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1935
PARLIAMENT OF TASMANIA MONETARY SYSTEM: REPORT OF SELECT COMMITEE, WITH MINUTES OF PROCEEDINGS

Brought up by the Rev G.S. Carruthers on 29th October, 1935, and ordered by the House of Assembly to be printed.

SELECT COMMITEE appointed on the 28th day of November, 1934, and reappointed on the 25th day of July, 1935, to inquire into and report upon the Monetary System.

MEMBERS OF THE COMMITTEE

Captain Cameron, Mr Dwyer Gray, Mr O'Keefe, Mr Pearsall, Mr Carruthers (Mover)

DAYS OF MEETING

1934: Wednesday, December 19, 1935: Thursday, January 10; Wednesday, January 16; Thursday, January, 17; Friday, January 25; Saturday, January 26; Tuesday, January 29; Monday, February, 18; Tuesday, February 19; Wednesday, February 20; Friday, September 27; Tuesday, October 1; Thursday, October 17; Friday, October 18; Wednesday, October 23; Thursday October 24; Monday, October 28; Tuesday, October 29.

WITNESSES EXAMINED

Mr Harold James Exley, Deputy Commonwealth Statistician; Mr David Robertson, Manufacturer, Victoria; Mr Arthur Herbert Marshall, Director of Clements and Marshall; Mr John Harold Watson; Mr George Johnston McElwee, President of the Launceston Branch of the Douglas Credit Association; Mr Maurice Dubrelle Weston and Mr William Drake, Members of the said Association; Mr George Raymond Field, Member of the Deloraine Branch of the Douglas Credit Association; Mr Henry Bye, Retired Acting Commissioner for Railways; Mr John Rankin Harvey, Accountant; Mr Alfred Edward Watson, Manager, ES&A Bank, Hobart; Mr Frank Byron Cane, Company Promoter; Mr Frank Ernest Ward, Director of Agriculture; Mr George Davey Balsille, Director of Public Works; Mr Robert Milligan Gore, Manager National Bank; Mr Sidney Angel, Manager, Commercial Bank of Australia; Professor Torleiv Hytten; Mr Allan Richardson, Recorder of Titles; Mr Stanley Rupert Adams, Manager, Agriculture Bank; Mr John Charles Foley, Commonwealth Divisional Meteorologist; Mr Frederick Howell Alt, Divisional Engineer, Commonwealth Post & Telegraph Department; Mr Vere Isham Chambers, President of the Chamber of Commerce, Hobart; Mr John Peters Piggott, Member of the Chamber of Commerce, Hobart; Mr Frank Richard Mouldon, Professor of Economics, Tasmanian University.

REPORT

(Emphasis and highlighting added by *The Strategy*)

THE Select Committee appointed by Your Honourable House on the 28th day of November,

1934, and re-appointed on the 25th day of July, 1935, to inquire into and report upon the fol1owing matters:
(1) Whether the people are being prevented by any removable banking or financial circumstances, factor, law, or condition from possessing, consuming, and/or utilising and enjoying the increase of wealth and/or the actual and potential increase of production over the last thirty years; and, **if so, the cause, and what remedial steps should be taken:** and
(2) All matters and things appertaining and incidental thereto
has now the honour to submit the following Report:

Your Committee held eighteen meetings and examined a large number of witnesses, including Mr. H. J. Exley, Deputy-Commonwealth Statistician; Mr. David Robertson, Manufacturer, Caulfield, Victoria; Mr. Arthur Herbert MarshaIl, Managing Director of Clements and Marshall, Devonport; Mr. Alfred, Edward Watson, Manager, E.S. & A. Bank; Mr. Frank Byron Cane, Company Promoter; Mr. Frank Ernest Ward, Director of Agriculture; Mr. George Davy Balsille, Director of Public Works; Professor Torleiv Hytten; Mr. Stanley Rupert Adams, Manager, Agricultural Bank; Mr. James Charles Foley; Mr. Frederick Howell Ault, Engineer.

On the evidence placed before it the Committee finds that the **people are being prevented from possessing, consuming, and/or utilising and enjoying the increase of wealth and/or the actual or potential increase of production** over the last 30 years; that the cause of this is shortage of purchasing power in the hands of the community as a whole; and that this can be effectively remedied only by

(1) Restoration to the sovereign community of effective control over money in all its forms, and
(2) The establishment by the Commonwealth Parliament of machinery which would secure regular equation between the community's production and the community's purchasing power.

The inquiries of the Committee have shown that, since the basic wage was first fixed in 1907, the benefits of the great advance in scientific and mechanical aids to production have not been passed on to the general community, **but instead have been appropriated by a small section of society, while the great bulk of the people have actually suffered a lowering of their living standards.**

Owing to the fact that, statistics relating to production have been kept in the form of variable money values and not in the form of bulk quantities, it has not been possible to give an accurate comparison between production at the present time and that of 30 years ago. At the same time, the following facts, to which particular attention should be drawn, appear to be fully substantiated:
(1) There has been a great increase in actual production,
(2) This increased production has been effected with the use of the services of a relatively small number of workers in industry, and the trend towards greater production with fewer workers,
(3) **The workers dispensed with have been left absolutely without incomes, while the basic wage of those retained in industry has a lower purchasing power than in 1907,**
(4) The smaller producers, manufacturers, distributors, and retailers **have been and are being overwhelmed with debt and driven out of business,**
(5) The place of the interests mentioned in (4) is **being taken by organisations of a monopolistic tendency, and**

(6) These monopolistic organisations can be closely identified with the monopoly of finance as represented by the private banks and their subsidiaries.

This points to the fact that production has been, and is secondary to finance, whereas finance should obviously be secondary to production, i.e., finance should be the servant, and, not the master of industry.

Not only is it evident that our people are not receiving full benefit from our increased production, but a large portion of our potential wealth is being wasted, not because of any shortage of people with the desire to consume, but because those having the desire have not also the purchasing power to procure the goods, and this, in turn, hinders manufacturers and producers.

It is rapidly becoming recognised that shortage of purchasing power is the great cause of the world's difficulties. Economists and supporters of the present financial system seem particularly desirous of showing that this system will work well as long as it is expanding, that is, so long as money lent for future productive and public works is being made available to buy present production.

The economists and bankers thus practically admit that industry is not self-liquidating, that is, that during anyone cycle of production enough money is not made available to buy the products and thus meet the costs, unless further purchasing power is borrowed.

This **new money is a debt either to individuals or the community,** and the interest on it still further decreases the available purchasing power.
There does not seem to be any way of bridging this gap between prices and purchasing power under our present financial system.

The Committee urges the Commonwealth Monetary Commission to pay the greatest possible attention to the statements in the Journal of the London Chamber of Commerce concerning this gap, and the closely related fact that **credit is created and issued by the banks as a debt to the community,** and that the money to pay interest is **not issued except as a further debt,** and that it is **therefore useless to seek a solution which does not involve community control of credit.**
The apparent confusion of opinion about the creation of credit and the origin of money required for interest, stands but very clearly throughout the Committee's inquiry.

Even in the earliest days of banking, it was known that a bank's **chief source of profit is in the issue of credit,** and, in more recent years, the injustice of this has become apparent to larger numbers of people.

Attention is drawn also to the articles by Messrs. H T N Gaitskell, G D H Cole, and the pronouncement by the London Chamber of Commerce, which are very illuminating when compared with the broadcast of the Federal Treasurer, Major Casey, as reported in "The Mercury," of October 21, 1935.
Major Casey said: "The Commonwealth Monetary Inquiry was not being held because the Government suspected any underhand work. It would be useful even if it only showed whether or not the present system could be improved." (This comment by the Federal Treasurer just after the end of the "great depression"?)
"It might appear strange," Major Casey continued, **"that the Inquiry should be held at all in view of the fact that Australia's banking and monetary systems had been running smoothly for so long.**

But there were a certain number of persons who were not satisfied with things as they are. They cannot see why, as it is possible for about 85 per cent of Australians to live reasonably comfortable lives, the lot of the other 15 per cent cannot be improved."

"Many persons think that perhaps some adjustment of the monetary system would enable prosperity to spread more easily, that is rectify the terrible anomaly of poverty amid plenty."

"It is to satisfy these people and to see whether they are correct that the Inquiry is being held."

It is an accusing fact that the recent Commonwealth Census showed that 13.3 percent of the male breadwinners had no income and 24.3 per cent had less that £1 per week.

Among the females, 10.9 percent had no income and 40.3 per cent had less than £1 per week.

That is 37.6% of the males and 51.2% of the females had less than £1 per week.

Also, including pensioners and unemployed, who together made a total of 745,308, two-thirds of the male breadwinners had less than £3 per week, and three-quarters of the females had less than £2 per week during the year which ended on June 30, 1933. Those who uphold and administer the present system have failed to discover a way of adequately distributing actual production, and the trend of the policy which they have adopted has been and is towards restricting and destroying a portion of present production rather than developing and distributing the maximum that the people can economically use and enjoy.

The sole object of production should be use or consumption.

There should be no insuperable difficulty in distributing what we can make or produce.

There is an evident attempt on the part of monopolistic organisations to keep the people in ignorance of facts which might lead them to change the system.

But there is a rapidly growing demand for monetary reform all over the Empire on the ground that the present system has failed and cannot distribute available goods and services. Various British Chambers of Commerce have spoken strongly along these lines. The conviction is growing that shortage of purchasing power is a factor tending to disrupt the industrial system and that this is a factor which must be removed. Contrary to long-accepted ideas, there is now a general realisation of the fact that industry does not release sufficient purchasing power to buy the goods it produces.

His Majesty the King, at the opening of the World Monetary and Economic Conference on 12th June, 1933, said: "I appeal to you to co-operate for the sake of the ultimate good of the whole world. It cannot be beyond the power of men so to use the vast resources of the world so as to assure the material progress of civilisation. No diminution of these resources has taken place while on the contrary, discovery, invention, and organisation have multiplied these possibilities to such an extent that abundance of production has itself created new problems."

His Royal Highness the Prince of Wales, at the annual dinner of the London Chamber of Commerce National Congress of Commercial Education, said:

"The depression and economic disturbance has been largely caused by maladjustment of distribution. The potential output is far greater than ever before. If all employable labour were employed for a reasonable number of hours per week, the world would have at its disposal a volume of commodities and services which would enable the entire population to live on a higher level of comfort and well-being than has ever been contemplated in the rosiest dreams of the social reformer. Our urgent task is to bring consumption and production into a proper real relationship -- not a simple, but a quite possible, task."

Attention is called to the following resolution of the 13th Congress of the Federation of the Chambers of Commerce of the British Empire in London:

"This Congress of the Federation of Chambers of Commerce of the British Empire, recognising the immense changes in the social and economic conditions of the world brought about by the application of scientific discovery to agriculture, industry and means of transport and communication, deplores the lack of a corresponding advance in the monetary system both national and international.

"It calls upon all the governments of the Empire to concentrate upon finding a monetary system which would enable the people of the world to enjoy the vast abundance which technical improvements have made available." "Further, the Congress, representing the producers of real wealth, wishes to place on record that it is strongly opposed to all measures purporting to bring about prosperity by the creation of scarcity through artificial means."

The following statement by the Southhampton Chamber of Commerce agrees with much of the evidence submitted to the Committee, and is endorsed by the Committee as substantially expressing its own general conclusions: "The effects of unemployment have spread like a plague over the whole of the civilised world, carrying destitution, suffering, degradation and despair into millions of homes. Taking the total number of unemployed persons and those dependent upon them, it is estimated that about 120 millions of human beings have been rendered destitute in the industrial countries of the world, and, in our view, the problem of unemployment consists, not only of those unemployed persons and their dependents, but also of the vast resources lying idle in factories, plants, mines and land.

"Further, new inventions daily reduce the number of man-hours required in production, and when we find that, over a given period, productivity is increased and human employment is decreased, we are forced, to the conclusion that unemployment, due to technological progress will continue to increase.

"On the one hand we have the vast army of persons capable of producing, but rendered impotent to do so, and existing in bitterly impoverished conditions through their inability to obtain employment.

"On the other hand we have almost limitless resources for supplying the full wants of every human being in the civilised world made available by machinery.

"The position of an unemployed person is, indeed, strikingly paradoxical. Either he is without work because we are producing sufficient without his services being required, in which case he is poor because there is an abundance of services and goods available, or he is in want because the available wealth is not sufficient to provide for the satisfaction of his needs, in which case it is difficult to explain why his services are not being utilised to produce more.

"Thus, from whatever angle it is viewed, we have the situation of widespread industrial trade stagnation, with producers capable of production, and millions in want of the very things that can be produced in abundance.

"On the prima facie evidence, the fault in the economic system lies in the machinery responsible for the transfer of goods from productive industry to individuals of the community."

"This link between production and distribution is 'money'."

"Currency forms only a small amount of the total money of a country. The bulk of the money is created by commercial banks. By granting loans, allowing money to be drawn on overdraft, and purchasing securities, banks literally create money."

"There is no indication of the amount of money being dependent upon the needs of the productive system to supply the community with goods and services. Rather it seems that an arbitrary fixed amount of money now demands the restriction of production to the quantity of money."

"Again, the fact that the authority for the creation of money is thus vested in private institutions' seems an anomaly, for the 'credit' or 'belief' upon which the monetary system is based is inherent in the community."

"(1) Money supply should be governed by the real credit of the community as represented by its productive capacity. This involves the abandonment of any arbitrary restriction on the quantity of money, including the limitation of the internal supply of money by any such instrument as the international gold standard.

"(2): In order that money should perform its true function of operating as a means of exchange and distribution it should cease to be traded as a commodity.

"(3) Money being merely a vehicle for the credit of the community, and the power, which the control of money carries with it, being nothing less than the control of the entire economic life of the nation, **the administration of financial policy should be vested in a national authority directly responsible to the Sovereign and his people.**

"(4) As the existing mechanism for the distribution of incomes fails to supply the purchasing power necessary to distribute the products of industry or the money equivalent to imports, it is necessary that purchasing power and prices of available goods and services should be equated. As the defect arises chiefly from charging the community with certain costs in respect of which the necessary purchasing power is not distributed, two alternatives are available" --

(a) Either prices should be reduced to meet the purchasing power available without involving any loss to individuals, or;

"(b) Purchasing power must be increased to meet prices -- or both methods could be employed together.

The defect being due to the withdrawal and, in effect, cancellation of money before the products represented by the money are consumed, it follows that, under either plan, the necessary money must be distributed direct to the community in the form of currency and/or **financial credits.**

"(5) This fund of financial credit, available to the community for purposes of obtaining access to its production, should also be employed towards --

"(a) Adjusting the financial system to the progress of technical development and consequent decrease in the human labour required for production, and

"(b) Effecting a drastic reduction in taxation with benefit to the entire community."

The following extracts are from the written Judgement of the Commonwealth Full Court of Conciliation and Arbitration, delivered on 22nd January, 1931. The judges were Chief Justice Dethridge and Judges Beeby and Drake-Brockman:

"There is a considerable body of opinion in support of the contention that the handling of currency and credit, and the banking systems of the world, are largely responsible for the present world crisis. (**the Great Depression and it's aftermath**. T/S).

"Lord D'Abernon went so far recently as to express the opinion that independent international action would probably furnish the most effective solution, if applied in time."

The whole mechanism of finance is **theoretically a device** to facilitate the movement of existing wealth, internally and externally.

Under the world's **banking systems it has become an instrument for controlling the future production of the wealth.** Whether this control is for ever to be left in the hands of profit-making institutions has become a question which has been agitating the minds of thinking men in all parts of the world.

"Many eminent economists and statesmen today support the idea that the control of money should be a State function rather than a field for dividend making.

"By some witnesses it appeared to be thought that the raising of the wage-level would have an effect similar to an increased issue of currency or so-called 'purchasing-power'. This misconception was not shared by others, who advocated a system involving the distribution of 'new money' to consumers, somewhat similar to that enunciated during the last ten years by Major Douglas and his followers.

There was an almost unanimity in the opinions of witnesses that in some form **banking policy should be changed**.

"Mr R F Irvine, for many years Professor of Economics at the Sydney University, contended: 'It is practically a question of life and death to stop deflation and institute a movement in the other direction, that is to retrace our steps by a carefully guarded inflation. Such a policy is forced upon us by facts.'

"The consensus of opinion is that some change in the direction of granting facilities to increase credit is necessary. Beyond doubt, the grave hardships to the wage-earning and other long-period debtors, and the discouragements to industry which accompany the continuous fall in the internal price levels in Australia, demand the most earnest consideration by those who are able to exercise any control of the factors governing the price levels."

In view of the Commonwealth Inquiry, this judgement of a Commonwealth Court nearly five years ago is specially interesting.

A statement was given to the Committee by the Deputy-Statistician that during the past 25 years the assets of the Australian trading banks increased as follows:

	£
1910-15	55.6 millions
1915-20	75.5 millions
1920-25	78.0 millions
1925-30	57.8 millions
1930-35	32.0 millions

This shows a total increase of £298.9 millions in 25 years, and further indicates that the faster industry functions the faster the total debts to the banking system increase.

The wealth of the community should be reckoned by its freedom and security and well-being and not, as

at present, by its debts.
The fall from 57 million pounds to 32 million pounds in the last five years clearly discloses the reason why the representatives of the banks commend the Government for spending, so that industry may again function more rapidly, and the banks' assets grow faster.
The banks, in **providing the credit by which industry expands**, do no work, and do not provide anything **which a national credit board,** or a **community controlled bank,** could not do and provide **without taking away the community's assets.**
According to press reports of the period, in 1921 a deputation from the Australian unemployed waited upon Sir Denison Miller, Governor of the Commonwealth Bank, owned by the people. A member of the deputation put the following direct question to him: -- "In a recent address in London, Sir Denison, you stated that to meet the necessities of the war certain things had been done by you which, before the war, would not have been dreamt of. You advanced Australia over £350,000,000 for war purposes, and you stated that, had the war continued, you would have advanced another £350,000,000. Are you now prepared to advance Australia £350,000,000 for productive purposes?" Sir Denison Miller replied: "Yes, I shall do my best."
S. Eccles, when taking over the Governorship of the Federal Reserve Bank of the U.S.A., said: "Orthodox economics are out of date, because they were meant for a situation in which famine and scarcity were normal conditions." The following quotation from the Papal Encyclical, Quadragesimo Anno (1931), throws a very great light on this attitude of the financiers and their economists:
"It is patent that in our days not alone is wealth accumulated, but immense power and despotic economic domination is concentrated in the hands of a few, and that those few are frequently not the owners, but only the trustees and directors of invested funds, who administer then at their good pleasure.
"This power becomes particularly irresistible when exercised by those who, because they hold and control money, are able also to govern credit and determine its allotment, for that reason supplying, so to speak, the life blood to the entire economic body, and grasping, as it were, in their hands the very soul of production, so that no one dare breath against their will ...
"This concentration of power has led to a threefold struggle for domination. First there is the struggle for dictatorship in the economic sphere itself: then, the fierce battle to acquire control of the State so that its resources and authority may be abused in the economic struggle; finally, the clash between the States themselves ...
"Unbridled ambition for domination has succeeded the desire for gain; the whole economic life has become hard, cruel; and relentless in a ghastly measure. Furthermore, the **intermingling and scandalous confusion of the duties and offices of civil authority and of economics** have produced crying evils and have gone so far as to degrade the majesty of the State.
"The State, which should be the supreme arbiter, ruling in kingly fashion, far above all party contentions, intent only upon justice and the common good, has become instead a slave, bound over to the service of human passion and greed.

"As regards the relations of peoples themselves, a double stream has issued forth from this fountainhead: on the one hand, economic nationalism or even economic imperialism; on the other, a not less noxious and detestable internationalism or international imperialism in financial affairs, which holds that where a man's fortune is, there is his country ... "
Recently, leaders in the Anglican and Free Churches have been taking a more definite stand in public interests. Some, such as the Dean of Canterbury (who is also an engineer), have realised that increased unemployment or leisure has been forced upon civilised nations by the inventions and discoveries of scientists and engineers, and that work can no longer be regarded as a man's sole claim to draw his means of sustenance from the national supply.
Definitely they realise that man's character, moral nature, and spiritual aspirations are as universal, and at least as important, as his desire for food and clothing, and now that the latter can be provided by the world's fields and factories with the expenditure of so much less toil than formerly, it is right that there

should be more time for the cultivation of personal or human attributes.

Some of these leaders are adopting social credit views fully; others, without committing themselves to any economic or political plan, while still inclined to believe that continual human labour is a necessary part of the general scheme of life, are beginning to see the present conditions of poverty and distress are man-made and can certainly be removed, as soon as a sufficiently strong public opinion demands their removal, irrespective of the desires of the few who now control so much of the community's wealth.

Within the last few weeks the Anglican Primate of Australia (Archbishop Le Fanu) and the Primate of New Zealand (Archbishop Averill) have been leading speakers at meetings held in Perth and Auckland respectively with the object of rousing the public to demand that their political leaders shall put an end to the present distress. They have been supported by Monseigneur Holbrook of the Roman Catholic Church and by speakers of other churches.

Similar meetings, based on the fact, as expressed by His Majesty the King, that it should be possible to find means of distributing existing wealth, are being held in many places.

It is realised that the health, morals, and happiness of our people are being needlessly sacrificed, and the inevitable result must be very severe injury to the coming generation. The Committee unanimously agrees that this is unnecessary. It is not satisfied that any real attempt has been made by the financiers, who control the destinies of the nation, to carry out His Majesty's desire of finding a means of distributing our abundant wealth. Probably the reason for this is that the first step necessary in any plan promising success must be control of its own credit by the community. It is not reasonable to suppose that those who now control it, and have controlled it for so long to their own great advantage, will allow this control to pass easily out of their hands.

The Committee is satisfied to accept the views recently expressed by Mr H T N Gaitskell that it is questionable if private banks have any more right to the profits arising from control of credit than they would have to profits arising from issuing notes.

The Committee is also much impressed by the recent suggestion of Mr Cole that a social dividend appears to be the most appropriate way of distributing our increased production in conjunction with community control of credit, and also fully supports the views expressed by the London Chamber of Commerce as to the need for monetary reform and the even more explicit views of the Southampton Chamber of Commerce.

It is necessary to recognise that, owing to the great increase of machines and power, large numbers of people can no longer be kept in permanent employment, and a division of the profits of labour and science and power will have to be made on a social or national basis as a right belonging to every member of the community.

This matter has gone far beyond the stage of quibbling or arguing over details of administration.

During periods of war, every member of the community is asked to protect the community. So also, in times of peace, every member of the community has at least as much right to share in the enjoyments and benefits and wealth resulting from peace as he had duty to protect it in war.

Suggestion of possible ways of returning to conditions and incomes of some years ago fall far short of what is required in an age of marvellous expansion and development. **This failure to show satisfactory causes and cure can only be taken to mean that the supporters of the present financial system are unable to find any solution while the present financial system exists, and are unwilling to consider any solution which involves a change of system.**

It has been realised from the inception of the Committee that, under Tasmania's insular and restricted conditions and the fact that it was not possible to call as witnesses the heads of financial institutions, since these do not reside in Tasmania, a complete investigation of some matters could not be made.

This Committee considers the Inquiries of the Commonwealth Monetary Commission should not be confined to superficial aspects of the present monetary system, but should be directed firstly to the basic principles on which money, and especially credit, is at present issued and controlled, with particular attention to the manner in which it functions in industrial operations in the creation and liquidation of costs and debts.

Secondly, this Committee considers that the chief factor in judging the success or failure of any

financial system should be whether it is or is not assisting industry to function at its maximum rate and at the same time distributing maximum wealth combined with the highest and healthiest standard of living among the people generally. Any monetary system failing in these must be automatically on the defensive.

The Committee's general and unanimous conclusion is that it is obviously possible to find a just and equitable method of distributing any already existing surplus and also potential production without in any way injuring or dispossessing those now enjoying wealth.

Community control of credit and its equitable distribution seems to be the first necessary step towards realising the ideals expressed by His Royal Highness the Prince of Wales in the following memorable words already quoted: "The depression and economic disturbance has been largely caused by maladjustment of distribution. The potential output is far greater than ever before. If all employable labour were employed for a reasonable number of hours per week, the world would have at its disposal a volume of commodities and services which would enable the entire population to live on a higher level of comfort and well-being than has ever been contemplated in the rosiest dreams of the social reformer. Our urgent task is to bring consumption and production into a proper real relationship -- not a simple, but a quite possible, task."

GENERAL COMMENTS

Finance System Little Understood

At the outset it may be stated that one fact revealed by this investigation has been the lack of understanding among bankers and others of the economics of the present money system. This fact was remarked also in the Report of the Monetary Committee, 1934, New Zealand, which said (Section 19), "It would appear, however, that the economics of our present money system are not as well known as might be expected."

The nature of some of the prevailing ideas will be referred to again, but mention may be made here of the lack of research, so far as we can discover into such matters as the analysis of costs of industry and of the growth of debt. There seems to be a tendency on the one hand to regard such an inquiry as a prying into the affairs of private industrialists and business men, and, on the other hand, to adopt assumptions regarding such matters as the relation between costs and prices and incomes without adequately examining their validity. These habits of thought undoubtedly tend towards confusion and chaos in theories relating to the distributive side of industry.

Meaning of Wealth

In discussing the utilisation of the wealth of a country it is desirable to be clear in the first place as to what we mean by wealth, for the essential difference between wealth (well-being) and its common measure or symbol, called money, is of the utmost importance.

Speaking generally, the wealth of an individual consists of his possessions in land, goods, etc., personally useable or exchangeable for the useable possessions and services 'of other individuals. His personal ability and his money are not wealth, but may be exchanged for the wealth of others and, in so far as they can be so exchanged, they constitute only a claim or effective demand upon the wealth and service of other members of the community. Their validity even as a claim to wealth depends solely upon the others' willingness to exchange. An individual may consume, exchange, give away, or destroy his wealth. His personal ability may deteriorate and his money disappear by spending, theft, or loss on investment and in other ways. He then has neither wealth, nor ability to obtain wealth, nor money to claim the wealth of others.

The wealth of a nation is determined by its ability to produce and distribute wanted goods and services. It includes the productive capacity of its land and plant, the skill and morale of its people, and its powers of defence against predatory attack.

It is physically impossible for a nation to become poorer unless it consumes wealth at a greater rate than it produces wealth. In other words, so long as national appreciation of wealth equals depreciation of wealth the nation is solvent. When appreciation exceeds depreciation (as is actually the case with all progressive nations), the nation undoubtedly is richer by the amount of that excess.

Unlike an individual, a nation cannot make itself bankrupt by using its wealth, so long as it takes care not to depreciate unduly its capital resources, mines, forests, fertility, etc. On the contrary, any failure of a nation as a whole to produce and consume what it can reasonably produce, without overtaxing either its capital assets or the work or desire to work of its people, is a definite loss to the nation, which must be reflected in the unnecessarily low standard of living of its people.

Individuals or section of the community may increase their wealth by obtaining, either by fair means or otherwise, an excessive share of the wealth of others. But this internal interchange of wealth, even if it results in the formation of spectacular fortunes, is no indication -- though unfortunately often considered to be -- of a general increase of the nation's prosperity or well-being.

Conditions for Prosperity

Increase of real wealth requires:

1) That the productive powers of the nation shall increase, and

2) That the increased production shall be fully and effectively distributed.

There still prevails among a certain class of economists the idea that a nation's wealth should be measured by the money value of its production. From the point of view of individual wealth, a man possessing a hundred bushels of wheat which he can sell at 1Os. per bushel is better off than if he possesses two hundred bushels with a market value of 3s. per bushel. But a nation must consider its requirements for consumption, and it is a matter of prime importance whether the quantity it possesses is, or is not, sufficient for its own consumptive demands.

Distinction should be made between the actual value, i.e., utility, of the amount required for consumption, and the money or exchange value of the exportable surplus.

One of the factors which should indicate internal prosperity or well-being is that goods required for internal consumption be low-priced and therefore readily available to all who need them.

Naturally, the greater the exchange or export value of the surplus, the better for the community, in that it may receive in exchange for such surplus a greater quantity of goods which it requires, but does not itself produce.

Too much emphasis on Export Value of Production

The tendency in some quarters is to regard the export value of production as the main consideration and to look upon home consumption as something which is of no particular importance.

Meaning of Value

To think of value in terms of money is illusory.

The fundamental conception of value is use fullness, and any economic theory which is to be of practical utility in solving present-day problems must be based on this fundamental conception.

Coming now to the question of actual or potential increase in wealth over the last thirty years, the Committee was brought face to face with one of the consequences of the prevailing ideas regarding money values of production. Statistics have been collected relating to production, but these are in the form of variable money values and are useless for comparative purposes, and apparently no attempt has been made to find some fundamental invariable unit of measurement.

Increased Capacity for Production

Information is obtainable from other sources, however, showing the trend of the times. Actual figures for productivity per acre or per man-hour for primary and secondary industries have been extensively published for other countries, and these give a reasonably good indication of what might be expected in Australia and Tasmania.

The Journal of the London Chamber of Commerce of March, 1934, stated that industry in Great Britain is not working at more than 25 per-cent of its capacity. This means that four articles or units of wealth could be made available for each individual in place of the one he can receive under present conditions.

Bulletin 1348 of the D.S. Department of Agriculture gives figures which indicates the tremendous increase in productive capacity made possible by modern power-farming. Professor Laby of the Melbourne University has estimated that this has resulted in the displacement of thirteen million farm workers in the United States in the last 30 years.

The Editor of "Power", according to Maurice Colbourne in "The Sanity of Social Credit," recently estimated that the mechanical power available for industry in four countries alone -- United States, Great Britain, Germany, and France -- was equal in man-power to five times the population of the world.

Without any doubt, the increased productivity of industry during recent years has been remarkable. There is reason to believe that production is being restricted. Many inventions and discoveries are being held back for financial reasons, and enormous sources of power, many machines, and millions of men, are ready to produce still more as soon as a means of effective distribution can be found.

Failure of Distribution

For some years past it has been increasingly evident that the means of distribution have not been working efficiently. His Majesty the King, the Prince of Wales, and many others have called attention to this.

In order to analyse the cause or causes of this failure of the distributing system, it is necessary to study the relation between the industrial system in its function of producing physical wealth and the financial system which facilitates the transfer of goods and services. It is usually assumed that these systems are, if not one and the same system, at least mutually supplementary. It may be necessary for us to revise our ideas of their functions.

Purpose of Industry

Most people have the idea that the industrial system would function satisfactorily if everyone could be found an opportunity for co-operating, through work or otherwise, in industry. The question should be asked, "What is the object of industry?" Some think it is to make fortunes; others think it is to provide employment; others, again, believe it is to provide goods and services.

The mark of success in industry from a purely individual standpoint may be the highest individual profit of the acquisition of the largest amount of claims on the goods and services of others. But the mark of national wealth or well being is surely that few or none of the people shall be in debt and that all, or nearly all, shall have plenty. From this it is evident that our ideas of personal success in industry are in conflict with our ideas of national well-being.

How Industry Works

It is well to examine the matter further by considering on wide general lines, how the present industrial and financial systems are supposed to function. Each individual breadwinner contributes what he is able in goods or services to a central pool, which is the existing system of stores, shops, etc. He receives an acknowledgment in the form of a coin or a cheque, and in return for this he can select from the pool other goods and service which he desires. Or he may refrain from selecting at once and either leave his claim idle or lend it to others. This is a general outline of the system built up and accepted by our industrial leaders. It implies definitely that the way a man obtains the right to draw the necessaries of life from the pool is by contributing to the pool. Therefore, it is surely fair and just that he must not be denied the right of contribution. The average individual is not responsible for these conditions, and, therefore, those who are responsible must protect him and either give him work or provide other means of drawing his support from the pool. Conceding that, for the mass claims only arise from work, how else -- if work be denied -- can they arise, except as a free gift or something in the nature of a shareholder's dividend?

Scientists, inventors, engineers, chemists, etc., have conspired to one end, namely, to increase efficiency, to grow two blades of grass instead of one, to use power and machines, to fill the central pool with the goods man wants, and which were previously produced by his own personal effort. Surely, with the increased amount of goods available, all should be more wealthy?

How can these goods be distributed if man's right to earning his claim has been removed?

How Industry is Financed

Regarding industry from its financial side, it is supposed to work on the following lines: Money, or credit, is lent by the banks to producers, who pay it out in the form of wages, salaries, and dividends or profits.

Practically all the money in the pockets of the general public gets there in this way. With this money, or a portion of it, the general public buy the goods they require, and, with the money the producer receives (that which is passed back through retailers and wholesalers), he recoups himself for his expenses of

production, wages, salaries, interest, raw materials, etc.
All costs of production must go into prices, but the general public have only the money paid to them as wages, etc., where with to meet prices. It is assumed by economists that the incomes of the people are equal to prices, but it is not so when applied to power production. **The tendency of modern industry is to restrict production and raise prices, and even under these conditions the continuous growth of debt shows that costs of industry are by no means fully recovered.**
There are in general two forms of production:
1) Production of goods required for everyday consumption,
2) Public works and capital goods, that is, factories and machines, etc.
The money distributed as wages for both of these has been used in the past to buy consumable goods, and to some degree capital goods also, there was a sufficient margin to prevent the deficiency of purchasing power from bringing an acute crisis.
For example, when Tasmania was in its early ages of development there was comparatively little production of consumable goods and much development. Therefore there was plenty of money in these times to pay high prices for the consumable goods produced. As development continued, the amount of consumable goods increased as compared with capital production, until at present production of consumable goods comes first and capital production second. It is a matter of common observation that business is brisk and the community is relatively prosperous when a big capital undertaking or considerable expenditure of loan money by Governments, is in progress.
The amount of wages from capital development available to make up the shortage of purchasing power to buy consumable goods has decreased in recent years, and the smaller distribution of wages in proportion to goods produced is still further intensified by the use of labour-saving machinery. This has been world-wide, and in addition there is also a world-wide slowing down of exports to all advanced industrial countries which have passed their earlier stages of development.
In general, it may be said that money sufficient to distribute consumable goods freely has, in the past, only been available when large amounts of new or loan, money were being expended on development or on war. No suggestion has been forthcoming from the financiers of the existing system or from the economists to show how to distribute production in any other way. Public works financed by loan money, even at a very low rate of interest, would have to be paid for in the end, and the number of such works required would, even at one per cent interest, be so great that the interest bill would rapidly absorb all revenue. The State is at present approaching this condition.
Foreign markets and increased exports are coming better understood. Nations try to send away their real wealth and get credit in return of the amount exported over and above what is required to pay for imports and interest on debts.
Exporters receive credits if they are fortunate. It happens that sometimes fruitgrowers and others receive debits. It is useless to seek for fresh external markets as a means of increasing home consumption.
Public Works
There has been a conviction among some economists that public works should be financed out of savings. Suppose it were possible to set men to work and to accumulate a surplus of necessaries for consumption, and then retire part of the men from the production of consumable goods and set them doing public work for as long as the accumulated stores would maintain them. In a sense, this would be providing for public works out of savings, but it is obvious that these savings could only be made if the nations workers were able to produce in anyone period more than the nation required for consumption in that period. It might be possible also to find, by trial or otherwise, how many men were required to produce the necessary consumable goods by working continuously, the remaining men being kept permanently employed on public works and being paid by receiving a share of the production. This simply means that a section of the workers would be paid or rewarded by the surplus production of the others. It will be obvious that the fewer men required -- owing to increased efficiency, etc -- to produce consumable goods for all, the more men would be set free to produce luxuries and public works for all.

The real credit of a country has been defined as the rate at which it can deliver goods and services as,

when, and where required.
The above is an illustration of how real credit might be used to finance public works, and it is clearly evident that, if no disturbing factors intervene, the public works and luxuries, and the standard of living of everybody, would be increased in direct proportion to the real credit. It is obvious that this does not take place, so the problem has been investigated further.
Though in a small primitive community there would be no great difficulty in making direct allotments of goods to those performing services, in dealing with a more complex community, some form of money that is an easily portable and recognisable representation of the value of the goods would be necessary.
On general principles, the public worker, that is, one working for the community, now receives a token or claim which enables him to draw his share of the communities consumable goods in return for the services he has performed. (Money is actually a claim on the goods of the community which issues or recognises it.)

Money

The report has previously mentioned that the root idea of the present financial system is that each contributes to a central pool and receives a token or acknowledgment which he can exchange again for goods. A ready exchangeability of this token or money depends on confidence, that is, on the acceptor knowing that the claim of the money will be recognised.
Dealing with people at a distance, or in another community, it was obviously an advantage to have some easily portable and recognisable token which was of value anywhere apart from the claim it offered to its possessor on goods, etc., held by the issuer. It was for this reason that gold became a satisfactory form of money.
The root idea of the introduction of money was to facilitate the interchange of goods and services between actual owners or workers. The value of gold coin really rested on the goods it could procure.
Suppose now that all the community except one are at work producing goods and services and improving the communities wealth and happiness, etc., and that this one -- not perhaps a satisfactory worker or a useful citizen -- went out and found a large quantity of gold. By using this gold discreetly he would be enabled to obtain great control over the possessions of the community.
Gold has not been found in quantities sufficient to upset the ownership of modern real wealth, but another discovery has taken its place. With the development of the banking system gold was kept in the vaults of the banks instead of circulating freely, and a cheque system, based originally on the backing of gold, was developed.
Those holding the gold in charge discovered that only a fraction of the total holding was required to be withdrawn at any particular time. From this there arose the cheque system, through which bankers found that they could lend more than they possessed with little risk of being caught short by all depositors requiring their gold at one and the same time.
There were times when depositors demanded their gold and could not get it, but gradually the banks found the limits of reasonable safety, and developed a credit system which put them in control and possession of the communities wealth just as effectively as the hypothetical non-worker who discovered large quantities of gold.
They learned to deal with money -- gold and credit -- as a commodity; to lend it and to withdraw it, so as to obtain the greatest claim over the community's goods; and therein lies the cause of the community being unable to interchange freely its own goods and services. It is not a matter requiring any lengthy argument. The facts are, simply, that various members of the community are able and willing to perform various services, and to exchange part of the resulting surplus of their work, for part of the surplus of the work of others. Yet this is not taking place, for millions are in a state of destitution, and the leading so-called experts and financiers do not appear to know how to relieve the situation.
Instead of getting back to first principles and allowing each citizen to have full value of what he is able to do by himself, and of the still greater work he is able to do in association with others, with the aid of available power and machinery, "expert" advisers are trying in all ways to find some means of carrying on the present system of control by the monopoly of credit.
The tokens, which are all that are required to bring about the exchange of goods and services which

need have no intrinsic value and which should be issued by the community -- are now being issued by the credit monopoly as though they were of great value and in short supply. Moreover, they are only issued to the community as a loan bearing interest or in return for securities.

There is no justification for this: there is no need that it should continue. Its removal would also remove the root causes which are preventing full production and consumption.

McLeod on Banking

With regard to the working of the modern money system, the questions may be asked: "Where does the money come from? Whose is it, and what is it?"

H D McLeod, M. A., a barrister who had been selected previously by a Royal Commission for the Digest of Law to prepare a Digest on the Law of Bills of Exchange; Notes, etc., published a book of over 1400 pages before 1897 -- "The Theory of Credit." This is still quoted as one of the highest authorities on the subject. On page 607 we find the following:

"Contrast between the Common Notions about Banking and the Reality." -- "Having now giving an exposition of the actual facts and mechanism of banking, it will be as well to contrast the common notions respecting it and the reality.

"it is commonly supposed that bankers are dealers in money only; that they borrow money from one set of persons and lend it to another set of persons.

"The fact is that bankers are not dealers in money: they never lend money. The sole function of a banker is to create and issue credit; and to buy money and debts by creating and issuing other debts in exchange for them.

"ii) It is commonly supposed that bankers act only as agents or intermediaries between persons who want to lend and those who want to borrow.

"Bankers never act as agents between persons who want to lend and those who want to borrow. Bankers buy money from some persons: and rights of action from others exclusively with their own credit, or by creating and issuing rights of action against themselves.

"iii) It is commonly supposed that a banker's profit consists in the difference between the interest he pays for the money he borrows and the interest he charges for the money he lends.

"The fact is that a banker's profit consists exclusively in the profit he can make by creating and issuing credit in excess of the specie he holds in reserve.

"No bank which issues credit only in exchange for money ever did, or by any possibility could, make profit. It only begins to make profit when it creates and issues credit in excess of the credit it creates in exchange for money; when it begins to buy debts payable at a future time, for which it charges a discount; which, according to Mill, as we shall presently see, is robbery!

"And the whole of a banker's profit consists in the quantity of debts he can purchase with his own credit."

McLeod on Lending Deposits

Attention has been called previously to the fact that the economics of our present money system are not as well known as might be expected among bankers and others.

Mr McLeod shows that this has been a feature of the administration in banking in times past. On page 600 of "The Theory of Credit," he states:

"Mr John Torr, a Liverpool merchant, was questioned by Mr Wilson before the Committee of the House of Commons on the monetary panic in 1858.

"Mr Cardwell and Mr Wilson were considered to be among the ablest financiers of their day, and yet neither of them had the least knowledge of the true nature and effects of banking. Mr Torr had a perception of the real nature of it: for he says that the banks had increased their liabilities by their advances. But he held his knowledge so loosely that he was easily shaken out of his ideas, and gave in to Mr Cardwell and Mr Wilson. Neither of these gentlemen had the least idea of the true nature of banking; because banks make all their advances by creating and increasing their liabilities. This, however, seemed a paradox to Mr Cardwell, who sneeringly asked the witness to explain how banks increased their own liabilities by making advances to others. Mr Wilson asked him if the banks make imprudent advances out of their capital and deposits. **Now banks have no deposits in juridical meaning of the term; what they have are mutua** (mutual): **but they make all advances by creating deposits, i.e. credits, in their books: thus all banks make advances by increasing their liabilities, which was so sore a puzzle to Mr Cardwell."**

"This misconception of the meaning of the word deposit leads to a somewhat amusing error which is usually seen in the newspapers every half-year, after the joint-stock banks publish their accounts. Many papers give summaries of the accounts of the banks, which show they have about £800,000,000 of deposits: and those innocent writers evidently consider that these are deposits of cash; and hold up their hands in astonishment at the vast quantity of cash the banks hold. Now, as no one supposes there is more than £90,000,000 in gold coin in the country, it would somewhat puzzle these ingenious gentlemen to explain how there can be £800,000,000 in cash in the banks. But anyone conversant with banking would tell them that £800,000,000 are not deposits of cash, but are merely creations of credit, and are nothing more than bank notes in disguise." (* This refers to Great Britain before the end of the last century.)

Starting a Bank Without Capital

In this connection it will be of interest to note the remark of Mr Beaumont Pearce, Chairman Lloyds Bank, who said in Melbourne, on November 13, 1934: shown in the National Bank Monthly Summary for December, 1934, that no capital is necessary to start a bank, "The "Sydney Morning Herald" of April 5, 1935 published the following:

"The hearing of the protest by Mr Andrew Mellon, the former Secretary of the Treasury, against the Federal Governments assessment of 3,000,000 dollars on his 1931 income, was continued today. He told how, without consulting him the stockbrokers of the Union Trust Company had made him President and kept in office without any duties, in spite of his protest. Then when the bank's affairs did not prosper, the stockbrokers intimated that they would gladly sell to him their holding. He bought 100,000 shares at 100 dollars each, and then got after business the same shares were later sold for as high as 15,200 dollars each. Mr Mellon then harked back to last-century when he was partner with his father in a private bank which never had any capital, the depositors simply bringing their money there for safe keeping. He and his father divided the profits and drew them out. His father's capital was goodwill and name. His other brothers, who attempted to found a bank by similar methods in North Dakota, failed."

The Commonwealth Bank Act, 1911, authorised that "the Treasurer may, out of the Consolidated Revenue Fund, which is hereby appropriated accordingly, make advances to the Bank for the purpose of enabling it to defray any of the expenses incidental to the establishment of the Bank, the opening of offices thereof for business, and the raising of sufficient capital for carrying on business .... Any moneys advanced in pursuance of this action shall be repaid to the Treasurer by the Bank, together with interest at the rate of 3 1/2 per cent per annum."

The Governor of the Bank used this provision to the extent of £10,000 (p. 64, "Australia's Government Bank," L.C. Jauncey).

"On July 15, 1912, with no subscribed capital and with assets of only £10,000 in the form of a loan from the Commonwealth Government, the Bank opened its doors for business" (p. 72 of same). On July 7, 1921, a deputation of unemployed waited on Sir Denison Miller, then Governor of the Bank.

"Mr Scott (member of the deputation) -- In your address in London, Sir Denison, you stated that to meet the necessities of war certain things had to be done by you, which before the war would not have been dreamed of. You financed Australia for £350,000,000 for war purposes, and, had the war continued, you could have financed another £350,000,000 are you now prepared to finance Australia £350,000,000 for productive purposes?

Sir Denison Miller -- "Yes, I shall do my best."

"Governor Miller died before he could make good his promise" (p. 275 of same).

Creation of Credit

Returning to the question of creation of credit, Mr McKenna, Chairman of the Midland Bank, in an

address to shareholders on January 25, 1924, said:
"I am afraid the ordinary citizen will not like to be told that the banks can and do create and destroy money. The amount of money in existence varies only with the action of the banks in increasing or decreasing the deposits and bank purchases. Every loan, overdraft, or bank purchase, creates a deposit, and every repayment of a loan, overdraft, or bank sale destroys a deposit."
Later in the same address he said: "And those who control the credit of a nation direct the policy of governments and hold in their hands the destiny of the people."

The Macmillan report states that banks can carry on a process of lending and purchasing investments until such time as the credits created or investments purchased represent nine times the amount of the original deposit of £1OOO in cash (para. 74).
Mr R G Hawtrey, Assistant-Secretary to the British Treasury, says: **"When a bank lends, it creates money out of nothing."**
William Patterson, first Governor of the Bank of England (about 1694), said:
"Whereas before the money was only the running cash of the nation, now the credit founded upon this money is as much a running cash as the money itself. The running cash of the nation will be much increased answerable to the credit issued out, let it be what it will. **It will be great. The Bank hath benefit of the interest of whatever credit it issues out of nothing."**
The Report of the Monetary Committee, New Zealand, 1934 (Para. 83), stated that the banking system was **"operated by external boards of directors whose integrity is not questioned, but whose main aim was quite properly, for competitive profit-making institutions, maximum of dividends for shareholders. There is no question that the banks in New Zealand have acted deliberately in a manner which they considered would prejudicially affect the interest of New Zealand.** It may also be added that in the long run the prosperity of New Zealand means the prosperity of the banks, but the fact that the banks are prospering does not mean that New Zealand is prosperous."
Many references have been made by the Prime Minister and others in the last year or two to Australia's "wonderful recovery" during the last three years.
During 1932-35 the debts of Australia (Federal and State) have increased by £54,286,958.
The census figures show 439,788 unemployed or 20.5 per cent of the breadwinners.
The industries receiving or requiring subsidies, excluding sugar, are shown in the following list:
Assistance to Industries (Commonwealth Government) 1931-32 1934-35.

	£	£
WHEAT GROWERS	3,296,465	4.041.050
SPECIAL (FLOUR TAX)		31.806
BOUNTIES:		
COTTON INDUSTRIES	158,601	118.481
GOLD		80,904
FLAX and LINSEED	1,561	599
IRON and STEEL PRODUCERS	7,392	16,836
SULPHUR	30,962	50,831
WINE EXPORT	201,268	184,330
CATTLE TICK CONTROL	44,450	59,100
FRUITGROWER'S		125,000
CITRUS INDUSTRY		7,402
MANDARIN-GROWER'S RELIEF		10,000
BANANA INDUSTRY		1,500
TOBACCO INVESTIGATION		15,000
BERRY-GROWERS		5,000
PEARL SHELL INDUSTRY		4,000
ARTIF1CIAL MANURE SUBSIDY		250,000
METALLIFEROUS MINING		75,000

FORESTRY		64,000
APPLE-GROWER'S ORGANISATION		8,274
EGG PRODUCER'S ORGANISATION		6,291
TOTAL	£3,821,603	£5,074,500

The total amount paid in subsidies, excluding sugar, 1931-32, £3,821,603; 1934-35, £5,074,500. Expenditure of loan money has caused certain industries to be more active, and some increase in employment has been due, in general, to shortage of housing and other services and commodities, resulting from the stagnation of industry during the depression.

It may be noted that during the lean times there were no bank failures and the bank's assets were not diminished, but on the contrary were increased from four hundred and five million pounds in 1930 to four hundred and thirty seven million pounds in 1935.

There should be no real difficulty in establishing prosperity for all. It has already been shown that, with the immense resources of power and technique available, there is no physical difficulty. With all the real wealth which "lies at our doorstep" (to use a phrase of President Roosevelt), it is ridiculous to remain in poverty because of finance.

There are other indications that financiers are afraid of losing their power of domination, and the propaganda of fear and misrepresentation are well enough known to need no further comment.

It is significant that the press as a rule gives very little attention to ways and means of dealing with these problems which are of such vital importance and the failure to find a solution of which is fraught with such tragic consequences for millions of people.

Interest

Coming back to Mr McKenna's statement that the amount of money in existence varies with the action of the banks in increasing or decreasing deposits, let us assume that 100 units is the total money in circulation and that it has been loaned at an average rate of 5 per cent interest. At the end of 12 months five units will be due back at the bank for interest.

Where is this interest to come from? Industry cannot earn it or produce it -- industry can produce goods. Or people may be able to earn money from one another. It is popularly believed that the money to pay interest is in existence "somewhere," from Mr McKenna's statement, however, only the banks can bring this extra money into being, and it follows that interest can only be paid by borrowing more from the financial system and pledging further security to the bankers. This means in the last analysis that loans to industry in general continue for ever and grow continuously, due to interest. One industrialist repays his loan and interest with money that someone else has borrowed. The only relief gained is that afforded by repudiation of debts in bankruptcies, etc.

Some economists state that the turnover of money will produce the means of paying interest. It is assumed that a payment of interest results in an amount of money being circulated by the banks in payments of wages and dividends, which are then spent at the shops, and paid back as interest by industrialists, etc., and so on through a number of cycles. Money spent at the shops has a function to perform in defraying costs of production of the articles bought. These costs are at least equal to the money which is put into circulation by bank loans, because every loan is issued for purposes of production and every payment made out of it becomes a cost to be recovered. Interest is an additional cost. This money might be made to circulate indefinitely in the circuit assumed above, provided the interest did not increase and the sum required to pay the original interest was found from some source outside of bank loans. It is doubtful whether there is any adequate source for payments of interest at the present time, and the fact that interest payments of all countries resulting from private debts being transferred directly or indirectly to governments are rapidly increasing, is sufficient proof that no such source exists, and that it is a mistake to assume that turnover or velocity of circulation provides a means of payment. It follows that provision should be made for additional money to be circulated in some way other than through repayable loans to industry or governments.

Banks and Lending

One of the witnesses, Alderman Harvey, stated in evidence that he had given a series of broadcast talks on banking in November, 1934, with the object of informing the public concerning banking practice and checking erroneous ideas. In para. 7 of his submitted evidence this witness stated: "The banks' principal source of profit is interest. To obtain interest the bank must lend money -- it borrows and it lends -- a quite simple and straight forward transaction.' And in para. 13, "Nevertheless, it must be remembered that a bank borrows before it lends." These views were, until recently, widely held among bankers and economic advisers, and also among some politicians.

Yet for the last forty years the contrary opinion has been clearly expressed by such authorities as McLeod and more recently Hawtrey and others.

It clearly suits the interest of the bankers to persuade the public to believe this.

Examination of Mr David Robinson

Mr Robertson said he had forty years business experience in Melbourne and had offered to come and give evidence because so many business men dare not do so.

Mr Robertson said that, if a product is sold, there is included in the price a proportion of the cost of the machinery and the building.

He then read his written evidence and handed it in:

Mr D Robertson, Melbourne, -- Outline of Evidence.

"The inherent fault in the present economic system, which embraces the credit system, is that the total prices charged by all firms individually and collectively is greater than the total incomes of all firms individually and collectively. This is true of all firms individually and collectively -- so it is true to say of the whole nation, and of every nation, that the total income cannot buy the total products, hence the continued cry to export.

"There is ample proof of these statements when the national debt is examined.

"The national debt of Australia in 1913, in round figures, was £313,000,000; in 1934 the amount is £1,204,000,000 -- even with this increase of 287 per cent. in the nation's debt in a period of 21 years, it is becoming impossible to sell all the consumers' goods that are now being produced, without taking into consideration Australia's potential productive capacity.

"I do not think anyone will contend that the national debt will ever be reduced. As a matter of fact, everyday events show that, to enable industry to carry on (haltingly as it is at the present time), the national debt will have to be considerably increased, the method adopted being to borrow more of the nation's credit (which acts as money) from the banks; whether from Government or private banks the effect is the same, in as much as **it means an increase in the national debt;** and while the rate of interest has been considerably reduced, the aggregate amount of interest has and must continue to increase, which means a further burden on industry, together with the banks securing a still greater lien on Australian assets.

"Industry, no matter how energetically it functions, cannot Create money -- it can only distribute the amount of money (credit) which private or Government banks care to loan to industry.

"Assuming the banks loan to Australian industries, say, to £300,000,000 for a year, and assuming this amount to be sufficient to carry on Australia's industries for that period, the banks will require, say, 3 per cent interest at the end of the year, which amounts to £9,000,000.

"Industry being only a distributor of the amount of £300,000,000 loaned by the banks, it is apparent that industry cannot meet the charge for interest, hence the continual increase in the national debt.

"If the polity of the banking system was amended and the banks permitted to charge a fair rate, including a reasonable profit for administering the nation's credit **(which the banks at present loan and so create debt which never can and never will be paid**) and this credit was utilised to create sufficient purchasing power (which is money) to equate incomes with prices, it would speedily end the paradox of poverty in the midst of plenty and stop the absurd wail of over-production when there are so many human beings who cannot secure a reasonably comfortable living. Many nations have destroyed and are suggesting further destruction of consumable goods in preference to adopting a sane distribution of the goods and services available to enable every human being to live in economic security.

"The New Zealand Committee, *Mr Robertson* said, was rushed, and the report is a white-washing affair.

He believed the Commonwealth Royal Commission will be the same. They will have the right of saying whom they will call, and he said it is pretty certain they will not call him.
He continued: "Major Douglas says: 'Credit must be controlled by the people who own it.'
"Every time you increase credit at the present time you increase prices. Douglas uses credit so as to reduce the prices.
"The subsidy to the wheat-grower is taking it out of one pocket and putting it in another."
He agreed with the Chairman that the real meaning of using national credit is taking some of the waste surplus, which we should regard as a national asset, and turning it into another national asset.
"We have never paid interest in any other way than by goods. An excess of exports over imports, which is generally called a favourable trade balance, is in actual fact an unfavourable one, because it means exchanging real goods for receipts."
Mr Robertson continued: "In the case of an isolated bank in America, if there is a run on it, it has no chance at all. A bank (Australian) can now go to the Commonwealth Bank, and the Government would have to give the Commonwealth Bank instructions to issue more notes.
Mr Robertson continued: -- "With regard to the Douglas Just Price Formula, it is not necessary to know the relation between production and consumption until the end of the present period. We have surely heard of rebate and discounts. Well, all Douglas proposes giving is to give to final consumers a rebate or discount on their purchases. Every cooperative society does it every quarter. During the quarter they collect too much in prices from their members, and at the end each member gets back his due share of the surplus. He said: "Having more money does not necessarily mean you would have more purchasing power. The difficulty is to be able to understand the difference between more money and purchasing power."
"Douglas says it too. He sets out to reduce prices; then when you have more money you will have more purchasing power, because for every £100 you will have £125 worth of purchasing power."

Mr Robertson said: -- "All that a thing costs to produce is what is consumed during production; the wearing out of human beings, machinery, and buildings,etc. He said that, if the creation and control of credit was taken from the banks under the Douglas System, shareholders would get their incomes just the same in the national dividend."
He did not think the present system ever worked satisfactorily. Four years ago we were called by economists to "cut the cost of everything down and economise"; now the cry is, "We have to get prices up."
Capt Rushworth told him he did not want to go on with the New Zealand Inquiry, as the terms were so restricted and it was practically useless.
The Chairman said: -- "Quite recently there has been a movement by the United Bishops of Australia, and they have put it that it is the duty of the Government to find work for everybody even if it means extra taxation."
Mr Robertson: -- "I think it is a ridiculous suggestion. Oranges at 1s.6d. a case in Australia and they go to the assistance of the growers by giving 1s. a case subsidy."
Mr Robertson said: -- "There is not enough money in the world today to buy everything that could be produced, because the banks destroy credit." He read the following statement by Mr McKenna: -- "Let us look now at the instances of bank deposits since 1914 and see to what extent this increase is due respectively to payments of additional currency and to bank loans. In June, 1914, the banks in England held £75,000,000 of currency. Last month (December, 1919) this figure stood at £191,000,000. The banks therefore held more currency to the amount of £116,000,000 and to this extent the increase in the aggregate banks deposits is accounted for by payments in currency. But it is estimated that since June, 1914, bank deposits have risen by £1,230,000,000. If £116,000,000 of this amount are accounted for by payments of currency into the banks, there remains £114,000,000, which, if the previous analysis be accepted as correct, we must attribute to bank loans.
Mr Robertson said: -- When the Savings Bank of New South Wales was closed, they had £29,000,000 worth of Commonwealth bonds. Mr Lang had nothing to do with the closing of the bank, which had to

close because the Commonwealth Bank refused to let it have cash for its assets.
Mr Robertson agreed that, during the past three or four years of the depression, the only sections of the community that have not made a loss is the section that has shares in the banks/trustee companies, and insurance companies. He then read extracts from the constructive recommendations of the Southampton Chamber of Commerce as follows: "In our highly complicated economic structure, a monetary system is essential, and just as civilisation is dependent upon its economic foundation, so in turn the economic system is bound together by its monetary machinery.
"If money is to function as an efficient token system to enable goods and services to be changed the monetary system should be adjusted to reflect the facts of production and distribution. If the economic system is to provide the community with the goods and services they require, the amount of money to effect this distribution must by regulated by the goods produced for the benefit of the community to furnish itself with goods and services. It is this knowledge, amounting to a certainty -- this credit -- which gives money its value. Money is therefore a vehicle of this credit and need have no value apart from the credit attaching to its possession, which makes it acceptable in return for goods or services.
"We should, therefore, expect to find any monetary system based upon the ability of the community to furnish itself with goods and services, that is, upon the credit existing inseparable from the community. In order that it should function smoothly, the quantity of money should always be sufficient to provide the community with purchasing power to have access to the goods and services available. Thus we should expect to find the monetary system reflecting any increase in the well-being of the community through its ability to produce more for its use."
Mr Robertson quoted a recent statement by Mr R G Menzies, Attorney-General: "Financial policy of the State is governed by the Loan Council. Money cannot be borrowed without the permission of the Council, which is the governing body of Australia to-day."
Mr Robertson said, -- **"You have jealously guarded the right to create coins. If anyone suggested to-day that you hand over that right to the bank, you would have the public up in arms. And that is only 1 per cent of the sum involved: you jealously guard the 1 per cent and let the banks have the other.**
Mr Robertson said, -- "You could knock out any such cry as 'They are after my money' if you take these people (the private banks) at their own word, that is, according to their balance-sheets, they are making certain profits. I am still agreeable to them making those profits. The feeling is getting stronger in favour of the change. Medical and professional men are waking up to find that their financial securities are not secure. A movement is beginning in the class that counts.
Mr Robertson then read a quotation from Major Douglas (evidence given by him in Canada), which will be found on pp. 67-68 of the evidence.
Mr Robertson handed in the following quotations:
Figures from Recent Australian Census.
"Tribune," January 3rd, 1935.
"These figures classified the financial incomes, as disclosed under pledge of privilege, of the entire population. And what did they disclose? Read them as applied to the 881,926 breadwinners in Victoria:

Percentage of Income Total Breadwinners.	
Nil	10.6
Under £1 per week	29.8
£1-£2	18.4
£2-£3	12.2
£3-£4	10.2
£4-£5	7.9
over £5	10.9

R G Hawtrey, of the British Treasury, in the "Art of Control Banking," says:
When a bank lends, it creates credit. Against 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."*

Rotary Research Pamphlet, No 1

Mr Robertson continuing said, -- "In Rotary Research Pamphlet, No 1 (pamphlet by the Rotary International of Great Britain and Ireland, the following passage appears on page fourteen:

The money system is a social mechanism ostensibly to facilitate the production and distribution of goods and services -- a system of tickets which entitle the holders to demand their desire. The function of money may be attached to a commodity having an intrinsic value as in the case of a sovereign, or it may be attached to a practically worthless piece of paper as in the case of a bank note; or it may be attached to such a nebulous conception as bank credit,' which has no separate tangible existence but is merely represented by ledger entries in the books of a bank."

Report of the Bank of New South Wales

"I would," *continued Mr Robertson*, "quote following excerpts from the Report of the Bank of New South Wales.

"7th September, 1932.

"A declaration by a world conference that the trading central banks would co-operate to raise prices would doubtless have an important influence in stimulating investment activity. When investors have an assurance that central banks will actively engage upon a policy designed to raise prices, they may not hesitate to embark upon new projects. The fear of deflation is indeed more forbidding that the fact itself."

"May, 1932.

"It is evident that no proposal for further borrowing will be approved unless it is accompanied by definite indications that the Governments are doing all things necessary to reduce their expenditures in keeping with the condition of the time. This would involve a reduction in their establishments, with consequent additions to unemployment, but the problem of resultant unemployment is secondary and should not deter governments from taking necessary action towards balancing their budgets."

In the National Bank's November Summary, Page 13,

appears the following statement: "Banking was one of the first industries to be conducted on specialised lines. The reasons are fairly obvious. *It requires an unusual degree of capacity, personal reputation, standing, and sound judgment to conduct a banking business with success. Those men who are the best equipped in the ways indicated became bankers, and devoted the greatest part of their time and effort to the conduct of that section of the nation's business.* Then, as now, men possessed in large degree of the qualities mentioned were not numerous, and as a result, banks have not multiplied like many other sections providing for the needs of the people." *Mr Robertson said,* -- **"For consummate egotism, and boastfulness, this paragraph would take some beating, particularly when it may be remembered that in 1893 the National Bank was one of the 13 banks out of 25 which suspended payment, confiscated the assets of the depositors, ruined thousands of producers, traders, and citizens generally, and then had the sheer impertinence to use the machinery of Government to re-establish themselves and build up huge dividends and reserves for their shareholders while repudiating their liabilities and dispossessing depositors.**

Origin of Money

The question of the origin of money was examined at some length. Professor Hytten was not willing to accept the statement of Mr Reginald McKenna and many well-known authorities that money comes into existence through bank loans to industry or to governments.

The Chairman, -- I would like to have a general statement as to where that money does come from. Does it come through loans to industry or not?

Professor Hytten, -- It is very difficult to say if it comes through loans to industry. It comes into the banks in the first place as deposits.

The Chairman, -- According to Reginald McKenna it comes out first as loans.

Witness finally agreed that the issue of money depends in general on the borrower putting up an apparently profitable proposition. At a later stage the witness admitted that all money, has its basis in the commodities it represents, and that the value of the Commonwealth Bank Note rests on the credit of Australia. He, however, described as "nonsense" the statement of the London Chamber of Commerce Journal that money tokens equal to the value of goods for sale should be issued. He believed that production had been so abnormal that everything should be cheap, and we are trying artificially to make everything dear. Here is an obvious instance where the interests of the consumer and those of the producer are opposed under the present system of finance.

The witness was very disinclined to admit the statements of McKenna, McLeod, and others that banks create credit to the extent of nine times their cash reserves.

Professor Hytten, -- Where did you get those figures?

Chairman, -- They are admitted time and time again.

Professor Hytten, -- Where?

Chairman, -- In the MacMillan Report.

Professor Hytten, -- In Australia it is one in six.

The witness was not prepared to admit that the 200,000,000 in the savings banks arose in the same way as the trading banks money.

Witness, -- I do not agree to add the two together.

Chairman, -- Where does the money in the savings banks come from?

Witness, -- Deposits.

Chairman, -- But where do they get it?

Witness, -- Numerous sources.

Chairman, -- But where does the money come from? A large amount of money comes into existence through the action of the banks in lending it and there is £200,000,000 to be accounted for. Where does it come from?

Witness, -- It originates from payments into the banks deposits.

Chairman, -- The deposits of the trading and savings banks and the Commonwealth Bank come to about £517,000,000. It has arisen out of £60,000,000 cash, which is all there is.

Witness, -- Of course you are disregarding the turnover of the cash altogether.

The witness would not agree that the amount of money in existence depends, as Mr McKenna says, on bank loans, etc.; thus no amount of turning over or velocity could alter its amount without further issues.

The question of turnover was raised at a later stage when Mr Turner asked the meaning of "velocity of circulation."

Velocity of Circulation

Witness replied, -- "The number of times a given instrument of exchange changed hands in a given time. If fast, it increases the efficiency of the amount of currency in circulation and therefore less currency is needed to do the same amount of transactions."

At a still later stage witness stated that if £500,000,000 be all the money in existence and £25,000,000 were required to pay annual interest, this would be forthcoming through velocity of circulation.

Mr Turner, -- "Obviously, the reason is that out of the £500,000,000 currency you use £25,000,000 to pay your interest -- and round it goes again."

Chairman, -- "You have 100 gallons of water.

A drought comes along. You agree to lend me 50 gallons on condition that I pay you 52 gallons back. How can I pay you back?"

Witness, -- Only if it rains in the meantime.

Chairman, -- ***"Exactly."***

The borrowed 50 gallons may circulate. It may evaporate, as water does, and it may all return as rain. But if that fifty is all that goes up, then it is all that can come down. So it is with money: £500,000,000 may be lent. It may go into the bank and out again, but it cannot grow the extra £25,000,000 required to pay interest. Fresh money has to be created -- in part at least -- by the bank for that, and this means more debt and pledged securities.

The implication of Mr Turner's remark is, that having paid the amount into the bank, the bank makes you

a present of it again, so that you can pay it in again next year; otherwise it could only come out -- in part at least -- as a loan or in purchasing securities; and in either case more security would pass to the banks.
The Chairman continued, -- "Professor Copland says: -- 'A given amount of money will circulate many times in a given unit of time. It will make many payments because it has what economists call 'velocity of circulation'.'
Witness agreed that Professor Copland meant that £1 paid to the butcher for meat and paid by the butcher to the baker for bread liquidates two debts.
The Chairman, -- "Major Douglas calls this a 'complete and major fallacy'."
Witness, however, did not agree that by "debt" was meant a debt charge or cost incidental to the production of meat or bread.
The Chairman then quoted from Major Douglas' reply to Professor Copland; "The butcher must renew his stock of meat from the £1 he received and also pay interest, overhead, and etc., only his profit was available for buying bread, i.e., liquidating the debt charge attached to the bread."
One pound may circulate through a group of persons an indefinite number of times and effect exchanges of commodities, but it will not repay more than £1 of bank debt incurred in the production of those commodities. In its complete cycle through the costing system it will create as many debts as it liquidates. This point appears to have been given very little consideration in speaking of "velocity" and "turnover". It is a very vital point and it is often ignored by those who contend that there is no shortage of purchasing power.
If one hundred people were in a market with a £1 note between them, each man might in turn buy his neighbour's hat for £1 and so buy £100 worth of hats with the £1. But the £1 could not defray the cost of production of more than one hat, or repay more than £1 of bank debt.
This difficulty to realise the effects of the circulation of money in industry and rise of debt is a very great handicap in reaching a solution of present-day problems.

Ownership of Money

The question of ownership of money and/or the right to issue it was raised, and Professor Hytten was asked how the money would come into existence in a new community which had previously been used to barter.
Witness replied that there would be no trade until the people had heard of money and commenced to understand it.
When asked how much notes and coin would be provided for in starting a new community on a large island where there was no money at all, witness stated that the amount would be arrived at by trial and error.
Chairman, -- Who would issue the money?
Mr Turner, -- Obviously, the Government.
Chairman, -- When the first money comes into existence, whether it is a cow or a piece of leather, who is the owner of it?
Witness, -- If you take it that money has some intrinsic value, the money has in the first place come from the person who has produced it, that is, a man may have found a solid lump of silver: he can go and get the government stamp on it.
After further discussion, in which the witness seemed to have some difficulty in seeing that the owner of something of value was really the owner of the money issued to represent that object of value.
Chairman, -- I have a cow, and it represents so many tokens. Would it be right for someone else to say that cow is worth so many tokens which he has?
Witness, - No.
Chairman, -- Is that the present financial system?
When we have an asset now, we deposit it in the bank, and the bank allows us to use finance equal to the value, and charge us interest on it -- they are the only persons allowed to issue money.
Witness, -- The money obviously belongs to the person who produced it or owns it in the first place. Bankers do not own money; they deal in money; they are a class of middlemen.
Chairman, -- They are manufacturers of money?

Witness, -- Very strictly, yes.
Chairman, -- They manufacture money as you manufacture an asset?
Mr Turner, -- Owning the asset, you own the money.
But witness again seemed uncertain over the statements of McLeod, McKenna, etc., as to whether the banks create or deal in money.
The question of ownership of money may be illustrated by the following example:
The Chairman, -- **Suppose the owner of a cow or some other valuable article makes a token representing its value, just as a £1 note represents £1 sterling. The owner of the cow surely owns the money reflection of it.** As money is now created by the banks on some privately owned asset, the banks, instead of the owner of the asset, claim ownership of the money. The sum of the assets on which the banks create money make up a large portion of the community's assets. **All this money should be controlled by the community and belong to the owner of the asset instead of, as at present, being controlled by the banks who lend it to the real owner -- the owner of the asset."**
Mr Turner, -- **"It seems to me that the valuable thing is the asset... ."**
The Chairman, -- "If all Australian depositors tried to draw their money out at once they would get a few pence, plus a request to have confidence?
Mr Harvey, in answer to a question as to what the banks would do in such circumstances, said: "We would try to persuade the people they did not want their money."
Professor Hytten, in answer to a question as to how a general run on the banks in Australia would be met, said: "I think they would go west then."
The Chairman suggested that they would not fail because they have assets to cover their liabilities, but as they could not liquefy these assets they would ask the Government and the Commonwealth Bank for an issue of notes. With a National Credit Board, money would be issued on the same security that the present banks would have to use in time of emergency.
The real asset is the property of the borrower, which in the mass makes up the community's property. The value of most of these separate securities rests on the community security and on the increment of association. The banks claim the money they create against the community's assets, that is, they claim the credit of the community.
Banks have failed frequently when they have been hard-pressed; they have ruined thousands, repudiated their obligations, and started again.
It has taken the banking system two or three centuries to reach its present "sound position" -- a position where the banks cannot meet their obligation, if called on to do so, without the Government's aid, and the result of the system of "sound finance" which they operate is the present ridiculous position of Poverty amidst Abundance. Supporters of the system try to discourage the idea that any reform or alteration is necessary. The foundation of the Commonwealth Bank, for example, was greeted with declamatory cries of "Fisher's flimsies!"
EXTRACT FROM MELBOURNE "ARGUS," 1911, ON
THE PROPOSAL TO ESTABLISH THE COMMONWEALTH BANK
"The whole scheme is conceived in idiocy. It constitutes a malicious use of public funds to compete with private activities -- activities that enjoy the fullest confidence of the public. There is not the slightest justification for it, and its failure from its inception is so much a matter of certainty that the whole 'proposition will be abandoned after a few months' of inglorious experiment."
National Debts
Mr Watson (E.S.& A. Bank) said that through the wise policy of the banks, Australia has risen to the wealthy position it is in to-day.
The Chairman, -- The main result of this increased wealth is increased debt?
Mr Watson blamed the War for the increased debt, but would not credit the war for increased producing power.
Chairman, -- How did these debts come onto existence, and what did they represent?
Witness, -- We wanted goods we could not pay for at the time: we could not live on our income at the

standard we demanded.
Chairman, -- "We could not pay whom?"
Again the point becomes evident that, if wealth and income are regarded from a community standpoint as "what we can produce," there can be no difficulty and no debt in using unemployed men and available materials to produce further public or other wealth.
In Tasmania, as in many other countries, the interest on public debt is almost as great as the revenue from taxation. In ten years, at the present rate of growth, few countries will be able to pay interest on their debts. When private industry borrows for production, it recovers its expenses and may repay its loans through sales of products. Governments have no such means of recovering expenses and repaying loans. Taxation reduces the purchasing power which industry requires to pay its way. When the financial system lends to governments, it lends the nation's own credit -- not something which is the sole property of a private group of citizens -- on which it has no moral claim for repayment or interest.
A National Credit Board would have the power of creating the necessary credit required by governments, and this would be available for use by the nation, free of all but administration charges.
Mr Pearsall asked Mr Foley, -- "in regard to borrowing under the Douglas plan, would private individuals be on the same footing as the State if they wanted to borrow, or would there be any distinction?"

Mr Foley, -- "At present, when a private individual finances his business by borrowing, he can collect the money to repay his loan and interest, if he is lucky. The State has not the opportunity of collecting the money required to pay back its loans. It cannot do so by taxation, because if it did so it would cripple industry altogether.
Under the Douglas method we do not anticipate that any difference would be made in issuing loans to business people to continue their business, but State expenditure probably would be financed by an issue of credit in similar fashion to the National Dividend, that is, created for the purpose of producing a bridge or any public work. You would write the value of that bridge up on the appreciation side of your ledger, and you would write the value of the bridge off as it depreciated over, say, a period of one hundred years. That is what should be done for all public works. The value should be written up on one side of the ledger as appreciation, and, when the money is spent, that should be the end of it. It should be written off year by year as the bridge depreciates."
Mr Pearsall, -- "The State, then, would not be required to pay any interest, but gradually would write off the debt by depreciation?"
Witness, -- "That is what would happen in practice. "
Effects of Savings
The Chairman asked if the Australian National Debt had increased by nearly £900,000,000 in twenty years, and at the same time the total national debt of the nations in general had also increased, so that the total increase of debts could not have arisen from nations borrowing from each other.
This was admitted by *Mr Watson* and, in reply to the question "Where does that money come from?" the answer was "Savings."
The Chairman, -- National debts have risen chiefly through bank loans. They involve the pledging of national security. The interest on them can only be paid by borrowing more money from the banks.
Suppose this £900,000,000 increased debt of Australia had come from savings, there would be left unsold £900,000,000 worth of goods, for the production of which this money had been paid as wages, etc.
Economists say that the money would be reinvested. If so, you produce more goods -- two lots of goods from one lot of money -- is not this always the result of re-invested savings?
Re Investment of Savings
Consider the diagram below:
A------E------B
C------F------D
------ G------H
A--B represents the total money distributed during a cycle of production.

C--D equals the total prices of goods for sale assuming that prices are equal to purchasing power distributed.
If E-B is saved, the goods F-D must be left unsold.
But we are told that E-B would be re-invested in industry. If so, it will produce G -- H (goods).
In other words, there will be two lots of goods, F-D and G-H, for one lot of money, E-B.

Shortage of Purchasing Power

The questions of shortage of purchasing power and of the ownership of credit were raised.
Mr E W Turner asked Professor Hytten to state quite briefly if, in his opinion, there was any real justification for the statement that there was a shortage of purchasing power, as a number of contentions are based on this hypothesis.
Professor Hytten, -- "Shortage of purchasing power can only come about by the equation of purchasing power, which is money, and the total amount of transactions multiplied by prices on which the transactions have taken place. No shortage of purchasing power can take place if you assume that transactions are growing and that prices will not fall."
This seems to mean that if prices do not fall as transactions increase there is no shortage of purchasing power, but it throws no light at all on whether: there is any real shortage. Possibly the witness meant that no shortage of purchasing power will exist while transactions are growing.
If so, this is the contention of the new economic thought, which says that ever-increasing expenditure of wages on new production is required to provide additional purchasing power for goods already produced and to keep the present system going until the crash finally comes as the result of accumulated debt.
Mr Watson specially commended the present Tasmanian Government for its spending policy.
Professor Hytten showed also that any loss of confidence causing slowing down of business causes a shortage of purchasing power, and said --
"This is something we do not understand very much about, but a sudden loss of confidence means the destruction of purchasing power, and that destruction of purchasing power comes about, not by destroying notes, or anything like that, but by the simple ratio of turnover of money. Some factor, comes in to make a shortage in the circulation of money. People simply plonk it into the bank, and this slows down the velocity and thereby creates less effective purchasing power in the community. Then suddenly you get a difference in outlook and it goes up by leaps and bounds again. This is the uncontrollable part of our credit system, which is quite uncontrollable, or at least no one has yet thought of a way of controlling it."
Surely this supports the previous finding that continual expansion of work is required to provide purchasing power?
Asked to analyse briefly the cause of the present trouble, and suggest a cure, *Professor Hytten* spoke of Professor J M Keynes' theory, that, as you climb out of a depression, the "inorganic goods that last," as the Germans call them, are the first to get going. Keynes and some Germans are saying, "Let us create a condition under which these heavy industries will get going. This will mean creating a prospect somewhere that there is going to be good business in consumption goods a little while ahead."
Witness also quoted Professor J M Keynes to show that, in times of depression, it is necessary to get more money into circulation, which has to be done through governments and public works.
Chairman, -- We have everything necessary to build houses and we have the people who want them, and yet we do not go ahead and do it -- why?
Witness, -- The demands must be effective -- it must be backed by purchasing power.
Witness' statements implied the need for confidence and additional purchasing power being put into the system. This might start one of the many recurring booms, but it does not touch on anything which would prevent another depression in due course.
The Witness continued, -- "You would surely not expect me to say on the spur of the moment why purchasing power is not available."
It seems that former inquiries onto the Monetary and Industrial System, or general inquiries of Governments and financiers, do not seem to have spent much effort to find the cause of this shortage of purchasing power which Major Douglas has said to be the main cause of the trouble, and which is now

being accepted by many prominent men, such as Sir H Gepp, the Rt Hon Winston Churchill, Professor Cole, and others.
At a later stage the witness said that "our purchasing power is low because industry is at a standstill."
It is natural to ask, "Why is industry at a standstill?
Would it be so if the thousands who want goods had purchasing power?"
Very recently Sir Herbert Gepp, at Hawkesbury, and Mr S M Bruce, at Geneva, called attention to the shortage of purchasing power.
One of the great questions at issue between the old and the new economic thought is whether or not industry is self-liquidating.
Industry has two functions. It produces goods and releases purchasing power which it derives from bank loans.
The old idea was that the purchasing power paid out by industry is sufficient to buy the goods produced.
The new idea is that it is not, never was, and never can be under present methods of finance.
Chairman (to Professor Hytten). -- "You have an enormous number of unemployed people, and many of them are capable of doing good work, and want to work. Are you going to suggest that, if you form a company and set 1000 of them to work to produce some useful goods, in producing them you will set free enough purchasing power among these men to buy those goods, and at the same time leave you with a profit?"
Witness, -- "I would hope so."

Chairman, -- "How could you? You pay £1000 to these people in wages and other expenses. The only purchasing power they have is a portion of the £1000 you have paid them, and with that they are to repay your £1000 and leave you with a profit?"
Witness, -- "It is not quite as simple as that. It is not quite a fair proposition to put up."
Chairman, -- "If industry did release sufficient purchasing power to buy the goods it produces it would be quite sound?"
Witness, -- "The men have got to pay for the capital goods they consume in production."
This is a very obvious and very true statement. When he made it the witness was indicating the existence of a gap between the prices generated and the purchasing power released in anyone cycle of production. Money to pay for the depreciation of the factory is not supplied to the workers in their wages and profits. It has to be distributed to consumers in some other way. This deficiency of purchasing power has been made up in the past by distributing wages in the building of new factories and machinery or for public works, by export surplus, and by loans.
The increase of national indebtedness is one indication that even these methods of bridging the gap are not effective at the present time."
Professor Hytten pointed out the need for better direction of production over large areas. The needs of the community should be known some years beforehand so that unnecessary production of certain articles could be checked.
Mr O'Keefe, -- "What articles are being produced in excess of demand? Is it not rather a shortage of purchasing power again?"
Mr Turner, -- "It seems to me that the whole trend of the Chairman's attitude is to have a perfect distribution of goods."
Witness, -- "No one will fail to admit that our distribution of wealth is not ideal and that it could be a great deal better."
Mr Turner asked if public works were the only palliative.
The Chairman said Mr Paterson, Minister for the Interior, commenting on a cable from Geneva, said "he had never regarded public works as the solution and he wished to ensure that industry should be reasonably productive."
This would tend to add to the goods to be distributed by already insufficient purchasing power.
The cable stated that the League of Nations had published the result of a questionnaire which it had addressed to the nations on the subject of relief work. The British Government had replied that "public

works were a part of the normal activities of the government and local authorities, but an experiment in large-scale public works as a method of dealing with unemployment had been tried and had failed, and it was not intended to repeat it." (Jan 9, 1935.)
Witness, -- "The ideal thing is to put by in good times for the times when we need it."
Some people have a curious idea that financial saving has a physical counterpart -- that, when we save "claims on goods,"- we automatically save the goods themselves.
Did the witness mean that in times of plenty we should put aside meat, fruit, etc., as in the fat Years in Egypt?
Putting by money is obviously no solution. It increases debt, since its distribution has meant the creation of costs of production which can only be recovered through prices of goods sold. The result of saving is thus increased poverty. The confusion existing between theories of finance and facts of experience is shown here.

Need for Monetary Reform

The need for monetary reform is being recognised by responsible bodies in England and elsewhere. This is exemplified by the following extracts from Chamber of Commerce Journals, and the London "Times."
Mr Maurice Weston, Solicitor, of Launceston, handed in a letter from the Secretary of the London Chamber of commerce in which these words appeared:
"The reports of the Committee of the London Chamber of commerce, from which the following extracts are taken, are authentic:"
This letter appeared in the "London times" of 4th April, 1934:
"We, the undersigned, in common with a large and rapidly growing body of citizens who are genuinely concerned at existing conditions, have come to the conclusion that gold is not essential as a basis for the issue of national money ... A system must, in our view, be established under which the issue and recall of currency and credit will be regulated on a rational, national, and scientific basis, so that the correct number of money tokens shall be available to consumers to enable them to enjoy the output of production."
Among the ten who signed were --

Lord Semphill -- Chairman of the Council of the London Chamber of Commerce; Member of the Advisory Council of scientific and Industrial Research.
Sir Geoffrey Clarke -- Managing Director of British Telegraph Construction and Maintenance Co Ltd; Director P and O Company; President of the Associated Chambers of Commerce of Great Britain.
Sir Maurice Jenks -- Lord Mayor of London (1931-32); member of the Council of the Institute of Chartered Accountants; member of the Court of the University of London.
The "Times" of 4th April, 1934, in its leading article stated: "The widespread and growing interest in the question of monetary policy is reflected on the letter printed on another page to-day appealing for the immediate investigation by Parliament of the fundamental principles which should govern our monetary system with a view to its reform in the interest of both producers and consumers. It is not long since all such questions were considered so abstruse that discussions of them were left to professional economists, treasury officials, and dealers in international exchange ... In fact, there was a tendency to dismiss as a crank anyone who ventured to criticise the orthodox gold standard. In a period of unrest, when the fundamental bases of economic, political, and social life are being examined afresh, it is inevitable that the traditional money system should be brought into the discussion. Our correspondents, indeed, regard it as already obsolete, as having become a hindrance to the effective distribution of goods, and they regard it as responsible for the continued existence of poverty and unemployment at a time when scientific invention has made it possible to meet practically without limit all the requirements of mankind ... Our correspondents are representative men of affairs, they have signed the present letter in their individual capacities, and their appeal derives force from the variety of their own experiences and interests."
The London Chamber of Commerce Journal March, 1934, stated: "With approximately 90 million destitute people ... hungrily awaiting the almost unlimited production, either actually or potentially

available, **it is evident that the failure of the one to reach the other is due to some thing being radically wrong with finance.**" ... From the foregoing it will be evident there is nothing whatever to prevent the country for example re-housing its people. Houses are built with bricks, cement, sanitary fittings, pipes, wood, etc., and there is no shortage of these things.

They are built by men who will require in return food, clothes, and other necessities and amenities of life, and there is no shortage of these. The tokens necessary to affect the exchanges have, since September, 1931, consisted of paper notes and book entries, convertible into goods and services.

"The creation of these tokens presents no difficulty whatever. It is quite evident that this can not be done by the old method of asking the bank to create new money by the not very arduous activity of writing figures in a ledger, the States then borrowing from them at interest."

"In order to repay the capital and interest, more money must be recovered from the community by *taxation than has been issued to it, since the banks do not lend the interest, so that the last state of that community is worse than the first."*

"This is particularly evident in the Canadian banking system, which only issues £95 of a £100 loan at 5%, so that from the start of the loan, there is never enough issued to repay it.

Bank Consideration

"The original theory by which it was held that the banks gave some consideration to the rest of the community in return for these privileges was that they were under the obligation to the borrowers to pay them in gold on demand. It was physically and mathematically impossible for the banks to fulfil their contracts if all those who were entitled to fulfilment demanded it, since there only existed a small part of the gold which the banks had contracted to hand over 'on demand' in consideration of which undertaking every borrower was paying interest.

"Whenever the banks were called upon to fulfil their contracts the nation was obliged to come to their rescue, and moratoria were declared in 1848, 1857, 1866, 1914, and 1931.

"The only risk the banks now run is that all those who have borrowed book-entry money from them should at the same moment demand paper pounds. These, the banks are under the obligation to supply on demand, and once more there are not enough of these in existence for them to fulfil their contracts. The Bank of England could only come to their rescue by printing more notes, provided once more the State, by means of a Treasury minute, authorises the Bank of England to print additional notes ... They could, in fact, fulfil their obligation only if the State would itself authorise a printing of notes, which it would then receive from the banks."

Chamber of Commerce and Monetary Reform

Mr Weston further submitted extracts from the report by a special committee put forward by the Council of the London Chamber of Commerce on the reform of the monetary system and as a basis for discussion at Ottawa on the subject of monetary policy. A special meeting of the council of the Chamber, on 20th June, called to consider this report, unanimously adopted the following resolutions:

"That in the opinion of the Council monetary reform is of outstanding importance. The arrest of progressive deflation is, in their view, a condition precedent to a restoration of world prosperity, and no other measures which may be taken can prove effective substitutes. This Council cannot too strongly urge upon His Majesty's Government that the opportunity which will be afforded by the Ottawa Conference should be seized ... so that the Empire, having itself agreed upon a constructive monetary policy, may be in a position to give a lead to the other nations and invite their co-operation."

Further extract from the Chamber of Commerce Journal Supplement, July, 1932, showing among other things the immense increase in producing power and the comparative shortage of purchasing power:

"Three times as much in commodities is now required to pay a debt contracted in 1920."

The above statements may be summarised by saying that the existing money system fails to facilitate the utilisation of the resources of the community, such as power and materials, in such way that the community might obtain and enjoy to a very much greater extent the facilities -- goods and services -- which such resources would otherwise be employed to make available.

Douglas Credit Proposals

The President of the Hobart Douglas Credit association, *Mr J C Foley,* B.Sc., made the following statement: "These proposals are the result of observations and studies made by Major Douglas of the manner in which industry is financed. His analysis of the present system showed that there were certain defects which must inevitably lead to its breakdown. It may be shown that insufficient money reaches consumers to enable them to purchase all that industry is capable of producing. As a consequence, output is restricted and the people are prevented from enjoying the potential wealth of the country, and are in many cases reduced to poverty, while goods which they require are being destroyed."

He then outlined the defects in the present monetary system.

Evidence which has been submitted leads us to believe that the contentions outlined above are substantially true and we are of the opinion that an exhaustive study of the points raised is highly desirable.

Industry Not Self Liquidating

The following statement was put forward by *F H Ault,* Engineer in the Telegraph and Telephone Department of Hobart: "Industry is not self-liquidating, that is, it is not paying its way, for, if it were, public debt could not increase. The world's debt is growing as the ***fourth*** power of time, **time being taken in unit of 100 years, and at this rate of increase it is calculated that in about 25 years from now interest payments alone will absorb every penny of the world's income.** Some idea of the rate at which debt is growing may be gained from Australian figures.

Thus, in 1860 the debt was £12,000,000 yet to-day it is 100 times greater, whilst the population is only four times greater. Debt in Australia has grown 25 times faster than the population.

"It should be clearly understood that the Douglas Social Credit Proposals are propounded as suggestions, which, if adopted, are likely to produce the obviously needed reform of the monetary system. They make no pretensions to completeness in detail, but the basic principles of national control of credit, the national dividend, and the just or compensated price are claimed as fundamental to any scheme of effective monetary reform which will preserve individual liberty.

These three principles presuppose national control, hut not necessarily the actual creation, of financial credit."

G D H Cole and the Social Dividend

G D H Cole's Advocacy of the National Dividend. -- Extract from "Principles of Economic Planning," pp. 251-2 -- "the most appropriate way of distributing incomes would appear to be one which would involve at the outset a recognition of the social character of the greater part of the wealth produced, and would accordingly attribute shares in this wealth to all members of the community by virtue of their citizenship, after deducting whatever might be required for carrying on those services which they provide in common. Thus, after providing for these common services, it would appear most desirable to distribute incomes mainly on the following ways:

1) By distributing to all members of the community a social dividend as their shares in the -- common social heritage -- the only condition for the receipt of this social dividend being a proved readiness to play their part in the common tasks and duties of the whole community;

2) By distributing to all working members of the community smaller supplementary payments on a scale sufficient to afford such money incentive as may continue to be needed in order to get the work of society efficiently done."

G D H Cole advocates the issue of non-repayable presents of purchasing power to consumers, subject to a condition that new gift money is not used as an instrument for correcting the continuously restrictive tendency of sectionally planned capitalism.

Extract from "Principles of Economic Planning," p. 20? -- "Let the State, it is urged, create more purchasing power, and more production will speedily follow. I do not dispute this. I agree that, if the State makes a present of new money to consumers -- not a credit advance, repayable later on, but at present -- the effect will be to stimulate additional production."

Presents of Purchasing Power

Extract from "Principles of Economic Planning," p. 213.-"When the need arises to increase the supply of money, I am suggesting that the increase ought to be made, not in the form of increased loan credits to either producers or consumers, but of non-repayable presents of purchasing power to all the citizens, save to the extent to which the State decides to use the money itself for public purposes."

Security and Recovery

Mr A E Watson, this year Chairman of the Associated Banks, said, -- "Since we were here before, I have given quite a lot of time to this subject, and I have read as much as I could. From what I have read it would appear that, if the fear of war was vanquished and a feeling of security could be acquired in Europe for say 30 years, the intense economic nationalism that has been clogging our trade for so long would be mitigated to a very great extent, etc."

Thirty years seems rather a long time to wait for the chance of this suggestion being correct.

It is questionable whether humanity could survive the strain of increasing debt with its attendant wrecking of life and happiness.

On the question of creation of credit, *Mr Watson said,* -- "One point I would like to emphasise is this -- we do not create credit out of nothing; we cannot safely create credit out of nothing."

Let the word "safely" speak for itself.

The witness continued, -- "Give creditor nations a chance to lend money safely on long terms to stable borrowers for developmental purposes, and I am sure that most of the forces affecting the trade of the world to-day would disappear in a few years."

The reply to this is: -- **When creditor nations can find stable borrowers, recovery must already have taken place.**

This also seems to show that the banks own idea is to lend money to Governments to provide purchasing power through wages spent on public works and at the same time increase the amount owing to the financiers -- the result being more debt and more taxation until the final crash.

The witness said, -- "When times are bad and private enterprise lacking, I think governments must step in and fill the breach and go in as far as possible for reproductive works that will have some use in the future.

"As machinery and technique in industry improve, it is reasonable to assume that costs of production will decrease and the margins of profit enlarge" (presumably by decreasing total wages and lowering purchasing power?). "I consider that both employer and employee should share in this increase in profits from enterprise."

Banking

The witness said, -- "The Bank of Amsterdam ... realised that people did not come in and take the whole of their deposits every day, and thus it was quite safe to use a portion of these deposits and lend them out to other clients."

Chairman, -- **"Quite safe and quite honest?"**

Witness, -- "Yes, as long as it paid 20s. in the pound".

It is, perhaps, not very easy for a layman to see why a bank should lend what does not belong to it and get interest, and be called quite honest if it gets the money back in time to meet the demands of the owner of the money; while it is recognised that it is quite dishonest for a trustee or shopgirl to gamble with trust funds or till money, even if the gamble succeeds and the money is replaced before discovery.

Bank Failures

In reply to a remark that there have been at least five periods of bank failures in Australia the *witness said:* "They were small."

This view is small comfort to those who lost their money.

As opposed to Mr Watson's contention, we quote *Mr Frank Anstey,* who was for many years a member of the Victorian Legislature and later a member of the House of Representatives and a Minister of the Federal Government: "The Commercial" was the most notorious of the defaulting banks. It declared a 12 percent dividend, and then closed its doors upon 30,000 depositors and millions of deposits. It then appropriated one-third of the deposits as "preference" capital, and gave receipts on the indefinite future

for the two-thirds balance. Other banks followed the 'Commercial's' example, and thousands of depositors were left penniless, compelled to sell their deposit receipts and their compulsory shares for a fraction of their face value. "The directors of these fiduciary institutions had cross-loaned to each other enormous sums of other people's money yet while they were pushing other people to the wall, they conspired with each other, met in secret, and wiped off their mutual obligations for a few pence or one farthing in the pound. They kept their assets, gave each other clean receipts, and **got through the legislature of the State an Act of Parliament making it an offence for any person or newspaper to give publicity to their scandalous secret 'compositions.'** They now only wiped off each other's debts to the institutions they controlled, whose depositors' money they had borrowed, **upon whose remaining assets they had foreclosed,** but **from these foreclosed funds they again 'borrowed' to purchase the script and deposit receipts of the thousands they had ruined.** Thus these financers, trusted custodians of other men's money, emerged from the struggle more wealthy than ever."
"The memory of this smash," says *Mr DJ Amos,* F.A.I.S., "and consequent distrust of the Associated Banks' persisted for many years in the minds of the Australian people, and when after the formation of the Commonwealth, the second Fisher Administration came into power in 1910, it brought with it a mandate from the people to reform the Australian Banking System.

Banks Right to Interest

The Chairman then read an article by *Mr H T N Gaitskell* (Lecturer in Economics at University College, London), dealing with Bank Creation of Credit. This article appeared in the "London Economist," of 25th May, 1935.
After dealing somewhat fully with bank creation of credit, *Mr Gaitskell* said, -- "It is true that their profit arises from the difference between the interest received on the debts they own and the interest they pay on the debts they owe.
"It has yet to be shown that they ought to retain this difference.
"On all that part of the new money which remains in various interest-bearing current accounts (that part which is in active circulation), the banks make a clear gain of the yield from the assets purchased. We may say, broadly; that, from any increase in the volume of bank money other than deposit accounts, the banks secure gains exactly similar to those of the Issue Department of the Bank of England. It is suggested that the argument for reserving these gains for the community are as strong in the former case as in the latter."
Witness -- "I am afraid I cannot accept that."
To the question whether private banks should profit from the creation of credit, *witness replied,* -- "Do you want to monopolise the whole thing?"
The banks now do monopolise it all.
The witness continued, -- "What is the difference between buying and selling money and buying and selling goods?"
(In the footnote on the following page will be found a reply to this supplied by Mr David Robertson in advance).

State Creation of Money

The Chairman read a quotation from the recent book of *Mr G D H Cole* (an Oxford economist), "Principles of Economic Planning": -- "It does seem to me undeniable that the State, by creating new money without thereby creating new debt, can come near to bringing about the full use of the available productive resources, and can, by recurrent infusions of additional money, keep those resources in use. (p. 217)."
Mr Watson replied, -- **"How can you create new money without creating a new debt?"**
Did the witness mean, --
1) That when banks create new money they are in debt to no one for it, but can lend it?
2) That it is impossible, or wrong, for the community to create new money without being in debt to the banks, though they would create it on the same security as the banks now create it, that is, the joint and/or several assets of the community -- a very satisfactory position for the banks as long as the community will agree to continue it?

Remedy for Unemployment
The witness' remedy for unemployment was, "increase social services and lower the price of goods." This means increasing taxation to pay interest for borrowed money and displacing men by machines in order to cheapen production, and so still further reduce purchasing power -- a typical suggestion from supporters of the present system.
Bank Shares
Witness objected to the question whether banks give bonus shares or water their capital, because "it is outside Tasmania."

FOOTNOTE SUPPLIED BY MR DAVID ROBERTSON
If money is to be regarded as a commodity, its value must be calculated on the same basis as other commodities, in which case the value of the whole of the money in existence in Australia is made up somewhat as follows:

Gold held by the Commonwealth Bank in London	500,000
Silver and Bronze Coinage (face value about £7,000,000)	2,000,000
Notes (face value about £47,000,000)	20,000
Bank Deposits (face value £500,000,000) say	*250,000

* This figure is the estimated value of the commodities used, viz., pens, ink and papers (including bank ledgers). The practice of regarding money not only as a commodity, but as the commodity controlling all other commodities, has given rise to the difficulties which now beset the community; whereas it is obvious from the particulars given that money is not a commodity at all.
(end footnote)

Criticisms of Social Credit
During the 1934 Commonwealth Election Campaign, a pamphlet, dated 26th July, 1934, "With the Compliments of Irvine Douglas, Publicity Officer, Prime Minister's Department, Canberra." was widely distributed throughout his electorate of Wilmot on behalf of the Prime Minister. It says: -- "It is not necessary to consider in detail the whole of Major Douglas' curiously complicated theories and vague proposals. It is sufficient to say that they have been investigated time and time again by qualified and disinterested persons, economists, industrialists, bankers, business managers, cost accountants, and politicians of all parties, and not one of them has found them other than basically unsound and impracticable."
Witness Ault said: -- "Nothing in Douglas is disapproved there," and produced a list of all the important inquiries that have been instituted.
A Committee of the British Labor Party held an inquiry in 1921, and found adversely because "the Social Credit Principles were not in agreement with the defined Policy of the Labor Party in Great Britain, and therefore would not be contemplated."
The MacMillan Committee was instituted to consider the gold standard. It had no authority to inquire into or report on Douglas Principles. At the request of the Social Service Section of the Congregational Union and the Editor of the "New Age," they asked Douglas to give evidence, but made no mention of his evidence in their report, which was concerned almost exclusively with the gold standard.
Major Douglas was twice invited -- at about ten years' interval -- to give evidence in Canada, and the fact that he has been retained as Reconstruction Adviser to the Government of Alberta speaks for the impression made by his evidence.
The Farmer's Position
Mr Marshall gave evidence of the great decrease in the sale of chaff from the northern parts of Tasmania, chiefly through the decrease in the use of horses on the mainland. Northern Tasmania could easily produce many times its present output of chaff, if required.

Mr Marshall's view of the farmers' present position is that the best farmers, in a particularly well favoured district (in fact, one of the best districts in Australia), have just been able to maintain their position by reducing labour, paying a trifling wage to those whom they still do employ, economising in every way and not providing for depreciation of plant, and that they cannot hold on indefinitely under, these conditions. He could see no hope at all for the less competent farmers or those on poorer land. **A changed monetary system seemed to him the only way of escape not yet tried.**

He agreed that production could be increased very much if demand existed.

Increased Powers of Production

Mr F B Cane said that in his firm production of boots per employee had increased three times over.

Mr Ward, Director of Agriculture, said that in parts of the country four sheep were being carried in place of one as a result of better methods. He laid great emphasis on the need for high efficiency if a farmer is to be able to stand up to present conditions.

Mr S R Adams, Manager of the Agricultural Bank, testified to the greatly improved agricultural production as the result of education and guidance. Large numbers of farmers are recognising the desirability of direction and control. He said the Agricultural Bank has power to take over mortgages of farms, and, if the Government provided the authority, every farmer could transfer his business from private banks to the Agricultural Bank.

Mr BaIsille, Director of Public Works, said two men in drilling could bore 8 feet a day; one man and a machine, 80 feet -- ratio of increase 20 to 1; in crushing stone, 16.6 to 1; scarifying 45 to 1. He had noticed unemployment in Tasmania constantly increasing since 1905. The building trade may have improved recently, but not much improvement otherwise.

Mr Balsille made some statements about the general methods of financing public works:

Public Works Finance

Mr Balsille went on to say: "This State commenced responsible government in 1856, and started its development loan policy in 1865. Up to the time that I had compiled this information, viz., **in 1933, this State had spent on developmental public works, in which are included roads, bridges, harbours and jetties, 7.2 million pounds. But she had paid out in capital charges 12.3 million pounds and she still owes 7.2 millions pounds and will continue to owe it till 1980.** When I first got out these figures it appeared absolutely obvious to me that, if she had paid for public works out of revenue at the same rate as she had paid interest and sinking fund out of revenue, she should have had 12.3 million pounds worth of public works instead of 7.2 million pounds worth and would not owe anything on their account. Under the terms of the Financial Agreement the public debt accumulated prior to 1927 will not be wiped out until 1980.

"I traced the history of the debt back, and put in the figures from the Treasurer's Annual Statement. In my analysis I had to assume that the public debt had increased uniformly from 1865 -- 1900, as prior figures were not readily available. I found that, to the year 1906, **we had borrowed 3.6 million pounds at which date we had paid 3.6 million pounds in capital charges,** but, **since that date, the position has been very much worse.** Since 1906 we have been losing on the transaction, and have been paying out more in interest and sinking fund than the new money that has been coming in. Public works are costing us today £330,000 per annum in original charges interest and sinking fund -- without any maintenance charges, but no allowance is made for depreciation, and, if we are going to borrow at the rate we have been borrowing since 1927, by 1980 the cost will be half a million pounds per annum.

"Having got these facts, it was then suggested that the rate of progress of the country would have been very much slower on a revenue programme than on this loan basis, but when you come to get into it you find that it is not really so bad as it appears. For the development due to the first million pounds the state would have been eleven years behind. For the development due to the third million she would have been five years behind.

Mr Turner: -- Would that be cumulative?

Mr Balsille - May I explain by referring to the graph? (Witness explained Graph No 10).

Continuing, he said: "I had got to the stage when I said for the development due to the third million we were five years behind. After this the position is reversed, and we find that the revenue policy would have

been ahead of the loan policy by the following leads:
For the development due to the fourth million -- three years.
For the development due to the fifth million -- four years.
For the development due to the sixth million -- six years.
For the development due to the seventh million -- eight years.
The Chairman: -- If that is carried on for a hundred years?
Mr Balsille -- I tremble to think where it may lead. Our population is not increasing rapidly. Our capital charges are increasing much more rapidly.
The Chairman -- Have you ever considered the issue of debt free loans for public works?
Mr Balsille -- I do not know where it is done.
The Chairman -- I want to put this to you. Supposing a man goes right back and pictures himself as one of a tribe of ten bread-winners. He would be fully occupied in finding food and clothing and shelter for his family. Firstly you improve your method of production, so that nine men become able to produce as much as ten had been doing. The surplus man could be set aside to do work of a general nature, leaving nine on production. That goes on until there are only five men doing works for the whole tribe and five doing public works. If we introduced a public works system financed in this way, it would really come to the same thing in the long run as your suggestion of not borrowing?
Mr Balsille -- You would be financing your public works out of revenue?
The Chairman -- Yes. And there is no debt created at all?
Mr Balsille -- No.
G S CARRUTHERS, Chairman. New Library, House of Assembly 29th October, 1935.