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"Ye shall know the truth and the truth shall make you free"

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EDITORIAL

THE ECONOMICS OF COLLECTIVISM

We are indebted to an article entitled "Concentration on Capital'' appearing in the April-June issue of the "I.P.A. Review" for a most important and concise statement on how Commonwealth Government policy must, if continued, inevitably lead to the Socialist State.

The article starts by drawing attention to the fact that Australia is devoting 25 percent of its resources to capital formation. Without stopping to analyse what "resources", we list the factors contributing to this as outlined by the "I.P.A. Review":

"First, there is the paramount influence on economic policy exerted by Keynesian doctrine and the pursuit of full employment. In his prescription for chronic under-employment Keynes placed great emphasis on investment. Effective demand and thus employment, he argued, depends on the level of investment. If effective demand falls short of what is required for full employment, then steps must be taken to increase the volume of investment. Conditions should therefore be made attractive for private investment (for example, through "cheap money") and if private investment is inadequate, then public investment should be expanded. This thought has exerted a deep influence on the thinking and policies of all countries in the Western World.

A second factor contributing to the increase in capital investment is the widespread emphasis now placed on productivity as the high road to better living standards. Before the war the phrase "man-hour output" was seldom heard in economic literature. Now it is rarely absent. One of the chief means of raising output is to provide the worker with more and better tools of production with which to work. This implies greater investment in productive equipment and facilities, demanding increased amounts of capital.

A third factor accounting for the great concentration on capital investment is the new doctrine of economic expansion, or, as it is often called, "growth economics". Here, there are several influences at work. One is the belief that a rapidly growing economy is a buoyant economy providing expanding markets and a favourable field for business enterprise and employment. Another is the desire, seen as clearly in Australia as anywhere else, to provide the basis for increased population. Then there has been **the determination to match, at least partly, the example of Russia which is able to achieve a tremendous rate of capital development by virtually starving consumption** (Our emphasis).

In the first place it seems clear that in a country such as Australia devoting 25% or more of its resources to provision for capital, there must be some small loss at least of individual freedom in economic matters. **This arises from the fact that a democratic community, left to its own free choice, is unlikely to devote a quarter of its efforts to the provision of capital, some of the fruits of which it will enjoy, if at all, only in the remote future** (Our emphasis). It is much more likely to want to enjoy more consumption in the present than a capital programme of 25% of G.N.P. will permit. There thus arises a clash between consumption and capital investment. How is this clash to be resolved? It can be resolved only by government intervention. The state must step in to restrict consumption in order to free resources for the investment programme. This implies a measure of compulsion and control (Our emphasis). It is important to understand the mechanism by which this compulsion is applied.

Resources for the capital investment programme are made available by the community refraining from spending some part of its income on its immediate consumption needs. Some of these resources will be made available voluntarily, that is as a result of the community's own free choice. The community, considered as a whole, will not spend all its income on its current needs. Part of it will be saved. These savings provide the means of financing capital investment projects of many kinds.

But the total of savings made voluntarily is likely to fall far short of the savings needed to

(Continued on page 3.)

The Struggle of the Spirit

If a man were merely a well-trained animal with a larger cranium than an ape, then he ought to be quite happy in his present environment, and there could be no future for rebels. But man is not happy because he has something more than a mind enclosed in an enlarged cranium—he has a Spirit, which fills him with that divine discontent which will not let him rest. Unlike the animals, for him food and shelter do not suffice. He cannot be made to tolerate the humiliation of seeing all around him evidence of the continuous degradation of the minds of his fellow-men—he cannot tolerate it, even if these men are Americans with houses full of gadgets, and pockets full of drugs.

Everywhere we are witnessing the struggle of the Spirit in man trying to escape from the degeneration of the organised ant-heap to the regeneration of the man who becomes what he really is—an unique individual.

A man cannot free himself unless he knows the truth; that is, has access to the "facts of life". Animals know where their own interests lie, but civilised man does not. The primitive tribes are taught how to protect themselves from their enemies, but civilised man does not know who are his enemies. His greatest gift from the past, that on which all progress depends—language—has been used to destroy him; he is bewitched by words, words such as Progress and Evolution, Equality and Democracy. In the chaotic state of his mind he has been induced to believe that organised chaos is progress.

In the worldwide struggle for the mind of man, which we are witnessing today, the Devil seems to be in complete control of all the instruments of propaganda; and behind the legal powers of the "majority" we are seeing unscrupulous men eliminating all opposition by rendering impotent the intelligent minority. We are witnessing the survival of the unfittest by unnatural selection . . ..

There is plenty of evidence of the degeneration of the mind of modern man—but there is such a thing as regeneration, where man, by accepting the challenge of the Spirit within him, becomes his real self: an unique individual, capable of stepping aside from the materialistic hell which has been organised for him and connecting himself directly with those spiritual realities which produce endless growth.

We are witnessing a titanic struggle between those who are using the institutions of the group to render the individual politically and economically impotent and the individual who believes that no institution has any justification for existence unless it serves to increase the freedom of the individual to choose his own way of life. In this struggle those who rule by Brute Force and Fraud are desperately afraid of the minority, even a minority of one person, because they can never predict what a unique individual will do, although they suspect that the Primordial Spirit in man when released, may prove more dangerous to their continued existence than the Primordial Energy in the atom—hence their ceaseless activity and their ruthless suppression of the minority. —James Guthrie in *The Social Crediter,* June 27.

Plan Now for the Annual Dinner and Seminar

This year's Annual Dinner will be held on Friday, September 18, and the Annual Social Credit Seminar will be held the following afternoon and evening, Saturday, September 19. We are making this early announcement in order that visiting supporters may have plenty of time to make any necessary advance arrangements. Either private hospitality or accommodation can be arranged for any who may require it.

There has been a steady improvement in every way in both the Dinner and Seminar in recent years, and we request all those who can to make a special effort to attend. Make a note of the date now.

"Brave New World"

Aldous Huxley, who wrote his novel *"Brave New World"* 27 years ago, considers it is all coming true 50 years ahead of schedule. The author, who is now 64, told a group of doctors meeting at the University of California Medical School early this year that in America men's minds were now being controlled by drugs.

The spirit of freedom was being erased from human consciousness. "Clubs, concentration camps and terror are really inefficient methods of subjection today," he said."It is much better to get people to love their servitude rather than bully them into it, and the really scientific dictatorships will do this with drugs.

"We in America are being pushed along in this direction already. Our dictators will instill in us an enormous euphoria, so it will be psychically impossible to dream of revolution."

THE ECONOMICS OF COLLECTIVISM

(Continued from page 1)

finance a capital investment programme of the order of *25%* of the community's total production. How, then, is the balance to be made good?

The government, in effect, determines that the voluntary savings of the community will be supplemented by "savings" **enforced on the community. In other words, in addition to that part of its income, which the community refrains, of its own choice, from spending, the government takes away income, which would otherwise be spent on consumption. It is here that the element of compulsion enters and the basic principle of free individual choice is encroached upon.** (Our emphasis.)

How does the government apply this compulsion?

It applies it mainly through the instrument of taxation. By depriving the community of part of its income through taxation and using the proceeds for financing its own capital expenditure on public projects and basic services, it diverts resources from consumption to capital purposes. The increase in "taxes" need not all take place by accepted methods of taxation. One method, quite popular in Australia at the moment, is for public utilities concerned, for instance, with gas or electricity or water supply to raise their charges and to use the increased revenue for purposes of capital development.

The greater the community's programme of capital investment, the greater will be the burden of tax for these purposes and the more will the community find its standards of consumption curtailed. The programme of capital investment may indeed conceivably be so large that the voluntary savings of the community, plus the "savings" enforced on it through taxation, may still not suffice. What can be done then? It may not be politically feasible for the government to increase taxes still further. But it has another weapon at its disposal - - **the weapon of inflation.** (Our emphasis.)

It can supplement the finance it can acquire through loan subscriptions, taxes, and increases in charges of public utilities, by borrowing from the central bank. By competing with other forms of expenditure—consumption expenditure and private capital expenditure—for the available resources of labour, materials and equipment, it forces up prices. The increase in prices serves to reduce the real value of incomes and among other things real expenditure on consumption. The government is thus able to affect a transfer of resources from consumption expenditure to its own capital expenditure.

There are other compulsions or controls, which the government is likely to have to apply in order to divert resources into capital investment. We have become familiar with two of these in Australia in recent years. First, bank credit for consumption tends to be frowned upon, whereas it is made freely available for accepted forms of capital investment. Second, when imports have to be rationed, the bias tends to be against consumption items in favour of capital goods."

In commenting on the above survey, we draw attention to the fact that Keynes was a contemporary of Douglas. But he was an advocate of full employment through large-scale capital investment as against Douglas's contention that employment was only a function of industry and that the real problem was how to get purchasing power to the individual up to the full capacity of industry to supply wanted goods and services.

Douglas challenged the proposition that the financial credit of a nation belonged to institutions, either private or public. He showed conclusively that this credit belongs to the individuals comprising the community and laid down sound principles to make this ownership a reality. Keynes on the other hand challenged none of the basic concepts of the financial system. The only difference between he and the orthodox financiers of the pre-war years was that he advocated a policy of credit expansion accompanied by "controlled" inflation as against the then prevailing deflation policy.

Douglas repeatedly warned that the policy advocated by Keynes would inevitably lead to increasing collectivism. And events continue to confirm Douglas's warning. Lack of space prevents us from dealing in more detail with this matter now, but we will be pleased to deal in further issues with any questions arising out of the extracts from the *I.P.A. Review* and our comments. The drive towards collectivism can only be halted by sufficiently well informed people using their initiative to challenge the financial and economic policies, which all modern Governments, *both Communist and non-Communist,* are imposing upon the unfortunate individual.

Large-Scale Production and Efficiency

It is *not* true that the larger an organisation is, the more "efficient" it is, even if the efficiency of organisations were the prime, sane, objective of life, which it is not.

The greater efficiency of large-scale production "finds scant support in any evidence that is now at hand." *(Final Report, Temporary National Economic Committee, U.S.A.*, Senate Document No. 21, 1940, p. 314) "It should be noted, moreover, that monopoly is frequently the product of factors other than the lower costs of greater size . . . where they exist . . . It is attained through collusive agreement and promoted by public policies." *(Ibid*, Monograph 21. 1940, p.21.)

Since *financial* results are what is aimed at in business, it is obvious that the conditions of financing small and large business may, and frequently do, make more difference to the profit and loss account than low costs.

For instance, bulk buying may enable low prices to be paid for raw material, but this has no connection with the actual amount of labour put into the winning of the raw material. Bulk buying may be, and often is, actually and realistically inefficient; but the low unit price paid produces an illusion of low genuine cost.

Within limits, the whole aspect of a balance sheet can be altered by allocating to various accounts charges, which in other conditions would swell the cost of production and expose waste. No commercial accountant would certify the accounts of the Post Office in the form in which they are submitted.

It may be objected that many of the facts to which reference has just been made have been elicited by "National" Committees, Royal Commissions, and similar bodies. This is true, but it will be noticed by anyone who will take the trouble to read the literature of the Fabian Society or P.E.P. in the realm of industry, or the Royal Institute of International Affairs ("Chatham House") in Foreign Affairs, that such findings are never quoted, and the impression conveyed is always that of the inevitability, as well as desirability, of larger units.

—C. H. Douglas in *The Brief for the Prosecutor*.

The Terribly Uncanny Power

To this observer, nothing demonstrates more sharply the terribly uncanny power of modern propaganda to control minds, sway emotions and brutalize people than the Zionist propaganda on the Arab refugees during the last decade. It literally succeeded in turning black into white; a big, blatant lie into a truth; a grave social injustice into an act of justice glorified by thousands. It has turned clever people with more than average intelligence into starry-eyed fools, believing everything they are told; and has converted kindly and gentle men and women with a strong sense of mercy into callous fanatics, insensible to the suffering of any people except their own. In no other way can this writer explain the many paradoxes, which the Arab refugee problem has created in Jewish life.

For instance, why should Israelis and Zionists expect the Arab refugees to forget, after a few short years, their homeland in which they and their forefathers had lived for centuries, while Israelis claim that they are unable to forget Zion after nearly two thousands years? Are the Arabs an inferior people, made of different flesh and blood, mind and heart from the Israelis? Did not the Zionists reject Uganda and other better and more fertile lands offered to them before the Balfour Declaration and insist on a return to their two-thousand-year-old homeland? Why should the Arabs not want the same thing? . . .

From an article excerpted by *Human Events* (Feb. 25, 1959) from the December 1 1958 issue of the *Jewish Newsletter.* The article is by William Zukerman, the Editor of the *Jewish Newsletter.*

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ARTICLE SECTION

SOLVING THE FINANCE PROBLEMS OF LOCAL GOVERNMENT

In the editorial in the last issue of "The New Times" reference was made to the Report and Recommendation on Local Government adopted at the last Deakin Electorate Conference of Ratepayers' Associations, and the violent reactions of the Communists to this Report. Supplies of the Report have now been obtained for those who require them. The following is the major part of the Report and Recommendations:

INTRODUCTION

When members of the Committee started to consider the task set them by the Yarra Glen Conference of Deakin Electorate Ratepayers' organisations, they soon realised that no realistic appraisal of Local Government finance was possible without a consideration of national finance. Any recommendations for improving the position of Local Government finance would be open to serious criticism unless those making the recommendations made it clear that they were fully aware of the full implications of their proposals. In order that members of the Committee could be fully informed on the basic facts of national finance, the Secretary for the Committee wrote to a number of recognised authorities seeking specific factual information concerning banking and economics. The basic fact to emerge from an examination of the information supplied, is that the productive capacity of a nation, which might be termed its real credit, is controlled by the creation and issue of financial credit through the banking system. As explained in this Report, the centralised control of credit policy by the Commonwealth, and the Commonwealth's virtual monopoly of the taxation field, places Local Government in the position where it is subordinate to Commonwealth policy. In a genuine democracy, control of policy, not only political, but also economic, must be exercised by the individual members of the community. For this important reason the Committee rejects any suggestion that ratepayers should be forced to suffer a reduction in their standard of living as a result of trying to finance Local Government capital development out of rate increases, and recommends as a fundamental principle that ratepayers through their Local Governments should have more effective control of how the nation's productive capacity - - the real credit - - is to be used. If it is assumed that the nation's total productive capacity is at present being used approximately to its maximum (it is readily agreed that some would contest this assumption) it is clear that any increased use of this productive capacity for local government must mean a reduction in activities by the Commonwealth and State Governments. Ratepayers must face the fundamental fact that any programme for increasing the financial sovereignty of Local Government must inevitably bring it into conflict with the Commonwealth which, as the history of Federation proves all too clearly, never surrenders voluntarily any powers it has centralised. As finance is the instrument through which centralised control is exercised, this Committee has decided that its Report should be divided into two parts; one dealing as simply as possible with the actual mechanics of the financial system as a necessary background to the recommendations suggested in part two.

It is not suggested that the recommendations in this Report would, even if all were introduced, produce the most desirable permanent relationships between Local Government and the Commonwealth arid State Governments. But the Committee is certain that they would be major steps in the right direction of greater responsibilities and increased financial sovereignty for Local Government. This would mean a higher status for Local Government and a stimulus to democratic self-government at a time when many people have become cynical about the democratic idea. And it is not too much to hope that increasing satisfaction in Local Government would soon be reflected in a healthier state of national life.

PART ONE — NATIONAL FINANCE

CONTROL OF THE CREATION OF MONEY

As will be seen by the authoritative statements quoted, the bulk of the nation's money supply is created by the banking system in the form of what is generally called bank credit. Every loan or overdraft, whether extended to individuals or to Governments, is a creation of entirely new money (credit) and is a clear addition to the amount of money in the community.

Legal tender—notes, silver and copper—is created under the authority of the Commonwealth Bank, but less than five percent of business in Australia is done with legal tender. It is only the "small change" of the nation.

The Committee has had its attention directed to the following authoritative and self-explanatory statements concerning the creation of money in the form of bank credit:

Sir R. Kindersley, C.B.E. (Director of Bank of England), in Harmsworth's Business Encyclopedia:—

"Deposits—Deposits of the commercial and private banks amount to about £2,000,000,000, but this large total has not, of course, been created by the deposit of actual cash, but has resulted in great measure from Credit created by the banks by the lending of money. The difference between actual cash in its own till, plus its balance at the Bank of England (i.e., Bank Reserves ten percent to fifteen percent of its deposit liabilities), which are Bank Reserves, and the total of the deposits, represents approximately the extent to which the Bank may be said to have manufactured deposits by the Creation and Sale of Credit (Money)."

Governor Eccles, one-time head of the Federal Reserve Bank Board of the United States, said: —

"The banks can create and destroy money. Bank credit is money. It's the money we do most of our business with, not with that currency which we usually think of as money."

(Given in evidence before a Congressional Committee.)

Mr. R. G. Hawtrey, previously Assistant Under-Secretary to the British Treasury, in his "Trade Depression and the Way out", says: "When a bank lends it creates money out of nothing."

In his book, *The Art of Central Banking,* Hawtrey also wrote: —

"When a bank lends, it creates credit. Against the advance, which it enters amongst its assets, there is a deposit entered in its liabilities. But other lenders have not this mystical power of creating the means of payment out of nothing. What they lend must be money that they have acquired through their economic activities."

Lord Keynes, the economist, and wartime Governor of the Bank of England, states: "There can be no doubt that all deposits are created by the banks."

Professor A. L. G. Mackay, the well-known Australian economist, has stated in his text book on *Economics,* that:

"In this way, by means of a loan, an advance, an overdraft, or by the cashing of bills, the banks are able to increase the volume of deposits in the community, and because of this process it is not correct to say that a bank loans out deposits which people make with it**. It is clear that it creates the deposit by the issue of the loan; the loan travels back to the bank or to another bank and assumes the form of a deposit."** Emphasis supplied).

In 1939 the Canadian Government's Committee on Banking and Commerce exhaustively questioned Mr. Graham F. Towers, at that time Governor of the Central Bank of Canada, on banking practices. The following are extracts from the Minutes of Proceedings and Evidence Respecting the Bank of Canada: —

"Question: But there is no question about it that banks create the medium of exchange?

Towers: That is right. That is what they are for . . . that is the Banking business, just in the same way that a steel plant makes steel."

The following are further statements by Governor Towers: —

"Each and every time a bank makes a loan (or purchases securities), new bank credit is created—new deposits—brand new money."

"Broadly speaking, all new money comes out of a Bank in the form of loans."

Mr. Towers then made the following important point: —

"A government can find money in three ways: by taxation, or they might find it by borrowing the savings of the people, or they might find it by action which is allied with an expansive monetary policy, that is borrowing which creates additional money in the process."

The Committee directs special attention to this statement because it is directly related to the question of obtaining adequate finance for Local Government.

Giving evidence before the New Zealand Royal Commission on monetary systems in 1955, Mr. H. W. Whyte, Chairman of the Associated Banks of New Zealand, stated in answer to questions that banks create new financial credit when making loans and advances. Mr. Whyte added: —

"They have been doing it for a long time, but they didn't quite realise it, and they did not admit it. Very few did. You will find it in all sorts of documents, financial textbooks, etc. But in the intervening years, and we must all be perfectly frank about these things, there has been a development of thought, until today I doubt very much whether you would get many prominent bankers to attempt to deny that banks create credit. I have told you that they do; Mr. Ashwin (Secretary to the Treasury) has told you that they do; Mr. Fussell (Governor of the Reserve Bank) has told you that they do."

We now turn to a brief examination of the limits on credit creation by the banking system, and how those limits are imposed. The creation and loaning of credit by all banks, except the Central Bank, is governed by what is described as the "liquidity" of the banking system. This simply means the amount of legal tender being held by the banks. Banking practice is that credit should not be expanded substantially beyond ten times the amount of what is called "cash at call". Now "cash at call" is not only governed by the amount of legal tender manufactured by authority of the Commonwealth Bank; credit created by the Central Bank—central bank credit—is also treated as cash when deposited with the trading banks. The Commonwealth through the Central Bank therefore dictates credit expansion, or restriction, by its policy of creating legal tender and central bank credit. Both private and public borrowing is controlled by the Commonwealth's credit policy.

In order to clarify still further the powers of the Central Government to issue new money in several ways as compared with the limits placed upon State and Local Governments, attention is directed to extracts from *Wealth and Income* by Professor Brian Tew, Professor of Economics University of Nottingham, and formerly Professor of Economics, University of Adelaide. Tew's *Wealth and Income* is a reference textbook in economics and commerce at the Melbourne University and makes specific references to the operations of the Australian monetary system.

Tew states that "the central government . . . is in the happy position of being able to issue eligible paper, which the central bank is always willing to buy, or alternatively to be able to borrow without limit from the central bank direct. **The central government therefore can always get as much money as it wants by virtue of the privilege accorded to it by the central bank."** (Emphasis supplied).

The Commonwealth makes considerable use of Treasury Bills, which are I.O.U.'s created against the whole nation's credit, to obtain new financial credit. It is not generally appreciated that many Commonwealth Loans are used, not to finance public works as claimed, but to redeem outstanding Treasury Bills. And comparatively few subscriptions to any public loan are from genuine savings, the bulk of the loans coming from a further expansion of credit. It is not felt necessary to outline in detail the mechanics of this, but merely to draw attention to the basic facts.

Although it is a popular fallacy that heavy taxation was imposed during the war primarily to finance the war effort, the facts are, as stated by Professor L. G. Giblin in his history of the Commonwealth Bank from 1924-1945, *The Growth of a Central Bank:* "The Commonwealth Bank Board in 1942 recognized that a great expansion at central back credit was necessary to finance the war and this expansion took predominantly the form of discounting Treasury Bills" p. 309). Heavy taxation was imposed mainly for psychological reasons, as revealed by a former Federal Minister, and as an instrument of financial control to prevent "excess purchasing power" accumulating in the hands of private individuals.

Attention is drawn to this important historical fact because with the enormous expansion of Central Bank credit to finance vast Federal Government's activities during the war, and the continuation of this policy of Federal spending after the war, those economic advisers advocating a greater degree of centralised governmental financial control were able to justify the introduction in 1941 of the Special Accounts system under which a proportion of the trading banks' deposits with the Central Bank are "blocked" or "frozen", and the consolidation of this control in the Chifley Government's 1945 Banking Legislation and the Menzies Government's 1959 Banking Legislation. Party political controversy should not be allowed to obscure the basic fact, recognised by every objective student of economics, that the present Federal Government's Banking Legislation does not weaken in any way the central control of the expansion of financial credit through the banking system. This point has been candidly admitted by Canberra economist, Professor H. W. Arndt, a political opponent of the Government.

As already explained, the amount of new financial credit which the trading banks can create to loan to individuals, organisations, Local Governments, and semi-Governmental instrumentalities, is governed by their holdings of cash and Central Bank credit. And these holdings are dictated by the policy of the Central Bank and the Federal Treasury in deciding just how much cash and Central bank credit is to be created and how much of the Central Bank credit obtained by the trading banks through deposits is to be "frozen" and how much is to be available for a further expansion of new credit. A recent "unblocking" of trading bank credits with the Central Bank was part of a policy of credit expansion, which it was felt the economy required.

If the foregoing facts are borne in mind, it will be readily perceived that even when Local Government is permitted to obtain a certain amount of loan money, the availability of this amount is directly related to the Federal Government's current credit policy.

The policy governing money creation in Australia is therefore firmly under control of the Commonwealth and any proposals concerning Local Government finance which ignore this fundamental fact cannot greatly improve the financial status of Local Government.

What principles, if any, govern the Commonwealth's policy of credit expansion?

As far as the Committee can judge from the views, some of them contradictory of economists and economic advisers to the Commonwealth, the major factor governing the rate of credit expansion generally is the price level.

The subject of prices brings us to the problem of inflation, a problem that no country has solved in spite of periodic policies of restrictive credit and taxation policies.

Although the subject of inflation was considered to be outside the scope of the Committee's investigations, nevertheless it is felt necessary to draw attention to the fact that progressive increases in the general price level must have a serious effect on the future development of Local Government. A study of numerous statements by economists and politicians indicates that what is described as "controlled inflation" is now generally accepted by those controlling national policy.

For various reasons, all inflation bears heaviest upon smaller political and economic units and is a major factor in encouraging the process of centralisation. Measured in realistic terms—i.e. construction work done and satisfactory services given for man-hours expended—Local Government is the most efficient sphere of Government in Australia. But increasing financial costs as a result of a national policy of progressive inflation must inevitably lead to suggestions that Local Government be centralised, allegedly in the interests of financial efficiency. We conclude our brief observations on this question by drawing attention to the glaring contradiction between the fact that real costs—i.e. man-hours worked per unit of production—of production in all spheres, Governmental and private, have been reduced with the introduction of power-driven machinery while at the same time prices have steadily increased. While a solution to this problem obviously is a national question, bodies primarily concerned with Local Government can make a valuable contribution to the solution by encouraging ratepayers to keep the realities of the situation firmly fixed in their minds.

PART TWO — RECOMMENDATIONS
LOAN FINANCE AND CAPITAL WORKS

Apart from actually raising the amount of loans permitted by the Loans Council, Local Government finds itself faced with the problem of how to service the debts which loan programmes involve. A survey of Local Government indebtedness reveals that already a big percentage of rates go merely towards paving interest and principal charges.

In seeking a solution to this problem the Committee feel that three fundamental principles must first be discussed and established:

(1) Commonsense and natural justice challenge the idea of using current taxes and rates to finance capital works which as in the case of roads, may last for fifty or more years. New capital works should be financed out of new credits created for the purpose.

(2) The repayment of the credits for capital works should bear a direct relationship to the estimated life of the works. This means that a policy of long term credits for capital development is necessary to ensure that financial book-keeping reflects physical facts and that the present generation is not asked to make sacrifices for the benefit of future generations.

(3) Local Government rates should not be used to any great extent to finance new construction, but should be devoted primarily to administration, maintenance, and the servicing of the charges against capital construction in accordance with the principle contained in the recommendation on loan finance and capital works.

Implementation of the above three principles would go a long way towards solving the basic problem of Local Government finance. But it will be immediately pointed out that even long-term credits for new capital construction leaves untouched the problem of the interest burden. In dealing with this question it is necessary to refer back to the factual information on credit creation provided in Part One. The actual cost of creating Central Bank credit is small and it is submitted that a share of this credit should be made available to Local Government for the actual cost of creation and administration.

This Central Bank credit is not actual cash saved and loaned by individuals who can claim a dividend on their investments, but is new credit created against the assets and real credit of the whole community. The community should therefore carry no more than the cost of administration, which according to banking authorities is less-than one per cent. Charges in excess of this merely increase the profits of the Central Bank—a public utility —at the expense of ratepayers.

In support of the above proposal the following extract from the Australian Royal Commission's Report on Banking (1937) is submitted:

> "Because of this power (of credit creation) . . . the-Commonwealth Bank . . . can lend to the 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 . . ." (Section 504).

Subsequently Mr. Justice Napier, Chairman of the Commission, expanded upon the last clause of the above statement 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."** (Emphasis supplied).

Local Government is engaged in constructing national assets, such as roads, which increase the real credit of the whole nation and the financing of the construction of these assets should not result in a big proportion of present ratepayers' rates being used to provide benefits for future ratepayers. It should be noted that the reference to road construction excludes private streets, although some thought might be given to applying the principles embodied in the following resolution.

RECOMMENDATION: That all new Local Government capital works — roads, bridges, buildings, etc. -be financed by new financial credits from the Commonwealth through the Commonwealth Bank, the credits to be made available at the cost of administration and to be repaid at a rate directly related to the estimated rate of depreciation of the assets financed by the credits.

As an addendum to the above recommendation, some consideration may well be given to the necessity of Local Government preparing a proper balance sheet every year which shows not only receipts and expenditure, but also all capital appreciation and depreciation. A proper balance sheet would clearly show how the real assets of Local Government are increasing. This vital information is not computed at present.