THE COMMONWEALTH TREASURY . . .

SERVANT or MASTER?

"I have said that the advice that the Treasury has been giving is bad. I know that there is a long history of this and I know that there is a reason for it. This is part of a 25-year-long battle by the Treasury to increase its own empire. This is part of the way in which it has constrained the States and driven the State budgets to desperation. This has been a deliberate long term policy in the Treasury. I had experience of this when I was in the Ministry. When I brought forward a proposal which the Treasury did not like it brought to Cabinet estimates of expenditure which were as much as 100 per cent wrong. Treasury did not worry about doing this and sometimes it persuaded Cabinet. It is not just entrenched stupidity from Treasury. it is a piece of deliberate empire building. Treasury is the sacred cow of Australian politics and it is time that somebody said to it: "Go and get inseminated."

Mr. WENTWORTH (Mackellar)
18 February 1976

HOUSE OF REPRESENTATIVES

by

JEREMY LEE

AN INSTITUTE OF ECONOMIC DEMOCRACY PUBLICATION

Australia, like other Western nations, is being crippled by inflation. However, those responsible for financial policy are somewhat like the alcoholic who will do anything to cure his problem - except give up drink!

It would be elementary, one supposes, to examine the common features of all economies beset by inflation, and then do something to eradicate them.

Western economies have the following in common:

(1) A gradual elimination of private property.
(2) Heavy, progressive taxation.
(3) An attack on the right of inheritance.
(4) State monopoly of credit policy, through central banking.
(5) The erosion of the power of elected parliamentarians in favour of the permanent bureaucracy.
(6) The eradication of small, decentralised representative governments by amalgamation and regionalism.
(7) The use of debt to break down private ownership.
(8) State control of Industry, Production, Distribution and Exchange.
(9) Inflation.

Each one of these nine points has been advocated either in the Communist Manifesto, or by the Fabian Society.

They are, unfortunately, ignored by most ostensibly anti-socialist parties and politicians, except at election time. This is true, despite the fact that the same parties claim to oppose all of these points in their party platforms.

One parliamentarian who has gone further than the mere paying of lip-service in opposition to these destructive policies is Queensland Premier Joh Bjelke-Petersen. At the Premiers' Conference in June, 1974, he put forward what has subsequently become known as the Petersen Plan. It was simple enough, and contained three points:

(1) A complete freeze on aggregate collections of income tax at the existing level.
(2) The reduction or elimination of Sales Tax on items in the Consumer Price Index groups.
(3) The payment of Consumer Subsidies on the foodstuffs component in the Consumer Price Index.

MENZIES AND FADDEN.

Mr. Petersen's proposals bore a striking resemblance to those put forward by the Liberal-Country Party coalition, headed by Sir Robert Menzies, in 1949. Again, these came under three headings:

(1) A reduction in the burden of government.
(2) A reduction in taxation.
(3) An end to inflation by "putting the shillings back into the pound."

With regard to the third point, Sir Robert Menzies was specific as to how this would be done: **The Sydney Morning Herald** (12/11/49) quoted him as saying: "On the true cost of household requirements the pound was worth only 10/- compared with 1939. The greatest task, therefore, was to get value back into the pound by reducing prices. Increased production was needed. While encouraging production, a Liberal-Country Party Government **would pay price subsidies on items affecting the cost-of-living of basic wage earners."**

The Country Party fully endorsed this step, as outlined by Mr. McEwen **(Sydney Morning Herald, 8/11/49):** The Country Party, if returned at the elections, would restore subsidies on vital foods and clothes to increase the purchasing power of money, the Deputy Leader of the Country Party, Mr. J. McEwen said at Kyabram tonight."

POLITICAL BRANCHES ENDORSE PLAN.

Tremendous interest in the Petersen Plan has developed in all States, despite a strange reluctance to deal with the issue by the Media. The Annual State Conferences of the Country Party in Queensland and Victoria have endorsed it. A considerable number of Federal and State members have endorsed it privately. Not only the Liberal-Country Party, but also the A.L.P. has, in some instances, advocated consumer subsidies. In 1972, just prior to the election, the A.L.P. in Queensland wrote, in answer to queries from the Queensland Graingrowers' Association: "The number of "consumer subsidies" first introduced by the Chifley Government to stabilise basic commodity prices, whilst giving the producer a just return, is undoubtedly a good economic tool in the battle against spiralling costs and inflation."

ECONOMISTS AND INDUSTRIALISTS LEND WEIGHT.

A number of economists have endorsed both reduced taxation and price subsidisation. These include Dr. Ironmonger, of the Melbourne Institute of Applied Economic and Social Research, and the noted Queensland economist, Mr. H.W. Herbert.

Professor Dillon, of the Department of Economics and Business Management at the University of New England advocated consumer subsidies on meat in May 1973 **(Sydney Morning Herald 1/5/73)**. In the same month, Mr. Russell Slade, chairman of Bonds Coats Patons Ltd. told shareholders: "I join with those who advocate the introduction of a wool price subsidy scheme which would help to safeguard the textile and apparel industry and the Australian wool consumer. A subsidy scheme would do much to ensure the confidence needed for financing stock and promoting the use of wool products." **(Australian Financial Review, 10/5/73)**

More recently, the Metal Trades Industry Association, after the 6.4 per cent National Wage increase brought down in January 1976, and faced with an imminent new award for the Metal Trades Industry, issued a significant statement in March 1976. The statement read:

"The Commonwealth Government has given a high priority to its policies to bring down the rate of inflation. This we must succeed in doing or we will not be able to sell abroad the goods we make, or compete against exports at home. This means labour cost inflation has to be reduced by at least as much as our competitors in other countries are reducing theirs. We therefore need a wage restraint policy, and as has been demonstrated overseas, many Governments have taken the lead in securing such a policy.

Wage levels and tax rates are related, and it is possible for Governments to trade off wage increases against family allowances, food subsidies etc....

Any discussion about the abandonment or modification of wage indexation and the virtual prohibition of other claims which is part of wage indexation, **must include a discussion of alternative policies** which are likely to be more successful in moderating wage rises..."

From an industry attempting, at first hand, to cope with all the implications of regular and large wage increases, this statement was of great significance. It was an endorsement of what the Queensland Premier was saying in 1974.

TREASURY OPPOSES PETERSEN PLAN.

Despite growing evidence and the obvious need for a change in direction, however, replies from Federal politicians have been so uniform and so generally evasive that one could be excused for believing that they were merely passing on replies prepared for them by the Treasury, without any attempt at critical evaluation. Nobody likes to believe that the parliamentary representative has accepted the tame role of intermediary - a highly paid P.R. servant - between electors and the bureaucracy.

There is now evidence, however, that such an unsavoury situation does in fact exist. On March 17th, 1976, the Treasury circulated all Government Members and Senators with a three-page document providing stock answers to all inquiries on the Petersen Plan. The third page provided a sample letter, including alternative paragraphs which could be used, for politicians to use in their replies.

The full text of the Treasury reply, with the sample letter, is as follows:

TREASURER
Parliament House,
Canberra. 2600.

Government Members and Senators

CORRESPONDENCE ON CONSUMER SUBSIDIES (THE PETERSEN PLAN)

I am aware that many Members and Senators have received letters from their constituents asking the Government to give consideration to a scheme of consumer subsidies as part of its anti-inflationary strategy.

There is a long history, spanning several decades, of proposals of this nature. The scope of most proposals has been restricted to food-stuffs or selected food lines. Supporters of the (discredited) theories of Major Douglas and the so-called Social Credit Movement seem particularly attracted to consumer subsidies, often arguing that such subsidies should be financed by the issue of "debt and interest free" central bank credit.

A limited system of consumer subsidies was in force in Australia during the second World War as part of the comprehensive system of war-time prices controls. They were dismantled soon after the war. In more recent times subsidies on certain food lines have been introduced by the Governments of the United Kingdom and New Zealand. In this regard it is worth pointing out that the United Kingdom Government has announced the phased reduction of subsidies as large expenditures achieved a relatively small abatement of food price rises.

The argument is sometimes advanced that such subsidies are desirable on social grounds. However, there are generally more efficient, and effective,means available to lift the real purchasing power of consumers, or particular groups of consumers, including welfare payments and policy measures which operate directly on the "causes" of inflation.

It is further argued, especially in more recent versions of the case, that such subsidies may provide a brake to inflationary expectations; but, especially in the present environment, an intensification of inflationary pressures is the more likely outcome. Such subsidies would have to be financed either by increased Government spending or, if Social Credit prescriptions are adopted, by Reserve Bank lending to the public. Unless offset by higher taxes or increased bond sales to the public, both courses would accelerate the growth of domestic liquidity and the money supply; increased Government spending of itself would have a further direct, adverse impact on expectations.

It should also be noted that artificially low prices distort the efficient allocation of resources. A tendency towards excess demand for the subsidised good may emerge (which, in extreme cases, may necessitate rationing). Complex administrative machinery is also required to ensure that subsidies are passed on: in most cases this would necessitate some form of prices control. As inflation is likely to be exacerbated by the measure, even larger subsidies would be required which, in similar environments to the present, would further fuel inflation. Clearly the more effective means to improve the cost of living is to check and reduce inflation itself.

In the light of the foregoing comments I have attached a brief form of words which reflects the Government's views and which could serve as a useful basis for responses to letters on this general question.

Yours sincerely,

17th March, 1976. **PHILLIP LYNCH.**

Attached to the letter above was the following:

POSSIBLE DRAFT RESPONSE TO LETTERS SEEKING THE ADAPTION OF CONSUMER SUBSIDIES AS AN ANTI-INFLATION WEAPON.

"I have serious reservations about the effectiveness of a system of consumer subsidies. First, and most important, unless offset by higher taxation or increased sales of Australian Government bonds to the public, increased Government spending to finance consumer subsidies will accelerate the growth of domestic liquidity and the volume of money. The present stance of monetary policy requires some restraint on the expected growth of domestic liquidity and the volume of money. The present stance of monetary policy requires some restraint on the expected growth of the money supply in order to dampen inflationary expectations and prevent too rapid a future upsurge in domestic demand rekindling a further prices spiral. Seen in this light consumer subsidies will almost certainly intensify inflationary pressures in present circumstances.

Consumer subsidies would also distort the allocation of resources by artificially reducing some prices relative to others. There would be a tendency for demand for subsidized commodities to exceed supply, which in extreme cases may necessitate rationing. An expensive bureaucracy would be required to monitor a comprehensive system of price controls in order to ensure that subsidies were in fact being passed on to consumers. Moreover, as shown above, the measure would not contain inflation in the present environment and ever larger subsidies would become necessary, which could further fuel inflation. Clearly the more effective means to reduce the cost of living is to check and reduce inflation itself."

Alternatively second sentence of paragraph 1 to read:

"First, and most important, use of Reserve Bank credit to the private sector to finance consumer subsidies will accelerate the growth of domestic liquidity and the volume of money."

(End of circular)

COMMENT: The Treasury's circular is so superficial as to be deceitful. It is a monumental example of misleading by ommission. It would be instructive to know which public servant in the Treasury prepared the text to which Mr. Lynch put his signature.

More importantly, how many parliamentarians will be bold enough to protest at the inaccuracy of the reply with which they have been provided?

The following comments may give a true perspective to the Treasury circular:

(1) Had the Treasury given the full facts on Australia's war-time use of consumer subsidies, a different impression would have resulted. Price control was introduced in 1939. It completely failed to halt the inflation which developed from the shortage of consumer goods caused by the swing to war-time production. Only when price subsidisation was introduced in 1943 was there a halt to inflation, and items in the "C" Series Index (war-time equivalent to the C.P.I.) actually dropped over the next three years.

Sir Paul Hasluck, in his book "The Government and the People", explained this in these words (P.223): "Retail prices, which had been kept below a 10 per cent increase in the first two years of the war, shot up in the next eighteen months to 25 per cent above pre-war level, until in April 1943 an upper limit was fixed, **followed necessarily in July by the introduction of subsidies in order that this price ceiling might be maintained.**" (emphasis added)

It is true, as the Treasury document says, that the scheme was dismantled at the end of the war. It should have been added that the dismantling was strongly attacked by both Menzies and Fadden in the House of Representatives, both of whom insisted that the scheme could have operated without price control. (A detailed history of price subsidisation during the war, including all statistical figures, is contained in the booklet **"Consumer Price Discounts - The Answer To Inflation"**, obtainable from the Institute of Economic Democracy, P.O. Kingstown, via Armidale, 2350, N.S.W. 50c posted)

(2) Price subsidisation was also introduced during the war in New Zealand, Canada and Britain. New Zealand and Britain retained subsidies on certain foodstuffs after the war with beneficial effects. Quite contrary to the Treasury assertions, these had a marked effect on reducing inflation. Britain was noted for the cheapest foodstuffs in the world until entry into the E.E.C. forced her to dismantle the scheme. **Housewives Today**, supporting the policy of the British Housewives' League, strongly endorsed these policies, as reported in the issue of November 1969: "The support scheme has .... given all British consumers, regardless of whether they are poor or rich, access to high quality food at reasonable cost. As a result of the deficiency payments system for British agriculture, the consumer has had to spend far less on food than,say, his E.E.C. counterpart. This has meant that he has had more to spend on other goods and services than he would have had if the United Kingdom Government had pursued a "Dea r Food" policy. As a result, I believe the living standards of the British people are higher than they would have been under a system which pushed up food costs."

As soon as the scheme was dismantled, food prices sky-rocketed, and living standards have declined. British citizens are now eating less meat per capita than during the worst period of World War 11, for example .

New Zealand kept price subsidisation on dairy products until March 1976, with the result that milk sold at 4 cents a pint, and butter for 32 cents a pound. Parliamentarians - especially those representing dairying areas, or electorates containing areas of poverty - should consider the implications of consumption figures for dairy products below:

COMPARISON IN CONSUMPTION OF DAIRY PRODUCTS - AUSTRALIA & N.Z.

NEW ZEALAND	1939	1970	AUSTRALIA	1939	1970	71-72.
Liquid Milk (galls)	28	32	Liquid Milk (galls)	23.4	28.2	27
Butter (kg.)	18.7	16.6	Butter (kg.)	18	11	8.7
Fresh cream (kg.)	3.9	3.0	Fresh cream (kg.)	2.8	0.9	0.9

Australians drink 15% less milk than New Zealanders, with consumption still dropping. They eat 45% less butter and 70% less fresh cream.

Perhaps the Treasury believes that, with subsidised prices for dairy products, Australia would have to introduce rationing?

The following figures on the disposal of household income can be more logically interpreted to show the very opposite of the customary statistical 'line' - especially when it is considered that 1,000,000 live in poverty in Australia. The recent drop in meat prices resulted in a 50% increase in consumption, confounding all those who said that Australians would or could not consume more. Given more purchasing power, consumption in a number of fields could be expected to increase.

(SEE TABLE PAGE 7, "DISPOSAL OF HOUSEHOLD INCOME)

With industry running at no more than 70 per cent of capacity, and primary industry desperately searching for markets, it is absurd to talk about the possibility of rationing. There is, again contrary to the Treasury's argument, a clear case for stimulating consumption. If this could be achieved without a balancing cost impact, Australia would be the first nation to successfully solve the financial dilemma not besetting Western economies.

DISPOSAL OF HOUSEHOLD INCOME (Average values at Current Prices)

EXPENDITURE ITEM	1959-60		1964-65		1969-70		1974-75.	
	$m	%	$m	%	$m	%	$m	%
Food	2,115	19.6	2,660	17.4	3,575	15.2	6,160	10.9
Alcoholic Bevs.)	900	8.3	760	5.0	1,190	5.1	2,060	4.1
Cigs. Tobacco)			395	2.6	520	2.2	930	1.8
Clothing,Drapery	1,005	9.3	1,260	8.2	1,680	7.2	2,990	5.9
Rent* & Fuel	1,060	9.8	1,685	11.0	2,800	11.9	5,760	11.4
Household durables	740	6.9	940	6.1	1,325	5.7	2,820	5.6
Travel+ Comm'n.	1,150	10.7	1,755	11.5	2,855	12.2	5,450	10.8
Other Goods	425	4.0	675	4.4	1,025	4.4	1,850	3.7
Other Services	1.375	12.8	1,965	12.9	3,160	13.5	6,480	12.8
Savings	820	7.6	1,245	8.1	1,810	7.7	7,300	14.5
Taxes Interest	1,190	11.0	1,950	12.8	3,495	14.9	8,680	17.2

Notes * includes cost of home ownership.
\+ includes car ownership.

(3) THE CREATION OF CREDIT: In its statements on the use of Reserve Bank credit, the Treasury has been totally dishonest. Throughout the circular it has been implied that the creation of credit is wrong, or is something advocated by the proponents of unorthodox and discredited theories.

But Treasury officials know full well that their own policies entail massive credit creation, which is now a constant factor in Government policy.

The volume of money throughout the period of the Whitlam Government increased by an annual average of 20%. The current deficit of approximately $4,500 million was financed by Reserve Bank credit. The Treasury proposes to increase the volume of money by 15% this year. **The Australian** (26/3/76) accurately reported: "The country is not facing a credit squeeze, but the money supply growth rate will slow substantially this year, according to Federal Treasurer, Mr. Lynch. Mr. Lynch said the Government expected the money supply defined in its broadest terms (M3) to grow at around 15% in 1976."

It is remarkable that vast sums of new credit can be created to finance Government schemes, or wage increases - both of which are inflationary - but never to reduce taxes or prices, which would reduce inflation.

Contrary to the Treasury circular, there is a third alternative to increased Government spending or Reserve Bank lending to the public (which **nobody** has advocated anyway!) Queensland economist H.W. Herbert, writing on the problem of the current deficit, explained it thus (Sunday Mail, 1/2/76): Borrowing from the Reserve Bank costs the Treasury nothing in interest, because the profits of the Reserve Bank go back to the Treasury. Unlike a bank overdraft, the Treasury never has to pay the Reserve Bank. The Government owns the Bank and can control its policy. It could if it liked repay the Treasury Bills with interminable no-interest Bills..."

There is no doubt that Mr. Herbert is right. In 1937 a Royal Commission into the monetary and banking system made its report. Section 504 of the Commission's report, headed "Creation of Credit" reads: "Because of this power, too, the Commonwealth Bank (i.e. before the establishment of the Reserve Bank - author) can increase the cash reserves of the Trading Banks: for example, it can buy securities and other property, it can lend to Governments or to others in a variety of ways, and it can even make money available to the Governments and to others **free of any charge...**" (emphasis added)

As this last clause has led to a good deal of controversy as to its exact meaning, Mr. Justice Napier, Chairman of the Commission, was asked to interpret it, and his reply, received through the Secretary of the Commission (Mr. Harris) was as follows: "This statement means that the Commonwealth Bank can make money available to Governments or to others on such terms as it chooses, even by way of a loan without interest, or even without requiring either interest or repayment of principle."

The New Zealand Reserve Bank is currently making finance available for some rural marketing schemes at 1% interest, as an example of what can be done.

The Treasury is responsible for a completely false picture on the whole question of credit creation, generating prejudice rather than objective discussion, and playing on the limited understanding of unqualified politicians. The following questions deserve a fair answer from the Treasury:

(1) Why would it be more inflationary to **reduce** the volume of money being created (15% annually is far too high), and introduce any new money required into the economy without debt and interest? It is, after all, the debt and interest which has to be met out of future taxation increases, this in turn becoming an overhead which can only be met from increased prices.

(2) Why should not all capital works in Government - Semi, Local, State and Federal - be financed by Reserve Bank loans at a rate of interest no greater than cost-of-issue, repayable over the life of the item, rather than from taxation and rate revenue - thus allowing scope for big tax reductions?

(3) Why is the Treasury so totally resistant to using the new money **already being created** to **reducing** prices instead of **raising** them?

(4) If the Treasury has now taken upon itself to answer letters to parliamentarians through circulars of this nature, should not the public servant responsible for the views therein be prepared to accept personal responsibility by attaching his name to the circular?

OTHER OVERSEAS EXAMPLES.

INDONESIA: "Overseas Trading", the official journal of the Commonwealth Department of Overseas Trade, (19/9/75) contained the following comment in a feature article on the Indonesian economy:

"Indonesia kept the inflation rate in check by providing price subsidies for rice, sugar, wheat flour, cotton, newsprint and fertilisers. After a high monthly inflation rate of 10 per cent in

January 1974, the Government, by the use of subsidies imposed on consumer goods on the cost of living index, was able to reduce the inflation rate to only 33 per cent for the year as a whole, an average rate of about 1.7 per cent for the next 11 months."

Such a dramatic reduction, from a point where inflation was clearly out of control, is worthy of note.

EGYPT: The National Times, (October 13-18) in a full page article on the situation in Cairo, contains the following observation: "There is none of the desperation and despair of Asian cities half as crowded. Nobody goes hungry for one thing. Prices of basic commodities have risen by 50% since the October, 1973, war, but heavy subsidies of $1,200 million a year allow everyone to buy cooking oil, kerosene, soap, sugar, tea, flour, matches and cotton cloth on ration cards for a pittance. Cairo may be the last place on earth where you can get a nourishing and filling meal for 16 cents. It includes full cooked broadbeans, tacamia or baked balls of breadcrumbs, a salad and two slabs of Arab bread."

SOUTH AFRICA: "The South African Review" in early 1974 contained the following comments: "To keep down the cost of living the Government this year paid $90 million in food subsidies, the Minister of Labour and of Posts and Telecommunications said at a public meeting in Alberton, Transvaal. Wheat for instance had been subsidised to an amount of $40 million, with the result that consumers were paying 3c a loaf less for brown bread and 2c a loaf for white bread than would otherwise have been the case."

Some evaluation has already been done on the effect of these policies. The South African "Farmers' Weekly" (August 27th, 1975) contained the following:

"The Association of Chambers of Commerce recently asked the Department of Economics at the University of Natal to investigate the subsidisation of foodstuffs in Southern Africa ..... **Farmers' Weekly** obtained a copy of the report and has summarised the main points...."

Among the recommendations of the Natal University Economists are the following:

"The consumer price subsidy on wheat is considered worth while as a means of keeping the price of bread down. In view of the prominence of bread in the diets of low income families, it is suggested that there may be a case for increasing this subsidy. Subsidies which keep the price of maize down are considered helpful because maize is an important part of the diet of poor people and an important cost in livestock production."

UNITED STATES: On August 31st, 1964, the United States Government enacted a Food Stamp programme, for increasing consumption of foodstuffs for the needy. The Primaries MacTaggarts Newsletter in Queensland Country Life, June 24th, 1976, included the following comments:

"Though most Texas cattlemen are to the right of Mr. John Wayne, they applauded as loudly as left-wing Democrats when a federal district court in Washington, D.C. blocked a move by the Ford administration to remove 1.6 million families from the foodstamp programme last week....Usually cattlemen are the first to support welfare cuts, but not this time. Foodstamps underwrite the price of beef; without them cattlemen themselves might be on welfare. Their reasoning is straightforward. The price charged for the foodstamps is at a discount on their face value; a discount reflecting the size and income of the family which buys them. This permits poor people who would otherwise have to get by on beans, grits, chitlings and other subsistence foods to buy also, or instead, dearer foods including meat.

As the Texas Cattle Feeders' Association comments in its annual report, "Food stamps, in years past the subject of many feedyard and marketplace jokes, are no longer a laughing matter for cattlemen." The Association estimates that for each dollar of foodstamps issued, 14 cents is spent on beef. This is big money. In the last fiscal year it is estimated that 19.6 million Americans who participated in the food stamp programme spent $2.74 billion on beef. This accounts for about 11.4% of all beef sold; by 1980 it could be over 25%."

THE SOVIET BEEF SCANDAL. Although refusing to drop prices to Australian consumers, there was little compunction in subsidising consumers in the Soviet Union when the Beef Industry collapsed. Finance was lent by the Reserve Bank to Cattle men, to pay killing and handling charges and, allegedly, transport for the Soviet meat deal. Mr. Anthony, in two letters, made some revealing comments on this scandal, advocating in the process that there was some case for the subsidisation of meat sales to some groups of Australian consumers. Mr. Anthony's letters were in replies to private inquiries on the whole issue of the Soviet meat deal. It seems that he would not endorse his private views in public.

Writing on February 25th, 1975, Mr. Anthony said:

"Thank you for your letter of February 19 about the sale of 40,000 tonnes of Australian beef to Russia.

My Party is very concerned at the prospect of the Australian Government's subsidising this sale. I believe that the Government may offer to bear some of the cost of stevedoring and freight. What disturbs me is whether a similar deal was offered to our traditional trading partners, especially the United Kingdom. Furthermore, as you say, there are many groups within Australia such as pensioners and even the general public who would benefit immensely from some sort of Government subsidised sale of meat.

The return to the meat producer under the Russian sale is less than 10 cents per pound and although the foreign exchange earned on this sale is of value to the economy, I do not think that the return to the producer is sufficient to justify such sales without first attempting to give the people of Australia the benefits of meat at a similar price.

Yours sincerely,
J.D. ANTHONY.

Writing on March 4th, 1975, Mr. Anthony said:

"Thank you for your letter of 26 February.

As regards your comments on increasing domestic consumption of beef, I think that the subsidisation of meat sales to pensioners and other needy groups would be a practical form of assistance on the part of the Government which would also be of considerable help to the Australian beef producer. However, the difficulty of such a scheme is that when meat prices rise again it would either have to be discontinued, or maintained at considerable expense.

The best means of subsidising food prices is by some form of stabilisation or assistance scheme to producers. In the present circumstances, however, I do think that there is some scope for Government subsidisation of domestic consumption especially in view of the likelihood that the Government will be subsidising the sale of beef to the Russians.

Yours sincerely,
J.D. ANTHONY.

"When the Institute of Economic Democracy first publicised the fact that the Beef sale to the Soviet Union had been subsidised, strenuous efforts were made by various bodies, including some Primary producer organisations, to deny this fact, and attacks were made on both the Institute, and its parent body, the Australian League of Rights, for suggesting that this was so. The Institute asked the reasonable question - why it was not possible to subsidise Australian consumers sooner than the Communists?

The Sunday Times (Western Australia) of June 20th, 1976, carried the following article:

"The Federal Government has given a secret $1.2 million handout to the Australian Meat Board to subsidise a beef sale to Russia last year. The Meat Board made strong representations to Cabinet because it had lost money on the deal. In one of its last sessions before the winter recess, Cabinet approved the subsidy after heavy opposition from the Treasury. The subsidy was granted to the Board because an earlier export subsidy for meat of 1.6 cents a pound was suspended from March 1st this year.

The Primary Industry Minister Mr. Sinclair, pressured Cabinet into granting the $1.2 million handout following abolition of the earlier subsidy. As a result of the secret handout, Australian beef is cheaper in Moscow than Australia. "But you must remember that this allows us to get rid of a great deal of Australian beef," a Government Department spokesman said today. "Beef exported to Russia is surplus to the home market, otherwise it would be left unsold."

In Sydney, the Federal Secretary of the Australian Meat Industry Employees' Union, Mr.Fred Hall, said the Government subsidy was "very sensible."

"Although many exporters here lost on the deal instigated by the Labor Government, it was a good public relations exercise," he said. "We had enormous excess of beef at the time and virtually no market."

It can only be said that if selling meat to a Communist country at a price which causes a loss to the producer, and then subsidising that sale into the bargain, can be described as a "good public relations exercise", then we're even further down the slippery slope than we thought. Why couldn't we sell the meat to Australians instead?

ADMINISTRATION

The Treasury argument that price subsidisation would require increased public service enrolment is, again, not born out by the facts.

In 1943, when subsidisation was applied to a whole range of items, total Commonwealth employment was 227,067 people. Employment fell in 1944 to 211,672 and in 1945 to 192,015. It finally dropped to 149,723 in 1946. In 1947, when the price subsidy scheme was dismantled, the public service started to expand again.

With the abolition of Sales Tax, as suggested in the Petersen Plan, a considerable number of public servants would be released to administer the new scheme. The growth in the size of the Taxation Department has been frightening. In 1961, the Commonwealth Taxation Department employed 7858 people. By 1971 this had grown by about 40% to 10,733 and to 11,149 the following year. This does not take into account the Department of Custom and Excise, employing a further 5,000 people.

PRICE CONTROL

To argue that a price subsidisation scheme would not work without price control is an evasion of the issue. The Liberal-Country Party in 1949 was adamant that it would. Some of the bounties already in existence are working reasonably well without controls.

Apart from that, there are already a number of food items where uniform or agreed prices exist - sugar, wheat and bread, butter and milk. Why could the scheme not be tried in these areas first, to see what effect is had on the C.P.I.? Only Treasury pig-headedness stands in the way.

THE TREASURY STRUCTURE

The Australian (March 13th, 1976), in a feature article entitled "A Taxpayers' Guide to the Treasury", included the following significant comments:

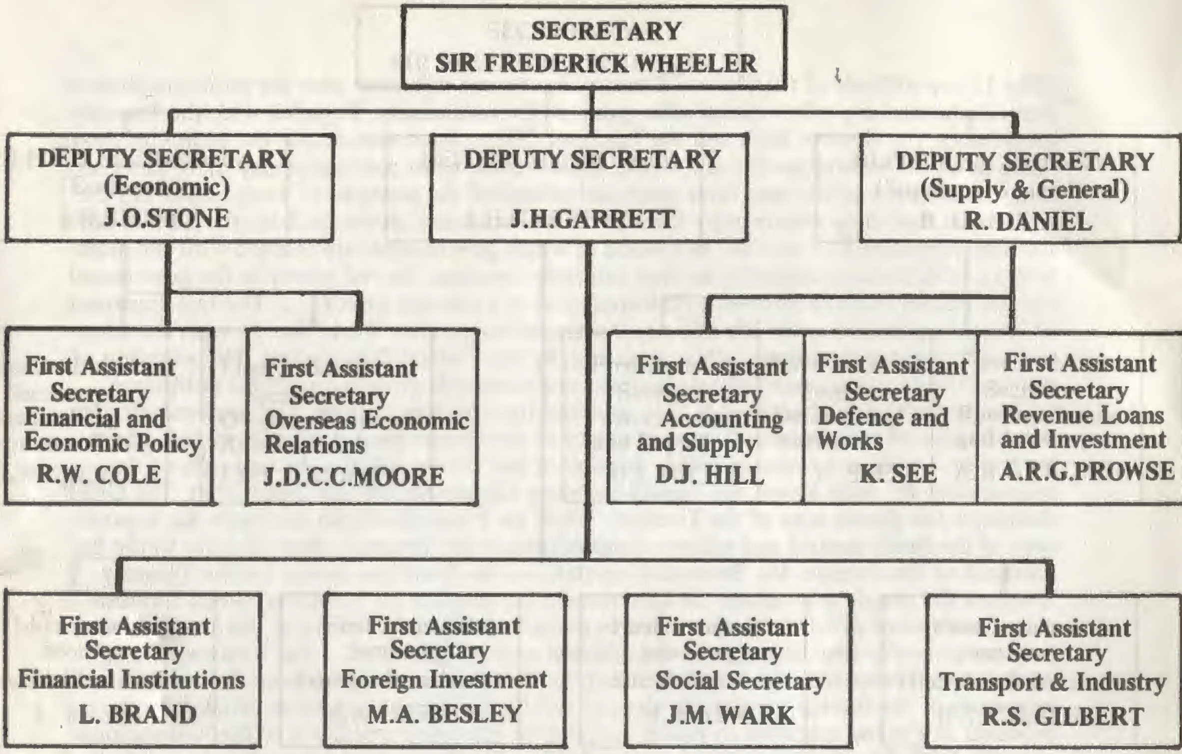
"The 13 top officials of the Federal Treasury have more influence over the economic lives of Australians than any other comparable group in the community. Together with the Treasury subsidiaries, the Reserve Bank and the Taxation Office, these men decide the economic atmosphere in which Australians live and work. While traditionalist politicians may deny this assertion, the evidence of the past three years and indeed of the previous 23 years reinfor ces the conclusion that these men occupy the seats of real economic power in Australia .... It is not a startling proposition to put that in a world in which governments are charged with the maintenance of economic prosperity as their principle function, the real power in the government process resides with the bureaucratic formulators of economic policy ..... The real expansion of Treasury power over the life of every Australian began after World War 11 with the adoption of Keynesian economics, albeit gradually, by the Federal Government. The adoption of responsibilities to maintain full employment and economic growth forced the politicians back onto their official advisers as they assumed these responsibilities. The responsibility for the provision of economic management advice to the Government is effectively that of the general economic and financial policy division of the Treasury under the umbrella of the redoubtable Mr. John Stone, the deputy secretary (Economic) of the department. The GEFP division is the glamor area of the Treasury. While no Treasury official discounts the importance of the funds control and other responsibilities of the Treasury, they all defer to the importance of the division. Mr. Stone and his staff are the front line troops for the Treasury. They are the people who advise the Government on whether the economy should be stimulated, restrained or left to simmer. And as people usually only remember the tough advice, they are generally seen by critics as the national economic killjoys.... The Treasury has extended its influence over the business life of the nation in recent years with the creation and expansion of the foreign investment division and the financial institutions division, both products of Federal reactions to public demand for increased regulation of the nations business life. **With the addition of these responsibilities the Treasury now has effective control either directly or through its relations with the Reserve Bank over all the nation's financial institutions including banks and finance companies....** (Emphasis added.) End of quote

The Secretary of the Treasury is Sir Frederick Wheeler. **The Daily Telegraph** (13/8/72) reported: "Sir Frederick Wheeler took over from Sir Richard Randall last October in something akin to the Second Coming. He began his career there and had risen rapidly through the ranks to become the favourite to become Secretary. If Labor had not lost the 1949 election, he and not Sir Roland Wilson would have guided economic policy through the 1950s and 1960s. As things turned out, Sir Frederick went off to the International Labor Organisation as its treasurer. It seemed his career in Australia was finished. The stamp of being a Chifley man was supposed to be too strong for a Liberal Government to tolerate. But that was not so. Sir Robert Menzies recalled him in 1960 to take over the Public Service Board. Last year, with considerable reluctance, Sir Frederick returned to the Treasury..."

The same Daily Telegraph article went on: "Like Sir Frederick during the 1940s, Mr.Stone was the bright young man of the Treasury during the 1960s.. But Mr. Stone had a somewhat abrasive personality. There were many sighs of relief when he was shunted off as Australia's representative to the IMF in Washington..." (end of quote)

It was under Chifley that the attempt to nationalise the Banks, as outlined by the Communist Manifesto, was made. The International Monetary Fund (IMF) was formed by J.M. Keynes and Mr. Harry Dexter White, subsequently exposed as a Communist agent. The essence of socialism or Communism, is the centralisation of all political and economic power.

THE TREASURY - ORGANISATION CHART



CONCLUSION:

The way to take a new step in overcoming inflation is to take costs out of prices, reducing overheads, reducing taxes and finally developing techniques to increase consumer purchasing power without at the same time increasing productive costs. It is time for a little unorthodoxy!

The only alternative is increasing dislocation, industrial unrest and unemployment - leading finally to drastic shortages which need not have occurred. This is the path the Treasury has set for Australia at the moment. The time has come for a change.

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