

The
RESOURCE RENTALS FOR REVENUE AND JUSTICE
Association (International)

Pay for what we Hold or Take, not what we Do or Make

*Private Enterprise must not include private ownership of the elements of life.
Free trade must not include the freedom to 'invest' in owning others' natural resources
which should rightly be their source of revenue.*

20.2.09

The CREDIT CRUNCH

- CAUSE & the CURE

The CAUSE is not the "Banking System", (in N.Z., *infra*).

.... it is the *unearned* gains from "land"¹ values privately *monetised* through the "Banking System", with prime/sub-prime mortgages. This had become a sacrosanct industry promoted by Government with tax breaks. (*Negative Gearing App.3*)

The CURE is to *socialise* the same unearned, community-created gains, with comparable tax concessions (*infra*); for a Rent, licence or fee, *instead of taxes*. A charge for what we hold or take, not what we do or make, to distinguish public from private property.

.....is a NATIONAL LAND VALUE RATE LEVIED BY, AND SHARED WITH
REGIONAL GOVT. INITIALLY, THERE SHOULD BE INTERIM
GRADATIONS OF INCOME / LAND VALUE AS AN ACCOMMODATION
TO HOME OWNERS, AS AGAINST INVESTORS.

In the U.S and elsewhere recent plans to rescue "the Banking System" and the car industry will entrench the malady and will convert the icon of "FREEDOM" (*to own the earth!*) into the biggest Socialist state we've yet seen. A de facto "Nationalised" banking function will assume its proper role (*infra*.) "Capitalism's" mistake of conflating "land" as capital; natural resources with commodities², and thus Rent with interest, will find its just desserts.

In N.Z. the Reserve Bank is State-owned. Under Sir Roger Douglas as Min. Finance the Govt. abdicated its responsibility in favour of the R.B for Monetary and related Policies. As P.M Lange protested, "on that basis who needs a Govt?"

THE RESOLUTION WILL BE FOR THE NEW STATE TENANTS TO PAY A MARKET LAND RENT (EX AUCTION) IN LIEU OF INCOME TAX. THEY CANT PAY BOTH! (SEE "RATES RELIEF")

Refer – (herewith or on request.)

- "Rates Relief" – App. 1
- Bibliography
- "The Corruption Of Economics"
- "The Challenge To The Church" (Mosaic Law and Messianic affirmation).
- "Economics In One Lesson"
- "Where To From Here For The Sharemarket?"

¹ "Land" includes natural monopolies, rights to land, water, airwaves, minerals, fisheries, hydro-power generation and supply, any public utility such as a port, airport or the monopolistic rights to reticulate wires, pipes, rails, roads, and the like; even the right to pollute "Economics In One Lesson".

² The "Corruption of Economics" by Dr Mason Gaffney, Prof Of Economics California University, examines the intentioned confusion of "land" as capital over the last 100 years or so. Consequently some "interest" is really rent. Under a system of Resource Rentals, in Accountancy also, "land" would not be a capital asset.

The Banking System - is essentially a clearing house for settling trade exchanges in monetary terms and for matching capital needs with supply, e.g. Postbank, Trust banks and finance companies. A single national institution could (some say should) fulfil the function, avoid the need for a Reserve Bank and thus isolate the remaining inflationary factor which is outside the banking system. The banking system including the Reserve Bank, can only deal with cards given to it by Government, including the wild card of unearned gains. No bank can sift out the unearned gains element from countless transactions each day. Nor is it their responsibility.

Savings with a bank intended to finance loans to other parties for chattels on hire purchase, working capital, overdrafts, credit cards etc is a legitimate use of the medium of exchange. Monetising a tradeable unearned gain abuses the medium. Financing the purchase of another misuses it. Currently, the several functions confuse it. Defining the basis for the currency is the Government's role. The value of an artificial privilege convertible into cash is not a legitimate component of the currency base, but it is not the role of the banking system to distinguish it.

Bank loans as such, like credit cards or Bills of Exchange have to be repaid, normally from earnings. They are not in themselves a permanent, artificial, unproductive expansion of the currency.

In N.Z. Banks, like finance companies can only lend the deposits made with them¹. The Reserve Bank requires a proportion of these deposits to be lodged with it (currently 10%) as a means of constraining lending. If their lending exceeds that proportion of their deposits (90%) then they must borrow from the Reserve Bank (or other banks) sufficient to validate the excess². The overnight interest rate charged by the Reserve Bank sets the benchmark interest rate (O.C.R). Some Governments have been known to apply 100% reserve ratios to offset the effect of their Budget Deficits as far as maybe. Certain capital reserves are also required.

Money – is not some separate, elusive quantum that has to be controlled, and that somehow has to service countless transactions, from very small to very large. The technical term Money Supply¹ of M1, 2, 3 is a small liquidity sequence, not to be confused with the supply of money².

Money is essentially a measure of the relative labour content of goods and services permitting the exchange of consumables, perishables, or durables, now, progressively or later. It assesses the relative value of the labour content, whether of brain or brawn, applied by the seller or avoided by the purchaser, for exchange purposes. Even gold has a dollar price, for these reasons.

When the capitalized value of a gratuitous licence which has no labour content, but does have an effective purchasing power and exchange value for the labour of others, is introduced to the labour exchange process, then the measure is thereby expanded but with no corresponding increase in the goods and services. **That's inflation.** Too much money chasing too few goods; future money but only present production. Over time the goods and services diminish in value whereas the rights appreciate, compounding the effect.

The valuable licences or tradeable rights become part of the indiscriminate exchange of goods, services and equities, all freely interchangeable, quantified in dollar terms, and convertible into cash, as maybe minimally required. Electronic transfers now replace cheques, paper notes and coins. Whilst it may be interesting to quantify M1, 2, 3 and the velocity of circulation, it cannot influence the external rogue factor that drives them.

EARNINGS \$	+	NON EARNINGS \$	=	TOTAL MONEY \$
Goods & Services		Tradeable Rights		M1 to infinity
Cash & Cheques		Certificates		Cash, cheques & Certificates, all in \$, Interchangeable freely

¹ In other countries this constraint does not apply. As a commercial risk privately owned banks lend 8 or more times their Deposits. This multiplies the inflationary and social risk from failure elements. The Federal Reserve, World Bank and I.M.F are also privately owned by the Banks.

² A fall in land values nullifies this constraint. Hence the Deposits Guarantee Scheme now in place.

“The Reserve Bank can’t directly determine the total amount of money there is in New Zealand. But it does control the banking sector’s key source of cash” – (RB on Inflation).

If the Reserve Bank temporarily corners some of the system’s current assets, it reduces liquidity and so stifles trade. This inhibits the unearned gains that expand the currency but it does not eliminate them. The trade in power shares, which is demonstrably inflationary, has not been stopped. The significant, gratuitous profits and the share values are a fiscal factor expanding the currency.

It is not the Reserve Bank’s province to set wage rates, interest rates, exchange rates, rent or the price of anything. These are economic not fiscal matters. Relegating to the Reserve Bank responsibility for “price stability” is a misleading abrogation of the Government’s own responsibility to deal with the currency inflation that causes the price inflation. Nor is the Reserve Bank accountable for Government misuse of Reserve Bank credit. As above, the Reserve Bank often, appropriately, explains its statutory limitation.

¹M1 – notes, coins and cheque accounts; M2 – call deposits; M3 – term deposits; as a liquidity sequence. NB: M1 is only 3% of M1, 2, 3 which totalled \$280bn in Feb 2007 and could not possibly be the basis for every transaction.

²(i) The NZ Monetary Aggregates (ex RBNZ)

- Money is a medium of exchange, a standard of value, a store of wealth Not just notes and coins, but anything used to effect transactions denominated in terms of money.
- There is no unique practical definition of money (!)
- The quantity of money will move in proportion to the value of the transactions(!)
- Since money represents generalised purchasing power, it might be linked over time with the nominal value of total spending and output of goods and services in the economy. (Are equities ignored or included with goods and services? – Ed)

(ii) RBNZ G94/5

- The CPI and GDP influence M1, not the other way.
- M1 grows in line with nominal income growth.
- Short run M1 growth is influenced by equity returns growth.
- M1 does not lead development in the real or nominal economy. Thus M1 growth implies nothing for future output growth or inflation.
- The Money Supply is not determined by the central bank.
- M1 growth is determined by output growth and inflation. In the short run the stock market plays an important role.
- M1 is found to have no empirically relevant influence on either output, growth or inflation.

³The Stock exchange should reflect productivity without being all mixed up with the fortunes of those who own “The Economy”. (Ed.)

Inflation – used to be (and often still is) patently due to using Budget Deficits and Reserve Bank credit to finance social welfare, wars and other political purposes. That initial genesis is of course compounded by the unearned factor above.

But with balanced or even surplus Budgets, we have still had rampant inflation.

The inflation that persists is then disguised under a CPI (Consumers’ Price Index) that accommodates “land” price increases at the expense of wages/prices. We work harder for less to accommodate higher land prices under a tolerable net CPI. (NZH 16.7.97) Recent property prices have blown that one.

Commodities, goods and services, derive their exchange value from the labour applied or avoided. Their supply varies according to demand. Wages are prices, and prices are wages. Land is not man-made, has no labour content, has an inelastic supply and has an unearned value, derived from artificial right or privilege – a fragmentation of baronial fiefdoms (App 2.) Likewise, tradeable ownership rights to other natural resources or natural monopolies give purchasing power but produce nothing. Corporatised power board shares issued free to consumers went from \$3 to \$13 but produced no more power. “Corporatisation had already released over a billion dollars of shares into the community (NZH 13.9.95)”.

Underlying currency inflation is caused by rising land values (*infra*). We now have a land values based currency.

This is acknowledged in Reserve Bank references to the “*underlying inflation of the non-producing sector*” – a term covering land and other factors beyond the Reserve Bank’s control.

The Govt. and the Reserve Bank recognise the “*correlation between house prices and inflation*” (N.Z.H 17.3.07). The correlation is causal, and if anything Monetary Policy promotes it! (*infra*).

They recognise that “Monetary Policy” cannot control currency inflation. They rely on some global calamity to justify their past persistence with an inappropriate, ineffective, counter-productive manipulation of interest rates.

The focus on wages / prices is misleading and disingenuous. Wages are prices and prices are wages. Both reflect currency inflation. They do not cause it. That they rise more slowly than land values means only that people work harder for less.

Raising interest rates increases the attraction of Negative Gearing (now called Positive Gearing!) by increasing the income tax set-off. This attraction pushes up land prices – funded by Govt! It also increases the availability of off-shore mortgage money through the Banking system.

Lowering interest rates will sustain prices. Belated lending constraints will slow the process, and restore traditional Trustee Security “repectability” to it. Both will entrench “the system”, but won’t fix the problem now exposed.

Likewise reference to “house” prices and “property” is misleading and a culpable deception. Conflating land and improvements as “property” or “house” price confuses the two distinct elements¹. The improvements are the product of private labour and capital, and depreciate from day one. The land value has no cost of production. It is a differential value enhanced by public expenditure on infrastructure and must be recovered accordingly, not privatised². *The inflationary factor is the land value not the improvements!*

Any annual rental payment simply diverts from payer to payee a portion of current production. When the payment is for privatised natural resources the payment causes the mal-distribution of wealth in society derived from unearned gains. When the prospect of that unearned gain in future is capitalised for sale now it not only increases the wealth disparity, it also imposes an excessive demand on current production – future money but only present production; too much money chasing too few goods – currency inflation! Speculative trading in those *Tradeable Rights* further increases the supply of money, again with no commensurate production. A large proportion of the proceeds goes back into the system.

Capitalised annual “economic rent” (land price) is the underlying cause of currency inflation when monetised through the Banking system.

Money is a measure of value for the labour content of goods and services, for the purpose of exchange now, progressively or later. Introducing the capitalised future value of a gratuitous licence that has no labour content into that exchange process expands that measure, but with no corresponding increase in goods and services. Too much money chasing too few goods –

¹ The “Corruption of Economics” by Dr Mason Gaffney, Prof. Of Economics California University, examines the intended confusion of “land” as capital over the last 100 years or so.

² Land price only arises because the community fails to collect the annual “economic rent” properly due to it. It then becomes capitalised as selling price. Thus any annual charge, such as Rates or a Land Value Tax, reduces the price by the amount of charge capitalised at the current rate of interest. On this basis the boom/bust “business cycle” is eliminated and we all share progressively in “Growth in the Economy”, not just those who own it.

currency inflation. Over time the value of the labour products diminishes, whereas the licence value appreciates, compounding the effect. (separate paper on request). The inflated/devalued Currency is most rapidly reflected in higher land price which inflates/devalues the currency which creates a pernicious speculative spiral – on which some live high i.e; farming economic rent and inflation, whilst the majority strive to survive on the treadmill. Easy money accelerates the process. Collecting the “economic rent” annually (L.V. Rates or Land Value Tax) or by a Development Levy, eliminates the “business cycle” of boom and bust. viz: that point at which labour can longer gain employment.

Tradeable Ownership Rights to Natural Resources not only cause an unjust wealth disparity but also debauch the currency. (The acronym TORTNARES has a legal connotation that might well inspire a challenge).

WHEN ACCESS TO NATURAL RESOURCES IS DETERMINED BY A FULL MARKET RENTAL, LEASE, LICENCE OR FEE IN FAVOUR OF THE COMMUNITY, TRADING IN NATURAL RESOURCES IS ELIMINATED. SOCIETY GAINS ITS TRUE SOURCE OF REVENUE IN LIEU OF TAXES ON PRODUCTION AND SAVINGS, LABOUR FINDS EMPLOYMENT, AND THE INFLATIONARY FACTOR DISAPPEARS.

“Imported” inflation is absorbed over time in the exchange rate which is just another part of the price mechanism upset by currency inflation. Likewise, price inflation, which is the inevitable consequence of currency inflation, must be distinguished from a price rise which is only the price mechanism regulating supply and demand. The CPI doesn’t do this!

Land price deflation can be caused by trade or currency crises, quite independent of Budgets, interest rates or Banking practice (infra) e.g. switching OPEC oil settlements from US dollars to Euros will weaken the US dollar and have a deflationary effect despite a return to Budget Deficits i.e. currency expansion or contraction is heavily influenced by land price rise or fall – the rogue factor.

LAND “OWNERSHIP” – OWER-SHIP

The “estate in fee simple” title granted by the Crown, under which land is held not owned, by definition implies an obligation. Fee is a derivative of fief or trust originally granted by the King to certain Barons in return for services to be rendered in time of battle, on demand, or on state occasions – an acknowledgement of the trust.

About the time of Runnymede (1215) the Barons not only curtailed the King’s tyrannical rule without trial but at the same time entrenched their privilege by satisfying their obligations in other ways e.g. a beer tax, other levies on the poor and later the enclosure (privatisation) of the Commons. This privilege that the Barons arrogated to themselves has become entrenched and fragmented till today it is bought and sold as the freehold title i.e. the right to claim the economic rent, with income and other taxes in lieu, progressively enshrined in statute.

So the “estate in fee simple” is essentially a holding on trust, without specified obligations, conditions or terms i.e. an open ended leasehold which can be inherited without constraint.

This basic status readily admits the inclusion of more stringent terms such as Town Planning ordinances, environmental regulations and the like, as terms of the lease which recognise and give effect to the fundamental social relationship – the Crown and the subject; the community and the individual; landlord and the life-tenant. A lease also sets out the rights of the lessee i.e. the rights and responsibilities of both parties.

Misperception about leasehold tenure arises because it is comparatively uncommon and is enjoyed without fuss wherever it is in place. Substantial parts of Masterton and Greytown are leased by Trust Lands Trusts with singular acceptance, even modest pride. Many Local Bodies and Central Govt. have inherited harbour reclamations, Hospital and Education Board leases etc regulated by the “Public Bodies Leases Act”. The Act is brief and usually only in the news because the 21 year rent reviews are an anachronism under the impact of inflation – mainly caused by freehold land price! The same remarks apply to the endowment Melanesian Mission leases of the Anglican Church on the most valuable residential sites in NZ. Likewise the big transport rigs worth millions are leased by operators. Smart developers prefer Council leasehold land because they can then invest more capital in the building. Leasehold tenure ensures security for the private operation, and for the community’s interest in the enduring ownership of its natural resources and natural monopolies.

Ahab rebelled against the Mosaic Law, "withdrew his neighbour's landmark and laid field to field"³. This rejection of the Law divided Israel, and inspired the prophets Isaiah, Amos, Micah and others to denounce it and the social consequences.

The two concepts of tenure traversed Europe. The Romans adopted privatisation, and despite whatever else they contributed to civilisation, nevertheless disintegrated. In Northern Europe the feudal concept vesting proprietorship in the king on behalf of all, with delegated fiefdoms, was eventually abused in the Enclosure of the Common lands. The delegated baronial privilege is today fragmented and sold as the 'fee simple' i.e. a fief or holding on trust.

At Luke 4:18,19 above, Jesus declares his personal credentials and mission, *specifying the basic essential social prescription as a significant part of that*. By citing Isaiah's prophecy, his audience understood full well the significance of his affirming the Mosaic Law, as against Ahab's rejection which had divided the nation – the land laws specifically. Likewise, it would be no great surprise to Jesus that soon the incited mob would call for the release of Barabbas, (a common thief), and to crucify *Him*, who would undermine the House of Privilege!

By affirming the principle with His authority Jesus saw that the underlying cause of wealth disparity, injustice, and all the consequential problems of social values etc. would be addressed, not the symptoms; that involuntary poverty would not be dependent on voluntary charity – an added luxury for those involuntarily rich but demeaning for the involuntary poor. *Social justice would not depend on just being nice to each other⁴, nor even on taxes, in the face of an adverse systemic flaw*. By promising fulfilment of the law and the prophets, he provided for application of the principle, in the right spirit rather than in the letter of the law i.e. the issue was purpose not methodology. Not the Jubilee Year but Resource Rentals.

The later example in Acts of sharing and of holding all things in common might have been appropriate for a small group in those days but would be impractical now for the infrastructure of a big city, a vast country, airports, the radio spectrum, natural monopolies, or for international trade. The issue now is to unselfishly recognise the distinction between public and private property, each requiring its own responsible stewardship, locally and in global trade; to reverse what has become a sacrosanct industry! Not everything is for sale.

When we allow private property in what is really public property (resource rent) we then have to condone making public property (taxes on wages and interest) in what should be private property. *Law and morality should reinforce each other. Giving the force of law to that which would be wrong as between individuals (theft and misappropriation) brings the law into disrepute and contempt. This conflict and the man-made authority of law over morality corrodes the rest of the social fabric.*

This is not a forum to debate the theology of the Triune God. St. Paul did that.

It is not a platform to promote sectarian profiles. We are well-blessed in history with new light.

This is not an international movement seeking support of the Church.

It is a challenge to the Church to use the resources of an international movement to fulfil its own Mission, or else.....

In the face of debt, inflation, poverty, inordinate wealth, injustice our failure to address the cause, specifically a significant part of Jesus' Mission Statement, makes ritual and pageantry a second crucifixion - by His disciples.

Addenda herewith or on request: Economics in One Lesson, Inflation, The Greens, The Share Market, Tax Set-Off/Negative Gearing, Funding for Local Govt. Bibliography

1. The misperception that Luke 4:19 refers to Jesus' own advent is clarified at 4:21. Refer also NIV p.1545. It arises because leasehold tenure is comparatively uncommon and is enjoyed without fuss wherever it is in place. Substantial parts of Masterton and Greytown are leased by Trust Lands Trusts with singular acceptance, even modest pride. Many Local Bodies and Central Govt. have inherited harbour reclamations, Hospital and Education Board leases etc regulated by the "Public Bodies Leases Act". The Act is brief and usually only in the news because the 21 year rent reviews are an anachronism under the impact of inflation – mainly caused by freehold land price! The same remarks apply to the endowment Melanesian Mission leases of the Anglican Church on the most valuable residential sites in NZ.. Likewise the big transport rigs worth millions are leased by operators. Smart developers prefer Council leasehold land because they can then invest more capital in the building.
2. This significant theme persists in recent translations of the beatitudes and the psalms in which (Mt. 5:5) "the meek" is now translated as the humbled, oppressed, down-trodden, dispossessed – for they shall inherit the earth! And "those who hunger and thirst for *justice*; for they shall be satisfied". – Refer Geophilos, Autumn 2002, pages 44/5.
3. Deut. 19:14. "Thou shalt not remove thy neighbour's landmark (11th Commandment)
4. Geophilos 02(2)p.30. Dr. Michael Hudson, Wall Street Financial Analyst