PO Box 18-907, New Brighton, Christchurch Phone/Fax: 0064 7 829 5157
Email: nzdp.inc@xtra.co.nz Website: www.democrats.org.nz

Submission to the Inquiry into housing affordability in New Zealand

June 2007

From the *Democrats for social credit Party.*

We endorse the purpose of the enquiry i.e. "To ensure that as many New Zealand families as possible will be able to achieve the traditional Kiwi goal of home ownership at a fair and reasonable price."

More specifically:

The *Democrats for social credit Party* has aims in which ownership of the nation's capital resources are spread among as many New Zealanders as possible, as stated in our Party's Tenets and Purposes. Home Ownership is probably the most fundamental property right to which a person or family can lay claim to. For most, it is the first and largest capital investment undertaken, and is the one most closely linked to the individual's and family's income.

The *Democrats for social credit Party* believes all persons have the right to acquire their own homes without financial hardship, and therefore sees access to housing finance at reasonable rates of interest as a major priority among the competing demands for investment funds.

The time of greatest need – bringing up a family – often coincides with reduced ability to find the necessary finance. Provision of finance, therefore, should be geared towards assisting young families into their own homes, from the earliest opportunity.

We believe that a family home cannot be defined as anything but a social asset: it exists to provide for the most basic of human material and emotional needs.

Submissions:

The *Democrats for social credit*, taking into account our beliefs as expressed above, make the following submissions in respect of the affordability components the Select Committee will be considering:

We acknowledge that the nine points that submitters have been asked to take particular interest in, are the main components which impact on housing affordability.

Components 1, 4, 5, 6, and 8:
These five components are a necessary part of the housing cost and are part and parcel of maintaining high standards of design, workmanship, environmental and social conditions. We do not believe that these standards should be compromised; in fact we believe that some could be enhanced. Our "Community Credit" policy (see supporting material attached) will enable charges and fees to be lower, and the continuation of high standards.

Component 9 (The range of financing products available for first home owners):

This component has been listed last but is the key to housing affordability.

As stated above we believe that a family home cannot be defined as anything but a social asset and thus first home owners should be able to buy their home with money sourced as a public credit.

We have concerns about the concept of first home buyers borrowing money from the open market and thus having to pay a substantial amount of interest dollars over and above the principal. This is housing for public good, not housing for the profit of private banks.

We recommend that the Select Committee's inquiry into affordable housing should make urgent requests to Government to source housing funding by utilizing our own Reserve Bank of New Zealand, instead of borrowing from commercial trading banks.

Service charges sufficient to cover administration costs and the risk of loan defaults would be added into the principal to be repaid. We would see these charges as being no more than 3%.

Homes could be built or bought without the burden of interest bearing debt. Loans could then be paid for once, not two or three times. With the loan interest factor removed, the family income would go further.

We of course place a rider on the above, and that is the management of funds on loan at any one time are managed by utilizing the "Repayment Term" as opposed to the current method of using the "Interest Rate" factor. First home buyers with large incomes would be obliged to repay their loans over a shorter term, while low income earners would have a longer term.

This approach is not new and was practised in New Zealand in the 1930s to fund housing, reforestation and roads. The New Zealand Dairy Board also had access to an overdraft facility at the New Zealand Reserve Bank up until the early 1980s. By using this very efficient, low cost resource, the government laid the foundations of economic prosperity for many generations to follow.

Component 2 (The households ability to service debt, meet costs of ownership and the changing relationships between income, property prices and mortgage interest rates):

Our submissions to component 9 goes a long way to providing the solution to this issue. With the loan interest factor removed, the family income would go further.

The *Democrats for social credit* recommend that the Select Committee's inquiry into affordable housing make urgent requests to Government to use the Reserve bank facility described above to fund national, regional and local authority infrastructure needs. Removal of the interest cost on local government and public debt will see pressures come off rates and taxes and thus the family income.

If all of New Zealand's money supply was sourced from the same Reserve Bank funding at cost i.e. 1% and on-lent to the Trading banks to on-lend to their customer base, adding their margin in the process, all other forms of lending would become less costly. Even if it only cut current interest rates in half, the cost of producing New Zealand goods and services would drop markedly. The household budget would again go much further.

We of course place a rider here as well, and that is the management of funds on loan at any one time are managed by utilizing the "Repayment Term" as opposed to the current method of using the "Interest Rate" factor.

Component 3 (The impact of increasing demand for residential properties by investors):

The Reserve Bank Governor's use of the OCR as a tool to reduce domestic demand is misplaced. Increasing interest rates has not dampened demand. New Zealand's money supply (M3) has increased by some $25 billion over the last 12 months while GDP grew by about $3 billion. The excess has obviously been used to facilitate the buying and selling of existing assets at ever increasing prices.

The *Democrats for social credit* recommend that the Select Committee's inquiry into affordable housing make urgent requests to Government to oblige the Reserve Bank Governor to implement a low interest rate policy and to use the "Repayment Term" factor instead of the "Interest Rate" to manage demand.

Note: A side benefit of this action will see an exchange rate move down to reflect a true value relationship between the exchanges of goods and services and less to the pressures of speculation.

Component 7 (The access to finance for house building on multiply-owned lands):

In the case of multiply-owned or co-operatively-owned land (such as Maori land), loans should be secured against the dwellings erected, and need not include the commonly-owned land as collateral. In the event of default, the loan provider could be authorised to recover outstanding debt by facilitating the transfer of home ownership.

Supporting material attached to this submission:

- A briefing paper on Community Credit, i.e. nil or low interest loans
- Questions and Answers

Contact: John Pemberton, *Democrats for social credit* Finance Spokesman,
Ph. 021 716 895, E-mail pemberj@slingshot.co.nz

PO Box 18-907, New Brighton, Christchurch   Phone/Fax: 0064 7 829 5157
Email: nzdp.inc@xtra.co.nz   Website: www.democrats.org.nz

COMMUNITY CREDIT

"The privilege of creating and issuing money is not only the supreme prerogative of Government, but is the Government's greatest creative opportunity. By the adoption of these principles, the taxpayers will be saved immense sums of interest.

ABRAHAM LINCOLN

Community Credit has two purposes: 1) to reduce the high and escalating taxes, both income and rates, and 2) to fund to a greater degree the necessary and legitimate needs of our communities. The needs we refer to are bridges, roads, water/sewer/waste disposal systems, the environment, education, **housing** and health care. Community Credit, in short, can provide greater funding and less taxes.

There is a massive amount of waste in the form of interest payments that councils make on debt. Community Credit can convert those wasted rates dollars into savings, and therefore fund a community's needs to a greater degree. Ratepayers want their hard-earned rates dollars to pay for needed services and infrastructure – not to pay investors. Community Credit allows more people the chance to own their own homes.

Local bodies, and first home buyers, should be able to borrow money interest free from the Reserve Bank of New Zealand. Local bodies would borrow for capital projects with voter approval. We refer to loans, not grants, for capital projects, not day-to-day expenses. First home buyers would borrow to build or buy their homes. The Reserve Bank would get the money, not from the Budget, or by borrowing from a commercial bank, but by creating it just as banks and lending institutions do every day.

Creating new money for such a loan increases the money supply, of course. However, when the loan is repaid by the local body or home owner, the money is extinguished, thus reducing the money supply to what it was before such a loan was made. This extinguishing action is what prevents inflation.

Deflation is prevented by the necessary requirement to increase the money supply because of the increase in production (GNP) as local bodies would be clearing the backlog of infrastructure projects that are so needed. Production increase requires an increase in the money supply. The increase in the housing stock would have the same effect.

Local bodies would also be able to borrow to pay off current debt. This would free up the interest payments that the local bodies would otherwise have to make over many years. In that respect, Community Credit is anti-inflationary. When a small amount of money can pay off a larger amount (principal plus not paying interest), the solution is not only non-inflationary, it is anti-inflationary.

Other obvious benefits would be:

1. a reduction in rates;
2. the ability to complete the necessary projects;
3. pay one half to one third the price for new projects;
4. cheaper houses
5. with more money in ratepayers' and home owners pockets, increased purchasing power would stimulate real economic development;
6. employment opportunities would increase.

PO Box 18-907, New Brighton, Christchurch Phone/Fax: 0064 7 829 5157
Email: nzdp.inc@xtra.co.nz Website: www.democrats.org.nz

QUESTIONS AND ANSWERS

1. Would too much money or credit be created for this purpose, as good as the intention is?

No. We recommend bringing in the Community Credit programme stage by stage, initially using several community projects as a trial, to insure the process and procedures operate they way they should. Each budget year, the Government would instruct the Reserve Bank to allocate, for example, $10 billion for community projects.

2. How would such credit be dispensed?

The easy answer would be by population. If a local body has 5% of the population, it would get 5% of the loan available. Alternatively, criteria could be set based on the nature and urgency of community need. The Reserve Bank would create a sum of money for lending to potential homeowners or providers by the extension of an overdraft or revolving credit facility. The amount allocated for home lending would be set to ensure the needs of first home owners were met.

3. When could such a proposal be implemented?

It could be implemented early in the first term of a newly elected Government committed to trialing Community Credit.

4. When has it been done before?

In the years 1100 to 1694, Great Britain used this system and had no debt for the five hundred and ninety four years. It was only when they were talked into a form of the modern day banking system, with the central bank (Bank of England) a private commercial type, did they start to lose their non-debt status. The little country of Guernsey, located in the British Isles, used community credit to get out of debt, fund the necessary road construction and also market reconstruction. A plaque indicating they got out of debt and no longer have any debt hangs in their market square.

5. Why hasn't this been considered before?

Most people never come to understand the truth of the banking system. In fact, in New Zealand a form of Community Credit was implemented towards the end of the Great Depression, for roads, housing and reforestation projects. The goal was primarily to get people back into work, but the legacy to future generations has been incalculable. Similarly, the New Zealand Dairy Board had access to a 1% overdraft facility at the Reserve Bank up until the 1980s, to pay farmers in NZ dollars while they waited for export income to be realised. Despite the success of these examples, the individuals promoting them either lost power within the Labour Government or were pressured to change their policies.

6. **Would a new bureaucracy and massive red tape be created?**

No. It would take only a few people to manage these proposals. The Reserve Bank would only need to know how much Parliament allocated each year. The Treasury would not be loaning other taxpayers' money. They would be instructing the Reserve Bank to create new money for each borrower or project. The Reserve Bank would only need to know that voting rules were observed, or borrowers were eligible, and then agree to a reasonable and acceptable repayment plan in each case.

7. **Why would we not have inflation?**

Although the money supply is increased by the creation of new money for each loan, the money supply is reduced with the repayment of that loan. Taking the money back out of circulation is what prevents inflation. However, it important that the money supply is increased equal to the increase of production. If the GNP is increased, so must the supply of money. Otherwise we have the opposite of inflation, we have deflation. The Community Credit programme is designed to prevent both inflation and deflation.

8. **What will overseas investors think?**

The Japanese, for instance, could invest in their own country rather than in New Zealand. They will also start to be repaid for the debts we owe them.

9. **What will other countries think?**

When they see how successful the programme is in New Zealand, they will want to do the same for their own people, especially Third World countries.

10. **What happens when a council or home buyer obtains their funding from a commercial source?**

The problem is two-fold. The ratepayer or home owner must pay the principal back to the investor. They must also pay interest. The effect of these two combined is that the project/home ends up costing ratepayers/homeowners two and even three times the actual cost to complete.

11. **What about investors who collect high interest on loans to councils?**

There are thousands of other items to invest in – stocks, mutual funds, money markets, insurance annuities. Their stock will be further enhanced. The biggest benefit, however, will be the reduction in investors' taxes. The cost of living overall would be less, and no one should profit from community projects when there is a better way of funding.

12. **Would the Treasury Department print more money?**

No. The same amount of notes and coins will be produced (at nil interest, as now). The money created for housing, community projects and infrastructure will be set up as a chequing account, just as a bank does. A council or home owner drawing down a nil-interest loan from the Reserve Bank would then use the money by writing cheques or crediting the accounts of contractors or companies who are working on a particular project.

Reserve Bank funding would generally replace the private banking source, not add to it.

13. **How would you summarise the Community Credit proposal?**

Ratepayers and councils will be on the same side, as they both will benefit from the Community Credit proposal. Housing will be affordable.