

Imagine you're in a theatre. You're sitting in the middle of the stalls. Your view of the stage is encumbered by the tall people sitting in front of you. It is true that if you stand up, you will get a better view of the stage. However, if everyone stands up no one will see better.

This is called the "fallacy of composition". Another example of this logical fallacy exists in economics. It is Keynes' famous "paradox of thrift".

When workers become unemployed, they have less disposable income to spend on goods and services. One person's spending is another person's income. Capitalism runs on sales. If sales diminish then the economy slows. This is why it is important for people, especially councillors, to understand the paradox of thrift and the fallacy of composition so they understand that what is true for one entity is not always true for another entity. A local council budget is not like a household budget and the two should not be conflated.

Local councils are one of the driving forces of any local economy in Australia. They are one of the biggest purchasers of local goods and services, and they are one of the biggest job-creators for local employees. They inject demand into the local economy. By directing the council to act in certain ways, councillors indirectly affect spending in the local economy. They can help to increase aggregate demand or decrease it.

During an economic recession, fiscal contraction is already taking place as employers struggle to keep on their employees and as newly unemployed workers are unable to maintain the level of spending that they once had.

This is why it is crucial that during a period of recession every government, whether local, state or federal, acts counter-cyclically to reverse the slowdown. They need to keep money flowing around the economy on local goods and services. The less money is spent, the less income is received by workers and the longer it takes for economic recovery.

Kingborough Council's latest budget includes a cut of \$380,000. I voted against this inclusion. If you remember the concept that one person's income relies on another person's spending, you'll note that this decision will result in a contraction of local economic activity. Unless of course, some other entity steps in to replace the lost spending.

The councillors endorsing these cuts are hoping that the spending gap left by their 'efficiency dividend' will be picked up by local residents. The \$380,000 that Council refuses to spend, they are hoping *you* will spend instead.

Council is currently able to access interest-free loans. Can you? Council can borrow over an extended period of time, unlike a household. A bank offers a household mortgage over 20 or 30 years because banks are reluctant to make loans beyond someone's typical working life. This is because when people retire, they usually have a lower income which negatively impacts their ability to service a loan. A local council, on the other hand, doesn't need to retire or work fewer hours due to ill health. Kingborough Council can outlive an average worker and can continue to earn income into its fiftieth, eightieth, hundredth and two hundredth year. This makes the Council less of a credit risk than an average household and results in more favourable interest-rates, as low as 1%.

Council's rates revenue is tied to the capital value of property. When the economy grows, local residents can afford to renovate their houses, buy more land, and improve the value of their properties. One way to increase Council's revenue *without* raising rates is to encourage more people to move into the community or to encourage current residents to improve the capital value of their properties. Shrinking Kingborough's local economy with a \$380,000 Council budget cut will do neither of those things. Instead of Council cuts, I think we should invest to recover.