Houston, We Have A Problem !

The 1935 Labour Government faced a massive housing and infrastructure problem and shortages in health, education, and other funding.

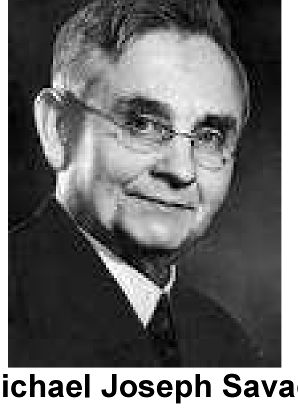
Today's Labour / NZ First Government faces a massive housing and infrastructure problem and shortages in health, education, and other funding.

Where will they get the money? More borrowing, extra taxes, private sector finance, asset sales?

The 1935 Labour Government built 40,000 houses, invested in health, education, infrastructure, and supported the producer boards. It got New Zealand out of the depression before any other developed nation.

How did they do it?

Are there lessons the current Government could learn from?



Michael Joseph Savage

This photo hung on the wall in thousands of Kiwi homes.

Jacinda Adhern

Will this photo hang on the wall in thousands of Kiwi homes too?

The 1935 Labour Government built 40,000 houses, invested in health, education, infrastructure, and supported the producer boards. It got New Zealand out of the depression before any other developed nation.

"Where these expensive programmes could not be financed out of current revenue … the Government simply borrowed from its own bank". Encyclopedia of New Zealand 1966

As a result thousands of New Zealanders revered Michael Joseph Savage. His photograph hug over the mantle piece in their homes.

Some might call it Social Credit. Most would say it's just common sense.

Labour was in government for 14 years.

The Labour / NZ First coalition could do it again. Here's how -

History

Encyclopedia of New Zealand 1966

1935–49 The Labour Regime

The Government's opponents never tired of inquiring, "Where will the money come from?"; the Government's answers were never explicit, but in fact a good deal of the money came from State credit created by the Reserve Bank. This institution, by an Act of 1936, had become a fully governmental body; where these expensive programmes could not be financed out of current revenue or overseas funds, the Government simply borrowed from its own bank. Neither the housing programme nor the guaranteed price could have been financed without such credit.

Parliamentary debates, v.244 - 1936

Reserve Bank of New Zealand Amendment Bill

The Hon. Mr NASH – Minister of Finance

It is not sufficient to have power over the appointment of the governor of the bank, but also there must be in office a Government that wants to do the things that have to be done under monetary control. Government ownership is not enough. Government right to appoint directors and governors is not enough. We have got to have a Government that desires to do the thing that ought to be done. At that stage that Government has to get control of the necessary machinery to utilize the monetary factors and the credit and currency in the best way that they can be used for the benefit of all the people.

What is the object of taking control of the monetary machine? I have written it out so that there can be no doubt about it. I wrote it out in association with the Labour party some ten years ago. The object is the organization of credit resources so as to ensure the maximum utilization of our natural resources and the distribution of the product in a manner that will ensure the highest standard of living for all who render useful service. That is the objective of the Labour movement to-day.

Having done that, we shall make those credits available to the trading banks, in the amounts and volume necessary to enable them to assist in what we have set out to achieve.

We are hoping that the men in charge will stay on to the end, and that they will co-operate with the Government to ensure that the policy of the Government is given effect to.

The next point is the question of powers. That is the most profound section of the Bill, and I should read it. The provision is contained in clause 10, and is as follows:- "It shall be the general function of the Reserve Bank, within the limits of its powers, to give effect as far as may be to the monetary policy of the Government, as communicated to it from time to time by the Minister of Finance. For this purpose, and to the end that the economic and social welfare of New Zealand may be promoted and maintained, the Bank shall regulate and control credit and currency in New Zealand, the transfer of moneys to or from New Zealand, and the disposal of moneys that are derived from the sale of any New Zealand products and for the time being are held overseas."

The Act now on the statute- book provides that the Government can discount Treasury bills with the bank to the extent of one-half of its anticipated revenue. That would mean that in the current year £12,500,000 can be obtained from the Reserve Bank by the Treasury under Treasury bills. That amount is altered by the Bill to the whole of the estimated revenue. That means that Treasury bills could be discounted to the extent of £25,000,000 if the necessity arose.

The next point in connection with the powers of the bank is the right to buy and sell Government securities. It means that the bank has the right to take up, from the Government, securities to enable the Government to carry out its policy in connection with development works. The amount the Government should get from the Reserve Bank will be limited only by two things. If we find unused labour and unused raw material, and alongside those two factors there are lacking things necessary for the well-being of the people of the Dominion, then it is our work to see that the necessary stimulus of credit is given to the labour and the materials to enable the asset to be produced, and the asset, when produced, is the security given against the loan made by the Reserve Bank to the Government.

In addition, it is proposed to save a good deal of money in connection with the underwriting of Government loans. I do not want to worry the House with the cost incurred by the Government in raising loans overseas or in New Zealand. In connection with money obtained from a Government Department [The Reserve Bank], the cost of course, is practically nil, but, in regard to the raising of money overseas, it has been a heavy load on the community, and we want to get rid of that load at the earliest possible moment.

Reserve Bank of New Zealand: Bulletin, Vol. 69, No. 3

The policy origins of the Reserve Bank of New Zealand

Labour won more than 70 per cent of the seats in the 1935 election, and the government of Michael Joseph Savage had every intention of realising its own concept of a central bank.
The importance it placed on this issue was underlined by the fact that the Reserve Bank Amendment Act 1936 headed Labour's legislative programme for the year. Although called an 'amendment', this legislation actually introduced a number of fundamental shifts in the Reserve Bank's basis of establishment, function and operation.
It nationalised the organisation completely*, provided more scope for the Bank to extend credit to government and government agencies, and added a power that allowed the Reserve Bank to vary the reserve requirements on banks* – something that became the principal tool for active monetary management in the post-war period. The amendment also brought the operation of the Bank under more overt political control.

As Sutch put it:
(William Ball Sutch - New Zealand economist, historian, writer, public servant, public intellectual)

"*The Reserve Bank now has the power to underwrite Government loans, to extend long-term loans to the Government and to advance to the Government moneys on overdraft for the purchase and marketing of any New Zealand product.* The Bank is directed to control all foreign exchange funds resulting from New Zealand's exports and also the transfer of overseas funds to and from New Zealand. Power is also given to prevent, if necessary, the automatic convertibility of Reserve Bank notes into sterling. The Government would therefore, if the occasion arose, be able to stop a flight of capital or ration imports."

Greasley and Oxley have also argued, by counter-factual exercise, that the policies Labour adopted for the Reserve Bank in 1936 may have helped bolster a startling acceleration of recovery in GDP, more so than if these policies had not been adopted. This was, they suggest, a 'striking testimony' to the 'force of the new [economic] regime' as well as the 'decisive' importance of the Reserve Bank within it.

[Greasley, David and Les Oxley (2002), 'Regime shift and fast recovery on the periphery: New Zealand in the 1930s', Economic History Review, 55 (4).]

State credit and reconstruction: the first New Zealand Labour Government

Kerry Raymond Bolton
Academy of Social and Political Research, Athens, Greece

This 1936 Reserve Bank amendment bought the private stockholders out “at a handsome profit,” the bank came under complete State control, and the Board of Directors became “the direct servant of the Government of the day” who were obliged to fulfil the policy of Government and were subject to removal. The Bank’s function set out in Section 1 of the Act was to “regulate and control credit and currency in New Zealand” for the “economic and social welfare of New Zealand” (John A Lee, 1937, p. 6).

Of particular interest is that the Bank would underwrite any loan the Government desired to raise, and Treasury was empowered to borrow from the Reserve Bank the complete amount of estimated revenue for the year. The Bank also had complete control over the ownership of sterling exchange, which Lee explained was of “vital importance” in controlling the “international movement of gangster financial capital that can occur in times of political emergency” and can “raid a country’s external credit” (Lee, 1937, p. 7).

Subsection 3, Clause 18 of the Act gave the Government authority over the operations of the trading banks, and they were to be audited by the State. *Lee regarded the best feature of the Act to be that of returning profits to the nation accrued from State lending.*

The Reserve Bank issued the dairy industry state credit, at minor profit, where hitherto the private banks had gained through interest, with the additional factor that the profits that were made by the State on these advances were placed back into a Consolidated Fund. The aim was to eventually reduce the amount of interest to a charge for costs (Lee, 1937, p. 8).

Lee commented in his 1937 assessment that for the State Housing project the State had availed itself the prerogative to issue its own credit. An initial £5,000,000 (Olssen, 1977, p. 93) of state credit through the Reserve Bank was issued for housing (Lee, 1937, p. 10), via the Housing Account of the State Advances Corporation.

Lee cites Finance Minister Nash as stating to Parliament that the credit would be state issued in entirety as “new money” on which the interest earned in its entirety would return to the State as profit, while the houses would remain in State ownership.

This, it is now mostly forgotten, was the basis of New Zealand’s famous State Houses which served well (and continue to do so) – with their quarter acre sections and enduring construction – generations of New Zealanders. The credit was advanced to the Housing Department and Local Bodies

LEE = John A Lee – Labour MP for Grey Lynn 1935

STATE HOUSING IN NEW ZEALAND

Text by

CEDRIC FIRTH

Illustrations selected by

GORDON F. WILSON

MINISTRY OF WORKS
WELLINGTON, NEW ZEALAND
1949

Reserve Bank Credit: To finance its comprehensive proposals, the Government adopted the somewhat unusual course of using Reserve Bank credit, thus recognizing that the most important factor in housing costs is the price of money — interest is the heaviest portion in the composition of ordinary rent. The newly-created Department was able, therefore, to obtain the use of funds at the lowest possible rate of interest, the rate being 1 per cent for the first £5,000,000 advanced and $1\frac{1}{2}$ per cent on further advances. The sums advanced by the Reserve Bank were not subscribed or underwritten by other financial institutions. This action showed the Government's intention to demonstrate that it was possible for the State to use the country's credit in creating new assets for the country.

The fundamental premise, then, about housing had undergone a change. Housing was to become a Public Utility, the right to live in a decent dwelling being regarded as on the same level as the right to education, sanitation, to good and abundant water, to an adequate road system, and to a certain amount of medical care. Probably it would be true to say that this premise has now gained fairly wide acceptance.

Rents: Rents for State houses were worked out originally on such a basis that the resultant revenue over the whole of the Dominion was sufficient to provide adequate reserves for depreciation, maintenance, insurance, losses and vacant tenancies, and to cover all interest charges and management expenses and to yield a small surplus. It was part of the policy to build up a depreciation reserve which in sixty years would cover the estimated cost of construction so that when complete rebuilding became necessary sufficient funds would be in hand for that purpose. At the present time, however, rents are not based on the cost of the dwellings but are assessed according to their area and location.

Provision is contained in the Finance Act, 1943, for the tenant of a State house to make arrangements whereby in consideration of special payments he becomes entitled to remain the occupier of the dwelling rent free, or at a reduced rental, on attaining a specified age. The arrangement may also entitle his widow to occupy the premises on the same terms, or he may nominate any of his children to become the tenant after his death. This Act also secures the tenant in his occupation of his house by preventing him from being ejected other than for a breach of the tenancy agreement.

The Sphere Broadened: Under the Ministry of Works Act, 1943, the execution of all Government works, including the erection of houses and the reservation, acquisition, or improvement of land for housing purposes came under the charge of the Minister of Works.

By the Finance Act, 1945, the taking of land for a number of public works in any area was co-ordinated to provide for one taking instead of a large number of takings. This relieves the Government of the necessity of having to plan the area in detail before-

Could the same thing be done today ?

Power of Printing Money

By Bernard Hickey - NZ Herald - Sunday Feb 26, 2012

Bernard Hickey is Managing Editor of Newsroom, former editor of interest.co.nz , and a commentator on economics.

It's time the Reserve Bank of New Zealand started printing money and lending to our government to build houses and infrastructure, particularly in Christchurch.

Right now our major trading partners are doing exactly this. We should at least be talking about it.

Central banks throughout the Northern Hemisphere are doing similar things.

The United States Federal Reserve, the Bank of Japan, the Bank of England, the Peoples' Bank of China and the European Central Bank have printed a combined US$10 trillion ($12 trillion) in the past four years and spent it on all manner of bonds and cash injections into banking systems.

This process, known as "quantitative easing", is often a last resort after interest rates have been cut to almost zero.

Many argue it has been ineffective because the money went straight into the banking system and parked there, or was used to pump up the prices of various assets, including shares, gold and bonds.

Lending this new money directly to governments to spend immediately on infrastructure, goods and services would have been a much wiser idea. China did this most effectively.

Isn't it better for our Government to be borrowing from its own central bank than from foreign banks and pension funds? *Wouldn't it be better employing the unemployed to build new houses and repair Christchurch's infrastructure than to just sit back and let it happen? Wouldn't it be better to print the money to fund the deficit than choose to sell public assets to do it? It would devalue our currency, but is that such a bad thing when we need to boost our exports?*

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Finding The Money

Bryan Gould - July 4th 2018

So, the chickens are coming home to roost – and with a vengeance. The tragedy for the new government is that the chickens were bred and raised by the previous government, and are only now flying in, in large numbers and with hefty price tags.

We are now getting some idea of the price that has to be paid for those "business-friendly" policies that were celebrated for their success in producing a "surplus" (at least for the government).

That price includes large numbers of underpaid public servants – nurses, teachers, midwives, care workers, Inland Revenue workers – and underfunded public services – health care, schools, keeping our water and rivers clean, and bio-security at our borders. The bio-security failure alone will cost the current government around $900 million – the amount awarded by the courts for the previous government's negligence in allowing PSA to decimate the kiwifruit industry (and that's to say nothing of the cost of the myco-plasma bovis outbreak).

Through no fault of its own, the new government is having to pay up for the mess made by its predecessor, and that costs money that cannot, it seems, be easily found. Every dollar paid to clean up the mess is said to be a dollar less for the government's real aims – to improve our public services, to rescue our environment, to save families from poverty, to provide recent housing for everyone.

But is that really the case? There may be other shortages – labour or land, or skills or technology, or materials – but a shortage of money should not be one of them. How do we know that? Because, as an increasing number of experts recognise, and as our own experience teaches us, the government of a sovereign country need never be short of money.

This is because money, in a developed economy, is what the government says it is. Indeed, it is often called fiat money because it exists only by the say-so of the government – and, as the economist, Ann Pettifor, says, that means that "we can afford what we can do."

Most of the money in our economy sits in bank accounts, and a large proportion of that money is created by the banks when they makes loans, usually on mortgage. The fact that the commercial banks create over 90% of the money in circulation out of nothing is still disputed by some (including by those who should know better) but is now attested to by the world's central banks, by top monetary economists (such as Lord Adair Turner, former Chair of the UK's Financial Services Authority and a leading advocate of "helicopter money") and by leading economic journals such as the Financial Times and The Economist.

This raises the question – if the banks are allowed to create money out of nothing (and then to charge interest on it), why should governments be inhibited about doing so? And indeed, they are not so inhibited – governments all around the world have over recent years pursued policies of "quantitative easing", and on a very large scale – and "quantitative easing" is just another way of describing the creation of new money.

The money created in this way has been directed to building up the balance sheets of the banks in the wake of the Global Financial Crisis, but there is no reason why it should not be applied to other (and more productive) purposes – as it has been in many countries, as well as New Zealand, in the past. Japan, for example, both today and immediately after the Second World War, used this technique to get their economy moving and to build the strength of their manufacturing industry ; in doing so, they followed the precepts of the great Japanese economist, Osamu Shimomura, who is virtually unknown in the West.

The Chinese government today follows similar policies. President Roosevelt in the US did likewise, before the US entered the Second World War, so as to build the strength of American industry and military capability; and, in New Zealand, Michael Joseph Savage authorised the Reserve Bank to issue interest-free credit in the 1930s so as to take us out of recession and finance the building of thousand of state houses.

All that inhibits our current government from using this technique is the fear that some will disapprove and regard it as taking risks with inflation. But, as John Maynard Keynes observed, "there may be good reasons for a shortage of land but there are no good reasons for a shortage of capital."   He went on to say that, if an increase in the money supply is applied to productive purposes so that output is increased, it cannot be inflationary.

As the new Labour-led government faces financial constraints not of its own making, why not emulate Michael Joseph Savage and authorise the issuing of interest-free credit to be applied to investment in stimulating new production?   The Provincial Growth Fund would seem to be an ideal vehicle; funding investment in new infrastructure in this way would free up financial resources that could then be applied to current expenditure, such as paying the nurses and teachers what they deserve.

Bryan Gould was elected in 1994 to the House of Commons as Labour MP. He was a member of Labour's Shadow Cabinet and contested the Labour Party leadership in 1992. He returned to New Zealand to become Vice-Chancellor of Waikato University in 1994, a position from which he has now retired.

From an International Monetary Fund report released in August 2012 titled "The Chicago Plan Revisited"
"Allowing the Government to issue money directly at zero interest, rather than borrowing that same money from banks at interest, would lead to a reduction in the interest burden on government finances and to a dramatic reduction of (net) government debt, given that irredeemable government-issued money represents equity in the common wealth rather than debt."

"What would cease to exist however is the proliferation of credit created, at the almost exclusive initiative of private institutions, for the sole purpose of creating an adequate money supply that can easily be created debt-free".

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From Monetary Reform - A Better Monetary System for Iceland – a comprehensive 134 page report, commissioned by the Prime Minister of Iceland 2015.

*"…the Central Bank 0f Iceland [Reserve Bank] can create the money that is needed by the economy. When the CBI creates sovereign money the government can spend **<u>or invest it into circulation</u>**."*

*"By using a state created money supply, instead of effectively 'renting' the money supply from private banks, the **<u>overall level of debt</u>** in the economy **<u>will be reduced</u>**."*

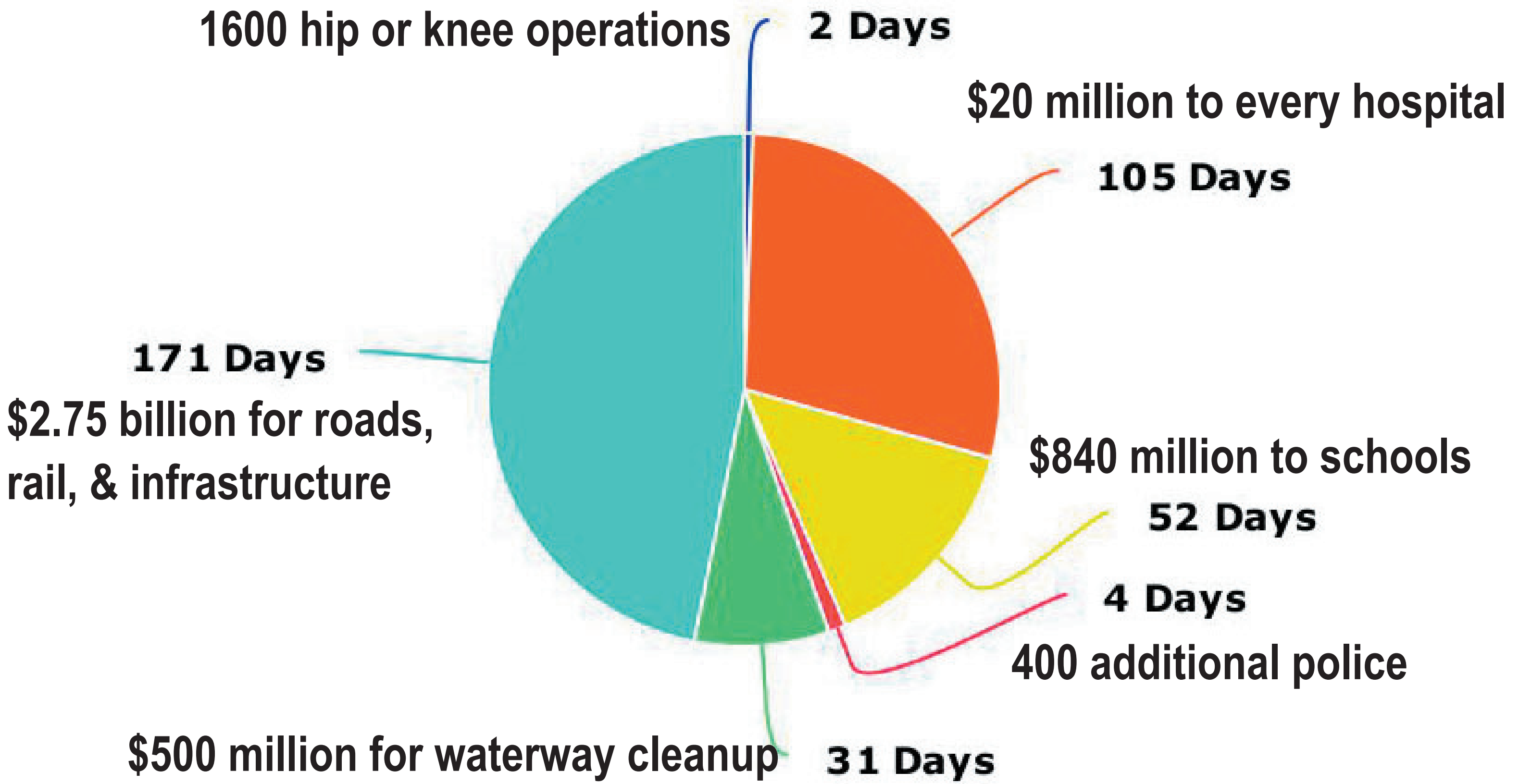
<u>The power for government to borrow from the Reserve Bank is still on the statute books.</u>

<u>Public Finance Act 1989</u>

47. Minister may borrow on behalf of the Crown if in public interest

(1) The Minister, on behalf of the Crown, may borrow money if it appears to the Minister to be necessary or expedient in the public interest to do so.
(2) The Minister may borrow money from any person, organisation, or government (either within or outside New Zealand).
(3) Except as otherwise provided in any Act, all monies received as a result of money being borrowed under subsection (2) must be paid into—
(a) a Crown Bank Account; or
(b) if the Minister directs, a Departmental Bank Account.

The extra you could benefit from *every year* if the Government and Councils borrowed from the Reserve Bank at no interest



Taxpayers Money Wasted

$16 million per day $5.84 billion per year

Wasted because the Government won't borrow from its own bank

It funnels your money into the profits of overseas banks instead

Social Credit - Commonsense Economics

www.socialcredit.nz

Where does new money come from ?

Mostly from banks when they make loans !

John Kenneth Galbraith - (1975) Money: Whence It Came, Where It Went, Ch. III, p. 18

"The process by which banks create money is so simple that the mind is repelled."

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1) - two letters from the **New Zealand Reserve Bank** and a quote from the Reserve Bank Bulletin, Vol. 71, No. 1, March 2008

2) - quotes from the **Bank of England Quarterly Review** Q1 2014 which explains how the Reserve Bank could provide the funds

3) - quote from **Tragedy and Hope – A History of the World in our Time** – Prof. Carroll Quigley (professor to former US President Bill Clinton)

4) - a comprehensive **International Monetary Fund** report released in August 2012 titled "The Chicago Plan Revisited"

5) - excerpts from a report dated March 2015 commissioned by the **Prime Minister of Iceland** titled "Monetary Reform - A Better Monetary System For Iceland"

1. As the New Zealand Reserve Bank explains in two letters below, 97% of our money supply is created by commercial banks:

RESERVE
BANK
OF NEW ZEALAND

1 September 1994

Mr Stan Fitchett
99 Suva Street
Riccarton
CHRISTCHURCH 4

Dear Mr Fitchett

Thank you for your letter of 24 August regarding the creation of money.

As you noted, banks do create money and credit, adding to broad measures of the money supply.

The percentage of the money supply which is created by banks and other financial institutions depends on the particular definition of the money supply used. Notes and coins, the narrowest definition of money, are only issued by the Reserve Bank. Commercial banks cannot print and issue currency.

However, notes and coins make up only a small proportion of broader measures of money and credit - the majority being created by banks. A commonly used definition of the broad money supply is M3, which includes currency plus deposits at most financial institutions. In June 1994 M3 was $66 billion. Currency and primary liquidity, issued by the Reserve Bank, were around $2 billion in June. Therefore around three percent of M3 is created by the Reserve Bank (currency and primary liquidity), with the remainder being created by commercial banks.

I hope that this has answered your queries.

Yours sincerely

Bryan Chapple
Economics Department

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Telephone (NZ) 64-4-472-2029
Fax (NZ) 64-4-473-8554, Telex (NZ) 3368

RESERVE BANK OF NEW ZEALAND

26 May 2003

Dear Mr Fitchett,

Thank you for your enquiry about the origin of the money in circulation.

Basically, you are quite correct. Since 1990, notes and coins in circulation have ranged between 2 and 3 per cent of M3, averaging approximately 2.3 percent. This proportion varies seasonally; it tends to be considerably higher than average over the Christmas period. As you say, the other 97 per cent of money is credit, created by the banking system.

Yours sincerely

Isabelle Sin
Economic Analyst
Policy Team

The Reserve Bank of New Zealand (*Bulletin,* Vol. 71, No. 1, March 2008)

"In a modern economy, money can be created either by the central bank (the Reserve Bank, in New Zealand's case) or by private sector institutions – in practice, mostly registered banks. In practice, by far the largest share of money – 80 percent or more, …is created by private sector institutions (banks)."

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2. As the Bank of England explains in its Quarterly Review Q1 2014 and in a video on its web site:

"One common misconception is that banks act simply as intermediaries, lending out the deposits that savers place with them."
"…..rather than banks lending out deposits that are placed with them, the act of lending creates deposits. ***Commercial banks create money."***
"Of the two types of broad money, bank deposits make up the vast majority - 97% of the amount currently in circulation. ***And in the modern economy, those bank deposits are mostly created by commercial banks themselves.****"*

3. From Tragedy and Hope – A History of the World in our Time – Professor Carroll Quigley.

"Loans were made by creating a deposit for the borrower, who in turn would draw checks upon it rather than withdraw it in money. Such created deposits also were a creation of money out of nothing."

****

4. International Monetary Fund report released in August 2012 titled "The Chicago Plan Revisited"

"And because of this, private banks are almost fully in control of the money creation process".

"Allowing the Government to issue money directly at zero interest, rather than borrowing that same money from banks at interest, would lead to a reduction in the interest burden on government finances and to a dramatic reduction of (net) government debt, given that irredeemable government-issued money represents equity in the common wealth rather than debt."

"What would cease to exist however is the proliferation of credit created, at the almost exclusive initiative of private institutions, for the sole purpose of creating an adequate money supply that can easily be created debt-free".

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5. Monetary Reform - A Better Monetary System for Iceland – a comprehensive 134 page report, commissioned by the Prime Minister of Iceland 2015.

"In the current system the bulk of new money is created when banks make loans. This means that in order to create new money for a growing economy, households and businesses [and councils] must go deeper in debt.
The money supply is currently issued only when households or businesses [and councils] take on loans from the banks, **placing an unnecessary burden of interest payment on society**."

"…the Central Bank of Iceland [Reserve Bank] can create the money that is needed by the economy. When the CBI creates sovereign money the **government can spend** **or invest it into circulation**."

"By using a state created money supply, instead of effectively 'renting' the money supply from private banks, the **overall level of debt** in the economy **will be reduced**."

Contact:- Chris Leitch, 42 Reyburn House Lane, Whangarei. Ph 021 922098
For further information and endorsements go to www.tellmemore.org.nz
For more on Social Credit in New Zealand go to www.socialcredit.nz