products from among its trading partners. This is the additional export income that stimulates the Australian economy and raises the rate of economic growth.

(e) Bank lending can raise demand by accelerating the speed at which money from the growth of trade flows into the economy. The growth in export incomes raises bank Reserve Deposits with the RBA, enabling the banks to increase their lending and further stimulate the economy. When that money is spent on imports, it reduces bank Reserve Deposits and constrains further growth of bank lending. Therefore, bank lending cannot be relied upon to sustain an increase in incomes in the long term. It is exports and other foreign receipts that are required to sustain a growing economy. The benefit of money from export growth is that when imports subsequently rise from the general rise in demand, the economy has the foreign currency income to pay for them. Therefore, export growth is a sustainable source of economic stimulus and growth.

(f) There may have been some policies implemented in the past to address specific problems that may no longer be relevant or necessary. They could even hinder the rate of economic growth. The EPC may wish to reconsider and review those policies to determine whether or not they are beneficial. The could include wages policies, competition policies, privatisation policies, savings policies, education policies, industry policies, trade policies etc.

13. Foreign Debt

(a) The main foreign debt that the ECP is to manage is the debt of, and that created by, the monetary system. The full employment and economic growth strategies build foreign currency reserves, and these will reduce net foreign debt in the monetary system. For the EPC to monitor the net foreign debt position in the monetary system, it will need to monitor the foreign debts and foreign currency assets of the banks and the RBA. That data can be collected at the same time as the banks report on their outstanding loan commitments. From the time that the BLRR is put in place, banks and other institutions required to hold RDs, are not to increase their foreign liabilities, other than in the form of deposits of foreign banks and other foreign customers.

(b) The first step in reducing net foreign debt is to place a ceiling on the value of the Australian dollar to enable the RBA to start building up foreign currency reserves. As explained earlier, the RBA purchases foreign currency on the foreign exchange market to raise bank Reserve Deposits. Those purchases reduce the net level of foreign debt.

(c) Initially, the growth of bank credit may continue to raise foreign debt in the wider economy. That is because the growth of bank credit may finance national expenditure in excess of national income and cause imports to exceed exports. Therefore, additional foreign debt may be required to finance those imports. However, once the RBA has a binding exchange rate floor in place, the reduction in RDs caused by the purchase of foreign currency from the RBA to pay for imports will reduce and eventually prevent the excessive growth of bank credit that would have raised foreign debt. The BLRR arrangements would then prevent banks from lending the country further into debt. That is, banks would be able to raise their level of lending only as they increase the nation's foreign currency reserves.

(d) The ECP may have a maximum target for the RBA's foreign currency reserves. For example, it could say that the maximum target for foreign currency reserves is the equivalent of twelve months' imports. If this is the case, the ECP should put in place guidelines for the RBA as to how it is respond once the target maximum is exceeded. For example, the ECP could advise the RBA that once the maximum foreign currency target is attained, that the it should purchase other secure assets such as government securities. That would have the effect of injecting more funds into the economy and stimulating further economic growth (as well as imports to use up the excess foreign currency reserves).

(e) Non-bank entities may continue to borrow from foreign sources. The growth of foreign currency reserves means that when those entities repay their debts, the banking system will be holding the foreign currency reserves necessary to repay those debts. If those foreign debt repayments were significant, they could reduce foreign currency reserves. Also, those repayments would reduce the RDs of the banks, constraining them from further growth in lending until their RD's, and the RBA's foreign currency reserves, were replenished.

14. Balanced Fiscal Outcomes

(a) While the EPC does not manage public finances, it aims to put in place an economic environment conducive to maximising the income of the nation and, thereby, the income of government. Also, by maximising employment opportunities, it minimises the need for social services and thereby reduces the need for public expenditure.

(b) Even so, government revenue may be insufficient to finance all of public expenditure. If so, the EPC may encourage the government to ensure that its taxes and other revenue are sufficient to finance recurrent expenditure, at least.

(c) Under these guidelines, government loans are treated the same as the loans to the private sector. It means that government borrowings reduce the ability of the private sector to borrow. As far as possible, public capital (or discretionary) expenditure should be financed from taxes and other government income to maximise the capacity of the private sector to access funds for investment.

(e) For the economic policy requirements of the EPC, public expenditure needs to be defined in terms of cash flow.

15. Nurture All Industries

(a) The floating exchange rate system favours those industries that engaged in international trade. It can undermine domestic industries that compete with imports. That is because the system requires any growth in export income to be immediately matched with an equivalent increase in expenditure on imports (or other payments to foreign economies). To facilitate this, the market inflates the value of the currency to make imports cheaper and shift domestic spending from

domestic products to imports. In doing so, it not only reduces demand for domestic products, it reduces the income of existing exporters.

(b) The exchange rate arrangements proposed do not inflate the exchange rate when exports rise. Therefore, domestic industries competing with imports are not disadvantaged by a rise in exports. Rather the proposed exchange rate arrangements enables each industry to prosper without the risk and fear that the exchange rate may rise and make them uncompetitive. It ensures that all industries can compete fairly in business, both in the domestic and international markets.

16. Economic Independence and Self Reliance

(a) These guidelines manage the exchange rate and bank lending to enable the economy to be independent and self-reliant. These policies and procedures ensure that the economy can sustain its level of expenditure and is not reliant on other countries or entities to support the economy.

(b) As the EPC implement these guidelines, it will be ensuring that the economy has a sound monetary system. The growth of their foreign currency reserves will provide the economy with the confidence and ability to maintain a stable currency that is freely convertible into other currencies. The economic growth engendered by the proposed policies would enable the economy to attain full employment and thereby improve its self-reliance. Within the proposed reformed monetary and economic environment, the economy would become more independent and able to follow its own aspirations and apply its own social and economic policies.

(c) When the EPC applies these guidelines, it will be encouraging the development of Australia's domestic industries and ensuring that its economy spends within its means. The government may choose to borrow funds to invest in infrastructure and other development. If it does, the structure that the EPC puts in place will ensure that, if the government has the local funds to repay its debts, the monetary system will have the foreign currency necessary to meet those commitments.

17. Financial Stability

(a) These guidelines create an environment of financial stability because it ensures that banks have the resources to meet their commitments. The requirement to hold Reserve Deposits with the RBA and to use those funds to make interbank settlements and meet foreign currency commitments means that any bank that starts to have problems is automatically and immediately constrained from extending further loans and expanding its difficulties.

(b) The reserve deposit requirements ensure that banks build up substantial resources that are available to them to settle their commitments without having to borrow additional funds. Those deposits also impede the effect of bank failures impinging upon other banks and threatening the financial system. Even if a bank failure does affect other banks, the banks' large holdings of RDs contribute substantially to their ability to meet their commitments.

(c) These guidelines provide the banks with a clear and transparent warning of what would happen if they take risks that result in them holding inadequate RDs. Those automatic responses provides banks with a strong incentive to meet their BLRR commitments and remain solvent. It is a process that prevents banks from growing their business unless they meet the EPC requirements. Banks can be expected to make it a priority to manage their RDs, not only to look after their customer's interests, but also those of their shareholders.

(d) The use of interest rates to manage bank lending raises living costs. They can undermine the capacity of existing borrowers to repay their loans. As a result, banks could fail (and have failed) when borrowers are unable to repay their loans. The approach to managing bank lending set out in these guidelines does not affect living costs. It provides greater stability for the financial system because it does not use interest rates as an instrument of economic policy.

18. Economic Stability

(a) Economic stability can be fostered under these guideline by using the automatic processes set out to respond to changes in the economy before they become critical. Also, the EPC has a range of policy instruments available to it to address different problems. Furthermore, these guidelines foster a robust economy with full employment, economic growth, stable prices, reduced foreign debt and rising foreign reserves which all contribute to economic stability.

(b) These guidelines encourage the EPC to put in place a range of actions to respond to varying situations. These include measures to lower the BLRR and reduce the growth of bank credit if inflation occurs or foreign reserves decline. That approach does not necessarily reduce economic growth because trade can continue to stimulate the economy without inflating prices as experienced when the economy has been stimulated using bank credit.

(c) If unemployment were to rise, the economy can respond automatically by devaluing the currency to make domestic products relatively cheaper and raise demand for them, thereby creating additional employment.

(d) While a natural disaster or other physical, social, or political crisis may occur, the monetary system should continue to be stable, allowing the continued functioning of government, business and household sectors. The large level of foreign reserves fostered under these arrangements enables the economy to continue to function and pay for imports, even if export income is significantly reduced.

(e) The foundation of stability for the economy are national savings, or the country's foreign currency reserves. These guidelines call for growing savings in the form of foreign currency reserves that will contribute to economic stability.

(f) Even if foreign currency reserves fall significantly, the EPC has automated guidelines that respond to stabilise them.

19. Justice

(a) These guidelines ensure that all participants in the economy are treated justly. The arrangements ensures that people's contributions to the economy are rewarded appropriately. One of the major forms of injustice that these guidelines address is the injury to domestic producers caused by the growth of exports under the current exchange rate system. Justice is restored by putting in place policies that enable all industries to prosper without adversely affecting each other. Also, justice is fostered by the arrangements used to provide full employment, economic growth, stability and avoid undue foreign debt.

(b) The result of all these policies is that the economy rewards the people according to their contribution to the economy. They ensure that when exports increase, manufacturers who produce for the domestic economy prosper, along with the exporters. Also, exporters are not disadvantaged when other exporters increase their exports. The exchange rate is stable to bring prosperity to all industries.

(c) The amount that banks are allowed to lend is managed so that it does not drive the country into debt nor undermine the welfare of those who have worked and contributed to the economy.

20. Sound Governance

(a) Monetary policy is the heart of economic policy. Money is used by every facet of the economy, including the government, primary industry, manufacturing, finance and household sectors. Therefore, it needs to be managed responsibly and fairly for the benefit of all sectors.

(b) In order to achieve its objectives, the EPC is made responsible for determining monetary policy. Monetary policy includes policies relating to exchange rate, the growth of the money supply, the source of monetary growth, the security of the banking industry, the security of the economy, prices and inflation, interest rates, etc.

(c) These guidelines require the EPC to be separate from the institution required to implement it, the RBA. This policy improves independence and transparency of the EPC and reduces the opportunity and ability of the regulated industries to influence economic policy in their own interest.

21. Democracy

(a) Monetary policy has been left out of the democratic process in Australia. This has meant that there has been an opportunity for it to be prejudiced and not act to achieve the economic welfare of the whole economy. These guidelines call for the establishment of an Economic Policy Council (EPC) made up of persons democratically elected to office. That can include members of federal and state parliaments. This requirement ensures that members are democratically elected and, therefore, accountable to the people for their policies. An EPC of democratically elected members is more transparent and more likely to ensure that economic policy is directed at improving the welfare of the whole nation, rather than a board of unelected experts, bankers and/or industrial representatives.

(b) It may be more democratic to separately elect the members of the EPC. However, once these guidelines are put in place and stability attained, it is unlikely that the EPC would need to meet more often than the minimum of two times per annum. Therefore, later members of the EPC may be left with little to do to warrant the cost of a separate election process.

22. Glossary of Acronyms

BLRR Bank Lending to Reserve Ratio
COGC Certified Other Guarantees and Commitments
COLC Certified Outstanding Loan Commitments
CRDs Committed Reserve Deposits
CSGC Certified Security Guarantee Commitment
SCU Standard Currency Unit
EPC Economic Policy Council
OLC Outstanding Loan Commitment
OGC Other Guarantees and Commitments
RBA Reserve Bank of Australia
RDs Reserve Deposits (with the RBA)
SGD Security Guarantee Commitment