THE NEW TIMES

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

Vol. 26, No. 4 **MELBOURNE, FRIDAY** **26th February 1960**

A PROGRAMME FOR ENDING INFLATION

While there is some doubt about the statement, attributed to Lenin, that inflation was one of the Communists' secret weapons, there is no doubt whatever that the policy of inflation is one of the major factors contributing towards the progressive undermining of Western Civilization. A number of historians have drawn attention to the fact that the devaluing of the currency has been one of the basic causes of the collapse of past civilizations. It was a deliberate policy of inflation, which wrecked Germany in the twenties and paved the way for Hitler and his National Socialists.

Unlike Premier Bolte of Victoria, who has complained that his Government's financial planning did not forsee an increase in wage costs, we are not surprised that rising prices are again the subject of widespread concern. We have persistently warned that inflation is inevitable while present financial and economic policies are continued. There is, however, a much more ominous note in the current comment on inflation than struck in the past. For some time after they won the 1949 Federal Elections on a policy, which featured the promise "to put the shillings back in the pound", the leaders of the present Federal Government could perhaps be credited with an honest intention to halt inflation, however futile their actions were.

But as they progressively tried without success, and the advice given by their "expert" advisers, they eventually saw that even the abolition of the automatic quarterly cost of living adjustments merely slowed down temporarily the upward rise in prices, and eventually realised that the tremendous increases in productivity and efficiency were not producing the results predicted, the men who made such firm promises have now openly emerged as conscious supporters of inflation. It is true that much lip service is still paid to the necessity of dealing with the problem of inflation, and the worn out clichés about "greater productivity", and the necessity of both employers and employees practising "restraint", but the truth has emerged clearly that the official policy of the Government is now to accept progressive inflation as inevitable, and to concentrate on trying to "control" it at something under 2 percent per annum. Responsible people, and amongst these we include Church leaders, must face the frightening fact that official Government policy is to foster a process which is far more revolutionary in Western Civilization than anything the Communists are doing. Unless halted, the end of Western Civilization is only a matter of time.

THE SILENCE OF THE CHURCH LEADERS

While the acceptance and furtherance of the revolutionary process and its widespread effects by the politicians is a frightening spectacle, the most disturbing feature is the silence of the Christian Church's leaders on a policy which violates the Moral Law and which fosters developments which steadily undermine the very values essential for a stable society. Inflation, "controlled" or uncontrolled, is stealing of the most vicious kind. It is forcing people to do that which they would not otherwise even consider. The future of Western Christendom will be decided primarily by whether the present immoral financial and economic policies can be modified in accordance with Truth and Justice.

We have on numerous occasions dealt with the basic causes of inflation and outlined the principles essential for the re-orientation of present financial and economic policies away from the direction in which they are taking us. Once these principles are accepted and understood, it is relatively easy to suggest suitable mechanics to make them a reality. In view of the fact that most of the current discussion has emphasised the problem of how wages might be increased without inflation, we put forward as a practical programme the following suggestions which we suggest might be submitted for consideration to responsible people who should be asked to face the implications of the inflation revolution.

REAL CREDIT AND FINANCIAL CREDIT

A country's capacity to produce is what might be termed its real credit.

But before this real credit can be used, it is

(Continued on page 2)

essential that adequate financial credit be made available.

The war proved how in Australia and other countries an expansion of financial credit through the banking system permitted a much greater use of the real credit than ever before.

Previous unemployed resources and unemployed manpower were used to the maximum. It can be seen, therefore, that expanding production requires increased credit facilities. It is, of course, now generally understood how the bulk of our money supply is created in the form of bank credit, notes and coins being a very small part.

Increased financial credit also has to be made available to finance wage increases when the Arbitration Court rules that such increases are necessary. Not having the necessary reserves to meet an increased wage bill, industry obtains an advance of new credit from the banking system.

In other words, every increase in wages is financed by the banking system.

The new credit is paid out to wage-earners, collected from them through shops and service organisations and eventually is deposited in the banks with a resultant increase in total deposits, a fact which anyone can examine for himself by noting the manner in which bank deposits steadily increase.

There is no argument about the fact that the total amount of money in the community is increased by the banking system every time there is an increase in wages. But this merely creates still higher prices. The basic problem, then is to make the new money available to the wage earner in such a way that it will not increase production costs, and consequently prices.

In the most general terms, the solution to the problem is to be sought along the lines of increasing the purchasing power of money in relation to increasing industrial productive capacity.

PRICE SUBSIDIES

The main mechanism adopted during the war to deal with the problem of prices was price subsidies.

Price subsidies were introduced with comparative success in all English-speaking countries during the war.

The price-subsidy system is sound in principle. This system was applied to certain commodities to prevent rising prices from upsetting the total "cost structure." Results prove that the system could easily be extended.

It is commonly said that price subsidies are merely taking money from the people by taxation and giving it back to them by subsidising prices. This is not altogether correct, as Governments obtain the money for subsidies partly by taxation and, directly and indirectly, by the expansion of credit.

For example, some of the credit expanded to finance the war was taken by the Government in taxation. It can be seen therefore, that subsidies have been, to a considerable extent, paid out of expanded credit in the same way as basic wage increases are paid out of expanded credit.

There is no argument about the fact that the stabilising of prices by the payment of subsidies has demonstrated the possibility of increasing purchasing power outside the present industrial costing system.

Further, the payment of a subsidy, particularly at an early stage in chain production may prevent the multiplication of a cost in subsequent stages.

An increase in the wages of the coal industry, for example, is reflected immediately in the basic cost of coal: but this increase is further reflected in the increased cost of coal, which must in turn increase the cost of the delivered coal; both these costs enter into the price of steel, power, etc.; and the cost of transporting the steel is also increased. Without following this process in further detail, it can be seen that the effect of wage increases is multiplied in chain production.

THE KEY TO THE PROBLEM

The key to the problem is how to use expanded financial credit — the basis for which is increased production — OUTSIDE the wage-cost structure.

The following are suggestions as to how this could be done:

Let all applications for wage increases and/or shorter working hours be heard by existing arbitration authorities and be determined on the strict basis of actually increased or of increased production potential in industry. Arrangements could then be made to use, say, 50 percent of the new bank credit necessary to finance the award granted, for the payment direct to wage earners of what might be termed a National Production Bonus - - that is, a bonus in addition to the wages already being received. As the new money for this Bonus would not be paid through industry, there would be no increase in wage costs and consequently no increase in prices.

As the size of the increase of bonuses would be directly related to increased production or production potential in industry, wage earners would have a direct incentive to increase production, safe in the knowledge that they would share in the benefits of this production.

The other 50 percent of the new credit necessary to finance the arbitration authority's award could be applied to the lowering of prices to every member of the community by an extension of the subsidy system. This would have the effect of increasing the purchasing power of every individual's money.

It must be realised that the modern productive capacity of a country is in the long run a community affair and that therefore the benefits of increased production should be distributed to every member of the community via reduced prices.

Supporters of free enterprise and private ownership must take every opportunity of pointing out that our real credit today, our capacity to produce, is largely a heritage passed down from past generations.

The knowledge of how to do things and the capital resources possessed today are real profits passed on by previous generations.

The following is a brief summary of the main benefits of the suggested policy outlined:

(1.) It would provide the wage earner with the necessary incentive to co-operate in a system of free enterprise for the purpose of making increased production possible, confident in the knowledge that he would obtain increased purchasing power as a direct result of this increased production.

Show the wage earner a policy whereby he can share in the general prosperity resulting from increased production, and he will no longer be willing to listen to the Communist and other agitators who exploit his present grievances.

(2.) Employees of all descriptions should enthusiastically endorse a policy of Production Bonuses and Price Subsidies.

With this policy in operation they would not be in the unfortunate position of having to antagonise workers by resisting wage increases. In their desperate struggle to prevent costs from rising under present arrangements, they are compelled to resist wage increases.

Increased production resulting in increased purchasing power would mean stable markets. Here is an opportunity for employers to give a constructive lead to their employees and to show them that the advocates of free enterprise are capable of genuinely progressive ideas.

(3) All those with savings and fixed incomes must give careful consideration to any policy, which will ensure that the purchasing power of their money is not destroyed by rising prices. The application of Price Subsidies as a result of expanded credit against increased efficiency in industry would, of course, reduce prices and thus give their money increased purchasing power. Genuine independence would be possible for a greater number of people.

(4) One of the most important effects of the policy would be to eliminate social friction resulting from inflation and to produce greater stability in the community.

Inflation always creates instability for the very good reason that people cannot plan ahead with any great certainty; there develops an attitude of "Well, what's the use. Eat, drink, and be merry now—goodness knows what will happen tomorrow." This dangerous attitude, all too prevalent today, can only result in the social disintegration, which the power lusters desire.

Rising price levels tend to aggravate the differences between the various wage groups.

Reduced prices have exactly the opposite effect.

CODNER BROS.

Builders and Joinery
Manufacturers Homes and
Home Sites Available

WHEATSHEAF ROAD, GLENROY

LIBERAL M.H.R. CRITICISES "UNIFICATION BY FINANCIAL STRANGULATION"

In the following letter to the Melbourne "Herald" of February 12, Sir Wilfrid Kent Hughes, former State and Federal Minister, draws attention to important aspects of the policy of financial centralism.

Is the Prime Minister, Mr. Menzies, right when he says: "The Commonwealth is already straining its own resources to give generous financial assistance to the States, and must view with the greatest misgivings any proposal that would add to our financial burdens"?

Or is the Premier, Mr. Bolte, right in laying blame for Victoria's financial difficulties at the door of the Commonwealth?

One thing is certain: the States urgently need a wider and more elastic field of taxation, so they can raise a larger part of their own funds, and therefore accept more responsibility.

Whether this can be solved by giving the States power over excise duty, as in Canada, sales tax as in U.S.A. or a part of the income tax seems to matter little.

Alterations to the Constitution need not always be one way - - an increase in Federal powers.

Is the Federal Government being "generous" to the States? Let us consider a few items . . .

Roads: The Commonwealth will provide £250 million for roads in the next five years. Last year the sales tax on motor vehicles was £60 million, equal to £300 million in five years without using one penny of petrol tax or custom duties on motor vehicles and parts.

Before the war 3 percent of the national income was spent on roads, but only 2 percent, recently.

Railways: The States are always in financial trouble with this great wartime asset to the Federal Government, left in a shocking state of depreciation after the war. Three years ago it was admitted that the airways, as compared with the railways, were being subsidised to the extent of over £3 for every passenger on every journey. Tax Disbursements: Federal surpluses have not been distributed among the States in accordance with the constitution; they have been tucked away in trust funds like the Loan Consolidation and Investment Reserve Fund, which pays off Federal - not State - - debts. The net result is that within eight years the Federal Government will have written off the whole of its debt, including war loans, and the States will be carrying the whole of the national debt.

The Federal Government has done nearly all its work out of revenue in the past eight years, and is therefore incurring little if any new loan liabilities.

Meantime, Federal finances grow richer and richer, and the States poorer and poorer, due to recurring deficits.

Margins: The new six-year agreement allows for wage increases plus 10 percent as a kind of betterment allowance. This adjustment would not operate before July 1 next, so the States have to bear all the increased cost of margins for seven months of the financial year. On the other hand, the Federal Government can not only be more generous to its public servants than the States, but will actually show a profit from the increased taxes that will flow into the Treasury.

It is rather like the Federal Government sitting back and looking for applause when it offered to pay one-third of the rise it recommended for university professors. On the rate of income tax paid by professors, the Federal Treasury received back at least the whole of its contribution!

As the Federal Government has refused to call a Premiers' Conference, and has called a Loan Council, the Premiers will be able to discuss loan raisings only. They would be wise to concentrate on the operation of the Loan Consolidation and Investment Reserve Fund.

Mr. Hiley, the Queensland Treasurer, said last March: "Not only are the debts moving - - the Commonwealth's down to extinction and the States' up to the height of Mt. Everest - - but in between we have access only to dear money, and the Commonwealth alone has access to free money and cheap money."

Meantime in Canberra £2 million has been granted for a new printing building, and more than £2 million is proposed for the lakes scheme. Both no doubt excellent projects, but the States haven't enough money for schools and universities.

Surely there is both justice and sense in the States' representation, unless the Liberal and Country parties have decided on unification by financial strangulation.