

# LAND & LIBERTY

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Issue 1250 Spring 2020



## *Curing Our Economy*

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*The Costs of Stealing*

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IT IS A WELL-PROVISIONED  
SHIP, THIS ON WHICH WE  
SAIL THROUGH SPACE...



# LAND&LIBERTY

No 1250 Spring 2020

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## message from the honorary president

The COVID-19 crisis is forcing many of us to review priorities and reconsider what we value most - what is really needed for the health and happiness of all? Turning to Henry George for help I remembered him asking in *The Science of Political Economy: Why is it that some things always co-exist with other things? And that some things always follow other things?* And his answers: *The Mohammedan will answer: "It is the will of God." The man of our Western civilisation will answer: "It is a law of Nature."* And then *The phrase is different, but the answer one.* On checking this I noticed that in the previous paragraph he had quoted the Bible: *"In the beginning God created the heaven and the earth."* This led me to reflect upon what George might have thought as he wished or hoped very strongly for a particular outcome or situation and recited the Lord's Prayer.

*Our Father which art in heaven, Hallowed be thy name.*

Here our common root and that it is limitless pervading the universe and everything in it and is beyond conception or thought is acknowledged and revered.

*Thy kingdom come, Thy will be done in earth, as it is in heaven.*

The hope and desire that our 'man-made world' should be in harmony with the will of God or the law of Nature.

*Give us this day our daily bread.*

Recognising that our needs can only be met from all that nature provides - the economic term for which is land!

*And forgive us our debts, as we forgive our debtors.*

Acknowledging the social nature of Man and linking it with the golden rule - do unto others as you would be done by. Particularly relevant today as the need for debts to be forgiven and for creditors to give up the claims that bind them, their debtors and the whole society of which they are a part. This principle is repeated later: *For if ye forgive men their trespasses, your heavenly father will forgive you, but if ye forgive not men their trespasses, neither will your Father forgive your trespasses.* For me this highlights a link between claims, debt and the use and abuse of land.

*And lead us not into temptation, but deliver us from evil: For thine is the kingdom, and the power, and the glory, for ever. Amen.*

Highlighting the ego driven dangers that we face and the protection that is available if we treasure that which is permanent and limitless rather than that which is transient.

Our COVID-19 'enemy' has destroyed no house, vehicle, shop, office, factory, machine, tool, clothing, seed or stock or any of the real wealth or capital of our nation. Materially all remains much as before the lock down but the ability of many to pay rent and other financial obligations has been reduced so most economic concerns revolve around the relations between debtors and creditors.

The government's current strategy may not help here since it involves the creation of more debt as it seeks to fund this war by the creation of new money as debt in order to 'preserve jobs' by making loans to employers and pay furloughed workers 80% of their normal pay. It seems to me people's real need at this time is their daily bread i.e. essential wealth not more debt and money, much of which must be passed on as rent or mortgage payments to creditors. Creditors whose essential spending is a fraction of their total spending and who thusly stand to accumulate the most cash during the crisis.

**David Triggs**

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# letter from the editor

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The COVID-19 pandemic has led many ordinary people to reconsider ideas of society we have long taken for granted. While the lockdown and social isolation has limited our usual interaction, it has brought about a sharp increase in community interaction. Neighbours have come to know one another and support each other. Thousands have volunteered to help the NHS and support the work of many charities looking after those in need. Also many businesses, such as the supermarkets, have risen to the occasion and are offering a better and more responsible service to their customers. The need to provide a safe place to shop has lifted the quality of their service and made staff and customers more courteous and friendly.

The pandemic has also brought to light the real merits of the Internet. Friends, families and communities are in touch with each other on video, even creating events online together. Discussion groups have sprung up to explore literature and the arts. There can be no doubt that this has a huge social and psychological benefit, despite the challenges and difficulties of the pandemic. In recent times the Internet has been used for questionable ends, especially misinformation and ideological propaganda. The present situation brings to light its true potential for universal benefit, which was the original intention and which still inspires open source software.

It is amazing how the commonly accepted idea of society as a place of competition and exploitation has been so easily replaced by a spontaneous sense of community. Enlightened self-interest has given way to the more generous sense of the common good. It has been adopted quickly because it is rooted in the natural social order of a society. Mutual benefit is not only morally nobler than individual self-serving, it is more efficient, more stable, more satisfying and more liberating. That is why those performing essential services as well as the thousands of volunteers are more cheerful.

The lockdown has brought to light other benefits. One of the most obvious is the improvement in the environment and the air quality in our cities. The reduction of car and plane travel has cleaned up the air remarkably swiftly and environmentalists have noted how nature quickly begins to restore itself. Insect life is reviving, and many animal species and wild plants are beginning to restore themselves. Nature seeks its own proper balance and creates a healthier world for all to live in. Economics should be in harmony with nature.

Having noted all these positive things we must also take full note of the negative things that brought about the pandemic in the first place. Leading scientists have been warning us for over a decade that modern farming methods and unsafe food production will bring about pandemics, most especially through intensive animal farming. In particular chicken farming where thousands of hens are squeezed into sheds without natural air or light are known to be breeding grounds of viruses. Flies get in and carry the viruses outside and spread them to other species, including humans. Leo Tolstoy, a passionate Georgist, wrote "If our way of farming is in a wrong state, it is a sign that the whole of society is in a wrong state".

He understood that farming and right use of the land for agriculture was foundational to the well-being of society. The modern quest for maximum production at least cost has profoundly distorted farming methods and our proper relation with the land. The intensive methods adopted are known to be harmful and no amount of protection and guarding against likely virus outbreaks can justify what is essentially unnatural in the first place.

Knowledge of these dangers has not been heeded by governments worldwide, and so nations were totally unprepared for this predictable pandemic. They too had been ruled by notions of false efficiencies and had not ensured adequate medical reserves to meet any likely pandemic. Here in the UK protective clothing and other essentials were at a minimum, while production of them had been transferred abroad to save on costs. This calculation was based on the false premise that protection of citizens is a burden on the economy. It is here that we see a common illusion about taxation. We desire the benefits but regard securing them as a loss of wealth. It is a strange contradiction we do not apply to any other economic transaction. If I buy a book I do not regard that as a financial loss. Paying for public services is no different. Taxation represents communal responsibility – the very responsibility we now see and admire in the dedication of the NHS and other common benefits and services.

Years of minimising support for the NHS and failure to prepare for predictable pandemics show irresponsible government, but also irresponsible citizenship in supporting such failures in government. If there is one economic lesson to be learned from the COVID-19 pandemic, it is that serving the communal good is the surest way of protecting the individual good. The lie has been given to the notion that self-interest and cost-cutting will somehow turn out to be mutual interest. Seeing how people from all nations around the world, despite whether they are capitalist or communist, have risen to meet the common good and help in whatever ways they can, shows how acting for mutual benefit is the natural condition of human society. The fact that many companies have joined in that spirit too also shows that the economy could be based on serving the good of all. The notion of self-interest first, as George pointed out, is self-defeating. It is the community that creates the individual, not the other way round. Not only did George and Tolstoy point this out, it has been said down the ages from Plato to Gandhi, as well as in the teachings of the great religions as George himself often observed.

Politicians are now beginning to say that, after we recover from this pandemic, we cannot return to 'business as usual'. There is a recognition in the public conscience that there must be a profound shift in the ethical values that inform government and economic activity.



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## CIRCLES IN THE WATER: DEBT FOLLOWING DEBT

### THE ORIGIN OF DEBT

In a naturally functioning economy there is a covenant or obligation for each to serve the needs of all. We are all inter-dependent and when all work together, then our various individual skills and vocations will serve the common good.

As the idea of 'me and mine' becomes stronger, the service of need becomes an exchange of wealth between members of the community, where wealth is goods and services produced by work on the natural resources of the land to bring well-being to body and mind. Until wealth is supplied to complete an exchange, the recipient has an obligation or debt to the supplier. Debt is a promise to honour the obligation to provide wealth to complete an exchange. The process of exchanging wealth to serve need is the origin of debt.

The exchange of wealth is greatly helped by the development of money to represent the value the goods being exchanged and to provide a medium of exchange. Money is not itself wealth. It only has value as a token that can be trusted to enable the holder to claim wealth to complete an exchange. When the wealth produced by work is put into the common pool, the money obtained is available to claim wealth in exchange. The monetary claim always indicates this obligation or debt.

### THE BENEFICIAL USE OF DEBT

All wealth needs work of all kinds on natural resources before it is ready for exchange. A community flourishes by the provision of new or improved forms of goods and services, including capital defined as wealth used to produce more wealth, typically commercial and industrial buildings and machinery. There are wide variations in the time required to produce this wealth and the increase in uncompleted exchanges needs more money to satisfy the claims of those providing the necessary work. Banks create and advance the additional money. There is immediately an obligation to repay the money from the proceeds of sale of the product to complete the exchange and discharge the debt. In this way the level of debt is regulated and the quantity of money in circulation represents the uncompleted exchanges of wealth.

Another possibly beneficial use of debt is for banks to create money and lend it for the purchase of consumption goods. Examples are credit cards and hire purchase loans. These claims on the suppliers of the wealth could be regarded as unethical because the claims are made before wealth is produced to make the repayments and complete the exchange. On the other hand it could be argued that the facility to borrow for this purpose provides additional demand and leads to a beneficial growth of the economy.

It is the duty of banks to control the quantity of additional money created to ensure that debt can be repaid in an orderly way to avoid loss by default or causing inflation.

### SAVINGS

An alternative to the creation of additional money for borrowers is to lend existing money that is being saved. Money is not always used immediately to acquire wealth to complete an exchange. There may be a decision to keep the money for use later, perhaps during retirement. The effect is that there is unclaimed wealth available for exchange now which will not be available to satisfy the claims made later. The natural flow of exchanges can be maintained by lending the saved money. This will increase current claims by the claims of the borrowers and reduce later claims when the borrowers repay the loans thus leaving wealth available then for the claims of savers. Savings may be lent for investing in capital and new products or may be lent for purchase of consumption goods. A particularly good way to lend long term savings is for the building cost of homes.

Pension funds, investment funds and banks can provide this service by balancing loan repayments with future claims. In this way there will be wealth available to satisfy the claims and complete the exchanges both now and in the future. The balancing process automatically maintains the completion of exchanges and controls the level of debt.

### COMMUNAL SERVICES

Some goods and services are not exchanged directly with other members of the community but are provided by national or local government. They include national defence, law and order and government administrative functions generally. Although there is no direct exchange, the provision of these goods and services is also wealth put into the common pool and the community must provide wealth in some other way to complete the exchange. Fortunately this wealth is provided naturally without any additional obligation on other members of the community. Their presence and work creates conditions in which those who work at some locations produce greater wealth with the same effort, or in which those who live at those locations enjoy greater convenience and general well-being. Occupants of these locations are willing to pay rent in order to enjoy these benefits. It is by using this rent of land to pay those providing the communal services that the exchange is completed. As the community flourishes and the need for communal services grows, so the rent of land increases naturally to enable exchanges to continue.

In the current situation, where health, social protection and education comprise over half of government expenditure, it

cannot be assumed that these could be met from collection of the rent of land. National insurance and taxes other than tax on earnings would still be needed if taxation was to be transferred to a land tax, but as greater equality of wealth developed these services could be privatised and would no longer require government intervention.

Additional wealth may be needed to pay for large infrastructure projects such as HS2. It would come naturally from increases in the rental value of land generated by that infrastructure. A necessary consideration in assessing the benefit of any project will be whether the increase in rent will be sufficient to repay any debt incurred. By balancing income and expenditure on communal services in this way, government ensures completion of exchange without accumulating debt and debt interest.

### **CORPORATE DEBT**

A group of people working together as a single unit can use debt in the same way. The wealth needed for production, including capital expenditure can be supplied by the members of the group or by borrowing from banks. There could be a fixed sum such as share capital of a company, or variable sums as loans and bank overdrafts. The sale of the products would complete the exchange with those who supplied the wealth used in their production, and borrowings would vary according to the cost of work in progress including capital.

### **INTEREST**

The skilled work of banks and other financial corporations in managing savings and the creation and control of loans is part of the general exchange of wealth in the community. The cost of providing these services, together with the risk of defaults in repayment of loans is recovered as a charge to borrowers to complete the exchange. There is no need for an arbitrary charge as interest. Interest in excess of a reasonable charge for the service is a claim on wealth for which no wealth is given in exchange.

Similarly there is no need for interest to be paid on savings deposited because the bank is providing a service of balancing savings and borrowings so that wealth will be available in exchange both now and in the future.

### **THE NATURAL COMMUNITY**

In such a community, which can be of any size, there will be a continual exchange of wealth as goods and services in which each will find work to suit their personal desires and skills so that all may enjoy prosperity and freedom. Debt will always be under control.

### **THE ORIGIN OF UNNATURAL DEBT**

The present situation is far removed from that of a natural community working for the common good. It is now accepted that the owners of land are entitled to collect and keep the rent of their land. This has a profound effect on the natural economy and the control of debt.

Rent is paid for the occupation of land out of earnings from work on the production of wealth, but the landowner produces no wealth in exchange. Permitting the occupation of land is not provision of wealth because the land and its resources are not the product of work. The landowner therefore makes a claim on wealth in the form of rent, for which no wealth is produced to complete the exchange. Owner occupiers enjoy the same advantage. The only difference is that as landowners, they receive the benefit as rent free occupation of the land instead of receiving

rent from a tenant.

It might be considered that if the landowners purchased their land out of earnings they are entitled to occupy it rent free or to let it and retain the rent, but the fact is that having enjoyed these benefits during their ownership, owners can then sell the land and recover the original cost, usually with an additional benefit from an increase in its value. So the landowner has not only enjoyed the rental value of the land, he also recovers his original purchase price. Therefore the payment of rent as tax by the owner is not in itself unfair because it is those who occupy the land who receive the benefit that gives rise to its rental value. It is the taxation of earnings to replace the lost government revenue that is unfair and against natural law. Having honoured their obligation to the community by paying rent on the land, workers are entitled to the full marginal product of their labour, free of all taxation on their earnings.

The claiming of the rent of land by landowners without providing wealth in exchange leaves the obligation or debt of the landowner outstanding. It is the origin of unnatural debt and inequality.

### **THE GROWTH OF UNNATURAL DEBT**

Landowners claim the rent of land during the period of ownership, and also the right to all future rent at the date of sale. The right to receive this benefit for the indefinite future gives land its market value. Estates passing on death will often include homes and any increase in value over the earned income invested on purchase and improvement will have accrued to the beneficiaries, less death duties.

The increase in the value of homes passing on death adds to the perceived benefit of rent free occupation and increases the desire for home ownership. Landowners are able to control the availability of land to obtain the highest price and the result of increased demand for the limited supply of land continually pushes up the price of homes. The deregulation of banks has allowed an increase in the lending for home purchase. This starts a feedback loop. Desire to own increases the cost of purchase and the anticipated gain on sale increases the desire to own. The consequent increase in earnings used by non-landowners to purchase homes and repay mortgage loans is withdrawn from the day to day consumption economy and not fully replaced by the increased claims of landowners who prefer to save and invest. The effect is to slow down the economy and increase inequality.

The inequality is felt particularly at the margin of production where work no longer provides a living because of the tax burden. Governments recognise the need to correct the inequality but because the root cause is not understood, efforts are made to redistribute claims on wealth by welfare payments to those in need, including Universal Credit and Help to Buy schemes. The cost of these benefits is borne by the taxpayers in addition to the unjustified tax burden made necessary by the appropriation of the natural government revenue by landowners. It becomes increasingly difficult for taxpayers to meet the growing cost and this starts an upward spiral in welfare costs and taxation. Eventually the revenue from taxation can no longer meet the expenditure and the government has to borrow to fill the gap. National debt now exceeds £1.8 trillion and is still growing.

The Bank of England has stepped in to boost demand by monetary policies such as low interest rates and Quantitative Easing to encourage commercial bank lending for economic growth. However, banks have preferred to lend this money for house





purchase rather than for production of new wealth because of the greater security and this has further boosted house prices.

Loose money and low interest rates coupled to increased funds available for investment by landowners and their beneficiaries has led to the development of new ways to invest and an increasingly sophisticated and complex web of loans and investments. The National Balance Sheet produced by the ONS shows that Financial Corporations have both assets and liabilities totalling more than £21 trillion. Included are investment operations that trade in monetary claims rather than in providing financial services as a necessary part of the natural trading economy.

Money always represents both a claim and an obligation or debt and bank loans, including QE, bringing additional obligations. If the money is not used to create wealth to honour the obligation it remains outstanding as unnatural debt which must eventually be repaid from taxation receipts.

The fundamental reason for the present large total of unnatural debt is the continuous private appropriation of the rent of land. The burden is reduced to some extent by the revenue from council tax, stamp duties, capital gains tax, business rates and estate duty but nevertheless unnatural debt continues to rise inexorably.

#### **THE REAL NATIONAL DEBTORS**

According to the National Balance Sheet, households own a total £6.5 trillion of investments, excluding land. By reason of their privileged position, landowners and the beneficiaries of past landowners must own by far the largest share. Landowning householders also own the buildings which are valued at £1.5 trillion.

Taxpayers have made this possible and are now considered to be liable for the national debt of £1.8 trillion. The truth is that the wealth and claims on wealth accumulated by householders as landowners, and including wealth and claims on wealth passed to their beneficiaries, is an obligation or debt to the community and it must follow that they are the real national debtors.

#### **CONCLUSION**

Unnatural debt and inequality is debt caused by the private appropriation of the rent of land. It has grown steadily over a long period of time and will only get worse until it is stopped by collecting this rent as the natural revenue to meet the communal expenditure. This will prevent the inequality from getting worse but will still not correct the present imbalance, which can only be remedied if there is agreement to collect by estate duty or some other form of wealth tax enough to pay off the national debt of £1.8 trillion. The burden will fall on current owners who have incurred as the purchase price the full value received by deceased owners and their beneficiaries and will lose all the land value if a full location value levy is introduced even though a mortgage loan to buy the property is still outstanding. Mortgage loans total £1.4 trillion and it may be justifiable to add it to the debt recoverable by wealth taxes.

If we are to free every family from the incubus of unnatural debt and enable them to enjoy undisturbed occupation of their own home, with freedom from taxation of earnings, those of us who own homes need to open heart and mind and give up the deeply ingrained belief in the right to retain the rent of the land. Unnatural debt is a huge problem and even when its real origin is known, it will take many years to resolve it in an orderly way to bring economic justice and equity for the common good. 🇬🇧



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## IN SEARCH OF A HEALTHY SOCIETY: THE ILLNESS OF INTERCONNECTED GLOBAL CREDIT AND DEBT

Throughout most of history commerce has depended on the use of credit, particularly when large quantities of goods are involved. Barter had benefits and its limitations, limitations that today have not been significantly overcome by our electronically-connected markets. What has changed with the introduction of digital money is the potential for immediacy of payment, as cash balances are transferred in seconds from the bank account of one party to another. This does not yet always occur, of course, as payment by one party may depend on payment being received from a third party. Terms of payment often take *the time value of money* into consideration. Pay immediately and one might obtain a sizeable discount. Pay within thirty days at the contracted amount. Pay after thirty days and a penalty is imposed for every day beyond what is termed *the grace period*.

Monarchs, Feudal Lords, and most modern governments have borrowed for all sorts of reasons -- to engage in wars of territorial conquest, to defend territories already held, to modernize infrastructure, and (in societies with policies that redistribute income and establish some level of a safety net against life's risks) for so-called *social welfare entitlement obligations*. What is undeniably the case is that the stability of our interdependent economies today is tied to the uninterrupted access to affordable credit by business, government and individuals. The question I raise here is whether we might be approaching *death by debt strangulation*?

Readers might recall the 1978 documentary-series *Connections*, written and narrated by James Burke. In this series he provided what he described as an alternative view of change and our almost total dependency on the network of technologies functioning as a system. When this network breaks down, the result is a breakdown of societal norms as well.

The interdependency described by James Burke in 1978 has exponentially increased, and so has the risk of collapse. Those of us who live in cities cannot survive for long without access to food and other necessities. Even those who farm the land are almost as dependent on the network. And, a central part of the network is the system of financial services that provide us with access to credit.

James Burke identified the first major piece of technological advancement as the simple plough some 12,000 years ago, which he tells us triggered the beginnings of civilization. An increasing food supply stimulated population growth, led to the establishment of permanent settlements, which created the need of rules for the allocation of land, of access to natural resources, and of the things people produced. Written language facilitated codification of the rules but also stimulated the recording of the purchase and sale of goods. With every significant technological and organizational advance -- every trigger of change -- came new innovations in money, credit and finance.

Fast forward to the thirteenth century and we see a world where people are once again on the move, whether in search of commerce and profits, in search of new knowledge, or engaged in a quest to expand control over territory, over resources and over the wealth others produced. What triggered these changes was the Crusades, which turned the Mediterranean Sea into the main artery of inter-cultural exchange. And, in this new environment, the means of settling debt was the not very practical transfer of gold and silver coinage.

Throughout much of Europe, the need to acquire coinage in order to acquire goods not locally produced brought about the end of Feudalism and its self-contained economies. As peasant farmers



were charged money rents and taxes instead of a large portion of crops harvested, land also became a commodity to be bought, sold and mortgaged. Credit and debt became constant features of expanding commercial and civic relationships. For centuries, the banking families of the Mediterranean city-states provided the credit to fuel economic expansion as well as wars over territory, natural resources and control of domestic political power.

The situation changed dramatically with the arrival of the Age of Discovery beginning in the middle of the fifteenth century. For a complex set of reasons causing *locational advantage*, the Dutch first emerged as the people who took the most advantage of the commercial opportunities of that era. Readers interested in the history would benefit by a reading of Immanuel Wallerstein's volume from the series *The Modern World System* covering the rise of Dutch hegemony among European powers. However, the part of the story that is of interest here is explained by Adam Smith in his masterly work *The Wealth of Nations*. The next great leap forward in the world's global economic structure was the establishment of the Bank of Amsterdam as a deposit bank, its "receipt money" circulating throughout Europe and beyond. The Bank held the coinage of its depositors as full reserves for the paper receipts issued. For over a century, this model of full reserve deposit banking stimulated a remarkable expansion of commerce between merchants in different countries.

The Bank of Amsterdam's architects had come up with an effective solution to a seemingly unsolvable problem: the escalation of the price of goods and services in terms of gold and silver caused by the large quantity of these precious metals brought to the European continent principally by the Spanish. As more and more of these precious metals were brought to the Bank of Amsterdam, the coinage minted contained a uniform content of gold and silver. The global economy now had money that could be relied upon. The influx of additional quantities of gold and silver slowed during the sixteenth century, and prices stabilized. The Dutch became the global economy's middlemen, providing the credit required for the triangle of production and consumption fostered by *mercantilism*.

With the establishment of colonial outposts around the globe by the major European powers, the level of commercial activity expanded dramatically, as did the need for money and credit. The directors of the Bank of Amsterdam (and others bankers as well) gambled that they could meet this increased demand by the issuance of bank notes well beyond the quantity of receipt money supported by coinage the banks held as their own assets. How unlikely would be the circumstance that depositors would all of a sudden come to close their accounts and withdraw their gold and silver coinage. The bankers persuaded themselves that confidence in their bank could be maintained even with only *fractional reserves* held by banks. The era of full reserve banking was abandoned. Time was to prove the bankers quite wrong in their optimism. Huge debts incurred by European governments during the Seven Years War caused the banking crisis of 1763, which began in Amsterdam and spread to Germany, Scandinavia and beyond. Cycle of boom and bust, accompanied by financial crises have plagued the world's economies ever since.

Yet another period of financial disruption was anticipated as the Second World War was still being fought in 1944. In an effort to change the course of financial history, delegates from forty-four countries were brought together in the United States, at Bretton Woods, New Hampshire, to develop a plan for post-war reconstruction and financial stability. Out of this conference came

the establishment of the World Bank, the International Trade Organization, and the International Monetary Fund. Britain's John Maynard Keynes provided the theoretical arguments for the new system, but the United States held all of the cards, emerging from the war with its infrastructure greatly upgraded, its factories and its cities undamaged. As a result, the United States dollar became the world's reserve currency, the value of each dollar set at 1/35th of an ounce of gold. Confidence in the U.S. dollar was strengthened by the fact that in 1944 the United States held some 20,000 tons of gold in its vaults at Fort Knox in the state of Kentucky.

By the 1960s the dominant position of the United States in global commerce was disappearing, as other countries rebuilt their infrastructure and industrial capabilities. The need to hold U.S. dollars fell, and countries with growing exports began to exercise their right to exchange U.S. dollars for gold. By 1971 the United States had run out of measures to stem the outflow of gold, the market price of which had risen far above the price established under the Bretton Woods agreement. In August, President Nixon announced that foreign government could no longer exchange their dollars for gold. Economists and proponents of a return to some form of *gold standard* have ever since debated the consequences of this decision.

Today's global economy functions mainly on the use of digital monetary transfers. Central bank notes are issued independent of any reserves of gold or silver coins or other tangible form of wealth. The paper currency we hold or the balances we own in banks have a constantly changing purchasing power. The central bank notes are, in essence, *promises to pay nothing in particular*. By declaring central bank notes and their digital equivalent as legal tender, government is able to raise needed revenue by demanding payments of taxes and all other obligations in the stated form of legal tender. Moreover, this currency must be accepted in payment for any goods and services exchanged within a nation's domestic borders.

Physical currency is not yet obsolete; however, all around the globe – even in many less developed countries -- we rely on digital credit and digital currency transfers to meet most of our financial obligations. The introduction of debit cards for the purchase of necessary goods and services acts in the same way as a cash transaction, immediately adding to the cash assets of one party and the reduction of cash assets of another party. For the banking institution as a financial intermediary, the risk of someone overdrafting an account or falling behind on the payment of credit card balances is eliminated, as is *the time value of money* benefit during the time required for a check to be deposited and the cash transferred.

Access to and use of credit varies greatly around the globe. As is widely known, some countries have experienced rapid and steep declines in real household income over the last three or four decades.

A World Economic Forum report released in 2018 provided the country-by-country details. Only a small portion of the people in any country possesses sufficient financial assets to do without credit to make major purchases, although the use of credit cards in lieu of cash is a common practice even for those who pay off the balance each month. For some people use of the credit card is a convenient way to keep track of their spending. More than half of credit card holders in the United States use credit cards in this way.





## WHO IS CREDIT-WORTHY?

Whether for business-to-business exchanges or business-to-consumer commerce, risk must be properly assessed and priced, or things do go quite wrong. Those who extend credit or directly lend money (paper or digital) rely on historical data to establish the criteria for determining the creditworthiness of others.

One of the most relied upon measures is one's *credit score*. How individual credit scores are determined is a closely-held secret by the firms who perform this analysis. Credit scores are extremely important for the issuers of credit cards because in most countries credit card debt is not secured by a lien on the cardholder's tangible assets.

The maximum credit limit permitted to any particular individual is determined by past history of repayment not only on a credit card but on all other debt. The significant level of pre-determined risk of loss determines what rate of interest is legally charged on outstanding balances. And yet, as the use of credit cards has expanded, more and more people experience higher levels of debt that must be serviced. In the United States, credit card debt is thought to be the number one reason individuals cannot put money aside as savings. At the same time, as household incomes fall or as the costs of living increase, more and more people rely on credit cards for essential purchases. In the United States, one of the main reasons for rising credit card debt is the cost of medical care, including prescription drugs.

For most households around the world, the highest level of debt incurred is mortgage loan debt taken on as a result of the purchase of a residential property. Only a small portion of households have savings sufficient to pay cash for a residential property. Those who do have sufficient cash or other financial assets tend to be longer-term property owners who have benefited by loan amortization and by appreciation of the value of land under a home. Others are often the beneficiaries of inherited financial assets.

It is useful here to remind readers that the monetary value of a housing unit is its replacement cost, less depreciation. If one is to believe the average economist or economics journalist, a house is the only asset we produce that does not depreciate over time. The amount of equity may be sufficient upon sale to permit a cash purchase of another property, particularly for *empty nesters* downsizing to a smaller dwelling or to a less-costly location in anticipation of retirement. However, at the other side of the property transfer is a buyer who is asked to pay much more for the land parcel on which the dwelling is located and therefore take on a higher level of mortgage debt that must be serviced year after year after year.

A major difference between making purchases with a credit card and purchasing a residential property is the placement of a mortgage lien on the subject property. The buyer becomes a *mortgagor* in this process; the bank (or, more commonly these days, an investor in a mortgage-backed security) becomes a *mortgagee*. In what is described as the conventional institutional lending environment, the investor's risk of loss is mitigated by obtaining information from the buyer detailing household income, savings and debt. The subject property is appraised by an independent property appraiser, and the maximum loan is determined as some percentage of the lower of the purchase price of the property or the appraised value.

One can be exempted from the above scrutiny by making a large cash down payment of at least 25 percent, or by going to a

# cover story

non-conventional lender that charges a higher rate of interest to compensate for the risk of not obtaining the borrower's financials.

From the late 1940s until the mid-1960s in the United States, the buyer was required to make a cash down payment of 20 percent of the purchase price of the property. In most markets this meant, in practical terms, that the buyer was paying cash for the land parcel involved and financing the purchase of the dwelling with a loan that amortized at roughly the rate of depreciation a house experiences before needing to be substantially renovated.

A buyer qualified for this mortgage financing if the monthly payment (plus a monthly escrow toward payment of property taxes and fire insurance premiums) did not exceed 28 percent of total monthly income. A secondary calculation looked at any other debts and the extent to which servicing those debts reduced the buyers' disposable income. Anything over around 33 percent of total monthly income would be viewed as a problem.

As land prices have continued to increase, fewer property buyers have the cash savings to pay cash for the land being purchased. In many of the world's great cities, the land cost often comprises over 50 percent of the total property value. And, in certain centrally-located neighborhoods, the land cost may comprise far more than 50 percent. This sometimes results in the demolition of the existing dwelling, replaced by a new structure that is a higher, better use of the location.

The high cost of rental housing combines with stagnant or declining wages to make it almost impossible for many young adults to save toward a down payment or qualify for the necessary mortgage financing. Some young adults are able to obtain gifts from parents or grants from foundations and other organizations in order to become property owners.

Governments in high cost markets struggle to find the financial resources to subsidize the cost of acquiring land for the construction of housing units, whether offered under a lease or for sale. One way this revenue is raised is the issuance of tax-exempt bonds, the exemption from taxation provided as an inducement to investors. Permanent affordability of these publicly-subsidized units is sometimes guaranteed by restrictions on the household income of renters or buyers.

We should not be surprised to learn that the crisis of an undersupply of decent, affordable housing is most severe in regions with high and increasing land values. Even where the employment market is strong, wages are likely to be too low for many working persons to afford even a small apartment - not to mention - a small house. In the United States today, somewhere around one-half of all college graduates under the age of 30 live in their parents' home.

## EXTERNALITIES

An unacknowledged outcome of the historically low mortgage interest rates available in many countries since the 2008 financial crisis has been the resurgence of property prices. At such low rates of interest, buyers who have sufficient household income and good credit are able to qualify for higher levels of borrowing, and this has been capitalized by market forces into higher asking prices for property.





For now, little concern has been given to the potential for yet another cyclical property-driven recession and how rising unemployment would result in another period of widespread defaults, foreclosures and the pressure for a public bail-out of insolvent financial institutions. Of course, none of the financial models relied upon by government or the financial sector factored in a worse-case scenario of a global pandemic.

A related shock to the financial system is the damage done to both public infrastructure and private property by what I will generously refer to as *natural disasters*. Roughly one-third of the world's population lives within 100 vertical meters of sea level. Hundreds of millions more live in regions subjected to increasingly frequent and increasingly destructive storms, hurricanes, volcanic eruptions, severe droughts, tornadoes, forest fires and flooding. Private insurance companies must price for these risks or simply decline to provide coverage, in which case government is faced with the decision of whether and how to intervene. Absent general insurance protection or government-provided disaster relief grants, the destruction of one's house and other assets represents a setback recovery from which is unlikely. At the same time, providing insurance protection covering properties located in high risk areas props up the value of land. One can argue the case that for property owners who pay risk-based premiums to an insurance carrier, intervention by government is unwarranted. There is certainly reason to object when government revenue is provided to permit individuals to rebuild again and again after their property is destroyed because the location is prone to repeated events as described above.

The human condition has always been characterized by a high degree of uncertainty. There have been periods of economic expansion that lifted the financial condition of millions of people, and this expansion has reached people in many countries where not long ago the majority of the population experienced deep poverty.

Students of the writings of Henry George will understand that the reason why prosperity is neither universal nor sustainable is that the systems of law, of regulation and taxation secure and protect entrenched privilege for some at the expense of the common good. While George emphasized how the private appropriation of the rent of land divided societies into the *haves* and the *have nots*, he did not ignore the destructive character of the manner in which money is created and how banks are regulated.

Frequent readers of *Land&Liberty* will likely concur with the observation that every society one can name is in need of a real program of comprehensive tax reform, finally collecting rents generated from the many natural assets privately exploited. Henry George argued that the monetary value of a nation's aggregate rents would be more than sufficient to pay for all necessary (or even desired) public goods and services, with the potential for distribution of some amount as a form of citizen's dividend.

Moreover, by preventing land prices from rising above modest levels (and theoretically, pulling them down to near zero), the need by government, by business or the private individual to borrow funds in order to produce goods or provide services would be greatly reduced.

### THE BOTTOM LINE

We continue to struggle to convince our governments to move in the direction Henry George's analysis proved was both equitable and economically efficient.

However, as country-after-country established a central bank authorized to issue central bank notes as currency, the story of *receipt money* as issued by the Bank of Amsterdam was ignored.

Eventually, even fractional reserves in gold or silver were abandoned so that countries would not be required to purchase with these precious metals excess quantities of their paper currency held by foreign banks, governments and others. In one important sense, the bankers won by preventing the direct issuance and spending of currency by government into their nation's economy. Instead, any deficit between revenue received and the amount spent was acquired by the issuance of bonds sold to investors at interest in order to acquire the necessary central bank notes. Today, not a single government in the world is backing its own official currency with anything specific or tangible.

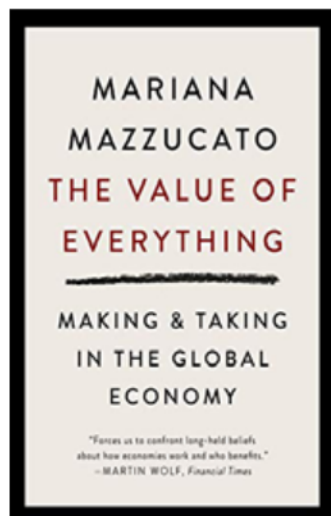
Despite the fact that since the bottom of the last recession property (meaning land) prices have climbed and climbed even as wages have stagnated or fallen, the tools of statistical analysis relied upon by economists and government officials report that the massive increase in the money supplies of nations has not caused serious inflation or exposed their societies to untenable levels of economic stress.

We are today in uncharted waters. The massive increase in the money supply now underway may put off the day of reckoning for a time, but the bill will soon come due. The question becomes: How will that bill eventually be paid?

In the classroom, after delivering a lecture covering much of the above material, my adult students often ask what they should do to in some way protect themselves and their families from the worst that is likely to occur.

My advice is simple but not easy to follow. First, live within your means. For housing, purchase a property that requires you to spend no more than 25 percent of your monthly income on the mortgage payment plus property taxes and fire insurance. If you need an automobile, consider a low mileage previously-owned vehicle over a new one. Set reasonable goals for saving so that at any time you have no less than six months of cash savings in a fully-insured bank account sufficient to cover your expenses for that period of time. ■





**THE VALUE OF EVERYTHING:  
THE MAKING AND TAKING  
IN THE GLOBAL ECONOMY**  
By **MARIANA MAZZUCATO**

Reviewed by Joseph Milne

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Marina Mazzucato's *The Value of Everything: Making and Taking in the Global Economy* is a most illuminating book for those interested in the history of economic thought. It has three main aims. The first is to show that all economic theories are founded in values of some kind and that economics has never been an objective 'value-free' science. Second, to show that our modern economy is primarily driven by 'wealth extraction' at the price of actual 'wealth creation'. Third, to show that the public sector is a major contributor to the economy and not, as commonly assumed, a burden on the economy. There are also several important sections on rent and rent-seeking.

She writes 'by 'value creation' I mean the ways in which the different types of resources (human, physical and intangible) are established and interact to produce new goods and services. By 'value extraction' I mean activities focused on moving around existing resources and outputs, and gaining disproportionately from the ensuing trade'. In the history of economics different things have been held to have value. For Adam Smith the only thing of true economic value was actual wealth produced by labour. It follows from this that any other activity or service that does not produce food, clothing or housing has no economic value. Thus, according to Smith, officers of justice, the army, priests, lawyers, doctors and performing artists are economically unproductive.

This simple distinction between productive and unproductive labour has led to the notion that all state expenditure is unproductive, and that 'austerity' encourages the creation of real wealth. Although this is not what Smith intended, it is how he has been interpreted in recent times.

Mazzucato argues that state expenditure is not unproductive. On the contrary, education and government funded research make major contributions to the economy. For example, for all the claims of high risk innovation in modern technology, a large part of the initial funding comes from government investment – for example pharmaceuticals, the Internet, biotech and nanotech. The large companies in these fields are very conservative in risk-taking. Yet they get the credit and the profits from government funded research.

For Mazzucato this raises questions not only about the real relation between the public and the private sectors, but about the nature of value itself. She argues that taking GDP is the sole measure of economic value is insufficient and even misleading. And where public sector investment in infrastructure is discussed, its outlook is far too narrow. For example 'A green transformation requires not only green infrastructure but a clear vision of what living a green life means. It means transforming all sectors, including traditional ones like steel to lower its material content'. Such transformation can only be undertaken through government initiative. Left to itself the private sector can accomplish very little in response to environmental transformation, and would be inhibited anyway by its risk-aversion.

The economic values of a society are ultimately collective values and extend far beyond the marketplace. Even if 'value extraction' were curbed and wealth more fairly distributed among its actual creators, the prospects of improving the life of society will still rest with government and the responsibilities it alone can assume on behalf of society as a whole. 


## BOOKS WORTH READING

A recently republished book by Routledge Revivals is worth reading: *An Inquiry into Physiocracy* by M. Beer.

Originally published in the year 1939 the book traces the rise of Physiocracy in France as it emerged to meet the challenge of mercantilism which held that money was the essence of wealth – a conception that arose at the end of the Middle Ages and endured until the end of the seventeenth century.

The Physiocrats asserted that agriculture was the only source of wealth, and the only truly productive occupation. Seeking to demonstrate their theory that real wealth arose only from cultivating the land, they looked to earlier history where the economy was more natural. They read Aristotle, Cicero and Aquinas in order to recover the tradition of natural law. They regarded all forms of manufacture not based on agriculture as sterile. At best other types of manufacture merely modified what was drawn directly from nature. Nothing new was created.

Beer observes that the name Physiocracy is derived from the Greek *phusei* and *kratia* meaning the 'rule of nature'. In returning to Aristotle the revived the two types of justice which the schoolmen had also elaborated: distributive and commutative justice, the first signifying rights and duties of citizens, and the second signifying that all exchange should be based on equality or mutual benefit. It is clear that their concern was to establish just exchange of wealth where none could exploit another, as in mercantilism.

It is an excellent a very straightforward history of the Physiocrats, worthy of this recent republication by Routledge. 



# TRIBUTE TO DR. PETER BOWMAN

Peter Bowman will be known to many of us as a Trustee and Board member of the Henry George Foundation who passed away on Friday 17th April after contracting Covid-19 whilst being treated for cancer. This is a great loss as he contributed a huge amount to HGF. Our friend and colleague Tommas Graves offers this tribute to him:

"As leader of the Economics faculty in the School of Philosophy and Economic Science we had got used to his high intelligence and careful conduct of our meetings. As chair of the Coalition for Economic Justice he encouraged us all, and supported the All Party Political Group for Land Value Capture for which we acted as secretariat. As a committee member of the Henry George Foundation he gave wise counsel. In my website "Land is Free" there is an essay by him "China - Four Thousand Years of Taxing the Land" which he wrote after one of his trips there."

Tony Vickers pays the following tribute to him:

"Peter was one of the most gentle, tolerant, thoughtful and wise people I have ever known. As chair of the Coalition for Economic Justice (which ALTER is a member of) he never once revealed how he voted and was never critical of the views of any of the widely divergent politics of anyone who belonged to Coalition for Economic Justice – which has people from across the entire political spectrum in the United Kingdom: Communist to UKIP! I share Peter's values. It is not just our relationships with one

another that matter but perhaps above all our relationship with Nature and its relationship (as a passive but vital economic factor) with how we re-form society. Now as perhaps never before has it been so important to re-think how to fit Nature into economic policy. As Henry George said: "There is, in Nature, no reason for Poverty."


Tommas Graves recalls his contributions at the School of Economic Science:

"Peter gave the 2015 School of Economic Science Annual Economics Lecture *How Can the Economy Work for the Benefit of All?* He presents three simple propositions: The first is that Economic Life is governed by law. By this is meant natural laws, laws that are inherent in the nature of things, and particularly the laws governing the relations between people in society. The task, the duty even, of the economist is to discover and formulate these. The challenge for the legislators, policymakers, and CEOs of the institutions that are the main players in the economy is then to formulate rules and regulations so, as far as possible, they are in accord with these natural laws. The second proposition is that justice implies a fair portion of knowledge, happiness, health and freedom for everyone. This gives a simple criterion to judge the suitability of a particular policy."

He leaves a family of his wife and four adult boys. We share their grief and bless his memory."



Editor's note:

*The latest news and events of the Henry George Foundation in London is usually found in this space. It is with the deepest sorrow that we instead commemorate the life and work of our friend Peter Bowman after his recent passing. Peter will be deeply missed.* 

## THE COSTS OF STEALING

Henry George went to great lengths to show that in distribution there was only one natural law which was “what a person makes belongs to that person, and no other”.

So, in his view taxation of earnings is stealing. But, you say, the government must have income or it can't act. George had an answer to this as well. He said that when people act together they produce an income. The community action produces a result because it bestows advantages on sites according to the nearness of roads, railways, airports, water systems, libraries and all the other advantages provided by government or community action. We call the total of these advantages “location value”. If this value is collected by government, it forms an obvious (tax free) reward for the supply of goods and services to the community.

But this value too is stolen. By allowing it to be retained by “land owners”, we then have to resort to taxation. One theft causes another.

Another definition of stealing is to take things not given consciously with pleasure. How does your tax bill measure up to that?

All the great teachings pronounce against stealing. Is it possible to be civilised when stealing is permitted? It seems that natural law has a way of showing that there are penalties that result from stealing.

We are suffering grievously from disobeying “do not steal”. Consider these three, the “Housing Crisis”, “Inequality” and “The Mountain of Debt”.

Land has no value. It is provided free, as is air. We do not have to work for it. But, if it has an income attached to it, the value of that income appears to be the value of land. So it is, that the location value, assumed to continue into the future, appears and land value, and its purchase appears as the price of land.


Since land became all enclosed, landowners can charge tenants a rent with no upward natural limit. The only limit is the maximum that a tenant can afford to pay.

The apparent value of land increases the price of houses built upon it. They become unaffordable to young people and those not able to command high wages, especially taking into account the previously noted theft of their wages by taxation. The misery caused by this combination is huge, and is getting worse by the minute. Life for some has definitely become uncivilised.

Those who receive location value as part of rent are the beneficiaries of stolen property. Over some hundreds of years they have accumulated a vast store of wealth. It has been invested in land, stocks, shares and bonds all of which increase in value from dividends and interest. The annual growth now far exceeds the annual rents. After taxation and rents, businesses do not have enough left to improve and expand their businesses, so they must borrow.

Who can they borrow from? Surely, only from those who have received the location value and accumulations. In this transaction a charge is added in the form of interest or profit share. Once having lent it, the lenders do not want it back, so long as it increases, so the total debt increases year by year. The government also needs to invest on behalf of the whole community, and adds to the debt mountain.

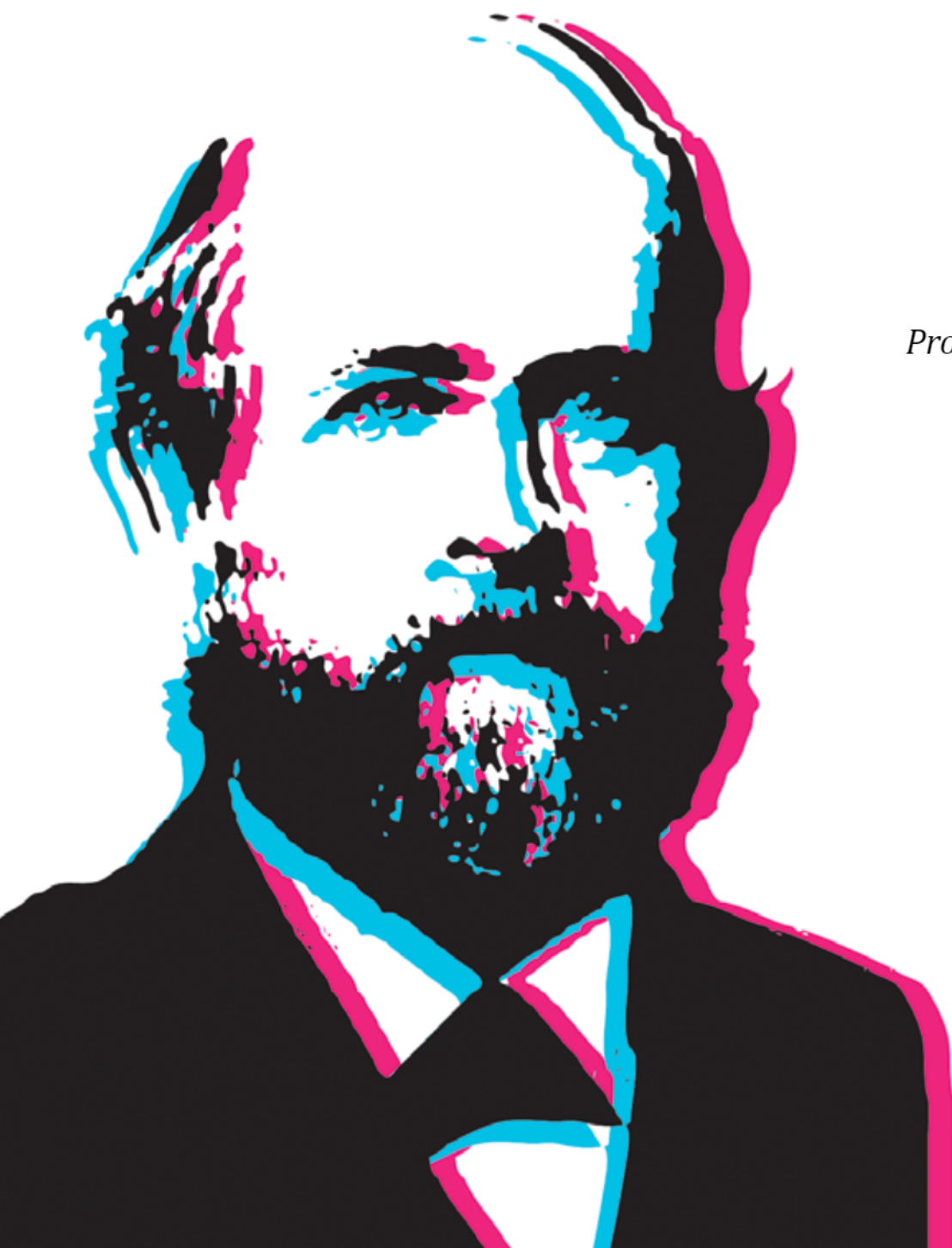
The housing crisis is a huge mess, inequality has become absurd, and the debt mountain is teetering and likely to collapse under its own weight.

We have made for ourselves a pile of trouble by thinking we can steal with impunity. The cure must be to collect location value and gradually reduce all other taxes. Then take home pay will increase, land prices will reduce, inequality will reduce, and funds for improvement will be available without borrowing. 

...AND VERY GREAT COMMAND  
OVER THE SERVICES OF OTHERS  
COMES TO THOSE WHO AS THE  
HATCHES ARE OPENED ARE PER-  
MITTED TO SAY, "THIS IS MINE!"

”

Henry George,  
*Progress and Poverty* 1879



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# Our Philosophy



## What is Land&Liberty?

*Land&Liberty*, a quarterly magazine published by the Henry George Foundation, has chronicled world events for over 100 years. Dedicated to promoting economic justice along lines suggested by the American writer, social reformer and economist Henry George, it offers a unique perspective to stimulate debate on political economy through its reports, analysis and comment.

## Who was Henry George and what is special about his ideas?

In 1879 George published one of the best-selling books on political economy ever written, *Progress and Poverty*. By the twentieth century the wisdom he expounded was recognised and supported by many of the world's most respected thinkers including Tolstoy, Einstein, Churchill, Shaw, Huxley, Helen Keller, Woodrow Wilson, Stiglitz, and Friedman. Today, as the world faces environmental and economic crises, we believe George's philosophy is more relevant than ever. But, as George foresaw in *Progress and Poverty*, and is inscribed on his gravestone:

*"The truth that I have tried to make clear will not find easy acceptance. If that could be, it would have been accepted long ago. If that could be, it would never have been obscured."*

Today, Henry George is mostly remembered for his recognition that the systems of taxation employed in his day, and which continue to dominate fiscal policy in the UK and throughout the world, are unjust, inefficient and ineffective.

He saw how taxes discourage wealth creation, positive economic activity and employment, and prevent people and nations from realising their full potential. By ignoring property rights they constitute theft and encourage dishonesty and environmental abuse. In short, as a method of raising public revenue, they fail. By offering an alternative, George also showed that taxes are unnecessary.

George realised that some land at particular locations acquired a value that was not due to the actions of any individual or firm but was due to natural influences and the presence, protections and services provided by the whole community. He saw that this value grows as the need for public revenue grows and is sufficient to replace all existing taxes. This could be collected by levying a charge based on land values and is commonly referred to as land value tax or LVT. However, George was clear that this is not actually a tax but is a rental payment individuals and groups need to pay to receive the exclusive use of something of value from the whole community, i.e. the exclusive possession of a common, limited and highly-valued natural resource.

Henry George's ideas were not limited to his proposal to change taxes. His

profound body of theory also included issues such as: the difficulties inherent in the study of political economy; the fundamentals of economic value; a proper basis for private and public property, trade, money, credit, banking and the management of monopolies.

Key to 'the truth' that Henry George tried to make clear is that every thing is bound to act in accordance with the laws of its own nature. He saw these laws of nature as operating everywhere, at all times, and throughout a creation that includes man and society, and the worlds of body, mind and spirit. Furthermore, that people and societies can only behave ethically and succeed in their own designs when they are cognisant of, and act in harmony with, those natural laws.

*This magazine is free, as are the meetings and classes of its publisher, the Henry George Foundation. However, we rely entirely on charitable donations from members, supporters and friends to survive.*

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