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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. 🇬🇧