# THE NEW TIMES

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

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EDITORIAL

MONOPOLY UNLIMITED

Many superficial observers thought that the main aspect of Social Credit was opposition to the "private monopoly of financial credit." But the author of Social Credit, C. H. Douglas, insisted time and time again that it was not the "private" aspect of credit monopoly he was primarily concerned about, but monopoly itself. He warned that if the credit monopoly was made into a State monopoly, this would only worsen the situation and make it more difficult to obtain a change in financial policy. Events have confirmed his warning.

Recent news from the United Kingdom concerning bank amalgamations provide further evidence of what is happening everywhere. The truth is that governments, themselves, have become monopolies, taking more and more power and showing increasing contempt for electors. The only real difference between the modern parties is that they are competing to share in the spoils. From Canada comes the news that the Pearson Government had been actually collecting the increased tax, which the Parliament recently rejected! And in Canada the Provinces are fighting, or attempting to fight, the central Government in the same way that the Australian States are fighting the Canberra Government. In business the same type of conflict is developing with an increasing tendency to throw traditional business ethics overboard. There is also increasing conflict between nations. The whole world is in ferment, and a civilization is being destroyed because of the drive for centralized power and the conflicts it produces.

The drive towards monopoly is generally justified on the basis that it produces greater efficiency. At present the Federal Government is advocating the spending of millions of dollars to buy out what it describes as "inefficient" primary producers, starting with the dairying industry, so that these producers can have their properties taken over by other primary producers. But what is an "inefficient" primary producer? The truth is that realistically the great majority of primary producers, like all other producers, have increased their efficiency by producing more in terms of man hours worked. The real problem of these producers is increased **financial costs** imposed on them as a result of inflationary financial policies.

Back in the 'thirties an eminent Roman Catholic philosopher, Dr. Coffey, warned that unless financial policy was modified along the lines suggested by C. H. Douglas, it would prove to be the bridge between the free enterprise system and Communism. Centralized control of finance, and the inflation and high taxes associated with this control, is forcing the smaller and medium-sized producer, both primary and secondary, to surrender his identity in bigger units. But in time it will be claimed that these units will also be "inefficient" and must then be amalgamated into still bigger units. This is the policy of monopoly. We have no doubt that many will be observing that it is strange that the Federal Government can find millions of dollars to centralize primary producers but cannot, or will not, find millions of dollars for a programme of subsidization which would reduce financial costs and enable producers to continue operating.

Monopoly leads towards Socialism and Communism. If the threat of Communism is to be averted, all policies of monopoly must be opposed. Instead of centralizing all power, it must be decentralized. A community grows in real strength through decentralization and a consequent reduction in social friction. This is the most important question confronting civilization today. Those exercising centralized power are not going to disgorge it voluntarily. Realistic political pressure must, therefore, be applied. Unless this can be done we will witness more centralization, more monopoly, and more disaster. Academic discussions will not assist. Militant political action is what is required. We appeal to all readers to join in this action.

A LESSON FOR AUSTRALIA IN THE DECLINE OF BRITAIN

By D. WATTS

Britain, like ancient Rome on the eve of her fall, is calling the legions home. After the Romans left, Britain became the spiritless prey of invaders. When Britain finally leaves her own empire, to what extent will history repeat itself? Will Australia, too, be overwhelmed by barbarians from the north? An invasion, in these days, need not be by over-running. It can be by infiltration.

Britain's Prime Minister seems to be trying to jettison the unprofitable in the hope of thereby saving the problematical. That leaves the situation just not quite hopeless. What has been needed during the past 20 years is not demolition, but a building up. I think that men capable of doing that job could have been found in Britain, and could still be found; but I doubt if Britain in her present form is capable of throwing them to the top. Why is that; and why has Mr. Wilson, who was so confident that he could do a notable job of re-modelling, failed so lamentably?

Mr. Wilson inherited an impossible situation, set himself an impossible task, and has not the wider realism that would enable him to dredge up the possible out of the impossible, nor the political history that would give him the authority to command a self-indulgent populace to return to practising the austere virtues.

The Importance Of Food

Let us look at the inherited situation. Man's basic need is food. People cannot eat the products of heavy industry, nor their washing machines and television sets and cars, and so forth. How did the idea arise that the secret of prosperity is in establishing industrial enterprises at the cost of diminishing primary production? Money blindness is mainly responsible for that; and the form that the balance between primary and secondary production took in the nineteenth century British Empire was conducive to such blindness.

During the pre-industrial centuries, England was able to feed herself. With the coming of industrialization there was imperial expansion, so that the squeezing out by mines and factories of the farmer was compensated for by the ability to buy food elsewhere. Britain's economic policy was to buy primary produce cheaply and sell manufactured goods more dearly.

Now what has happened? Britain no longer, thanks to the ideologists, controls large areas in which primary produce can be made to balance her own secondary production. Countries that were once sources of cheap food and raw material are establishing their own industries, so that now Britain is left with a huge population that she cannot feed herself, and the means of producing goods which her people are finding increasingly difficult to sell at a price that leaves a surplus that can be devoted to stocking the larder. She is doing that last on tick. That is the predicament with which a prime minister from any British party would be faced. The discovery of a way out is made the more difficult by a monetary system which can be used to disguise, though not indefinitely, the real situation.

Democracy And Socialism Incompatible

The impossible task that Mr. Wilson set himself is that of combining democracy and socialism. It was inevitable, and at the same time unlucky, that his ideology was shaped to be fitted upon an industrialized society. The fundamental weakness of the policy was not helped by the incidental one.

As I have pointed out before, in every political organization that works, every political element is present, existing there fully developed or in embryonic form or as a gene. Whichever element is dominant gives its character to the whole organization. Sometimes two elements can be so co-ordinated as to reign together. There can be an aristocratic element ruling together with a democratic one. There can be dominating individualism with equally strong social unity, or sacred privacy with good organization. One thing there cannot be is dominant socialism or communism with dominant democracy. That which must partner State ownership is dictatorship. The necessity has little to do with human weakness; it is a matter of organizational law.

Socialists and communists have been brought up with the idea that what is owned by the State is owned by the people. It isn't. What is owned by the State is owned by the government. A single governor-owner must be a dictator. In a socialist State the government owns the wealth, and in a communist State the government owns the wealth and the people; but whoever owns the wealth very soon owns the people, too. That is because in the politico-economic organization possession of wealth gives power.

Democracy Means Private Possession

With democracy there must be private possession. The private person does not own that which is public. He may, even as an individual, have the use and enjoyment of that which is publicly owned, but he does not possess it. State ownership of wealth gives him no real power. There is an indissoluble relation between power and freedom, so that in a society in which men can have private possessions they have democratic freedoms—freedom of speech, freedom to dissent, freedom to criticize the government.

Both the British and Australian Labor Parties have a democratic tradition on to which has been grafted a socialist ideology. Thus, governing them are two diametrically opposite principles—individualism and dictatorship.

These two are not brought into oneness by complementation, but are joint rulers at loggerheads. Most members of the Labor Party support both without allowing either to function properly. They want instant, complete socialism together with democratic freedom. All that explains largely the tendency of a Labor Party to split up, and the reason why it cannot put its theories into efficient practice.

Mr. Wilson is not only up against a couple of titans; he is also against the gods. An analysis might show how closely related is the mistaken idea that democracy is government by the least intelligent and least well-educated sections of the community to the cult of moral laxness under some such respectable name as tolerance or freedom. Maybe sometimes can be found a person who is highly moral in some ways and quite immoral in others; but I think that in a coalesced society where action is more general and conditions are common, when there is immorality in one department there will be immorality in all departments. An immoral society will consistently have a weak or feeble government.

Honesty The Best Policy

It may have been Mr. Wilson's misfortune or historical inevitability that he should have come to power at a time when lack of principle was called realism; an unfair bargain, a shrewd bargain; destruction of superior elements, democracy; deception, cleverness, and the lie that people can be fooled into believing better than truth. He will probably relinquish power having learnt that, that which was called his cleverness, his political shrewdness, his tactical skill, in the days that promised him success, was called, in the days of disaster, his deviousness.

Honesty really is the best policy for a society. True, an honest man among rogues will be a victim; but when there is a society of dishonest men, it is society that is the victim. Is ours an honest society? The financial system is founded upon a confidence trick. The economic system has become a nesting-place for the vulture, dishonesty. Politically and ethically men have been thinking dishonestly, and with double dishonesty in that they have represented their evasion of truth to be a facing of truth. It is time those modern Neros, making sweet music about amorality and permissiveness and tolerance of everything that is socially disruptive, put away their tinkling lyres and did a job of fire-fighting—that is, set about presenting the austere code in which it is set out that, except for babies, there may be no freedom without responsibility, no privilege without obligation and no rights without duties. It is a code, not for two-dimensional psychedelics, but for three-dimensional people.

A Lesson For Australia

There is something in all that for Australia, if Australians have it in them to develop beyond being mere imitators. Australia is still in the fortunate position of having large primary industries behind her secondary industries. That probably accounts to no small extent for her present prosperity and good standard of living, as it did for America's, and still could do. Let us hope that our governments have the sense to resist the persuasions of the barbarians that advancement is identical with industrialization and that business is more important than production.

It would be a pity if this country were to become another Britain, over-industrialized, over-populated, accepting a present of the absurd and a future of nothingness, the barbarians already within her gates and her leader's policy out of nine parts desperation and one part desperate hope. We don't want to reach the position where we need a prime minister who is a combination of genius, saint and hero, but have only a Party politician.

"True Socialism"

"Socialism truly means social action for the benefit of the community as a whole and you only have to look at what we have done with hospitals, irrigation, roads and the post office to see that we support true socialism." - The Prime Minister, Mr. John Gorton, as reported in *The Age*, Melbourne, March 2, 1968.

Mr. Gorton was probably the best of the four candidates for the leadership of the Liberal Party, but only because the other three were unthinkable. Such is the plight of politics today. But the above statement appears to confirm the fears of those who believe that Mr. John Gorton is a centraliser with no time for the States, except as administrative conveniences.

Mr. Gorton's statement on "true socialism" reminds us of Sir Robert Menzies's famous statement that he was a "practical Socialist". Sir Robert kept on saying that he supported the Federal system of government while at the same time implementing policies, which progressively eroded the Federal system.

If Prime Minister Gorton thinks that the post office is a good sample of "true socialism", we trust that we do not see any more of this type of socialism. Even allowing for inflation, post office charges have increased astronomically while service has deteriorated. This is, of course, a feature of all monopolies. Australia is not going to be developed as a free nation while policies of monopoly are encouraged.

Mr. PHIL SARRE

The recent sudden death of Mr. Phil Sarre of Adelaide was a great shock to his many friends. Like his father before him, Mr. Sarre had been a loyal Social Credit supporter and most generous in every way towards activities associated with the New Times. We offer our deep sympathy to Mrs. Sarre and family.

SOLVING LOCAL GOVERNMENT'S FINANCIAL PROBLEMS

Both State and Municipal Governments are complaining more strongly than ever about their financial problems. Unless these problems are dealt with realistically, the drive to force municipalities into bigger units, allegedly to increase efficiency, will be intensified. In 1958 a conference of Deakin Federal Electorate (Victoria) Ratepayers' Associations appointed a special committee to investigate Local Government Finance and to make recommendations. The committee's report was received and adopted by a further conference of Deakin Ratepayers' Associations held at Yarra Glen on Monday, May 18, 1959. It is significant that this report came under heavy fire from the Communists.

The Yarra Glen Report has, unfortunately, been out of print for some years. We feel it is opportune to republish it at present. The figures have been left as in the original report. But the basic realities have not changed—except for the worse from the point of view of Local Government.

Introduction

When members of the Committee started to consider the task set them by the Yarra Glen Conference of Deakin Electorate Ratepayers' organizations, they soon realized 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 recognized 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 centralized 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 centralized. As finance is the instrument through which centralized 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 and 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 nations 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 per cent, 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 realize 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 of central bank 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 centralized 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, recognized 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, organizations, 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 centralization. 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 centralized, allegedly in the interests of financial efficiency. We conconclude 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: Recommendation
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 paying 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 50 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 percent. 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 presents 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.

Local Government And The Control Of Capital Investment

Implementation of the recommendation in the foregoing section depends, of course, upon devising an effective mechanism through which Local Government can exercise some real control over priorities in the field of capital development. At present the Commonwealth exercises the major control, primarily through the Loan Council. Yarra Glen Conferences of Deakin Municipalities have urged that Local Government be given direct representation on the Loan Council and this appears to be the most realistic objective at the present time. However, whatever mechanism may be proposed for giving Local Government more control over capital development priorities, it must inevitably, as explained in the Introduction to this Report, bring Local Government into conflict with the Commonwealth.

RECOMMENDATION: That Local Government be represented on the Loan Council.

Petrol Tax

Campaigns to obtain more finance for Local Government, particularly in Victoria and N.S.W., have focussed a great deal of attention upon the petrol tax, and there can be little doubt that the increased Commonwealth grant of £1,670,000 for Victorian roads for next financial year was the result of the increasing pressure from Victorian ratepayers, their Local Governments and the State Government. This increased grant, which it is pleasing to note was made available without reducing grants to Queensland and Western Australia, is part of the Commonwealth's new £.250,000,000 five-year plan starting on July 1.

It is essential that ratepayers and taxpayers realize the significance of the Commonwealth's new policy of transforming the petrol tax into merely one more source of general Commonwealth revenue. This was not only a very shrewd move to offset the mounting pressure in favour of the whole of petrol tax proceeds being distributed to the States and Local Government; it struck a death blow at any remaining hopes of removing the "emergency" rise in petrol tax imposed by the "Little Budget." No doubt the Commonwealth has observed that liquid fuel is today regarded as so indispensable that price has little impact upon demand. It should, therefore, be borne in mind that the Commonwealth will always regard liquid fuels as most suitable for the obtaining of any increased tax revenue.

A study of the increasing volume of tax revenue from liquid fuels makes it very clear why the Commonwealth has decided to treat all petrol and diesel tax proceeds as part of general revenue and to replace it with a plan which, as already pointed out, is slightly more liberal. Over the past five years the petrol tax has increased by about seventy percent to its present level of about £55 million. At present the Commonwealth retains £18 million of this amount. If this £18 million were distributed to all States on an equitable basis, as demanded by the Yarra Glen Conferences, not only would all the States be better off immediately than under the new road plan; their position would improve immeasurably in the future if the **total amount** of petrol tax continued to be paid to the States. Some conception of what would have been possible under this policy may be obtained by pointing out that if the seventy percent increase in petrol tax over the past five years is maintained over the next five years, **the tax will be yielding approximately £95 million during the last year.** Under the new agreement the Commonwealth will then be paying £58 million to State road funds - - if all the States take up their matching grants. The Commonwealth will then be drawing in Federal revenues **nearly £37 million more from fuel tax than it is returning to the States.** The Commonwealth will therefore, **approximately double** its "rake-off" under the new arrangements.

RECOMMENDATION: That Local Government refuses to accept the Commonwealth's attempt to hide the Petrol Tax in general revenue and continue to press for the whole of the proceeds of the tax to be returned to the States on an equitable basis.

Pay-Roll Tax

Pay-roll tax continues to be levied upon Local Government by the Commonwealth in defiance of elementary common sense. A study of Federal Parliamentary debates reveals that even after a number of speakers on both sides of the House have attacked the continued imposition of this tax, and presented an unassailable case for its abolition on Local Government - - Government spokesmen have offered no defence but talk vaguely about "investigation." Reluctance to abolish the tax is clearly another case of a reluctance to relinquish even the smallest degree of centralized power.

RECOMMENDATION: That the campaign to completely abolish the pay-roll tax on Local Government be continued.

Rate Relief and Social Services

There is increasing evidence that Local Government is being progressively embarrassed by requests for rate-relief by various pensioners. The fact that Local Government representatives, who are much closer to the electors than politicians, feel it necessary to grant rate relief and reductions in pan and garbage rates, is evidence that many pensioners urgently require the protection given to them by Local Government. But in providing relief to pensioners Local Government is, in fact, subsidizing Social Services out of its own inadequate revenues.

RECOMMENDATION: That Local Government estimate each year the total amount of Social Service subsidy paid to pensioners each year in rate, pan and garbage relief, bring it to the attention of Federal Members, and request them to press for a special Commonwealth grant to recompense Local Government for the subsidy.

Expenditure On Health Services

Local Government is being asked to accept more responsibilities for various health services — baby health centres, immunization campaigns, etc. — but at the same time is expected to help finance these services out of rate revenue. Many municipalities have complained bitterly about the position, but have been reluctant to take a strong stand because they do not want to jeopardize in any way the health of the people. It should be noticed that health services benefit the whole community, not only ratepayers.

RECOMMENDATION: That all services rendered by Local Government under the Health Department be paid for in full by the State Government.

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