WHAT HAS TO

BE DONE.

BY C. PINWILL

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To those who believe that they have suffered enough, and renounce their "Government-given Right" to suffer a little more.

WHAT HAS TO BE DONE

A NATIONAL RECOVERY PROGRAMME

INDEX

NATIONAL RECOVERY PROGRAMME - IN BRIEF

A Programme of 7 points:

(1) Establish a full set of National Accounts.

(2) Fund a National Recovery Account to overcome the shortfall of demand in the Australian economy.

(3) Initiate national recovery by:
   (a) abolishing sales tax,
   (b) reintroducing the Curtin war-time price compensations system,
   (c) reducing unemployment with 100,000 early retirement pensions.

(4) Reduce interest rates.

(5) Call a Nationwide Tax Freeze.

(6) Limit the growth of the money supply within fixed limits.

(7) In return for the above benefits, negotiate a National Wage Freeze.

WHAT HAS TO BE DONE - - -

- - - -A Programme of National Recovery.

Introduction

This programme was originally prepared in approximately this form, at the request of a powerful political personage whose name is well known in Australia. Needless to say, that Cabinet was incapable of sufficient resolve at that time to face the challenge and controversy involved, and opted for a sedate atrophication.

It has now arrived.

So, too, has a wider publication of "What Has To Be Done", both in written and in video form.

It was presented as the last of four papers given to a Seminar on "Money, Bankers, and an Answer to the Debt Crisis" held in the University Centre, Toowoomba on the 24th of May, 1986.

Though considerable labor has been expended in the cause of accuracy, the figures in this paper are threatened with obsolescence even at the time of publication. It could hardly be otherwise in an economy of rocketing debt, interest rates, costs, taxes, unemployment and inflation.

These factors are a large part of the validity of the figures, or at least the approach behind the figures.

There can be no doubt that Australia is facing an economic crisis.

Inflation, unemployment and interest rates are all much higher than is acceptable. At the same time it is also clear that this nation has a vast unused productive capacity. This is evident in home building, the motor vehicle and steel industries and in many other industries.

It is also evident from the continuing crisis, that Government initiatives at the Federal level over the past 15 years have been either incorrect, or inadequate, to divert this economic crisis.

Reconciliation.

As always in times of national crisis, Australians have demonstrated an ability to come together, to put aside strictly personal interest, and to co-operate to overcome the nation's economic difficulties.

However, there is one real danger. If the goodwill of all sections of the community is committed to a scheme which is unequal to the task of national recovery, in time the national consensus will be lost, and an impasse of extreme danger will have been reached in our national life.

For this reason the following Economic Recovery Programme is submitted and recommended to the Commonwealth Government and the Australian people for study and support.

I would like to acknowledge my indebtedness to Australia's war time Prime Minister, Mr. John Curtin, whose actions in 1943, similar to the proposals I make below, stopped inflation for three years with measures which are detailed in the Commonwealth Year Book No. 37 (1946-47).

There is nothing original in the policies advocated here, except their application to our present situation.

"What good are principles, can you eat them?", would seem to be the response to expositions of principle, however laudable and imperative their application.

Very well then, try a taste of nil inflation, low interest rates, falling debt, unemployment and taxes.

WHAT IS TO BE DONE?

Ladies and Gentlemen,

What is to be done?

Rural Australia, small business, home owners, consumers and many other sectors of the Australian economy are fighting a few skirmishes. Farmers even assembled 50,000 troops in Canberra for, as they saw it, a major battle.

What few understand is that it is a war in which they are involved; a National War of survival. If a person achieves 80% of the requirements for survival, he is as surely dead as one who achieves but 8%, though he will have a little more agony.

The heights have to be stormed in order to impose a policy which will allow the survival and regeneration of our economy. But the troops never want to hear about the principles of effective warfare, they have ears only for programmes of action.

The policy must be translated into action for objectives.

This paper is about objectives. The troops won't normally fight without them, and if the did they wouldn't know what to ask for with victory, and must lose the peace.

ABOUT WHAT IS TO BE SAID

What follows is dogmatic, it is not generalised but specific. Since it follows three previous papers which complement this one, it assumes some knowledge on your part. If you don't have it, then we hope you can catch up somehow.

POINT ONE

Do you know of any public body which never, but never, produces a full set of accounts for the assets and activities under its responsibility?

You needn't rack your brains. Public Companies are by law compelled to do so. Only one entity does not and that is the Government. Government neither does so for itself, nor for Australia Unlimited, for which it is responsible in this way.

So how do we know what they are doing, and upon what basis they are doing it? We don't.

We don't because they don't, and it doesn't half show that tbey don't know what they are doing.

They cannot, any more than anybody else, who does not have full accounts from which to work.

There is, to my knowledge, only one institution in Australia which does not bother to draw up an annual Balance Sheet. That is Government as Trustee for Australia Unlimited.

It is therefore not surprising that Government deficits, the optimum level of money supply growth, the existence of a deficit in domestic demand, or the productive capacity of Australia, are matters of wild speculation.

It is obvious that a national recovery is most unlikely until a precise understanding of the situation is to hand.

What Point One specifically says is:

The Federal Government immediately instruct appropriate authorities to establish and present within one month, a full and comprehensive set of national accounts similar to those required of all Companies by law.
Such accounts to include:

(a) A NATIONAL BALANCE SHEET (listing both the vast Assets of Australia, and as Liabilities the claims that exist upon those assets, including the Australian money supply). This establishes our national credit worthiness.

(b) A NATIONAL SUPPLY AND DEMAND ACCOUNT (listing an assessment of the national productive capacity given a full demand situation, against anticipated actual demand). This account will indicate the extent of any necessary money supply expansion or contraction.

POINT TWO.

How often does the media assault your senses with the debate over the growth in the money supply? The question of "How much?" is tossed back and forth with such statements as "It will overheat the economy," "It will drive the economy into recession," and such like every week.

How often have you heard the media debate the question of "How?" the money supply should be increased? Nerry a word!

At the moment it is all put into circulation as debt. Debt either to cover Government deficits, to finance industry, or to fund consumer purchases. It all has to be repaid at high interest.

The first way makes increasing taxes inevitable, the second way increases the cost of industry's products, and all three ways make a shortage of purchasing power more critical next year, thus perpetuating the process.

Today we are not going to argue over old ground. The question of how much money must be created this year is important, it will be handled, but the key question in Australia's recovery is how this money is to be used. To increase debt and costs, or to reduce inflation and much else?

In the following graph on Page 4 the money supply in Australia (M3) is seen to have been $28.8 billion in June 1975. Ten years later, in June 1985, it was $90.4 billion.

The simple fact is that the extra $61.6 billion was created by the action of our modern banking system.

If anyone wants to know more, tell him to secure a copy of the video of the first paper given today.

If anyone wants to remonstrate after that, tell him it mysteriously "pops up"whenever farmers grow a pound of wheat, a bag of potatoes or a cabbage so that city folks can buy it from them. Being a genuine idiot, he'll probably believe it.

In the financial year 1984-85 an additional 13.5 billion Australian dollars were created. From June '85 until January '86 the rate of increase was similar.

Remember we are not arguing about this rate at the moment. It will approximate $14 billion in the next year.

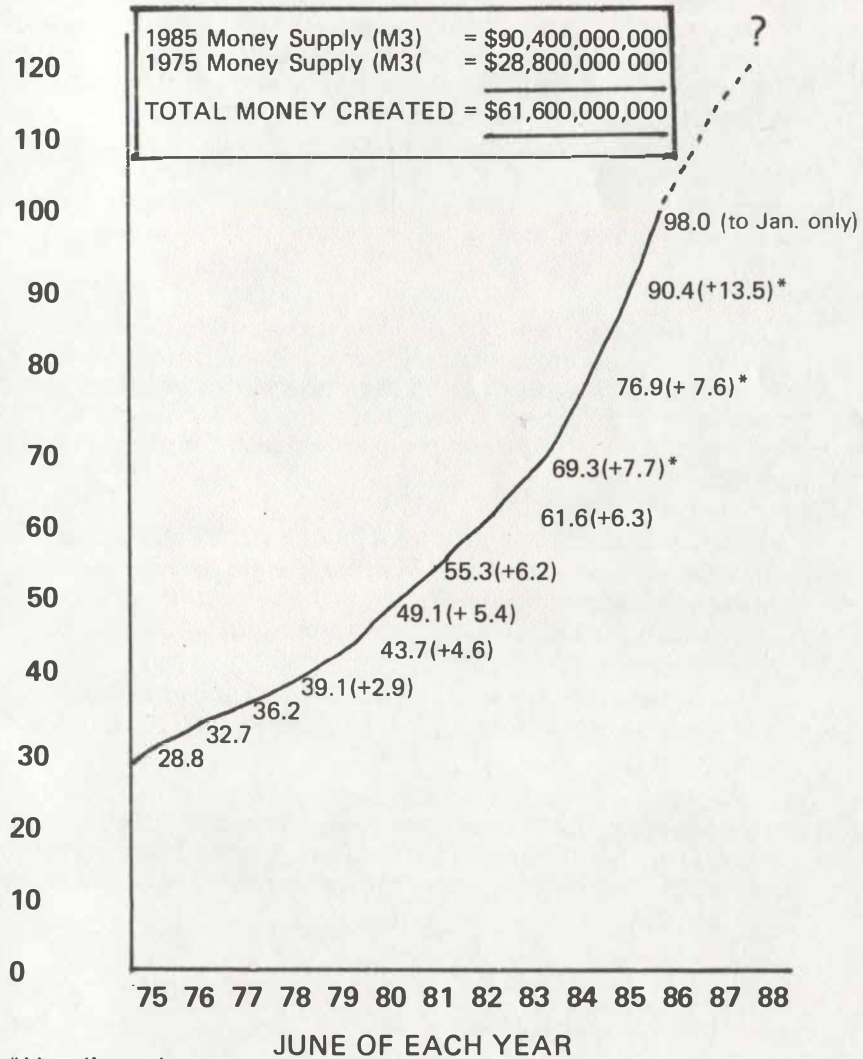
The question is "What should be done with this $14,000,000,000? The specific wording of Point Two is as follows:

The Reserve Bank to be instructed, by a non-negotiable directive, to create and deposit in a NATIONAL RECOVERY ACCOUNT, a sum of money as indicated by the demand deficit in the National Supply and Demand Account. The NATIONAL RECOVERY ACCOUNT to be operated under the authority of the Loan Council, to be completely separate and apart from the Federal Government budget, and to be funded at the same interest rate as applies to "External Bills" and "State lag-in-revenue Bills", that is at 1% per annum, in the form of a non-redeemable loan.

Because of the evident lack of demand in a wide range of industries, idle plant, and high unemployment, it is reasonable to expect that the National Supply and Demand Account will show a demand deficit. Our productive capacity is obviously well above effective demand at this time.

For the purposes of giving some specific figures and definite shape to this proposal, a demand deficit of $14,000 million has been ASSUMED. This is equal to the present assumption by

AUSTRALIAN DOLLARS CREATED SINCE 1975



*Unadjusted

Government to increase the money supply by $14 billion.

Without a national set of accounts as provided for in Point One, no greater degree of precision is possible.

Obviously this programme may be reviewed in the light of the situation revealed in the National Accounts.

Thus far we have established National Accounts to determine the position, and we have funded a Recovery Account with the present increase in Australian Dollars, i.e. $14 billion. In the next Point these funds are used to achieve recovery objectives.

POINT THREE

Point Three is put forward in three parts; Points 3(a), (b) and (c). The first two are absolutely essential. The third, Point 3(c), relates to unemployment. Given the impact of other parts of this programme, it may or may not be deemed necessary depending upon the impact of the various measures upon the general level of employment.

Firstly, Point 3(a):

> *The NATIONAL RECOVERY ACCOUNT be drawn upon to compensate the Commonwealth Government, private industry or individuals, to the extent of total expenditure incurred in the achievement of the following three-part strategy:*
>
> *(a) The total abolition of Sales Tax, (current estimate in the 1985-86 Budget — $6,000 million).*

Many items listed in the C.P.I. currently attract Sales Tax. The figures following have been used to establish the direct impact on the C.P.I. of the abolition of Sales Tax. It should be remembered, however, that an indirect impact will also result in the longer term.

C.P.I.	% SALES TAX	C.P.I.	ABOLITION OF SALES TAX IMPACT ON C.P.I. %
Furniture	10	1.744	.17
Floor coverings	10	.636	.06
Bedding & Drapery	10	.897	.09
Household Utensils and tools	10	1.421	.14
Detergents	20	.880	.18
Household Paper products	20	.326	.07
Stationery	20	.266	.05
Pet Foods	20	.546	.11
Travel Goods	15 av.	.268	.04
Motor Vehicles	20	4.303	.86
Tyres and tubes	20	.467	.09
Spare Parts	20	1.551	.31
Toiletries and Personal products	25 av.	1.252	.31
Recreational goods	25 av.	2.660	.66
Ice Cream	10	1.778	.18
Other household non-durables	20	.642	.06
Appliance parts	10	.1	.01
Spirits	10	.821	.08
Wine under 1.15% alcohol	10	.1	.01
Photographic services	30	.299	.03
TOTAL IMMEDIATE IMPACT ON C.P.I.=			3.41%

OBSERVATIONS

In the figures above the impact on the C.P.I. was calculated as a percentage of retail rather than wholesale prices. This means that the figure of 3.41% is slightly overstated. However, with the savings to industry of the administrative costs of collecting Sales Tax, an impact of 3.1% on the C.P.I. in the first quarter can be confidently expected.

With inflation running at 8.2% per annum (C.P.I. year to Dec. '85), the abolition of Sales Tax will overcome the C.P.I. increase (an expected 2.05%) in the first quarter of this programme, and for half of the second quarter as well.

Simultaneously with the abolition of Sales Tax the remaining four points in this seven part programme will be implemented. For this reason we should now go to point Four, returning later to 3(b) and 3(c).

POINT FOUR

From the first day of the abolition of Sales Tax inflation will have been stopped for the next 1½ quarters of the year following.

On that same day Point Four is initiated.

The sanctions of all Australian Governments be co-opted to legislate a ceiling of 5% above the prevailing inflation rate as the maximum for all interest rates.

At the present time an investor receiving 14% per annum on a loan must offset this against an inflation rate of 8.2% per annum to establish his return in real terms. His return in real terms is only 5.8% per annum.

For each $100 invested, he has a taxable income of $14. Even at the low rate of 32% tax, his tax liability is $4.48. This amounts to a net gain of only 1.32% in real terms.

If as is suggested inflation is held as close as possible to zero %, then Point Four would allow an interest rate in real terms of about 4% per annum. After taxation at 32% an investor would achieve a net gain in real terms of 2.7%.

Point Four does not disadvantage investors. Real interest returns to investors would actually double from 1.32% to 2.7%.

The advantage to borrowers in falling interest is obvious enough. For example, a family owing $20,000 on its home and paying iinterest would save $16.66 per month for each 1% that interest fell. Thus, with present housing interest rates at 13.5% an 8.5% fall in interest would add $141.66 to potential consumer spending for this family each month.

Interest charges are a major cost for industry and Government Authorities. These organisations' profitability, ability to increase employment, and their charges and prices would all be affected advantageously.

However, let us take the direct impact of housing interest upon the C.P.I. as one example.

Home purchase payments have a weighting on the C.P.I. of 5.402%. Even over the shorter terms of repayment interest now doubles the final cost of a house. Multiplying by 2½ to 3 is more normal.

Therefore you would think that the interest rate component of the C.P.I. would be about 3% just for house purchases. With interest falling from 13.5% to 5% the C.P.I. should fall by:

$$\frac{8.5}{13.5} \times 3\% = 1.88\%$$

This should mean that the C.P.I. should be countered from rising, if it would otherwise run at 8.2%, for a full two months and three weeks; almost a full quarter.

No way! Only the house purchase price is accounted in the C.P.I. So if your payments plunge to less than half what they were, but house prices rise by 10%, the C.P.I. will show a rise by .54%, not a fall by 2.7% (half its weighting).

This is sheer nonsense. No doubt it suits Bankers not to be exposed as the cause of increasing inflation whenever interest rates rise, but we are not about pleasing Bankers.

The C.P.I. is about measuring effective costs, and we are about national recovery, so the responsibility of interest rates for increasing or decreasing living costs has to be established.

The C.P.I. should immediately be amended to a base of actual house repayment costs.

This mad situation having been corrected, it can be seen that with Point 3(a) stopping inflation for 4½ months and Point Four adding another 2¾ months, we now have 7¼ months grace from inflation.

Financial institutions would not lose. The difference between borrowing and lending rates, usually less than 2% now, would remain. Situation normal. Let's move to Point Five.

* See Appendix at back of book for suggestions on handling foreign debt.

POINT FIVE

Once the National Recovery Account is established and ready to administer Parts Three (a) and Four, the Commonwealth and State Governments initiate a tax freeze. Total receipts, including direct and indirect taxation, be held to a figure not more than that which is current at the time, for a period of at least two years.

NOTES TO POINT FIVE.

Given the application of previous Points to the extent of overcoming C.P.I. increases, a tax freeze will not mean a taxation revenue reduction in real terms. Revenue lost through adopting the programme, for example the loss of Sales Tax, will be compensated for from the National Recovery Account.

Indeed while all other costs will be static, one cost will fall; interest rates.

In 1984-85 the State and Federal Governments alone paid $6.2 billion in interest. As their rate is legislated down along with everyone else's, about $4 billion will be saved in this way.

This saving must be used to reduce the increase in government indebtedness at State and Federal level. We will return to this later. It means a reduced deficit.

Local Government must, under State legislation, return all savings on interest to its rate payers in the form of reduced rates. This has C.P.I. implications.

The average local authority's debt repayments are over 40% of rates. About half of this is interest.

Rates will be reduced by about 20% on average in this way.

Local Government rates and charges account for 1.862% of the C.P.I. A Fall in the C.P.I. of another .37% is achieved.

It was 7¼ months without inflation. Now it is 7¾ months. We have only spent $6 billion of the $14 billion available. Not bad so far.

We have not taken any money off anyone to do this. The money being used had not yet been created, so it could not have belonged to anyone.

It was budgeted to be created in national estimates. Only $6 billion dollars belongs to anyone so far.

Let's move on.

POINT SIX

The Reserve Bank to be directed to exercise its normal controls to limit the money supply (M3) to the total existing on the day of commencement of the foregoing recovery programme.

PLUS the sum expended from the National Recovery Account,

PLUS the **net** *Commonwealth deficit. (The present deficit, reduced by all savings occasioned by this programme, including reduced interest and inflationary costs, unemployment benefit payments, reductions etc.)*

NOTES TO POINT SIX

In the progress of this paper we have not yet covered all expenditures from the National Recovery Account. However, the costs of the programme are set out below. Details will be supplied once we return to Points 3(b) and 3(c).

Point 3(a) Abolishing Sales Tax	$6,000 million
3(b) Price Compensation	800 million
3(c) Reducing unemployment by 100,000	356 million
TOTAL COST:	$7,156 million

Budgeted Deficit 1985/86= $5,500m
Less Interest savings = $3,000m

NET COMMONWEALTH DEFICIT	2,500 million
NET INCREASE IN MONEY SUPPLY (M3)=	$9,656 million

NOTE:

The calculation above for interest savings is at the average interest rate of 11.25% at 30-6-85 for Commonwealth and State Securities on Issue (Reserve Bank figures). The low figure for average interest is explained by the large % of old fixed rate securities. With new borrowings since and re-financing of old debts this interest rate is low.

It also assumes, rather arbitrarily, Commonwealth debt to be $48 billion at the time of implementation. As it was $38.6 billion at 30-6-85 and the increases since through borrowings and devaluation increasing the A$ value of debts in foreign currencies , it is conservative.

The net increase in the money supply does not account, through the deficit figure, for such matters as savings in collecting Sales Tax, savings due to the wage freeze, and all the other provisions for inflation in the Budget.

The '85-'86 Budget's expenditure of $78 billion, less the interest payments of $6.7 billion — the savings on which have been taken into account — leaves expenditures of $71.3 billion which are mostly subject to inflation.

Is there any budget in the country which, for the expenditure of each $71.30, does not include at least $2.50 provision for inflation?

If this is the case in the Federal Budget, and those savings are put to this end, THE DEFICIT FOR THE YEAR WILL BE NIL'

Realistically, the net increase in the money Supply (M3) is now back to about $7 billion, half of the previous actual increase for 1984-85. (Reserve Bank figures).

And look at what we've done with it!

Perhaps it's time to remember that what has been shown so far has all resulted from one basic change. The increase in the money supply being created, being put into circulation in a different way.

POINT SEVEN

The full co-operation of all sectors of the Australian economy be sought in maintaining at least a 12 month wage freeze in agreement to the introduction of the foregoing recovery plan.

NOTES TO POINT SEVEN

Preventing further wage increases is an essential part of a National Recovery Strategy.

But a wage freeze in an economy where other costs continue to inflate is politically untenable and unjust. Any attempt to institute one without the other would almost certainly spell the demise of any government foolish enough to institute it if it were maintained rigidly for any length of time.

It is for this reason that the suggested programme above, contained in Points One to Six, is designed to eliminate the impact of inflation on a wage or salary earner with a fixed income, and to reduce the ranks of the unemployed.

On the other hand, given the above programme in place and working, and with the resultant full support of the public behind the programme and jealous of its continuance, any opportunist industrial pressure prejudicial to the programme must be put down with the minimum, but adequate, force.

In the final analysis, employers capitulating might be fined several times the value of wage increases given. This would force either holding out against such claims, or mass dismissals and re-hiring.

However these actions are unlikely to be necessary. The legitimate grounds generally necessary for strike action occasioned by inflating costs and static wages would not be present.

POINT THREE (continued)

(b) The phasing in, when necessary, over a 12 month period, of a price compensation scheme applied to basic items in the Consumer Price Index at a rate designed to ensure NIL inflation.

— Refer to Appendix IV, "What are Price Compensations".

NOTES TO POINT THREE (b)

Taking into consideration that in the first eight months in which this overall programme operates, the C.P.I. has been prevented from rising because of the abolition of Sales Tax, that a tax freeze and wage freeze have been in effect, and that the utmost pressure downwards has been exerted upon interest rates, it is unrealistic to assume the continuance of an 8.2% inflation rate in the last four months of the year.

Nevertheless, the attached price compensation details have been constructed to overcome a 2.4% C.P.I. increase, which is just less than the 2.85% balance to be overcome if the full 8.2% inflation rate applies.

Please bear in mind that such things as the effect of falling interest rates on electricity charges and much else, has not been included in the figures.

PRICE COMPENSATION DETAILS

	RETAIL PRICE	PRICE COMPENSATION	CONSUMPTION PER HEAD	C.P.I. WEIGHT	IMPACT ON CPI	ANNUAL COST $m
Bread	$1 Loaf	50c.	53 x 2lb. loaf	1.0%	.5%	420.00
Eggs	$1.80/doz.	$1.00	18.6 doz.	.4%	.22%	294.00
Milk	75c	40c.	102 Litres	1.3%	.69%	644.64
Electricity and Gas	$2,000m	40%		2.44%	1.00%	800.00
					2.41%	2,158.64

COST FOR LAST 4 MONTHS OF YEAR = $719.54m.

The statistics for bread, eggs and milk are based exactly upon Bureau of Statistics figures of consumption (Catalogue No. 4306.0) and retail prices.

The costings for Household Electricity and Gas are more approximate. If they have been correctly weighted in the C.P.I. in accordance with actual household expenditure, these costs are adequate for a general outline of the programme.

NOTE: To eliminate the argument that retailers would not pass on cost compensations to consumers, only those items on which some price-regulation already applies have been selected. Consumers should be notified of new price-levels once the Compensation has been applied.

As these price compensations would be introduced during the latter part of the programme, their cost during the first year would be only one-third of the annual cost stated, i.e. not $2,158.64 million but only $719.54 million.

Some increased consumption in these items with reduced prices must be expected. An actual cost should not exceed $800 million.

Other items to which a price compensation might easily be administered might include telephone and postal charges, motor registration, urban transport, health insurance, butter, meat carcases sold to domestic retailers from abattoirs, etc. Items such as these might be chosen for price compensation in the second and subsequent years of this programme when necessary.

The weighting of the C.P.I. is such that approximately, consumer expenditure on an item in the C.P.I. which amounted to $800 million annually would be given a weighting of 1% of the total C.P.I. If prices of items on the C.P.I. rose by $800 million, an approximate 1% increase in the C.P.I. would result that year.

Similarly, if $800 million was spent in one year in price compensations on C.P.I. items, the C.P.I. would fall 1%. In this way, the cost of overcoming some continuing inflation can be estimated.

TOTAL COST AND IMPACT IN FIRST YEAR

METHOD OF OVER-COMING INFLATION	C.P.I. INCREASE OVERCOME	FIRST YEAR COST
Abolish Sales Tax	3.1%	$6,000m
Interest rate impact on:		
Housing payments	1.88%	Nil
Local Government rates	.37%	Nil
Price Compensation scheme	2.41%	$800m
Indirect impact of above measures - minimum to destroy 8.2% rate	.44%	
TOTALS:	8.20%	$6,800m

POINT THREE (continued)

Point 3(c) . . .

This section relates to unemployment. While the foregoing programme must have a favourable impact on unemployment, the level of this impact can only be speculated upon at this stage.

This is not an absolutely essential part of the programme, however it would have an immediate dramatic impact on unemployment.

It would not encourage irresponsibility because of the age group to which it applies. Indeed, quite the reverse, by bringing the discipline of work to younger people, and a boost to their morale.

All suggested schemes to create employment thus far involve in their cost, not only wage payments, but also raw material and plant costs. Even in the most labour intensive schemes it normally costs $2 to pay $1 out in wages because of these additional costs. Therefore Point Three (c) reads:

> *The immediate offer of $10,000 per annum to any Australian within two years of retirement who will accept early retirement. Such a payment to be free of any means-test, and to be made until normal pensions or superannuation benefits apply, PROVIDING his place of employment provides for a replacement position for a young Australian. A limit of 100,000 such early retirements and consequent new jobs to be set. (Maximum cost over one year, $1,000 million, LESS $572 million in reduced unemployment benefits = $428 million)*

Because the offer of an early retirement pension to people within two years of retirement is conditional upon their employer undertaking to replace them with another person, every pension paid will reduce unemployment by 1.

Therefore, against every early retirement pension that is paid, the cost of an average unemployment benefit may be offset.

100,000 pensions at $10,000 per annum ($192.30 per week)	=	$1,000 m
Less 100,000 unemployment benefits @$110 per week (average)	=	572 m
NET ANNUAL COST	=	$428 m
NET MONTHLY COST	=	$35.6 m

From the time of the commencement of this programme it may take some months until the full upper limit of 100,000 pensions are being paid. For this reason the actual cost for the first twelve months of this programme has been calculated below on the basis of the average pension being paid for ten months.

ACTUAL COST DURING FIRST YEAR – $356 MILLION

CONCLUSION

Next year the Australian dollars in existence will increase by $14 billion. Each year the figure tends to increase.

This money, which does not presently exist, is nobody's property. How could it be? Is it possible to claim ownership of the non-existent?

Certainly we have appropriated it temporarily in the achievment of the objectives set out at length in this paper.

But who have we robbed? Who have we disadvantaged?

Unless you read backwards you now know that we have advantaged everyone. Do you eat bread, pay interest, buy goods subject to Sales Tax?

Yet there is one disadvantaged group. It is the Banking System. No, their profits will not fall, the difference between borrowing and lending rates will remain constant, and thus their profits likewise. So what have they lost?

They lose the right to allocate national resources, which now is theirs, through the allocation of these increases in the money supply.

True, they will still allocate the "old" money, money created before this programme, after its implementation. So they only lose a small part of their prerogative.

Finally, however, it has to be said, "So sorry, but we don't give a damn about bankers' prerogatives."

"We do care about your profits, because we do want to induce someone to administer our bank accounts efficiently and well, but they in any case are not affected."

"If ever bank profits are adversely affected, then something will have to be done."

"But so sorry, we consider it more important to initiate national recovery, and less important and certainly easier to solve your resulting problems (if any), after the recovery is effected."

The "idea" contained in this paper, i.e. appropriating non-existent money, but only that which will have to come into existence anyhow to finance inflation, and spending it to reverse inflation, is not novel.

It is not novel and therefore not mine or anybody else's, and no claim can be made to it. The truth is universally available to men of courage, integrity and intellect, with the latter attribute probably the least important.

The "idea" is simply one whose time has come.

History teaches that there is no force on earth so powerful, pervasive, and all conquering, as a simple idea whose time has come.

QUESTIONS AND ANSWERS

Q Why do we need a set of National Accounts?

A. It's obvious that Treasuries do not know what is happening. Such things as blow-outs in the deficit are examples of this.

As any business knows, no enterprise can be run properly without proper accounting. They would not know what was happening.

We are saying — "Let's stop guessing. Let's do our sums."

Q. Why do we need a Balance Sheet?

A. Any business that doesn't know what its assets are, and what its liabilities are, is guessing all the time. They haven't got a clue.

What are Australia's assets and liabilities? Let's find out. Most Australians would be amazed to learn that the money supply is a national liability,as are all demands against our national produce. Of course, your private money is no less an asset to you.

Q. Why do we need a National Supply and Demand Account?

A. There is always debate about whether demand should be increased or reduced, and by how much. Let's work it out properly.

Q. The National Recovery Account is to be funded by the Reserve Bank. Where will this money come from? Will the Reserve Bank create it?

A. Yes. In 1975 there were $28.8 billion Australian dollars in existence.

In 1985 there were $90.4 billion Australian dollars in existence. Where do you think these extra A$ came from? Answer me that!

Q. But where will it stop?

A. Good question. That's why we need a national set of accounts. There needs to be limits and we need to know what they should be.

Q. Why do you want to abolish Sales Tax?

A. Because it inflates the price of an enormous range of goods; and also because this would increase sales for all sorts of goods. For example new cars, electrical appliances, and furniture. Consumers and business benefit.

Q. You propose price compensations. This is unusual. How do they work? Or will they work?

A. Prime Minister Curtin did it in 1943. It worked. It's all recorded in the Commonwealth Year Books for the years 1943 to 1947. It worked then. It will work now. Curtin was the only Prime Minister ever to stop inflation. It's time for another one. (See Appendix IV).

Q. Instead of creating 100,000 new jobs, you propose 100,000 early retirements. Why?

A. Two reasons. Firstly, it costs at least $20,000 to create a new job. With early retirement pensions, two young Australians can get a job for $20,000.

Secondly, technology is bringing about a leisure society whether we like it or not, and whether we accept it or not. Modern technology and an advancing economy can allow earlier retirement.

It is a voluntary scheme. Many people near retirement will want to keep working. That's O.K.

Those who want early retirement will be giving their jobs to younger Australians.

Q. Will reducing interest rates disadvantage lenders?

A. No. At the moment with interest at, say, 15% and inflation at 10% lenders are not doing well in real terms. They have to pay tax on $15 when their real return is only $5.

With nil inflation and 5% interest their real return will be higher.

Q. Can Government survive with a tax freeze?

A. If prices are held down with price discounts, we have falling interest rates, and we have a wage freeze, yes.

It can live with that. In fact, given those things, the Federal Government could stop its deficit. State Governments could do likewise.

Q. The figures in this paper will soon be obsolete. They are already changed. Three years ago interest was lower, inflation was higher, sales tax was different and in total figures, less. In short the formula of factors was different, and it will be different again in three year's time.

Will this programme work when the "mix" and make-up and particular relationship of our problems one to another is different?

A. I can answer for three years ago, because that was when I first set out this programme, though it was not published.

For less than the estimated (and subsequent actual) increase in the money supply, the same objectives were achieved. At the moment nothing is being offered for the future, except that which is, in all substance, a continuation of present financial policy. The result can only be generally the same, though the emphasis between inflation, interest rates, unemployment and other problems may shift more to one than another.

A world that doesn't need an answer to these problems will not emerge, until it already has it.

Q. We understand about the first year of implementation of the programme. But what about the next year, and the year and years after that?

A. At the beginning of the 2nd year, the cost of continuing the programme at the same level as at the end of the first year, would be $8,828 million.

However, it is desirable that in time the Sales Tax Compensation to Government is phased out. Savings on Social Security in a recovered economy should be considerable. With a nil deficit a gradual reduction in the National Debt should be possible, with this meaning increasing interest savings, even at the interest rate of 5%.

Probably the greatest saving to Government would finally come from the demise of pressure to expand demand in the economy and reduce unemployment, by continually expanding its activities. The administration of the National Supply and Demand Account and the National Recovery Account, make Government interference in the economy in this way unnecessary.

I suggest phasing out the Sales Tax Compensation to Government over 6 years. This would reduce the cost committment of the programme at the start of the second year to:—

Sales Tax Loss Compensation . . .	$5,000m
Price Compensation to continue for a full year	$2,400m
100,000 early retirements	428m
TOTAL COST:	$7,828m

What additional cost would be necessary in the second year?

Any continuing inflation would have to be overcome at an annual cost of approximately $800 million per 1%.

But what would be the level of continuing inflation?

In the past several attempts have been made to freeze wages, or prices, or taxes, or all three. These attempts in New Zealand, Australia and elsewhere have all failed.

They have failed because they did not freeze or reduce another major factor contributing to inflation. This forced a shift in one, and eventually all the items subject to the 'freeze'.

That key factor was DEBT. In every case the money supply was expanded by additional debt. Additional debt meant additional taxes or prices, or pressure for more wages to repay them.

Foolishly, increasing the interest rate was often encouraged to inhibit too great an increase in the money supply (debt increase). This compounded the problem and eventually destroyed the "freeze".

Can anyone name a source of significant cost increases?

I can name a source of significant cost reductions; the increasing efficiency brought by improved technology in almost every industry, every year. Producing almost anything is now easier than it was 5, 10, or 20 years ago.

With this downward pressure on unit costs, and all of the indirect benefits of this programme, such as the interest cost savings in all industries, even 2% inflation is impossible to compute.

At worst, 2nd year costs are therefore under $9.5 billion.

In succeeding years the rate of increase in costs should abate, the cost of overcoming the first 1.25% of inflation being offset by the reduction in Sales Tax loss compensation.

Finally, if inflation makes progressively declining demands on the National Recovery Account, compensation for lost Sales Tax is ended, and unemployment is deemed acceptable, and the National Supply and Demand Account still indicates a need to increase demand, one final suggestion.

What about a National Dividend for everyone? Every Company makes this its ambition. Why is it so silly for Australia Unlimited?

Q. Is this paper intended as a final form for handling our fiscal affairs in the very long term?

A. No. Return to the final part of the previous answer for some indication of possible changes. This paper is intended to set Australia on the right road. The travellers on this road will find new circumstances and technologically different economies. Robots will reduce the level of labour needed in much production, for instance.

If this situation becomes a permanent continuing fact of large proportions, and if demand has to be increased to facilitate full consumption of production, we cannot pay any more robots.

People will have to receive payments outside of the wage packet. Again, a National Dividend might be chosen.

Q. But what would happen if the National Supply and Demand Account showed that demand had to be reduced?

A. Firstly, this cannot happen if inflation is present, because this would require more demand (in dollar terms).

It could happen if in a non-inflationary economy more people said "I've got enough goodies for the moment, I'm taking more time off to go fishing or paint the landscape."

And what's wrong with that? Most people tend to resent it in others, but would like some more of these things themselves.

O.K., but we do need to reduce demand.

Direct taxes have to be increased to withdraw the excess money out of society. These funds are then used to cancel out remaining debts; Government ones first, and industrial and individual ones thereafter.

The money supply (M3) is then held to the lowered figure with the usual Reserve Bank controls being used to do so.

Q. The Programme is putting the extra money into society with the actual amount being carefully controlled. It, like the present system, is increasing the money in existence, but the

Banks are not to be allowed to increase their loans.
Is this so, and where does it lead?

A. Yes, this is so.

To give an example, if at the commencement of the programme there was a money supply (M3) equal to 100X and after several years it had been increased to 150X, then deposits at the Banks would equal 150X.

However, if the Banks had loaned out at the time of commencement, say, 90X out of the 100X in deposits, and they have not been allowed to increase their total lendings, then their loans are still only 90X.

This is the way it has to be because if the Banks had been allowed to make additional loans of perhaps, 30X, the money supply would have increased to 180X.

If deposits equalled 150X and the Banks loaned out an additional 30X to their figure of 90X, then deposits and the money supply (M3) would also increase to make them 180X.

This is so because as soon as the borrowers draw their loans to pay to other people, then these other people's deposits rise by 30X. BUT NOBODY ELSE'S DEPOSITS ARE REDUCED,

In this way the money supply has traditionally been increased. It has to be stopped in order to appropriate the additions to the money supply for national recovery.

I hasten to again point out that this money is not rightfully the property of the banks.

They did not, obviously, own it before it existed. Bringing it into existence is a National Government responsibility. Spending it into existence to achieve desirable national objectives, rather than — or other than — increasing society's indebtedness to the Banking System, is perfectly legitmate.

Q.. But if this is done, then the Banks will be responsible for an ever decreasing percentage of loans provided to all sectors of society. Will this not adversely affect all stratas and functions of society, industry, consumers, home buyers and many others?

A. No. And for the following reasons.

The deposits in the Banks will still all be available for investment or loaning to others at low interest rates.

Industry will probably tend to raise more of their investment funds from share issues and public borrowings outside of the Banks. This will be easier to do because excess usury will be illegal and, more importantly, the funds will be available.

All that has changed is the ownership of the funds. Depositors will own them, and allocate them as they see fit, with the Banks certainly progressively losing this prerogative.

Building Societies and Finance and Investment Companies, many of them now owned by the banking companies, will no doubt be making an increasing percentage of the decisions about investment, relative to the Banks as such.

Q. Could it happen that in the very long term, Banks will be doing a very low percentage of lending indeed, perhaps almost nil in percentage terms?

A. Yes. But the economic and financial implications of this on National interests are NIL.

Q. The Banks won't like this, will they?

A. No. But do you like the inflation, interest rates, debt, high taxes and rising costs you have to cope with now? Do you like the low interest rates, taxes, and the end to inflation offered by a National Recovery Programme?

You have to choose.

Q. But if the Banks' loans will never total more than now, will they survive to offer us services?

A. Trading Banks don't pay any interest now but they charge top rates. They will always have some loans earning interest and of course they will still have their bank charges which are now very considerable.

The need for trading bank facilities is with us for ever. If at some time they have to raise their bank charges, and there is adequate competition in the industry or it can be shown that increases are legitimate to meet costs, this means one thing.

Their charges will be eligible for, and get, price compensation from the National Recovery Account, or otherwise we will just have to pay the increased charges and compensate down their effect on the inflation rate somewhere else.

Savings Banks will be treated as any other credit house. They themselves, like Building Societies, will have to bank with the Trading Banks. Their survival will depend on their management. If their management can equal that of their competitors like Building Societies and Credit Unions, they will survive alright.

They would be better named and organised as Savings Societies. As a technical matter, when Savings Banks hold their deposits at Trading Banks and use them from there, Savings

Bank deposits will be accounted in the money supply (M3) in Trading Bank figures, and will not be re-counted again at the Savings Bank.

Q. This Programme still increases the money supply, albeit to a lesser extent than is now usual. and does so when prices are not rising.

This means a very considerable increase in real demand — will this not cause inflation in itself?

A. No, though we need to understand what inflation really is to understand why.

To define inflation:-

"Inflation is an increase in the money supply **accompanied by** *an increase in prices."*

Inflation does not exist without the two elements. For instance, if the money supply rises but prices do not, that is not inflation.

Similarly, if prices rise but the money supply does not, whatever the reason for this, it is not inflation.

In any event, with this programme the National Supply and Demand Account limits the growth of demand to demonstrable productive capacity.

Q. What is to be done about "WHAT HAS TO BE DONE"?

A. Obviously the first thing is a decision about whether this paper is right or wrong. If you think it is wrong, then either the author or yourself is also wrong. Either way, it is important to sort it out.

The author is more than happy to set aside the responsibility of promoting the approach contained in this paper. He has no financial interests of a personal nature in it.

Even the publication of this booklet is being done by others with no royalty being paid. He would love to have more time to pursue other interests, rather than a change in financial policy which will not work or is not useful.

Please communicate with the author if you think he is wrong. He would love to share your conviction for personal reasons. His address is: **M.S. 366, Rosewood, Q.4340.**

The other prospect, which the author is presently forced to accept, is that this National Recovery Programme is essentially correct. It will work basically as it contends; it is of the utmost use to our country at this time, and it will, upon its establishment, herald in an economy bringing such satisfaction to Australia's citizens that it will be the envy of other peoples, who will probably try to emulate it.

However, before this view is taken, much careful thought should be given it, because if you conclude that this paper will do what it claims, you cannot stop there.

Your civic responsibility, your country, and your inate commitment to the truth as you see it, will draw you towards a further commitment; that of doing something about it. What then?

What has to be done?

Firstly, the simple things. Do you know an economist whose opinion you may solicit, if for no other reason but to influence him? Does your industry organisation (if any) have a representative you could introduce to this matter? Perhaps it's a farming organisation, a trade union or a small business association, or perhaps other students or lecturers.

Does your local Bank manager respect you enough to be tempted to read it, or someone in your Church group, or an accountant you play football with perhaps?

Start a list and make some jottings. It's not hard work. People with interest in such matters become easier to know through such approaches.

Once you have given the people with whom you have some rapport an opportunity to consider it, the people who represent you in some way but who are further removed from you would likely appreciate getting one with a complimentary slip.

In other words the first job is educating others about the possibility of national recovery.

Obviously, it's the most important task, because its the first. But don't work too hard at it. If others cannot see it given the opportunity, no matter how much you think they "should be able to see it", finally, you won't be able to help them.

The "idea" will sell itself to some so easily you will be utterly amazed. Ducks go to water, but hens don't.

If a sufficient body of opinion is established to support it, it then becomes a matter of sanctions.

The subject of sanctions is far too big to handle properly here. However. one suggestion can be made in this area.

If you are thoroughly fed up with falling from one crisis to another, or you've determined for any reason upon national recovery, there is one thing you could do.

You could write to me, or much better, cause to be formed elsewhere, a "REGISTER OF VOTERS FOR NATIONAL RECOVERY".

Any person prepared to undertake NOT TO VOTE, until or unless a candidate or candidates come forward with a programme of National Recovery which will, quite self-evidently, allow survival for rural industry, small business, home owners, in fact national recovery for all, can freely enter his or her name in such a REGISTER, committing his vote in such a way in future Federal elections.

In any event, to vote for anything less than a firm and specific commitment to your survival, is to sanction your own demise. If your survival as a farmer or home buyer is at stake you have everything to gain.

Apart from informing all political parties and candidates of the commitment of voters, and supplying the numbers registered, and asking for their written commitment to National Recovery, little needs to be done.

You will not see them until they need you, and when they need you you've got them.

Voting for the lesser of two evils is voting for evil, and we have had enough of that.

Don't panic about not voting, or "wasting your vote".

You are required by law to attend a polling booth, you are not compelled to fill out a ballot paper. Perhaps you can just write "No candidates committed to national recovery", and if you really want to be responsible, sign your name and give your address. This is your legal right if you so choose.

Voting for less than you are prepared to accept is wasting your vote. Often the most informed vote is an informal vote.

As I began, I have also to finish. Yes, you are now involved in a war of survival. Whether you fight, play dead, or shoot down your mates is your decision.

Q. I believe I now understand the proposal reasonably well. I support it, or at least I support its being put before the widest possible number of authorities for their comments, criticisms and support. I certainly cannot see at the moment why it will not work to the advantage of all.

However, what can I do, and what should I do, to promote discussion and support for a recovery programme?

A. Perhaps I can tell you what I am going to do, and what you can do to help, and this might form part of your answer.

My first action will be to post a copy of "What has to be Done" to about fifty to a hundred persons of some prominence, with an accompanying letter.

The objectives in this will be to seek out criticisms so that corrections or refutations can be included in future publications of the Programme, and also to develop a correspondence with those who signify support.

This will enable me to communicate, via occasional letters to all supporters, promotional ideas, news of progress, and give co-ordination to the campaign if necessary.

While the level of enthusiasm and personal initiative that this programme invokes will be decisive, it is important that at some point, all supporters are known and can be serviced.

This is no small undertaking.

Business Associations, Trade Unions, political figures, certain economists, Church groups concerned with their parishioners economic plight, rural industry organisations and many others will have to be written to, and their correspondence attended to once it is received. A great many private individuals will also become involved.

I envisage writing a hundred letters each week. I am going to need practical help with this.

I have access to a word processor, but have never worked one. Some more or less standard letters will be able to be handled in this way, but many will need my personal attention. Envelopes will have to be addressed and stuffed and, of course, funds will be necessary if this is to happen.

People in either Brisbane or Toowoomba can help with volunteer labour, however those further afield can help with donations and by running their own mini-correspondence campaigns.

Bulk copies of the Programme will be available at greatly reduced rates. When you write a letter (including a copy of this booklet) please ask all recipients to address their replies to me, at M.S. 366, Rosewood, Q.4340, and to forward you a copy only.

This will allow proper attention to be given to these people and their inclusion in continuing activities.

Being realistic, if this Programme is going to receive the attention it deserves, and the level of public knowledge about it which will have to precede any chance of its adoption, a full time Secretary (whether paid, partly paid, or not) and an army of volunteers, a committee to handle funds and organisation, and financial support from a lot of little people will have to come into being.

There is a place for everybody in this activity. You must decide what part you will play, and in the chaos of newly thrown together activity, thrust your help upon us.

APPENDIX I
FOREIGN POLICY AFTER NATIONAL RECOVERY PROGRAMME

The question is often asked as to what pressures foreign powers and international financiers might exert upon Australia should it initiate a National Recovery Programme and substantially change finance/economic policies. The question is hypothetical. Nevertheless, there are two important reasons for answering it.

Correctly answered, it may increase the faith that independent Australian policy is possible, thus increasing its likelihood, and secondly, only insofar as external pressures are anticipated and understood are counter pressures (foreign policies) developed.

Foreign pressures escalate in four waves; financial, economic, diplomatic/psychological and military, and in that order.

The first pressure to be encountered would be financial, provoked by financial initiatives taken by Government. This would constitute the first step in escalating international friction, the last step is always war.

External financial pressures would probably take the form of restricting, so far as is possible, access to the foreign currencies needed to meet obligations on foreign debts. The objective would be to ensure Australian default, thus enabling simulated outrage to escalate to economic – real economic – sanctions and embargoes on the way to psycho/political pressure, world-wide, upon the perpetrator of sane finance. The enemy objective at all times might be anticipated as "First isolate, then defeat".

The enemy's danger, and our opportunity, lies primarily in example. The terrible reality of Soviet Russia, despite enormous superiority in psycho/political warfare, has been the primary factor in communism's containment. Misrepresentation, to be feared in the short term, is powerless over the long haul.

Although it is an international enemy who poses the threat, creating the need for resolute foreign policy, it is internally that resources to succeed must be found and mustered. It is here that the outcome of the battle will be decisive, and where the example which will attract or repel foreign sympathy and support must be set.

It must be accepted that any Australian Government taking national recovery financial initiatives, will be doing so in a seemingly hopeless morass of foreign debt. This state is very nearly universal, and certainly permanent, pre-policy changes as outlined earlier in "What Has to be Done".

At the same time, a vast abundance, and almost total self-sufficiency in real economic terms may be assumed.

Of course, it is totally impossible under orthodox financial policy to ever repay the mountains of foreign debt. However, whilst operating orthodox policies it is unnecessary to repay them. For the faithful follower of orthodoxy, happily (or unhappily) enslaving one's citizens ever more deeply in debt to the all-powerful masters of credit creation, every facility to continue the process (access to even more debt) is always forthcoming.

How to meet all foreign debt obligations, thus halting this avenue for escalation, whilst going "cold turkey" on the foreign debt drug of enslavement? That, indeed, is the question.

FINANCIAL FOREIGN POLICY

To those who have been de-mesmerised, the possibilities are exceedingly good.

The first imperative is a visible internal improvement. That has to be to stop inflation. A very limited demand upon the national credit would suffice if it was initially used to discount prices adequately to stop a net increase of aggregate prices.

Immediately after this initiative, a second one logically follows. What justification for interest rates of 15-20% is there in an economy with no inflation? Legislation to limit interest rates to a maximum level of, say, 5% above inflation, must follow immediately.

This legislation should be written carefully. Every entity, individuals, company, public and private must be forbidden to charge or to pay interest above this level to any other entity, public or private, Australian or foreign.

This would immediately reduce foreign interest charges by over 200%.

The advantages to borrowers are obvious. The advantages to lenders are no less significant. Instead of receiving 16% interest say, when inflation ran at 12%, and having to pay income tax on $16 at 30-50% for each $100 invested, thus ending with a net loss, a net gain would be assured.

With nil inflation, interest at 3% and tax at even the same high levels, a net gain is received.

Even taxable income would not fall. Certainly the payees of interest would show less income, but all payors would show an equal number of dollars increase in their profitability. Taxation-wise, it's X=O. Not, of course, that taxation is to be so important in a post-National Recovery society.

But having said all this, there is one sector which would be badly disadvantaged; the holders of foreign debt that was held in foreign inflating currencies.

Foreign debt holders, where it is in Australian currency — now a non-inflationary currency — would be as much better off after tax as internal lenders.

External foreign currency debt holders would be upset. They would no doubt communicate this fact to the Australian Government in no uncertain terms.

Very good. Because this is where it can help. Having these people receiving only, say 5% interest before tax, on an asset depreciating at, say, 10% p.a. should be sympathetically attended to.

All that is necessary is that they accept a contract re-written in Australian dollars, and they too can enjoy the net benefits of a recovered economy.

An economically recovered society would have little difficulty meeting obligations in Australian dollars. Holders of foreign currency debt would not then be discriminated against, and there is one other major gain.

We would have returned, via this approach, to Jack Lang's suggestion of the 1930's. Foreign debts would be met only with our real credit (goods and services). If they want repayment, they must buy Australian goods and depart with them. For how else would one redeem Australian dollars? They would not be acceptable to the shop-keepers of other countries.

Of course, while this is a large part of the answer, and eases the general terms of the difficulty, it is not the whole financial solution.

Imports would still have to be paid for with exports, and some foreign debts would still have to be serviced with a surplus of foreign currencies. Many nations have tried to meet this situation with tariffs and embargoes. There is another way.

With as few exceptions as possible, importing would be completely unrestricted, except for one condition. Payment would only be made in Australian dollars.

Exports would likewise be as unrestricted as possible, again with only one restriction. They must be paid for in foreign currencies, or with Australian dollars previously registered as having been earned by supplying imports.

The principle is to meet financial difficulties with financial initiatives. This meets the criterion of not escalating a financial difficulty into the real economic realm.

A few other initiatives come to mind. Gold, which has no real economic significance (outside trinket manufactury) could almost all be exported for foreign currency. If it became necessary Australian companies with assets overseas might be forced to sell them for foreign currency where no real economic usefulness to the Australian economy could be shown.

In the unlikely event that sufficient foreign currency is still a problem dividends payable overseas might receive attention. They might once again only be payable in Australian currency, or to some substantial percentage so. They might need to be registered and paid in order of registration at some acceptable determined rate.

There is no doubt that foreign obligations can be met without increasing foreign indebtedness. Indeed, whilst reducing it rapidly in this way. Of course, in doing it in this way a heightened demand for Australian exports would eventuate as a result of foreigners having to redeem their increased Australian dollars.

At this point it becomes an internal problem again, and price increases resulting for Australian wool, meat, coal, grain etc. could be negated internally via price compensations. If it reached the enormous proportions of the wool boom of the early 1950's other corrective action might be added.

Under orthodox policies farmers receiving record prices are encouraged to borrow enormously, on the strength of their profits to produce yet more. Such increased production is often only profitable while enormously increased prices remain.

If it did go so far as to threaten demand inflation, increased credits (i.e. debt) to the farming community should be stopped. This would ensure producers came out of the boom with less debt, not more, and more importantly from the general community's point of view, the repayment of their debts would cancel out both the money and the threat of demand inflation.

ECONOMIC FOREIGN POLICY

Even though financial foreign policy as suggested above meets all foreign obligations, albeit on a somewhat different basis, it should not be assumed that the matter of breaking Australia's debt enslavement on even honorable grounds would avoid hostility.

There comes a point, of course, in the escalation of the pressures, when the repayment of foreign debts no longer serves any purpose. As an issue, as an attempt to inhibit the escalation, it becomes ludicrous.

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At the point of war this is obviously so. It might be reached earlier. Yet the whole thrust of foreign policy after national recovery must be to inhibit escalation in all possible ways, bar one, that of compromising itself out of existence.

APPENDIX II

A LIST OF BENEFITS IN BRIEF

A. Abolition of Sales Tax.
B. Bread halved in price.
C. Egg prices fall by $1.00 per dozen.
D. Milk prices fall to under half present prices.
E. Inflation fixed at NIL.
F. Interest rates for all borrowings fall to 5% per annum or less.
G. Electricity and gas (household) costs fall by 40%.
H. Local Government rates fall by 20% on average.
I. Unemployment falls by 100,000 in direct impact alone.
J. Taxation is frozen to present levels and the deficit falls.

LIST OF DISADVANTAGES IN BRIEF

To individuals, companies andGovernment:-
NIL

To Banks and the Banking System generally:-
(a) To Profits –
NIL

(b) To banking powers to allocate resources –
PROGRESSIVELY REDUCED.

COSTS OF THE PROGRAMME IN BRIEF

To present funds, be they private, Company, Government, Banking or any other:-
NIL

In Funds not yet in existence, but scheduled to be created in the next year under present policies to the extent of $14 billion –
$7.5 billion

APPENDIX III

NATIONAL RECOVERY PROGRAMME

(1) *The Federal Government immediately instruct appropriate authorities to establish and present within one month, a full and comprehensive set of national accounts similar to those required of all Companies by law.*

Such accounts to include:

(a) *A NATIONAL BALANCE SHEET (listing both the vast Assets of Australia, and as Liabilities the claims upon those assets, including the Australian money supply). This establishes our national credit worthiness.*

(b) *A NATIONAL SUPPLY AND DEMAND ACCOUNT (listing an assessment of the national productive capacity given a full demand situation, against anticipated actual demand). This account will indicate the extent of any necessary money supply expansion or contraction.*

(2) *The Reserve Bank to be instructed, by a non-negotiable directive, to create and deposit in a NATIONAL RECOVERY ACCOUNT, a sum of money as indicated by the demand deficit in the National Supply and Demand Account. The NATIONAL RECOVERY ACCOUNT to be operated under the authority of the Loan Council, to be completely separate and apart from the Federal Government budget, and to be funded at the same interest rate as applies to "External Bills", and "State lag-in-revenue Bills", that is at 1% per annum, in the form of a non-redeemable loan.*

(3) *The NATIONAL RECOVERY ACCOUNT be drawn upon to compensate the Commonwealth Government, private industry or individuals, to the extent of total expenditure incurred in the achievement of the following three-part strategy:*

(a) *The total abolition of Sales Tax (Current estimate in the August 1985-86 Budget — $6,000 million).*

(b) *The phasing in, when necessary, over a twelve month period, of a price compensation scheme applied to basic items in the Consumer Price Index at a rate to ensure NIL inflation (cost — $2.2 billion).*

(3) (c) The immediate offer of $10,000 per annum to any Australian within two years of retirement who will accept early retirement. Such a payment to be free of any means-test, and to be made until normal pension or superannuation benefits apply, PROVIDING his place of employment provides for a replacement position for a young Australian. A limit of 100,000 such early retirements and consequent new jobs to be set. (Maximum cost over one year, $1,000 million, LESS $572 million in reduced unemployment benefits = $428 million).

(4) The sanctions of all Australian Governments be co-opted to legislate a ceiling of 5% above the prevailing inflation rate as the maximum for all interest rates.

(5) Once the National Recovery Account is established and ready to administer parts 3(a) and 4, the Commonwealth and State Governments initiate a tax freeze. Total receipts, including direct and indirect taxation, be held to a figure not more than that which is current at the time, for a period of at least two years.

(6) The Reserve Bank to be directed to exercise its normal controls to limit the money supply (M3) to the total existing on the day of commencement of the foregoing programme,

PLUS the sum expended from the National Recovery Account,

PLUS the **NET** Commonwealth deficit. (The *present deficit, reduced by all savings occasioned by this programme, including reduced interest and inflationary costs, unemployment benefit payments reductions etc.)*

(7) The full co-operation of all sectors of the Australian economy be sought in maintaining at least a twelve month wage freeze in agreement to the introduction of the foregoing recovery plan.

APPENDIX IV

WHAT ARE PRICE COMPENSATIONS

In the simplest possible terms, Price Compensations operate as Sales Taxes in reverse.

With sales taxes, businesses have to supply evidence of their sales, and then add the tax to their prices and pay the Government that amount.

With price compensations, businesses have to supply evidence of their sales, and then deduct the price compensation from their prices, and receive the compensation from the Government.

There is no doubt that they are workable, because they were applied in Australia (and elsewhere) during the years 1943 to 1946.

Even with severe war time price controls, prices still increased 25% in the first 3½ years of the war. Costs continued to force price increases.

Price Compensations were then introduced. Price increases for the next 3¼ years were nil. Late in 1946 price compensations were gradually removed and inflation has been a permanent feature of the economy ever since. The final column of the Retail Price Index below make these observations plain.

Australia's war time experiences with price compensations were recorded in the official annual Year Book No. 37 (1946-47) from pages 458 to 464. Excerpts are quoted below in sequence:-

". . . . Immediately after the outbreak of war the Commonwealth Government undertook control of prices and issued proclamations fixing as maximum prices of certain specified goods those prevailing on 31st August, 1939. . . . . These were emergency measures to hold prices in check pending establishment of machinery for price control."

"Prices Regulation Order (No.100): Selling prices were to be calculated by traders themselves on principles laid down in the Order, subject to official check."

". . . . But it had weaknesses. . . . The continued rise of prices and uncertainty as to their future course created a feeling that profiteering was occurring and fear that inflation would occur. This was damaging to morale . . . . The level of wages had to be continually adjusted to the changing level of prices and public finances continually disturbed by the changing levels of costs and prices."

". . . . The next phase of price control was designed to secure price stability and was based partly on the Canadian Plan for an over-all ceiling on prices of goods and services. . . ."

". . . . The price ceiling could not, however, eliminate all rising costs. . . . These cost increases had to be met in some way which would not involve piercing the price ceiling. . . ."

". . . . Government policy provided that, in future, necessary relief from increased costs could be met either by price adjustment or payment of price stabilization subsidy. . . ."

". . . .If, on investigation, production was regarded as essential, and relief necessary to avoid piercing the ceiling, the case would be referred to the Price Stabilization Committee. . . . When the Committee was satisfied that relief was required and that a price increase would be inconsistent with the Government's policy of price stabilization, it recommended to the Minister for Trade and Customs that a subsidy should be paid."

". . . . These measures were announced on 21st July, 1943. The price of tea was reduced by 1s. 2d. per lb. to its pre-war level and the standard retail maximum price for potatoes was fixed at 5 lb. for 6d. (capital city basis)."

". . . . The range of commodities chosen for price reduction was small but all were universally consumed so that it was certain that the benefit of the reduction would be spread throughout the community. . . ."

". . . . Late in 1946, important steps were taken by the Commonwealth Government to modify the operation of the Price Stabilization Plan.. . . . . . . .relief from increased costs would be extended by price increase more frequently rather than by payment of subsidy. . . ."

PRICES STABILIZATION SUBSIDIES – EXPENDITURE: AUSTRALIA.

Item	1943–44	1944–45	1945–46	1946–47
	£	£	£	£
Potatoes	1,725,446	2,433,492	2,829,648	3,012,170
Tea	2,460,612	2.188,292	2,356,176	4,413,702
Milk	318,976	1,785,946	2,517,247	2,252,649
Recoupment of Basic Wage..	1,101,603	801,891	555,372	2,307,435
Imports (other than Tea) ..	967,041	2,436,683	3,006,464	3,690,859
Coal	101,268	182,767	456,657	958,949
Firewood	199,679	305,221	201,204	314,852
Rubber	..	98,783	141,200	333,575
Raw Wool	..	..	..	3,416,876
Tobacco	..	..	250,000	617,704
Other Expenditure	131,035	576,349	669,766	1,322,137
Total	7,005,660	10,809,424	12,983,734	22,640,908

RETAIL PRICE INDEX-NUMBERS. 1939–1947.

WEIGHTED AVERAGE OF SIX CAPITAL CITIES.

(Base of each Group: September Quarter, 1939 = 1,000)

Period	Food	Rent	Clothing	Mis-cellaneous	All Items "C" Series
September quarter 1939 ..	1000	1000	1000	1000	1000
" " 1940 ..	1019	1006	1146	1049	1046
" " 1941 ..	1017	1009	1349	1117	1102
" " 1942 ..	1147	1009	1605	1155	1207
March " 1943 ..	1130	1008	1685	1196	1226
June " " ..	1150	1008	1754	1205	1248
September " " ..	1126	1008	1734	1212	1237
December " " ..	1103	1008	1718	1215	1226
September " 1944 ..	1126	1008	1714	1211	1233
September " 1945 ..	1130	1008	1693	1208	1229
September " 1946 ..	1118	1009	1819	1214	1251
September " 1947 ..	1200	1010	1873	1262	1301

REMINDER

1. Write to the author while it is fresh in your mind with criticisms, questions and remarks.

2. Start a list of those people who should receive this booklet. Organise a supply.