Phase II Monetary Policy and Federation Transition

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 insufficient “for sale” land to keep the Elsie below 100% of the 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 190 million properties with an average price of $250,000 in 2022 dollars).
4. Those jurisdictions that place political obstacles to land purchase are not entitled to the potentially very large Freedom Tax. The more political barriers 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For the ABC, Phase II differs from Phase I in that a U.S. dollar land fund is no longer maintained.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 land purchases into the ABC Commons Trust are in Elsies and initiated by the seller.

Purchasing agents handle closings and optionally market the idea of selling one’s land into the commons for Elsies. However, with the Elsie back at 99% of the peg and the Freedom Tax gone, it will be a hard sell.

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

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

The goal of Phase II is hyperdeflation of the Elsie. 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 the movement toward hyperdeflation.

It is impossible to say what those might be and whether they are legitimate or illegitimate. 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 the time to hyperdeflation is loosening the circuit breaker that cuts off the awarding of new Earth Dividends. However, this only works early in Phase II when a loose circuit breaker could be tripped. Once a more severe rate of deflation sets in, circuit breakers cannot stop it.

Decreasing the present value of an Earth Dividend from Ⱡ400,000 to the actual deflation-based present value will slow an approaching hyperdeflation event more than a year away. Still, it will have little effect when a few months from the hyperdeflation event horizon. A safer way to slow an approaching hyperdeflation, which is 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 the market demands this, political forces could restrict industry transfer 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 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 affect the Elsie 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 190 million properties, as described above, is a reasonable goal unless new information discovered in the business plan development comes to light. Remember as well that these are virtual years.

There may be deep discounting of the Elsie on the one hand (a fall below 99% of the peg) or huge premiums on the Elsie 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.

In some simulations, Phase II's presumed money supply is based on the WEB, or ratio of total world M2 currency to total world land value. The world's money supply of $90 trillion (2019 dollars) is assumed to be accurate at the start of Phase II. Of that $90 trillion, Ƚ65.11 trillion Elsies (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	Total Elsies Month 240 = Parity	Rent Share to Earth Dividend Subsidy Fund	EDSF + Present Value Fund	Supported Earth Dividend Holders	Monthly Ground Rent Revenue	Elsie Savings, Retail and Treble Demand Month 240 = Parity
240	75,436,388,945,536	$140,861,861,284	8,161,698,091,976	32,646,792	$180,592,129,851	65,107,585,295,346
241	75,436,388,945,536	$135,417,008,569	8,275,671,566,490	33,210,239	$180,556,011,425	64,994,045,241,943
242	75,436,388,945,536	$135,626,489,214	8,389,415,512,468	33,751,907	$180,835,318,952	64,876,949,605,638
243	75,436,388,945,536	$135,844,582,189	8,502,937,828,829	34,294,413	$181,126,109,586	64,759,937,801,679
244	75,436,388,945,536	$136,063,737,280	8,616,238,559,568	34,837,792	$181,418,316,373	64,643,130,589,489
245	75,436,388,945,536	$136,283,705,393	8,729,317,486,244	35,382,047	$181,711,607,190	64,526,532,173,008
246	75,436,388,945,536	$136,504,480,510	8,842,174,380,742	35,927,182	$182,005,974,014	64,410,142,876,628
247	75,436,388,945,536	$136,726,064,744	8,954,809,013,720	36,473,199	$182,301,419,659	64,293,962,895,910
248	75,436,388,945,536	$136,948,460,473	9,067,221,154,872	37,020,104	$182,597,947,297	64,177,992,423,098

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 imaginable and legal under the legacy government. The VIP Treasury will issue guidance to Phase II communities. Given a standard set of goals, the advice will tend to be followed.

The VIP Treasury needs to measure the degree of Elsie 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 can pay up to a 33% premium. This was true in Phase I. In Phase II, a higher premium can be added with the consent of the oversight committee.

The ABC can use what remains of the land fund to purchase land into the ABC Commons Trust. Without sellers within a year, the dollars are used as a Phase II Freedom Tax.

In Phase II, the 6.0 simulation, except when explicitly measuring the effect of a property purchase, treats the supply of Elsies as constant. Thus, there is natural deflation as 50% of all ground rent is sequestered in the EDSF. With the pool of Elsies continually shrinking and the demand for Elsies to enter Earth Dividend auctions growing, deflation and revaluation of the Elsie are inevitable.

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

The VIP Treasury will usually recommend monetary policy to the district councils based on land purchase needs. 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 Elsie 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 Elsie returns to a 1% discount to the 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.

The 6.0 simulation takes 34 years of Phase II before the exchange rate drops to Ł1 = $0.50 U.S. However, at the hyperdeflation event horizon, revaluations are impractical. The Elsie appreciates to 100% of the peg, then 1,000% of the peg, and then 10,000% of the 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 to two quantities. The Present Value Fund divided by the world population is equated with the fiat currency needed to fund a single Earth Dividend.

Month	EDSF + Present Value Fund	Supported Earth Dividend Holders	Monthly Ground Rent Revenue	Cumulative Elsie Deflation	Natural Exchange Rate 1 Elsie =	Market Exchange Rate 1 Elsie =
240	8,161,698,091,976	32,646,792	$180,592,129,851	0%	$0.0021	$0.9900
241	8,275,671,566,490	33,210,239	$180,556,011,425	0.17%	$0.0022	$0.9883
242	8,389,415,512,468	33,751,907	$180,835,318,952	0.36%	$0.0022	$0.9865
243	8,502,937,828,829	34,294,413	$181,126,109,586	0.54%	$0.0023	$0.9847
244	8,616,238,559,568	34,837,792	$181,418,316,373	0.72%	$0.0023	$0.9829
245	8,729,317,486,244	35,382,047	$181,711,607,190	0.90%	$0.0024	$0.9812
246	8,842,174,380,742	35,927,182	$182,005,974,014	1.08%	$0.0024	$0.9794
247	8,954,809,013,720	36,473,199	$182,301,419,659	1.27%	$0.0025	$0.9776
248	9,067,221,154,872	37,020,104	$182,597,947,297	1.45%	$0.0025	$0.9759
249	9,179,410,572,922	37,567,898	$182,895,560,103	1.63%	$0.0026	$0.9741
250	9,291,377,035,611	38,116,584	$183,194,261,243	1.82%	$0.0026	$0.9723
621	41,201,784,324,287	330,846,593	$736,075,600,327	156.31%	$0.1075	$0.3862
622	41,517,500,793,625	333,054,820	$790,271,985,939	166.45%	$0.1090	$0.3716
623	41,893,249,992,388	335,425,636	$870,195,392,144	181.84%	$0.1106	$0.3513
624	42,370,732,032,353	338,036,222	$1,003,996,425,000	209.78%	$0.1125	$0.3196
625	43,063,496,335,196	341,048,211	$1,284,248,965,777	283.85%	$0.1151	$0.2579
626	44,492,386,293,958	344,900,958	$2,235,247,164,145	1479.88%	$0.1196	$0.0627
627	66,701,408,965,423	351,606,700	$28,969,199,206,025	65107585195.35%	$0.1804	$0.0000
628	75,436,388,945,536	438,514,297	###################	65107585195.35%	$0.2052	$0.0000

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. This assumes a 4% return.

The Phase II monthly distribution of $1,000 rises to $1,200 in the federation. This also increases the present value. However, to be conservative in 7.0, the Earth Dividend average age present value begins at $400,000 = Ł400,000.

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

No matter how badly the U.S. dollar inflates, the relative price of discretionary items versus food and housing will constantly increase.

The table above shows the natural and market exchange rates for the first ten months of Phase II, followed by month 621 through the hyperdeflation at month 626. Other columns are shown as well.

At the start of Phase II, the market value of the Elsie is expected to be $0.99, but the natural exchange rate for an Elsie is only 1/5 of a penny. With deflation, the market rate falls to 39 cents by month 621. Five months later, in month 626, it is 6.2 cents, and it is not measurable within four decimal places in the hyperdeflation event going into month 627.

Meanwhile, the natural exchange rate rises to 11 cents by month 621. 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? Hyperdeflation makes Worldwide Federation possible in a very short period.

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 people must live in Phase II communities.

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

Almost all land owned by governments worldwide is expected to 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 hyperdeflation.

These Elsies, in addition to the Elsies received each month by those fortunate enough to have the Earth Dividend, will serve as a 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 one.

Upon approving the amendments for federation, people, businesses, and cellular governments in any nation can exchange their fiat currency for Elsies at the natural exchange rate. 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. No more fiat currency loans are outstanding as they can be repaid with pennies. All fiat currency is created for deposit insurance or other bailouts. The amount of fiat currency in circulation can be reasonably well estimated from central bank and treasury balance sheets.

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

Countries can avoid some of the chaos of federation at hyperdeflation by adopting the Elsie as the national currency during Phase I when the market rate is $0.99. Innovative nations will encourage Phase II communities and the shifting of local and then regional power to 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 Elsie 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.

However, once the VSG network is in place, the new intellectual property paradigm can begin, and deflation can finally be controlled. Until most of the world's nations and populations 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!