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Independent Political Party

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Hunter River shows watertight case for dams

Flooding in NSW this month should be another timely reminder to build more dams. Building this water infrastructure nationwide is a no-brainer, but the example of the Hunter River Catchment is stunning considering it was only in April 2015 that Dungog was smashed by floods. Houses were swept away leaving three people dead and the small town resembling a “war zone”. Now only months later, the State Emergency Service issued an evacuation notice for low-lying homes in the township of Dungog and for riverside towns such as Raymond Terrace, where the Williams River joins the Hunter River.

Several proposed dams such as the Tillegra Dam on the Williams River could have prevented costly flood damage in Dungog and all other towns hit by floods throughout the Hunter River Catchment, while providing water security in times of drought. In 2010, then-NSW Premier Kristina Keneally cancelled the proposed 450 gegalitre (GL) Tillegra Dam after much pressure from the environmental lobby and the No Tillegra Dam Group. And in August 2015 Hunter Water sold the land set aside for the dam to private landholders, meaning future governments will have to acquire the land again for the dam to go ahead.

In 1936 the NSW Minister for Agriculture Mr Hugh Main said that a dam on the Hunter River at Moonan Flat would be built but could not indicate when work would start. It was not built, but downstream about 30 kilometres to the southwest, construction on the Glenbawn Dam began in 1948; it opened in 1958. Then in 1987 it was enlarged to a storage capacity of 750 GL from the original 300 GL design to provide more water and improve flood mitigation.

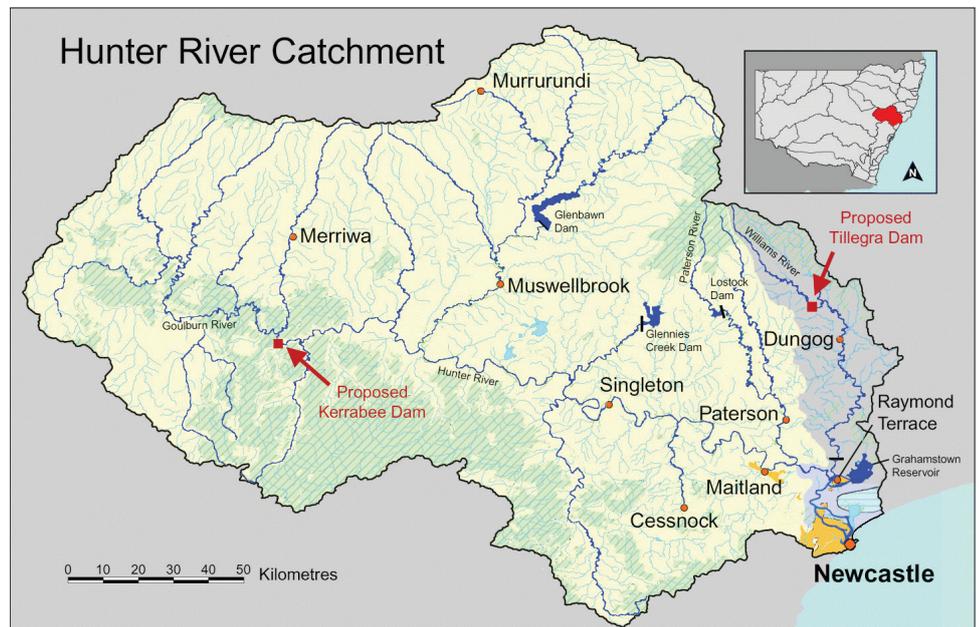
The Dams already in the Hunter River Catchment have helped reduce the severity of flooding in recent decades. No subsequent flood has ever unleashed the damage that occurred in the massive flood of February 1955. The 1955 Maitland Flood was the first Australian natural disaster to be broadcast by the media on an international scale and was one of our worst natural disasters. A total of 25 lives were lost and 40,000 people were evacuated. The main streets of Maitland

became creeks of rapidly flowing water, damaging homes and businesses, with 7,000 buildings and homes damaged in the Maitland/Singleton area alone. Livestock losses were as much as 100,000.

The proposed Kerrabee Dam on the Goulburn River (a major tributary of the Hunter River) was to be built in the early 1980s at the junction with the Merriwa River, but the plan was cancelled with the area reserved as the Goulburn River National Park in 1983.

Even several smaller dams on the many tributaries of the Hunter River, such as Lostock Dam (opened in 1971) on the Paterson River, can help provide flood mitigation and additional water storage for drought conditions. Several such dams should be investigated along with a few extra larger dams. The choice is simple: a) more dams, plentiful water for economic prosperity and flood protection, or b) austerity forcing reduced water usage (as evidenced post July 1982 when users-pays water was introduced to the Hunter), and flood damage when it rains cats and dogs.

This infrastructure along with levee banks must be built nationwide. The benefit of additional water to expand agricultural production and industry along with flood protection will pay for the cost of dam construction many times over.



Call 1800 636 432

for a free copy of the CEC's blueprint for the economic development of Australia,

“The Infrastructure Road to Recovery”,

as well as the current issue of the *Australian Alert Service* magazine,

which reports on the need for more dam infrastructure in the Hunter Valley.

How governments can create credit for infrastructure

UK Labour leadership front-runner Jeremy Corbyn's proposal for People's Quantitative Easing is Hamiltonian national banking by another name.

But how would it work?

Corbyn is proposing to establish a National Investment Bank to invest in infrastructure for the UK. The money that is invested will not be borrowed from private lenders or from overseas, nor will it come from taxes; the National Investment Bank will create the money it invests, by using the same Quantitative Easing (QE) mechanism that the Bank of England used after the 2008 Global Financial Crisis to create £375 billion. The main difference is that the Bank of England's QE went to prop up private banks and corporations, whereas People's QE will be spent on public investments for the public's benefit.

The mechanics of QE

Here's how the mechanics work. For its QE program, the Bank of England bought government bonds off corporations. A government bond is a loan from the bondholder to the government, so these purchases transferred the government's debt from the corporations to the Bank.

Central banks buy and sell bonds all of the time, but what is unique about QE is that to pay for the bonds, the Bank of England created the money, out of nothing! The Bank has explained QE is "new money, created electronically" (see image). And not just a little bit: £375 billion! Likewise, the US Federal Reserve created \$4 trillion in QE from 2009-13, and the Bank of Japan and European Central Bank also created trillions—all using the same bond-buying mechanism. However, all of this new money didn't increase economic activity as promised, because the banks that received this cash didn't lend it out into the economy, but used it to for their own financial speculation.

People's QE

Corbyn's National Investment Bank would similarly create money, but strictly for public investment. A Corbyn government would identify an investment project, and the cost, and issue bonds for that amount of money, which it would sell to the National Investment Bank. The Bank would pay for the bonds with new money created for the purpose—precisely as the Bank of England conducted its QE. Thus, a Corbyn government would borrow, from its own bank, new money that the bank would create specifically for public infrastructure. Corbyn argues, correctly, that if the equivalent of the £375 billion created through QE to prop up the banks was created instead for public investment in the UK, it would create millions of jobs, boost national productivity, and alleviate poverty. Moreover, the government would not increase its debt to private or foreign bondholders, but would owe this money to its own bank. As the government repaid its debt to the National Investment Bank from taxes generated by the increase in productive economic activity, the bank would be able to expand.

The first US Secretary of the Treasury Alexander Hamilton used a similar mechanism to establish the First Bank of the United States—the world's first National Bank. Hamilton got the equivalent of the US government's bondholders to use their bonds (known as debt certificates) to subscribe to 80 per cent of the capital of the First Bank (the government put up the balance of 20 per cent in gold and silver). In this way the government became indebted to its own bank, and



The Bank of England's Monetary Policy Committee has been purchasing assets financed by new money that the Bank creates electronically.

Bank of England video "Quantitative Easing Explained".

because Hamilton had pledged to honour that debt in full, the Bank was able to use that pledge as its capital, against which to make loans for productive investments in the real economy.

In Australia during WWII, the Curtin-Chifley government used the same mechanism to create credit to finance the war effort. The Treasury borrowed from the government-owned Commonwealth Bank by issuing Treasury Bills, so-called T-Bills (a form of bond), to the Bank, to purchase which the Commonwealth Bank created new money. T-Bills financed a massive expansion in government expenditure during the war.

Other methods

This particular mechanism to create credit, of issuing new money against the government's promise to pay a debt, whether in the form of bonds, or debt certificates, or T-Bills, is not the only way to do it. At the height of the Great Depression in 1931, Labor Treasurer Ted Theodore proposed to create £18 million to invest in agriculture and public works, by simply printing and spending it, £6 million on farmers and £12 million on projects; he called it a Fiduciary Note Issue (fiduciary meaning its value based on the reputation of the government, and not on gold). Labor's political opponents blocked Theodore's plan, but it would have worked.

In the US a year or so later, Franklin Roosevelt had a similar plan, to invest in infrastructure projects, but he got around his opponents by using an existing financial institution, the Reconstruction Finance Corporation (RFC). The RFC was already capitalised, Congress having voted to appropriate \$2 billion for its funding for the years 1933-34, ironically for the purpose of bailing out banks. Knowing the same Congressmen would block spending on infrastructure, Roosevelt simply used the RFC as a bank, which lent out multiples of its capital, as banks do in their normal business. Over the next 20 years, the RFC lent out \$50 billion for New Deal infrastructure projects and later the war effort, all of which was repaid.

Conclusion

These various approaches for creating credit share one important intention: the money is used for public investment. It doesn't really matter how the money is created, as long as it is invested in the projects that increase the productivity of the economy for the benefit of all. There is a limiting factor on this process, but it is not the rules of accountants or private bankers—the only limit is the availability of manpower and resources to do the work.