

Cairns: We should have borrowed from RBA not overseas

By Robert Barwick

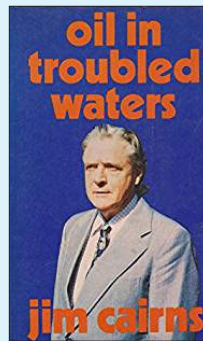
The Morrison government's inexcusably delayed response to the Lismore flood at the beginning of March invited comparisons with the government response to Cyclone Tracy in 1974. The cyclone smashed into Darwin in the early hours of Christmas Day, destroying 80 per cent of houses. Given the Christmas holiday, Darwin's isolation from the rest of Australia, and the absence of Prime Minister Gough Whitlam, who was visiting ancient ruins in Greece, it wouldn't be surprising if the government's response had been lethargic. It was anything but. The Minister and Army chief of operations arrived in Darwin that same evening, immediately recalled all active military personnel from their Christmas holidays and deployed every Air Force transport plane and 13 Navy ships to evacuate all but 10,000 men from Darwin by 31 December. With Whitlam overseas, the person in charge was Acting PM Jim Cairns.

Dr Jim Cairns was a political enigma in Australia. One of the most slandered and scandalised politicians in Australian history, Cairns was also known to be thoughtful, intellectual, quietly courageous, and a competent leader in a crisis. His response to Cyclone Tracy was one example; his leadership of the huge Vietnam War moratorium marches in 1970 and 1971, comprising hundreds of thousands of Australians, which eventually led to Australia's withdrawal from that war, was another.

In stark contrast to Scott Morrison's penny-pinching response to the Lismore flood, Cairns was a politician who would never let budget considerations constrain the government's actions in a crisis when people desperately needed help. However, the official history records that this was Cairns' undoing, as he was at the centre of the loans affair scandal that was used to bring down the Whitlam government. Thanks to the Murdoch media slander machine, the scandal became synonymous with irresponsible government and financial mismanagement. The truth, however, is a lot more dramatic.

The Whitlam government came to power in the "It's Time" election in 1972 with a vision to "buy back the farm"—reclaim ownership of Australia's immense resources wealth from the British and American corporations which controlled it. The vision included transcontinental pipelines and urban renewal infrastructure projects. The driving force behind that agenda was R.F.X. "Rex" Connor, but Whitlam, Cairns, and the rest of the leadership strongly supported it. To achieve it, the government sought to borrow \$4 billion (more than 8 per cent of GDP, or over \$160 billion in today's dollars), but they couldn't borrow from the government's usual creditors in London and Wall Street. Instead, they sought to borrow from the cashed-up Saudi government, but when that fell through (no doubt after the Saudis came under pressure from the UK and USA), Connor got involved with Pakistani banker Tirath Khemlani, culminating in the loans scandal.

In his 1976 book giving his account of the loans scandal, *Oil in Troubled Waters*, Cairns dropped a bombshell: as Treasurer, he knew that the government did not have to borrow from shady creditors overseas; rather, they could have borrowed from their own central bank, the Reserve Bank of Australia (RBA). "The Australian government in 1974 and



Above: Jim Cairns' account of the loans affair. Right: Melbourne's *Sun* acknowledged Cairns leadership on Cyclone Tracy.



1975 could have used Treasury Bills to borrow from the Reserve Bank ... and this, as far as possible, I was determined to bring about. ... I had hoped to extend considerably the government's ability to attract public financial support both in the establishment of the National Investment Fund and in the use of the central bank—the people's bank—to finance great national projects." He gave the example of how the Curtin-Chifley government had borrowed from the RBA's predecessor, the Commonwealth Bank, during WWII, to fund the war effort. He explained that "whereas borrowing from the central bank through Treasury Bills—by which the Bank creates a credit to the Treasury, on the government's authority, in exchange for a Bill, against which the Bank then lends money to other banks—were not used prior to 1933, and in the nine years to 1941 only to the extent of a net £5 million, in 1942 Treasury Bills increased massively, and continued all through the war." The total borrowed this way during the war was £367 million.

Cairns expressed his regret that "the necessary political climate of support did not eventuate nor were we able to create it. ... Nothing Rex Connor or I tried to do or say seemed to persuade anyone."

The reason, he explained to this writer in a 2003 interview, was because Labor had been badly scarred by what happened to Ben Chifley in 1949 when he tried to take on the power of the banks to the point of nationalising them, but lost. The Privy Council in London shot down Chifley's *Nationalisation Act*, his government was vilified by the Packer and Murdoch media, and he lost office to Robert Menzies, dying soon afterwards. Labor was consigned to Opposition for the next 23 years, which Labor MPs attributed to Chifley incurring the wrath of the financial establishment in his fight for national banking. "I think it destroyed the soul of the Labor Party, really, after Chifley", Cairns told me. "It was very important to the Labor Party, and the action of the Privy Council took away the meaning, the real meaning, of Labor policy."

It was therefore only because of this political unwillingness to borrow from the RBA that the Whitlam government pursued foreign loans, and the rest is history. Today, it is the Citizens Party and Bob Katter MP who are proposing to return to using the RBA as a national bank to finance Australia's economic development.