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The Chairman

Productivity Commission

Local Government Funding & Financing Issues

Thank you for the opportunity to present our views for consideration.

Submission

Over the last 30 years local councils have seen significantly increased demands being placed on their funding, organisational, and service delivery capabilities.
Some of those increased demands are:-
Responsibilities transferred from Central Government
Higher environmental standards, health and safety requirements, and other regulatory standards
Aging infrastructure both above ground and below ground
Earthquake strengthening requirements
Pressure on services from increased tourism
Population growth from high immigration
Higher standards for fresh water and wastewater services as well as additional supply requirements
Additional demands on roading with significantly more trucks replacing former rail transport.

Councils have been able to increase rates and charges to endeavour to fund some of those requirements, but the ability to continue to do so is being constrained due to the country's aging population, with more ratepayers on fixed incomes, and due to the fact that New Zealand is operating a low wage economy, meaning the majority of wage earners are already living with household budgets under stress.

Most councils see little in the way of alternative however, and things like petrol taxes and a range of other taxes and user charges are being investigated. Indeed the report by Local Government New Zealand came up with little in the way of other ideas. It appears that extracting more money out of ratepayer's pockets or increased borrowing are the only alternatives that are being explored.

Many councils have joined the Local Government Funding Agency in an effort to obtain better borrowing rates. Regardless of the rate, this still requires ratepayers to either come up with more money or except reduced services as more and more of council income is siphoned off to pay interest on private sector borrowing or profits to investors in the Local Government Funding Agency.

Indeed the website of the local government funding agency says the LGFA in 2011 won an award for their contribution to the development of Capital Markets in New Zealand. ‘We provide investors with a new source of securities rated at AA+ by international credit ratings agencies’.

Ratepayers expect the money they pay to go towards providing services in their area, not to be the source of a significant contribution to the development of Capital Markets for wealthy investors.

Public/Private partnership schemes likewise have a similar result with ratepayers funding 25year gold plated profit streams for private investors.

Already over $800 million dollars of taxpayers money is spent every year on paying interest on council borrowing, when it could (and should) be providing services and facilities for local communities.

There is however another funding option that has not been investigated by local government New Zealand or by individual councils.

In 2012 the International Monetary Fund published a lengthy report entitled the Chicago Plan Revisited.

Its authors, two senior researchers, one of whom is now a senior researcher at the Bank of England, investigated, analysed, and modelled a plan of a similar name proposed in the 1930's by leading economists including Irving Fisher and Henry Simons.

Their conclusion was that governments should issue credit through their Central Banks for use to, for example, provide the country with funds for building assets.

They identified a number of very significant advantages over the present system in using that mechanism. One in particular was there would not be Inflation generated as a result. A second and highly desirable one was that the government would not be using precious tax revenues to fund the interest payments on money accessed from the private sector.

That tax revenue, currently approximately $5 billion dollars each year, would become available to provide services such as health, education, etc for New Zealanders.

Japan is currently using that mechanism as is China.

The process has been used in the past.

In Australia the Commonwealth Bank funded Central Government expenditure, and a similar situation existed in Canada. In New Zealand, the Reserve Bank funded the building of approximately 30,000 state houses between 1936 and 1949, and provided the producer boards with overdraft facilities at 1% interest.

Despite it's resounding success that source of funding ceased to be used soon afterwards.

An attempt was made in 1978 by then MP Bruce Beetham to introduce the mechanism in New Zealand once more with the tabling of the Credit and Currency Bill, and Reserve Bank Amendment Bill in parliament. Regrettably the bills did not get the support of the house and as a consequence thousands of billions of taxpayer dollars have been spent in paying the interest on government borrowing - from mainly overseas owned financial institutions - since then, rather than being used to provide services for New Zealanders.

The mechanism is one that, in recent years, is attracting significant international support from economists and financial writers including Lord Adair Turner, former chairman of Britain's Financial Services Authority, Professor Richard Werner from Southampton University, Ann Pettifor, director of Policy Research in Macroeconomics, Professor Steve Keen, head of the School of Economics at Kingston University in London, Martin Wolf, chief economics editor at the Times of London, Anatole Kaletsky, editor at the Financial Times, and numerous others. In New Zealand, Bernard Hickey and Bryan Gould are among those promoting the idea.

New Zealand is in a unique position being one of only a handful of countries that has a publicly owned central bank. Any charges the bank may make on implementing the concept would flow through into profits returnable to the government.

The implementation of the mechanism would remove very considerable stress on government finances in that the $5 billion dollar saving in interest annually would significantly boost funding for difficult areas such as in health, education, and state sector salaries while the creation of Reserve Bank credit would provide funds necessary for things like investment in transport projects, water supply, wastewater treatment, forestry, in the regions and in environmental protection, to name just a few.

These investments could be made by granting no interest loans to local councils, and/or suspensory loans which would not require repayment. Water supply, wastewater treatment, roads, and earthquake strengthening would be suitable candidates for this type of funding.

As the Chicago Plan Revisited states, if private banks can, as they do, create credit in the process of granting loans to customers, a fact backed up by the Bank of England, the NZ Reserve Bank, and the German Bundesbank, (as well as many other sources) there is nothing stopping the central bank from using the same mechanism to create credit for government investment in the country.

Government or local body stock available to private sector institutions would of course be reduced, however this type of passive investment could beneficially be used instead for active investment in the productive sector of the economy, providing not only a rate of return that is better than that obtained on government sector stock, but also significantly improving the country's production, GDP, and living standards.

On all counts there would appear to be only wins for a government that had recommendations with so many benefits, in a report from an institution such as the Productivity Commission, that it could use as a basis for proposing such measures be adopted.

We urge you to investigate the possibilities, our references, and include those recommendations in your report.

We are available for further consultation and would be keen to participate further.

Chris Leitch

Social Credit Party Leader.

Attached:-

IMF Paper – The Chicago Plan Revisited

Bruce Beetham - Reserve Bank Ammendment Bill 1978

Bruce Beetham - NZ Credit & Currency Bill 1978

Bank of England - Money Creation In A Modern Economy

German Central Bank - Money Creation April 2017

Reserve Bank Letter – Money Creation