Phase II Monetary Policy

When the ABC enters Phase II, a new monetary policy will guide us to a new world as we cross the hyperdeflation event horizon.

The ABC Commons Trust enters Phase II when three conditions have been met.

1. There is an insufficient supply of available land to keep the VIP$ below 200% of peg. Remember, revaluations are not allowed in Phase I.
2. There are no logistical impediments to land purchase.
3. There is a sufficient quantity and quality of commons trust land to provide food and housing for the entire world's population. This is at least 15% of the world's land value (about $32 trillion 2018 dollars). The examples below use the projected $85.9 trillion of land purchased into the commons trust.

Those jurisdictions that place political obstacles in the way of land purchase are not entitled to the potentially very large Freedom Tax. The more political obstacles that exist toward the end of Phase I, the larger the Freedom Tax basis (residual land fund) and the greater the payoff for removing those obstacles. This equilibrating force ensures that the conditions for Phase II will be met.

For the ABC, Phase II differs from Phase I, in that a U.S. dollar land fund is no longer maintained. All subsequent purchases of land into the ABC Commons Trust are in VIP$ and initiated by the seller.

Purchasing agents handle closings and optionally engage in marketing the idea of selling one's land into the commons for VIP$. However, with the VIP$ back at 99% of peg, and the Freedom Tax gone, it will be a hard sell.

In Phase II, the VIP Treasury revalues the VIP$ frequently to keep it at 99% of peg. However, a revaluation should be avoided if there is an expected large land purchase scheduled for closing.

In Phase II, there is no longer any floor on the VIP$, so a large land purchase immediately following a revaluation will lead to temporary deeper discounting. In addition to the sharp increase in the VIP$ dividend and treble arbitrage demand as a response to a deeper discount, the natural deflation in the VIP$ during Phase II will always prevail.

The goal of Phase II is hyperdeflation of the VIP$. Parameters and variables that determine the rate of attaining this goal are discussed in the module Hyperdeflation Scenarios. Political considerations are one reason to speed up or slow down the movement toward hyperdeflation.

What those might be and whether they are legitimate or illegitimate is impossible to say at this point. The VIP Treasury is subject to an oversight board representing a broad spectrum of people and interests, including an ever-increasing representation from the Phase II cellular democracies.

The accepted method of increasing time to hyperdeflation is by loosening the circuit breaker that cuts off the awarding of new Earth Dividends. However, this only works early in Phase I when a loose circuit breaker could be tripped. Once a more serious rate of deflation sets in, circuit breakers cannot stop it.

Decreasing the present value of an Earth Dividend from 250,000 VIP$ to the true deflation-based present value will slow an approaching hyperdeflation event that is more than a year away, but it will have little effect a few months away from the hyperdeflation event horizon. A safer way to slow an approaching hyperdeflation, also only effective a year out, is to lower the maximum bid in Earth Dividend auctions. Winning bidders are chosen by lottery.

A legitimate reason to slow hyperdeflation is that productive resources have not sufficiently shifted to servicing the Earth Dividend. Although this is demanded by the market, political forces could slow the transfer of industry into servicing food, housing, local government, and the AFFEERCE paradigms of healthcare and education. Political impediments are most likely for the latter two.

Hyperdeflation is a weapon, and if progress is not being made toward these goals due to political impediments, speeding up the time to the hyperdeflation event rather than slowing it down might be in order. As seen in Hyperdeflation Scenarios, once the hyperdeflation event horizon is reached, land purchases no longer have a material effect on the VIP$ market. The only thing that can stop hyperdeflation once it starts is the elimination of all fiat currencies through Worldwide Federation and the universal awarding of Earth Dividends.

In the examples, Phase II begins at the start of year 21. This is arbitrary, although Phase II conditions are logistically unlikely to be met much sooner. Political incentives, such as a Freedom Tax that eliminates political obstacles, and demand for an Earth Dividend will make it unlikely to go on much longer. All other things being equal, the more time passes before Phase II begins, the more orderly the transition to the new epoch becomes.

Although the natural market-induced reallocation of physical resources begins with the first Earth Dividend issued, it takes time before a trend is believed and more time to retool and retrain. It takes time for local governments to adapt to new revenue sources and gain confidence before they phase out the old.

Year 21 with $86.9 trillion of land value is a reasonable goal, unless new information discovered in the development of the business plan comes to light. Remember as well that these are virtual years.

There may be deep discounting of the VIP$ on one hand (a fall below 99% of peg), or huge premiums on the VIP$ from a logistical or political inability to purchase land. This will stop the clock until both ram and jam and 99% peg equilibrium are restored, or the Phase II conditions are met.

Phase II's presumed money supply is based on the WEB, or ratio of total world M2 currency to total world land value. The worlds' money supply of $90 trillion (2019 dollars) is assumed true at the start of Phase II. Of that $90 trillion, $65 trillion VIP$ (last column) are in circulation. The assumption is that 2/3 of fiat currency has already been replaced. If not, the fiat currency will be inflated going into Phase II.

Month	Land Value in Commons	Total VIP$ Minus Bank (Month 240 = Parity)	Rent Share to Earth Dividend Subsidy Fund	EDSF + Present Value Fund	Supported Earth Dividend Holders	Monthly Ground Rent Revenue	VIP$ Savings, Retail and Treble Demand (Month 240 = Parity)
240	86,216,152,000,000	75,436,388,945,536	$47,405,434,086	8,161,698,091,976	32,646,792	$180,592,129,851	65,107,585,295,346
241	86,216,152,000,000	75,436,388,945,536	$94,791,905,998	8,233,930,702,534	32,836,414	$180,556,011,425	65,035,786,105,899

While the ABC is chartered to follow the advice of the VIP Treasury on the structure of Earth Dividend auction lotteries (maximum bid, percent of nominally available Earth Dividends, qualifications for a nominal Earth Dividend, and qualifications for different auctions/lotteries), Phase II communities are free to do what they will with the Earth Dividends generated in their commons trust.

They could sell them, auction them only to new residents who lack a dividend, give them away as prizes, or do anything else imaginable and legal under the legacy government. The VIP Treasury will issue special guidance to Phase II communities. Given a common set of goals, the advice will tend to be followed.

The VIP Treasury needs to measure the degree of VIP$ hoarding, over and above the anticipated savings rate. Hoarding will accelerate the time to the hyperdeflation event and should be countered with monetary tools.

One such tool is the price paid for property. Because the Treasury establishes the fair market price for property purchased into the commons trust, it is authorized to pay up to a 1% premium. This was true in Phase I. In Phase II, it is allowed to add a higher premium with the consent of the oversight committee.

Another tool to stall revaluation is to empty the bank. Currency banked during Phase I by the ABC can be released. In Phase I simulation, about 11 trillion VIP$ were banked. The VIP Treasury sells these VIP$ on the open market as needed and returns the U.S. dollar proceeds to the now empty ABC Land Fund.

The ABC can use the land fund to purchase land (at a 1% premium to the VIP$) into the ABC Commons Trust. If there are no sellers within a year, the dollars are used as a special Phase II Freedom Tax.

In Phase II, the simulations, except when explicitly measuring the effect of a property purchase, treat the supply of VIP$ as constant. Thus, there is natural deflation as 52.5% of all ground rent is sequestered in the EDSF. With the supply of VIP$ always shrinking, and the demand for VIP$, in order to enter Earth Dividend auctions growing, deflation and revaluation of the VIP$ are inevitable.

One effect of the deflation will be to encourage governments to sell their national parks and other strategic land into the commons trust. District councils will be asked to preserve covenants (e.g., keep national parks as national parks) by desperate legacy governments.

The VIP Treasury will usually make a monetary policy recommendation to the district councils based on the need for the land purchase. The district councils will weigh all advice and make their own decision. Covenants do not negate the treble. For instance, a trebler of a public national park must maintain it as a public national park, although they would control gate receipts and concessions.

The Natural Exchange Rate

The VIP$ trades at a 1% discount to the U.S. dollar during Phase I. This is also a 1% discount to the peg, assuming a peg at parity. In Phase II, the appreciating VIP$ returns to a 1% discount to peg, with revaluations, but it is no longer at a 1% discount to the U.S. dollar. For a while, the change is not dramatic.

In the simulation, it takes 34 years of Phase II before the exchange rate drops to 1 VIP$ = $0.50 U.S. However, at the hyperdeflation event horizon, revaluations are impractical and the VIP$ appreciates to 100% of peg, then 1,000% of peg, and then 10,000% of peg, perhaps within a few days or even hours. An exchange rate of $0.50 becomes an exchange rate of $0.05 and then $0.005.

Is there a point where a further decrease in the exchange rate no longer benefits the goals of a universal Earth Dividend and Worldwide Federation? There is, and it is defined as the natural exchange rate. It is the exchange rate that equates two quantities. The Present Value Fund divided by the world population is equated with the amount of a fiat currency needed to fund a single Earth Dividend.

In the simulation, 8 billion is used as the world population. How about the fiat currency needed to fund an Earth Dividend? In terms of U.S. dollars, this was $250,000 in month 240.

Month	EDSF + Present Value Fund	Supported Earth Dividend Holders	Monthly Ground Rent Revenue	Cumulative VIP$ Deflation	Natural Exchange Rate 1 VIP$ =	Market Exchange Rate 1 VIP$ =
240	8,161,698,091,976	32,646,792	$180,592,129,851	0%	$0.0021	$0.9900
241	8,233,930,702,534	32,836,414	$180,556,011,425	0.11%	$0.0022	$0.9889
242	8,305,933,172,748	33,215,581	$180,719,233,176	0.22%	$0.0022	$0.9878
243	8,377,708,568,950	33,595,092	$180,889,071,152	0.34%	$0.0022	$0.9867
244	8,449,256,463,103	33,974,959	$181,059,125,669	0.45%	$0.0023	$0.9855
245	8,520,576,307,927	34,355,183	$181,229,179,118	0.57%	$0.0023	$0.9844
246	8,591,667,549,214	34,735,764	$181,399,219,604	0.68%	$0.0023	$0.9833
247	8,662,529,629,556	35,116,703	$181,569,242,048	0.79%	$0.0024	$0.9822
248	8,733,161,988,453	35,497,998	$181,739,241,553	0.91%	$0.0024	$0.9811
249	8,803,564,062,297	35,879,650	$181,909,213,173	1.02%	$0.0024	$0.9800
250	8,873,735,284,347	36,261,660	$182,079,151,913	1.13%	$0.0025	$0.9789
251	8,943,675,084,712	36,644,026	$182,249,052,723	1.25%	$0.0025	$0.9778
252	9,013,765,613,339	36,644,026	$182,418,910,500	1.36%	$0.0026	$0.9767
253	9,083,624,489,491	37,027,106	$182,589,821,777	1.47%	$0.0026	$0.9756
254	9,153,634,596,797	37,027,106	$182,760,727,473	1.59%	$0.0026	$0.9745
255	9,223,412,842,721	37,410,903	$182,932,696,951	1.70%	$0.0027	$0.9734
677	39,860,488,768,613	211,205,958	$576,582,217,545	127.20%	$0.1456	$0.4357
678	40,001,551,446,187	212,416,780	$588,447,191,307	129.47%	$0.1470	$0.4314
679	40,148,700,645,521	213,652,519	$601,685,057,418	131.97%	$0.1485	$0.4268
680	40,302,835,816,932	214,916,058	$616,617,324,508	134.76%	$0.1499	$0.4217
681	40,465,093,462,003	216,210,954	$633,684,709,103	137.90%	$0.1515	$0.4161
682	40,636,945,973,795	217,541,692	$653,510,873,377	141.52%	$0.1530	$0.4099
683	40,820,360,358,304	218,914,065	$677,013,004,979	145.76%	$0.1546	$0.4028
684	41,018,067,296,565	220,335,792	$705,605,445,479	150.89%	$0.1563	$0.3946
685	41,234,049,037,438	221,817,564	$741,603,274,171	157.31%	$0.1581	$0.3847
686	41,474,503,608,337	223,374,931	$789,100,218,806	165.82%	$0.1600	$0.3724
687	41,749,980,178,669	225,032,041	$856,125,907,521	178.08%	$0.1620	$0.3560
688	42,080,918,568,790	226,829,906	$960,912,532,025	198.32%	$0.1643	$0.3319
689	42,515,854,619,116	228,847,822	$1,155,197,868,784	241.63%	$0.1670	$0.2898
690	43,220,852,435,568	231,273,737	$1,655,198,300,463	427.05%	$0.1708	$0.1878
691	45,593,180,237,984	234,749,654	$4,724,042,405,589	65107585195.35%	$0.1812	$0.0000

However, that assumed a 4% return, 3.9% which was the natural deflation of the VIP$. In federated countries, the deflation is countered with reimbursement of local infrastructure and intellectual property royalties. So, the real rate of return is just 0.1% for the VIP$ dividend.

The Phase II monthly distribution of $1,000 rises to $1,200 in federation. This also increases the present value. The new average present value rises to $474,578.

However, the cost of an Earth Dividend is being driven down by productive resources reallocating to service the Earth Dividend. This reduction in cost is independent of the currency.

No matter how badly the U.S. dollar is inflating, the relative price of discretionary items versus food and housing will constantly increase. The expected deflation rate of Earth Dividend services is assumed in the simulation to be a rather high 0.6% monthly, or about the same rate as the average monthly increase in the number of Earth Dividend holders.

The table above shows the natural exchange rates and market exchange rates for the first 15 months of Phase II, followed by month 677 through the hyperdeflation at month 691. Other columns are shown as well.

At the start of Phase II, the market value of the VIP$ is the expected $0.99, but the natural exchange rate for a VIP$ is only 1/5 of a penny. With deflation, the market rate falls to 44 cents by month 677, a year later in month 689 it is 29 cents, 19 cents by month 690, and it isn't measurable within 4 decimal places in the hyperdeflation event of month 691.

Meanwhile, the natural exchange rate rises to 17 cents by month 690. Not coincidentally, the natural exchange rate surpasses the market exchange rate at the hyperdeflation event horizon.

What Happens at the Hyperdeflation Event Horizon?

Why is hyperdeflation the goal of Phase II? Because hyperdeflation makes Worldwide Federation possible in a very short period of time.

The criteria required to be the first nation allowed to federate are as strict as the criteria for Phase II. 2/3 of the land must be in the commons trust and 2/3 of the population must live on commons trust land. In addition, over half of the population must live in Phase II communities.

If no nation qualifies, the VIP Treasury should try and hold off hyperdeflation until one does. However, if the reason no nation qualifies is because of political obstacles to purchasing land, there is no reason to delay hyperdeflation. Hyperdeflation erases political obstacles by making all fiat currencies worthless.

It is expected that almost all land owned by governments around the world will be sold into the commons trust at the onset of hyperdeflation. Because much of this land will be under covenant, rents are somewhat protected from the hyperdeflation.

These VIP$, in addition to the VIP$ received each month by those fortunate enough to have the Earth Dividend, will serve as currency until the federation ratification process is complete. Federation is demanded because it rehabilitates the fiat currency of legacy governments at the natural exchange rate described above. After the hyperdeflation event, the market exchange rate is far less than the natural exchange rate.

People, businesses, and cellular governments in any nation, upon approving the amendments for federation, can exchange their fiat currency for VIP$ at the natural exchange rate. In order to federate, the constitutional amendments must be approved twice. Once in a manner prescribed by the legacy government and once by the cellular democracy with a 2/3 plurality. If the candidate nation's currency is also the pegged currency, the peg is moved to another fiat currency.

With the onset of hyperdeflation, debt-based capitalism comes to an end. There are no more fiat currency loans outstanding. All fiat currency is created for deposit insurance or other bailouts. The amount of fiat currency in circulation can be fairly well estimated from central bank and treasury balance sheets.

Suppose the U.S. had $3.7 trillion outstanding (the VIP$ would have taken over as the primary currency since the middle of Phase I). At the natural exchange rate of $0.1823, 670 billion VIP$ would be created for the exchange.

Countries can avoid some of the chaos of federation at hyperdeflation by adopting the VIP$ as the national currency during Phase I when the market rate is $0.99. Smart nations will encourage Phase II communities and the shifting of local and then regional power to the cellular democracy. They will use the Freedom Tax to pay off all debt. Dual power between the national-level cellular district and the legacy government should be harmonious and geared toward the transition.

The downside of converting to the VIP$ is the deflation. Exporting to countries with fiat currencies will be impossible in the year before hyperdeflation. On the other hand, imports will be very cheap. Once the nation federates, the Earth Dividend will be given to all citizens who have yet to receive one. This should counter deflation for a few months.

After that, the VIP Treasury will initiate the program to reimburse local infrastructure in order to stop deflation, (the VSG network must be in place before the new intellectual property paradigm can begin). Until the majority of the world's nations and population have federated, hyperdeflation is the principal mandate of the VIP Treasury, so some deflation will need to be endured by federated nations until that goal is met.

The last nations to federate miss many months of the universal Earth Dividend and VIP Treasury payouts. But they do end up with the highest natural exchange rate.

When the hyperdeflation ends with Worldwide Federation, the epoch of Land-based capitalism begins!