

Letter from the editor

HAVING STARTED 'financial', then turned 'economic', the global crisis has now gone 'social'. Ordinary people everywhere are coming to feel what that means. National governments are floundering in their responses. At the global level, Joseph Stiglitz's UN Commission of Experts brings no breakthrough wisdom. For the moment perhaps the best we have from that fount is its observation that "most of the burden of the economic policy response to the crisis must now fall on the shoulders of fiscal policy"—and that "the international financial institutions have to strengthen their capacity to implement counter-cyclical instruments." Well so far so good.

Focus, so far, has been on reform of the banking and global finance system. This is dismaying, for the root of the crisis seems to be elsewhere. Might it be not endemic to the banking system *per se*—but rather lie in the operational 'environment' in which banks do their business? Might the cause of the present crisis lie in the *real* asset landscape that are brought into being by our legal institutions, and upon which our financial institutions rely for debt security? Could reliance on cyclical market land values for the securitisation of credit (and supplementing individual income) be the root of the crisis?

Securitisation of another sort has been linked to things—though fallaciously: but the secondary packaging-up of original mortgage securities into novel wholesale financial products such as 'collateral debt obligations'—for on-trading around the world to further profit and off-load risk—is a problem only of secondary concern.

However if the banks were to open up these CDO packages to public view (which they seem unwilling to do, presumably fearing exposure might fatally threaten balance sheets), we would be able to see better in what ways this strange new class of asset has been contributing to the banking crisis. We could better assess the degree to which lending to NINJA defaulters (No Income, No Jobs or Assets—the original media scapegoat) really is to blame: and the degree to which market confidence in CDOs has been hit because of the asset bottom line—the original physical property values on which the derived financial assets are ultimately secured.

If the latter rather than the former turned out to be at the root of the financial crisis—if burst land value was the real subject of the imperilling human greed now exposed—then no amount of 'banking reform' will provide the solution to the current or any future crisis.

It is clear to **L&L** that the solution to the crisis lies in the conjoined spheres of property law and taxation. It lies in removing from private asset value, available for credit security, that 'unearned increment' attributable to land and resources. This can be achieved through taxation policy. In this issue of **L&L** Mason Gaffney identifies a sixteen-point action plan for achieving the aim. Each item would impact positively on the environment within which banking operates—stabilising and securing the industry and the future global economy. We must immediately start work on that list and hope that we've got down it far enough before the next crisis hits in 2027—or that one will be a shocker, the likes of which we even yet cannot imagine.



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