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Ref: Submission - Economic Stimulus Enquiry

Dear Economics Committee,

Thank you for allowing me to make a submission to this important Enquiry.

Listening to the previous meeting, it appears that the Terms of Reference are unclear to many participants with respect to a few categories:

- i) The state of the World Economy
- ii) The state of The (Australian) Economy – Interest Rates, Inflation, Employment, Exchange Rates and Productivity-without-Statistics
- iii) RBA policies and objectives – Interest Rates and low Inflation etc
- iv) Grey Areas between the Government and the RBA
- v) The size of The Stimulus, with several figures being mentioned
- vi) The timing of and the triggers associated with The Stimulus

1. The World Economy

The Enquiry painted a fairly optimistic picture of the World Economy, as various share-markets are rising. British shares appear to be ignoring both the Laws of Economics and the Law of Gravity. British firms may have been given some splendid bargains recently.

PM Brown had intense discussions with PM Rudd before the Australian Stimulus was announced. It is possible that the best (British) areas for the Stimulus were Health, Defence and Transport Infrastructure.

Despite the fact that The World Bank, The IMF and The Economist were saying a crisis was imminent in 2006 / 2007, econometric models painted a rosier picture. Many speculative economists were happy with rising share markets and their Wealth Illusions.

I met with the ABC's management in 2007 to bring these reports to their attention. I mentioned the parallels between trends in 2006 / 07 and the corresponding numbers for the period just before the onset of The Great Depression in speeches in Sydney, Ryde and Eastwood in 2007, warning against rising food prices and unreliable economic models. I am grateful that the tens of thousands of foreign advisers who came to Sydney in 2007 interacted so attentively.

A national newspaper reported after APEC that one trillion dollars per year are necessary to lubricate the world's Free Trade System. As the Global Economy's books do not balance, it is surprising to hear so many investors in Australia saying that the Global Financial Meltdown is over.

Accurate and relevant financial information is hard to come by in Australia. The fact that so many American banks are failing (see <http://news.smh.com.au/breaking-news-business/us-bank-failures-rise-to-94-in-2009-20090919-fw2g.html>) and that American unemployment is still rising seems to be irrelevant to the main story – the world's economy is recovering because China blinked after looking at the dreadful statistics.

Debts were measured in millions of dollars in the 1960's, then billions and now trillions. Quadrillions can't be more than a few years away, as currencies are trashed and a few wealthy individuals pocket most of the world's loose change.

The willingness of authorities in Australia to take advice about how we might spend The Stimulus from experts in countries that we have recently invaded is surprising. Even the members of the OECD have a Home-First approach to providing advice.

2. The Australian Economy

House prices relative to wages are unsustainably high, Real Interest Rates are high, Trade Debt is high and Personal Debt is high. These statistics seem to fall into the large Grey Area that was part of the RBA's initial design and are now to be discussed in relation to The Stimulus.

Several participants appear unsure what terms such as Real and Nominal Interest Rates are. The values of such indicators are also unclear, as several participants worry about the RBA's Interest Rate being forced higher by the Stimulus but not about Bank Charges. Participants seem to be concerned about the Budget Deficit that may take years to repay but not about debt levels in Australia that are much larger. Loans from banks are *usurious*.

2.1 Productivity

Productivity is reported to be up, despite the fact that so many of our skilled jobs have gone overseas. Unemployment is only slightly higher than it was a few months ago, despite the fact that many skilled jobs have gone overseas and that office employees are provided with TV entertainment for any idle hours.

Productivity could be measured by the number of people it takes to work a mine. Much of this work is automated and the trend of Tonne-of-coal produced per Miner is increasing.

Productivity could also be measured by the number of people it takes to work a multinational farm. Much of this work is automated and the trend of Tonne-of-wheat produced per Farmer is decreasing. Despite this, European Australia's *dry-farming* strategy has been an unmitigated disaster as bush-fires and dust-clouds show.

The Productivity Commission spent some time looking at Executive Remuneration. The amount of debt that "the world's best executives" in Australia's top companies generate could correlate to their bonuses in a positive way.

There are ways to provide an illusion that other aspects of Australia's economy are becoming more productive, despite the fact that we cannot make the simplest things.

2.2 *Where the Stimulus went in Australia*

Lobbyists from the Health, Transport, Property Development, Stock Market, Water, Science and Legal Industries probably went "Yippee" when another Australian Stimulus was announced. Their expectations based on previous experiences were probably high.

2.2.1 *Health*

1) Swine Flu looked like a good multi-billion dollar money-transfer vehicle until I shot it down with the sort of statistics that the ABS can't easily access. International reports indicate that the more that is spent on Health, the worse the outcomes are. For example, see http://www.newyorker.com/reporting/2009/06/01/090601fa_fact_gawande.

2) Reliable Health statistics are hard to find, but they show what a disaster the miracles of modern medicine are producing. For example, in 1988, 5% of Australian had Arthritis and this figure has increased to 15%. For Aboriginal Australians, Arthritis statistics have increased from 0% to 40% and Arthritis is now called a genetically inherited disease.

3) Statistics indicate that cancer levels are rising despite the miracles of modern medicine. Lung cancer rates are on the rise, with different groups backing anti-smoking, anti-asbestos etc. While the results are unclear Australia, for just a few million dollars, has exported a multi-billion dollar company to Europe. *James Hardy is a **Real Steal***.

In October, 2009, two Dutch doctors agreed that 'everyone knows that sun-screens are carcinogenic'. Health lobbyists are active even by Australia's standards.

4) Statistics indicate that more drugs that should prevent mental illness are available and that mental illness rates are rising. Drugs that have reportedly been tested on adults are being given to very young children even more frequently.

<http://news.ninemsn.com.au/health/871628/pre-schoolers-get-anti-depression-skills>

Proposal He1: I have a few ideas that may reduce skin-cancer and heart disease that may be worth investigating with Stimulus money.

Proposal He2: Health Departments' funding for Mental Health could be frozen until they stop using partially tested mind-altering drugs on infants.

Proposal He3: Australia could use some of the Stimulus money to try to introduce a system of ethics into the World Health Organization.

2.2.2 *Transport*

Sydney is conducting another Public Transport investigation and it is certain that the current chaotic system is the result of careful planning. Lobbyists say that some stations operate at capacity, despite the fact that they can handle major events such as The Olympics when required.

I proposed the expansion of Traffic Hubs at the Dee Why meeting in September 2009. As an example, buses that simply trundle from North Sydney across The Bridge would terminate at North Sydney. The meeting's MC ordered that this proposal be ignored by the panel, but they provided some insights. While buses going needlessly to the CBD create numerous problems, North Sydney Station, for example, would possibly need to be upgraded to handle the extra traffic.

Proposal Tr1: The idea of expanding existing Traffic Hubs and creating new ones (and reducing the astronomically massive subsidies to the private car industry) may be worth investigating with Stimulus money.

2.2.3 Defence

Modern wars tend to be expensive and pyrrhic in nature, with little possibility of any return on investment.

Proposal De1: The idea of evaluating any potential conflict from an Australian point of view may be worth investigating with Stimulus money.

2.2.4 Science

Scientists were proposing to develop a very expensive Thorium reactor in 2006 / 07 until I shot it down at a University presentation with the unanswerable question "How long would such a reactor last under such temperatures and pressures?"

Other examples indicate that some Australian science programs are not robustly designed.

Proposal Sc1: Rather than funding dodgy science projects, Australia could use Stimulus Money to look at ways to stop the destruction of its existing hydrological, botanical, agricultural and zoological science that we have inherited as we took charge of this magnificent continent.

2.2.5 Mining

The volume of mining that Australia currently undertakes would probably support the economy of a population of about a billion people. It is not in the interest of countries that are drip-feed dependent on Australian mining that we exhaust our considerable resources so uneconomically and at such an unsustainable rate.

Infrastructure is normally something that is created once and used several times. This definition does not seem to apply to infrastructure in Australia, as billion dollar infrastructure projects are replicated.

Proposal Mn1: The idea of evaluating any new proposals to mine new resources from an Australian point of view may be worth investigating with Stimulus money.

2.2.6 Australian Bureau of Statistics (ABS)

The ABS does not appear to provide the integrated information that would be required to guide policy making decisions in better regulated countries. These statistics could show how much mining activity is really required to support a population of 22 million people and how much food and manufactured goods we could import from abroad.

Proposal St1: The idea of expanding and integrating Australia's Statistical functionality may be worth investigating with Stimulus money.

2.2.7 Water

The volume of water Australia wastes annually would probably support a population of half a billion people. As Water is life and sovereignty, Water is economics. While market forces dictate that Australians must pay for the water that falls freely from the sky and which may be hoarded by multinationals until the price is right, multinational mining companies expect to get their water for free. The European Union is perhaps still toying with the idea of privatising Central America's main water assets.

Proposal Wa1: Updating the Australian Constitution may provide some security for our most vital asset.

Proposal Wa2: The idea of evaluating any new proposals to expensively create *distilled* water from 'used' water may be worth investigating with Stimulus money.

2.3 Where the Stimulus Dollars could not be spent

Some communities in Australia do not contribute to our massive mountains of Personal Debt and Trade Debt. These communities did not receive any benefit from The Stimulus.

As a previous Treasurer said, Australia cannot afford to provide money to Aboriginal Communities and the trend is to shut them down. This may be counter-productive, as the jobs of large numbers of mainstream Australians depend on the Aboriginal Industry. Additionally, when Echidna is destroyed, Termites will almost surely take over the land.

Proposal Ab1: Stimulate the most valuable and sustainable communities on this continent.

2.4 Where the Stimulus Money could have gone.

Under the guiding light c.q. instructions of Mr. Greenspan, Australia has changed several aspects of its economic policy in recent years. Stimulus money could be used to evaluate them and, where necessary, undo them.

2.4.1 The Goods and Services Tax (GST)

Since the GST was introduced into Australia, conflict between States has increased and Australia's trade deficits have hit record and unsustainable levels.

The concept of providing Government subsidies that facilitate the importing of still more products that, at best, provide little benefit to Australia appears to be flawed. Providing extra money to Local, State and Federal Governments simply encourages international suppliers to raise their prices, resulting in diminished service-levels. I addressed several Councils about the dangers associated with investing in CDOs, to little effect.

Proposal Gs1: The idea of halving the GST-rate with a view to abolishing it may be worth investigating with Stimulus money.

2.4.2 Foreign Banks

Foreign banks were introduced into Australia to create competition. Instead, bank charges have risen sharply. Australian Banks, which are grossly oversized, do not appear to be influenced by the RBA's changes to official interest rates.

Proposal Fb1: Revoke the licences of foreign banks to operate in Australia.

2.4.2 The Reserve Bank (RBA)

The RBA was introduced into Australia in 1959. In recent years:

- i) Personal Debt and Money Laundering have increased
- ii) Australia's Trade Deficits have hit record and unsustainable levels
- iii) Australian and Foreign Banks raise rates independently of the Australian Government
- iv) Australians have witnessed the unedifying spectacle of counter-intuitive Government Stimulus Packages that overheat the economy countered by the RBS's attempts to contain these measures by raising the official Interest Rate
- v) Exchange Rates fluctuate so violently under successive governments that any business person would be confused when trying to devise a business strategy
- vi) The Price of Gold appears to be heading towards \$2,000 per ounce and more. The RBA could calculate the maximum gold price, relative to valuable commodities, that is affordable and allows international business to operate
- vii) It appears that the RBA has lost some of its authority and independence.

I may have assisted to wean the RBA away from Mr. Greenspan's Debt-policies (he had called them Voodoo Economics a few years earlier) just before a previous RBA Governor moved to a different bank. Much more needs to be done to reduce the grey areas between the RBA, Government and the Commercial Banks to a manageable level.

Reserve Banks appear to be too easily influenced by foreign organizations. For example, some organizations instigated the process of forcing Zimbabwe's Reserve Bank's procedures to be controlled by international NGOs. This proposal would, in the view of the NGOs, reduce local corruption (and sovereignty). **NB:** The concept that the RBA operates independently of the Australian Government is interesting when the Australian Government can order the RBA to impose sanctions against a sovereign country.

International evidence suggests that Reserve Banks are vulnerable to foreign domination unless carefully formulated Governance Policies and Procedures, backed by reliable statistics and a robust National Constitution, are in place.

Proposal Rb1: The idea of reorganising the RBA with a view to establishing an efficient system may be worth investigating with Stimulus money. We may be able to export such a system to other heavily indebted countries such as our cousins in the USA.

Proposal Rb2: Establish an Economic Theory that might occasionally work in a resource-rich country like Australia, rather than trying to use one that might occasionally work in resource-poor countries such as Britain and Japan. Commodity prices do not need to rise in Australia whenever there is an artificial shortage in the UK.

Proposal Rb3: Stabilise Exchange Rates and the price of gold.

Proposal Rb4: The RBA could define *corruption* as the payment of excessive amounts to international firms for services that are detrimental to Australia and consider paying Australian firms that produce genuine benefits for the Australian Economy.

3. Stimulus Beneficiaries

Australia's stimulus appears to be quite large, relative to actions taken by other resource rich countries such as Brazil. Australia could research its small businesses to see what would make them more effective. For example, we could look at stimulating the Australian Computer Industry by requiring that all computers be upgradeable and that the Internet be free of threats and junk marketing material. Stimulating the computer industry with part of the \$42 billion Stimulus would be apt, as the number '42' probably relates more strongly to an IT-genius than it does to any economic theory.

While China's stimulus is quite large, it is backed by substantial foreign reserves and positive trading balances. China would expect to receive a positive return on its stimulus money, assuming their invoices are paid. Using the Stimulus to assist in the rapid demographical and cultural change of all Australian cities may be fraught with danger until the transfer is completed.

A disproportionate amount of Australia's stimulus may be directed towards imports and may end up stimulating economies in several distant countries. For example, Britain's share market appears to have lost contact with the laws of gravity and economics. Tiny countries with no resources are building massive projects that are far beyond Australia's capabilities. The Stimulus may assist these foreign projects and undermine Australian sovereignty.

Despite the fact that The Australian Constitution appears primarily designed to manage State Debt, good Governance Procedures could ensure that at least some proceeds of our excellent Terms-of-Trade remains in Australia. Australia, far richer than Saudi Arabia, is beset with debt and sliding down the international scale towards Zimbabwe far too quickly.

While Australia's economic riches deserve to be shared with less fortunate countries, stimulus policies could look more closely at providing an environment that is Economically, Culturally and Environmentally sustainable.

Proposal Sb1: Let's reduce Australian Debt and support real jobs, turning Australia into a beneficiary of The Stimulus (Packages).

Yours Sincerely
David Allen