Democrats
for social credit
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1 May 2007

Submission to Christchurch City Council Draft Annual Plan 2007/2008

With this year's Independent Inquiry into Local Government Rates, it is vital that local councils are acquainted with this Party's response to that Inquiry. We therefore commend to you the attached copy of the submission contributed by John Pemberton, *Democrats for social credit* Finance Spokesman.

We also urge your delegates to the Local Government New Zealand 2007 Conference to (a) support LGNZ's renewed initiative to have the GST removed from rates and (b) to call on the Minister of Finance to restore counter-inflationary policies similar to those employed by the First Labour Government to fund essential infrastructures and state housing. The flow-on effect of such policies would significantly reduce the debt-servicing and GST burdens for ratepayers.

Thank you for the opportunity to comment.

S de Ruyter

Stephnie de Ruyter
Leader
Democrats for social credit

Attached: *Submission to the Independent Inquiry into Local Government Rates*

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Submission to the Independent Inquiry into Local Government Rates

April 2007

From the *Democrats for social credit Party.*

"Essentially, new ideas are required in many areas, particularly in economics ... we need very different systems" (Dr. Edward de Bono in his keynote address to the Commonwealth Law Conference, Auckland 1990)

"The difficulty lies not in new ideas, but escaping from the old ones ..." (John Maynard Keynes in The General Theory of Employment Interest and Money.)

Funding of local government expenditure is a complex area, and the financial decisions councils make raise many issues of equity and affordability because of the impact they have on people's lives.

The *Democrats for social credit*, taking into account this impact on people's lives, make the following submissions in answer to some of the major issues the panel will be considering:

The drivers for increased local authority expenditure
Question 5. The provision of infrastructure is the key driver of future expenditure needs, but the inquiry team should also take a closer look at the driving effect of interest expenditure needed to service capital expenditure. (See our discussion on this point at question 14)

Question 6. The provision of infrastructure is the most significant driver of local government expenditure. This driver has been given further significance as some councils have failed to maintain, replace or develop new infrastructure because of the pressure from ratepayers to increase their rates at no more than the inflation rate. The pressure to spend money by some councils will escalate as infrastructure needs become urgent.

The trends in the use of rating tools nationally to fund services
Question 11. The rating system needs to be changed to remove the imposition of charging GST on rates. It is quite clear that the majority of goods and services utilised by a community are mutually funded (provided) by that community for the common good. They are not purchased by the community. The concept of charging GST on rates is as ludicrous as charging GST on the goods or services that family members provide each other, within that family.

Other sources of revenue currently available to local authorities
Question 14. There is a strong case to be made for an increased use of borrowing by local authorities to address intergenerational equity and the need to accelerate the growth in infrastructure investment.

We have concerns about the concept of borrowing money from the open market and thus having to pay a substantial amount of interest dollars over and above the principal. This is infrastructure for public good, not infrastructure for private profit.

We recommend that the Independent Inquiry into Local Government Rates make urgent requests to Government to source local body capital funding by utilizing our own Reserve Bank of New Zealand, instead of borrowing from commercial trading banks. The infrastructure could be completed without the burden of interest bearing debt. Loans could then be paid for once, not two or three times. And tomorrow's ratepayers would no longer be encumbered by servicing yesterday's debts.

The huge savings made by obtaining interest free loans from the Reserve Bank will also solve the issue of intergenerational equity. Currently, not only do the following generation pay their share of the principal but the interest costs they pay are often compounded on to the debt as well.

With the loan interest factor removed, the flow of funds currently collected by local bodies would go further. In addition, local bodies would be more able to keep pace with infrastructure needs, rather than putting off projects for lack of funding.

We of course place a rider on the above, and that is the capital projects undertaken by local bodies would need ratepayer approval before they went ahead.

A similar approach was practised in New Zealand in the 1930s to fund reforestation, housing and roads. The New Zealand Dairy Board also had access to an overdraft facility at the New Zealand Reserve Bank up until the early 1980s. By using this very efficient, low cost resource, the government laid the foundations of economic prosperity for many generations to follow.

Escape the bondage of the failed old ideas that unfairly burden future generations of ratepayers, and use those ideas that have been successful.

Supporting material attached to this submission:

- An Overview of Local Body Debt
- A Case Study: Buller District Council
- A briefing paper on Community Credit, i.e. nil or low interest loans
- Questions and Answers

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AN OVERVIEW OF LOCAL BODY DEBT

Current Funding System:

- Local Government Long Term Plan predicts total debt will rise **105% to $8.2 billion**
- Local Government Long Term Plan uses interest rates of 7% - 9%. Most local authorities assume a rate of **7.5%**
- Total interest paid per year under this system: **$615 million**.

Community Credit Funding System:

- Local Government Long Term Plan predicts total debt will rise 105% to $8.2 billion
- Community Credit uses an at-cost interest rate of **1%**
- Total interest paid per year under Community Credit: **$82 million**.

Benefits of Community Credit Funding System to Local Authorities

- **A saving of $533 million** in interest costs per year.
- Savings could result in lower rates
- Greater expenditure possible on necessary infrastructure.

CASE STUDY: BULLER DISTRICT COUNCIL

Current Funding System:

- Buller District Council Long Term Plan predicts because of cost blow-out and possibly no Government subsidy for sewer scheme, total debt will rise to **$31.85 million**.
- Buller District Council Long Term Plan uses interest rates of **7%**.
- Total interest paid per year under this system**: $2.23 million**.
- Rate increases for 2007-8 are from 23% up to 33.4%, hitting Westport residents and pensioners the hardest
- Last year's rate rise was 21.3%

Community Credit Funding System:

- Buller District Council Long Term Plan predicts debt will rise to $31.85 million.
- Community Credit uses an at-cost interest rate of **1%**
- Total interest paid per year under Community Credit: **$318,500**.

Benefits of Community Credit Funding System to Local Authorities

- A saving of **$1.912 million** in interest costs per year, an average of $200 for every man, woman and child in the district.
- Savings could result in lower rates
- Greater expenditure possible on necessary infrastructure.
- Savings could result in more rapid repayment of loans

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COMMUNITY CREDIT

"The privilege of creating and issuing money is not only the supreme prerogative of Government, but is the Government's greatest creative opportunity. By the adoption of these principles, the taxpayers will be saved immense sums of interest.
ABRAHAM LINCOLN

Community Credit has two purposes: 1) to reduce the high and escalating taxes, both income and rates, and 2) to fund to a greater degree the necessary and legitimate needs of our communities. The needs we refer to are bridges, roads, water/sewer/waste disposal systems, the environment, education, housing and health care. Community Credit, in short, can provide greater funding and less taxes.

There is a massive amount of waste in the form of interest payments that councils make on debt. Community Credit can convert those wasted rates dollars into savings, and therefore fund a community's needs to a greater degree. Ratepayers want their hard-earned rates dollars to pay for needed services and infrastructure – not to pay investors.

Local bodies should be able to borrow money interest free from the Reserve Bank of New Zealand for capital projects with voter approval. We refer to loans, not grants, for capital projects, not day-to-day expenses. The Reserve Bank would get the money, not from the Budget, or by borrowing from a commercial bank, but by creating it just as banks and lending institutions do every day.

Creating new money for such a loan increases the money supply, of course. However, when the loan is repaid by the local body, the money is extinguished, thus reducing the money supply to what it was before such a loan was made. This extinguishing action is what prevents inflation.

Deflation is prevented by the necessary requirement to increase the money supply because of the increase in production (GNP) as local bodies would be clearing the backlog of infrastructure projects that are so needed. Production increase requires an increase in the money supply.

Local bodies would also be able to borrow to pay off current debt. This would free up the interest payments that the local bodies would otherwise have to make over many years. In that respect, Community Credit is anti-inflationary. When a small amount of money can pay off a larger amount (principal plus not paying interest), the solution is not only non-inflationary, it is anti-inflationary.

Other obvious benefits would be:

1. a reduction in rates;
2. the ability to complete the necessary projects;
3. pay one half to one third the price for new projects;
4. with more money in ratepayers' pockets, increased purchasing power would stimulate real economic development;
5. employment opportunities would increase.

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QUESTIONS AND ANSWERS

1. **Would too much money or credit be created for this purpose, as good as the intention is?**

No. We recommend bringing in the Community Credit programme stage by stage, initially using several community projects as a trial, to insure the process and procedures operate they way they should. Each budget year, the Government would instruct the Reserve Bank to allocate, for example, $10 billion for community projects.

2. **How would such credit be dispensed?**

The easy answer would be by population. If a local body has 5% of the population, it would get 5% of the loan available. Alternatively, criteria could be set based on the nature and urgency of community need. (See the Case Study at the end of this paper.)

3. **When could we see the effect of such a proposal?**

It could be implemented early in the first term of a newly elected Government committed to trialing Community Credit.

4. **When has it been done before?**

In the years 1100 to 1694, Great Britain used this system and had no debt for the five hundred and ninety four years. It was only when they were talked into a form of the modern day banking system, with the central bank (Bank of England) a private commercial type, did they start to lose their non-debt status. The little country of Guernsey, located in the British Isles, used community credit to get out of debt, fund the necessary road construction and also market reconstruction. A plaque indicating they got out of debt and no longer have any debt hangs in their market square.

5. **Why hasn't this been considered before?**

Most people never come to understand the truth of the banking system. In fact, in New Zealand a form of Community Credit was implemented towards the end of the Great Depression, for roads, housing and reforestation projects. The goal was primarily to get people back into work, but the legacy to future generations has been incalculable. Similarly, the New Zealand Dairy Board had access to a 1% overdraft facility at the Reserve Bank up until the 1980s, to pay farmers in NZ dollars while they waited for export income to be realised. Despite the success of these examples, the individuals promoting them either lost power within the Labour Government or were pressured to change their policies.

6. **Would a new bureaucracy and massive red tape be created?**

No. It would take only a few people to manage these proposals. The Reserve Bank would only need to know how much Parliament allocated each year. The Treasury would not be loaning other taxpayers' money. They would be instructing the Reserve Bank to create new money for each borrower or project. The Reserve Bank would only need to know that voting rules were observed and then agree to a reasonable and acceptable repayment plan in each case.

7. Why would we not have inflation?

Although the money supply is increased by the creation of new money for each loan, the money supply is reduced with the repayment of that loan. Taking the money back out of circulation is what prevents inflation. However, it important that the money supply is increased equal to the increase of production. If the GNP is increased, so must the supply of money. Otherwise we have the opposite of inflation, we have deflation. The Community Credit programme is designed to prevent both inflation and deflation.

8. What will overseas investors think?

The Japanese, for instance, could invest in their own country rather than in New Zealand. They will also start to be repaid for the debts we owe them.

9. What will other countries think?

When they see how successful the programme is in New Zealand, they will want to do the same for their own people, especially Third World countries.

10. What happens when a council obtains its funding from a commercial source?

The problem is two-fold. The ratepayers must pay the principal back to the investor. They must also pay interest. The effect of these two combined is that the project ends up costing ratepayers two and even three times the actual cost to complete.

11. What about investors who collect high interest on loans to councils?

There are thousands of other items to invest in – stocks, mutual funds, money markets, insurance annuities. Their stock will be further enhanced. The biggest benefit, however, will be the reduction in investors' taxes. The cost of living overall would be less, and no one should profit from community projects when there is a better way of funding.

12. Would the Treasury Department print more money?

No. The same amount of notes and coins will be produced (at nil interest, as now). The money created for community projects and infrastructure will be set up as a chequing account, just as a bank does. A council drawing down a nil-interest loan from the Reserve Bank would then use the money by writing cheques or crediting the accounts of contractors or companies who are working on a particular project.

13. How would you summarise the Community Credit proposal?

Ratepayers and councils will be on the same side, as they both will benefit from the Community Credit proposal.