

Reducing the Cost of Public Infrastructure

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This submission is a response to the invitation from Minister Barr for Canberrans to give their ideas on the upcoming budget for 2012. <http://www.treasury.act.gov.au/budgetconsultation/>

It outlines a way to reduce the cost of funding capital works and community infrastructure. By reducing the cost of funding more can be built with the same taxing base. Alternatively taxes, needed to support community infrastructure, can be reduced.

Like almost all governments the ACT government is failing to use community credit to benefit the community. Governments have been persuaded by private interests supported by a flawed economic theory and accounting practises to privatise community credit instead of using it to fund community infrastructure.

It wasn't always like this. In 1911 Sir Denison Miller was appointed as the first governor of the Commonwealth Bank. [Within a few years the Commonwealth Bank](#) was the largest deposit taking Bank in Australia. During Miller's time the CBA funded Australia's involvement in the First World War and community infrastructure such as roads and ports without going into debt. At the time the CBA did not have the authority to issue currency but it did have the backing of the Commonwealth Government. It achieved these remarkable economic achievements without borrowing but used the credit worthiness of the people to fund community projects. After the death of Miller control of Australian Credit was returned to London and Miller's bold experiment stopped.

Most Governments have been persuaded to give the people's credit to private interests but there have been some notable exceptions. The post-war reconstruction of Germany and Japan were built on government credit. China's economic rise has been achieved through government credit. The USA rose from the great depression through their government funding the Second World War. The Tiger economies of Korea, Taiwan, Hong Kong and Singapore have achieved success through government funding of community infrastructure to benefit exporters.

The allocation of credit through the creation of new money is an old idea generating interest in the USA and Europe. Ron Paul, a candidate in the Republican presidential nomination, advocates the State taking back responsibility for money creation from the Federal Reserve. The British New Economic Foundation <http://www.neweconomics.org/projects/monetary-reform> outlines many strategies for communities to take control of their own credit. This article outlines possible ways for the ACT community to achieve the same goals.

The ACT government can change the course of ACT economic development for the better by taking control of community credit and using it for the benefit of the community. It requires imagination and courage but no legislative or banking changes. The remainder of this submission outlines how, over the years, the ACT government can reduce the cost of funding

capital infrastructure by at least 50%. These savings can be used on new projects, and/or to get the budget back to surplus and/or to reduce taxes.

How to Generate Community Credit

The ACT Government has control of investments of over 3 Billion Dollars. These funds can be leveraged without risk, through the banking system, for the government to generate loans to the community it serves. An existing bank could be approached to work with the ACT Government. If no bank can be found then Australia Post could be approached to act as banker to the ACT or if necessary the ACT could create its own bank. That is, the ACT government could use an existing bank or create its own bank capitalised with the 3 Billion in existing ACT government investments. The Bank does not loan the capital or put it at risk but uses it to satisfy the banking accounting regulations. This book keeping exercise enables the government to create constructive community debt as [outlined in the article](#) titled "Want to end the GFC - put debt to good use".

The ACT Government Bank, or a commercial bank, could issue loans, up the value of its capitalisation, to the ACT Community at whatever interest rate it wishes, provided the debt was used to develop the community within the ACT. The loans are given to the ACT community and guaranteed by the community through the ACT government. This means there is no point in charging interest to cover loan default as the community itself is the party at risk.

The Bank could use new loans to buy back all existing government debt held with commercial banks and replace it with zero interest debt. This will put 70M directly to the ACT government bottom line from interest savings. The bank creates the money for the loans through the fractional reserve system.

Because of the reduction in interest payments the budget will be in surplus.

The Bank could [issue every ACT](#) resident, who wants it, with \$5,000 in interest free credit. The cost of credit is determined by the trust we have in the system to support the repayment of credit. We can build a system where we have 100% certainty that the money created through issuing credit is not at risk. This is done by only allowing the credit to be used with businesses who agree to leave the funds they receive in the ACT bank at zero interest. The businesses get excess funds out of the system by selling their unused credit for interest bearing money. The credit would be implemented with an ACT Credit Card. Children's credit would be added to their parent's credit card. The Bank will collect merchant fees of 0.5% which will cover all the Bank's operating expenses both for the credit card operation and interest free loans. This will reduce the cost of doing business in the ACT. It is likely to result in a decrease in interest debt for ACT residents, rather than an increase in spending, as people move to pay off interest bearing credit cards.

The ACT government can reduce the cost of new housing in the ACT while still keeping land prices at present values by funding house mortgages for new dwellings using the scheme outlined [in the article](#) titled "A house for half the cost - here is how" . The Bank could offer to buy out existing home owner mortgages with the new loans. This will reduce the time mortgage

holders need to pay off their mortgages and would be a safe investment for the Bank.

The ACT Government could issue [interest free investment Energy Rewards](#). The Energy Rewards must be invested in ways to reduce the level of green house gases either through investments to save energy, take green house gases out of the atmosphere or produce emissions free energy. This will enable the ACT government to move rapidly to meet its greenhouse gas targets.

The ACT Government, through the involvement of its citizens in similar schemes to Energy Rewards, can embark on improving the ACT environment by increased investment in schooling, health, public transport and new innovative industries.

Summary

In the same way that the cost of a house can be halved through reducing finance charges so the cost of ACT infrastructure can be halved. This means the ACT can build twice the infrastructure for the same cost. The system is self perpetuating because as old loans are paid off so new loans can be given.

As part of the scheme the ACT Government could produce a real time economic indicator website from data collected by the bank. This will show the flow of money within the Bank and it will be available to all citizens so that everyone can see how the bank is performing. This transparency will alert citizens to any problems that might arise by making the bank - and the government - accountable on a real time basis. Instead of stock market reports the nightly news will show real-time indicators such as loans outstanding, private investments, bank profits, credit card debt and payments through the bank.

These benefits all become possible because of productivity improvements obtained by reducing finance costs through the elimination of interest on newly created money and the elimination of interest paid on interest. It should be noted that interest is still paid on savings and that commercial banks can still operate in exactly the same way they do today. The difference is that there is a competitive alternative on how community credit is used and the way assets are transferred between citizens.