A Tory Manifesto? *(for the economy)*

James Bruges

3 policies supported by the IMF, the Economist & the Financial Times

(written at the request of a great friend who perhaps votes Tory, for circulation to his Tory friends)

Imagine our economy as the 'sceptred isle, this precious stone set in the silver sea'. In addition as 'this happy breed of men' - and women of course.

Those that deplete the isle's natural resources can contribute through tax. Those that add to its riches can be encouraged. Money, of course, is an essential ingredient to enable this process. James Robertson summarised the responsibilities and rewards like this:

"In *Future Money (2012)* I suggest three interlocking reform proposals about how a democratic government should perform its basic financial functions:

- **providing the national money supply** (monetary reform);
- **raising public revenue** (including land value tax); and
- **spending on public purposes** (including a basic citizen's income)."

Monetary reform

- **Adam Smith**: "Goods can serve many other purposes besides purchasing money, but money can serve no other purpose besides purchasing goods . . . Money is neither a material to work on, nor a tool to work with" (i.e. it is not a commodity for speculation).
- **Irving Fisher** – widely regarded as America's greatest economist and a leading supporter of free trade - claimed that the creation of money should not have been privatised. He wrote a short book in 1935 called '100% Money' (available on the web) saying that the Depression was continuing because of **a faulty monetary system**.
- I attended a seminar at the UCL in 2013 at which Michael Kumhof presented an **IMF working paper** saying that the present austerity programme would not be necessary if the state rather than commercial banks created the nation's money. I met Michael Kumhof again in the House of Commons in March this year and, to my surprise, found that he has moved to the Bank of England. Good for Mark Carney!
- **Martin Wolf, chief economics commentator for the Financial Times**, led a seminar I attended at the RICS in February (organised by **Positive Money** which leads the campaign for monetary reform and has a good website) arguing that the creation of money should not be in the private sector.
- **Steve Baker, the Conservative MP**, led a debate on 'Money Creation & Society' in the House of Commons in November 2014 setting out a similar view. There was general support among those that attended.

Irving Fisher's solution was to abolish fractional reserve banking. The banks would hold 100% reserves. An independent Currency Commission would create (or withdraw) the amount of money needed in the economy. Increase in wealth would result from such activities as entrepreneurial business and fees, not from the accumulation of money.

To make the transition Fisher said that a bank with $10m cash and $90m securities (i.e. mortgages issued) "would send these $90m of securities to the newly formed Currency Commission in return for $90m more cash, thus bringing its total cash reserve up to $100m, or 100% of the deposits. After this substitution of actual money for securities had been completed, the bank would be required to maintain permanently a cash reserve of 100% against its demand deposits. In other words, the demand deposits would literally be deposits, consisting of cash held in trust for the depositor. . . . The bank would be reimbursed through a service charge made to its depositors".

The IMF brought this proposal up to date in 2012 with *The Chicago Plan Revisited (WP/12/202, Benes & Kumhof).* Their working paper concluded:

> "Irving Fisher claimed the following advantages for this plan:
>
> 1. Much better control of a major source of business cycle fluctuations . . .
> 2. Complete elimination of bank runs.
> 3. **Dramatic reduction of the (net) public debt.**
> 4. **Dramatic reduction of private debt,** as money creation no longer requires simultaneous debt creation.
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> **"We find support for all four of Fisher's claims.** Furthermore, output gains approach 10 percent, and steady state inflation can drop to zero* without posing problems for the conduct of monetary policy."

Here we have an IMF working paper saying that the austerity programme is not necessary. I find it difficult to understand why the main political parties are not interested in the proposal. Is it simply that their donors wish to protect stratospheric income through being allowed to create the nation's money?

The Currency Commission (or Money Creation Committee) would ensure that inflation is kept within 2%. The need for draconian welfare cuts would fall away; state-created finance would ensure that funds could be directed towards avoidance of climate change, and also towards SMEs, for example, through the previous Coalition's UK Green Investment Bank.

* This statement implies that Fisher's economy does not need growth. The present debt-based economy would collapse without growth because of the need to cover annual interest.

Sovereign land

- **Adam Smith**. "As soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce."
- **John Stuart Mill**: "Landlords grow richer in their sleep without working, risking or economising. The increase in the value of land, arising as it does from the efforts of the entire community, should belong to the community and not to the individual who might hold title." *Principles of Political Economy (1848).*
- The principles of Land Value Tax have a long history of support: Adam Smith, Thomas Paine, Henry George, Churchill (early), Milton Friedman, Paul Krugman, Joseph Stiglitz, among others. Caroline Lucas submitted a Private Members Bill for LVT in 2013.
- **The Economist,** on 4th April 2015, carried a leader and main article advocating Land Value Tax.

Land Value Tax is raised on the value of a plot of land regardless of what is built on it. The amount generated depends on location (high in Mayfair, low in Hackney). Planning administration and laws define how land can be used. Estate agents know the value in any location: just multiply the land component (ignoring any building on it) by a chosen percentage.

There is a principle in law that all land is sovereign, implying that 'ownership' is more correctly the 'right to use'. This comes into discussions on what's above (pollution) and underneath the surface (mines). Then: 'Land, Labour and Capital'. Land is immobile, as the Economist put it, "a city lot cannot be whisked off to Luxembourg." Labour may be in China. Capital may be in the Cayman Islands or the City of London (the biggest offshore haven of all). LVT is therefore the most secure form of tax, requiring a minimum of legislation to set up, or regulation and bureaucracy to administer. It could be the major national tax.

LVT should replace VAT, which is a thoroughly regressive tax that penalises work and enterprise. It is extremely bad for the economy. Politicians like it because those who need to buy and sell ordinary stuff - the poor more than the rich - cannot avoid it, unlike the wealthy who use financial advisers to minimise their tax.

A slice of national LVT could go – *automatically, not arbitrarily* – to local authorities in inverse proportion to the amount raised in order to benefit deprived environments.

Britain is the most unequal country in Europe largely due to the high value of property. 70% of lending by banks is mostly for property (raising the value of existing buildings without providing new development). Inequality and debt increase until people decide to take on no more debt; then even a zero interest rate cannot get the economy out of recession. The IMF recently confirmed that a high level of inequality, apart from its social evils, is dangerous for the economy. We are heading for another financial crisis.

At present most derelict sites are not taxed so the owner leaves them derelict hoping that the value will rise, the CPRE has a list of all 'brownfield' sites. With LVT they would be taxed the same as adjacent (developed) sites, so the owner will either build quickly to raise income for the tax, or sell. Land would be released for development, and there would be no need to build in green belts.

Under present arrangements Crossrail – for example - provides a free lunch for those that benefit (particularly Canary Wharf and anyone living near a station), and taxpayers throughout the country, who get no benefit, contribute 40% of the cost. The Metropolitan Line, by contrast, was financed through the rise in adjacent suburban land value.

James Robertson summed up his view on government revenue: "Tax should be shifted ***away from*** incomes, profit, value added and other rewards for useful work and enterprise and ***put onto*** value subtracted from common resources such as land and the environment's capacity to absorb pollution and waste (such as carbon emissions); and ***prevent tax avoidance*** by rich people and businesses using tax havens, etc."

Inclusive people

- **The Economist,** in a recent issue (23 May 2015), included a sympathetic article on a 'basic income' concluding, "It is feasible only if it is kept small, and complemented by more targeted anti-poverty measures: the clue is in the name."
- **Martin Luther King:** "The time has come for us to civilise ourselves by the total, direct and immediate abolition of poverty."

We live in one of the wealthiest countries the world has ever seen. Much of this wealth is inherited from centuries of development: not all is due to the present generation. It seems reasonable that all citizens should share some of the historic benefit, not as not charity or welfare, but as a right.

In a stagnant economy – a recession - people want to save rather than take on more debt. They will, however, spend and invest if they receive debt-free money distributed as a citizens' dividend of the wealth of the nation. This is the best way to rise out of a recession.

Politicians like to have a bête noir, though not necessarily as extreme as Hitler. In the 2015 election benefit skivers were singled out; and a citizen's income was, of course, red rag to a bull when the Green Party suggested it. However a CI would come into its own when combined with monetary reform, not only for social reasons, but because it would be the best way to get money into the hands of those that use it in the real economy.

Milton Friedman pointed out that the super rich extract funds into savings that do little for the marketplace, whereas the less wealthy buy and sell and stir things up. He famously suggested dropping money from a helicopter. Ben Bernanke became known as Helicopter Ben after commenting on this approach. Economists refer to it as a fiscal stimulus.

Most people wish to do something with their lives, whether they are on the bread line or whether they have inherited enough for work to be unnecessary or if they are married to money. With the present system those in need at the bottom lose benefits when they start work: for every extra £100 they earn they only retain £10 - equivalent to a 90% income tax - so they have little incentive to get off the sofa. The wealthy however, retain £50 from every additional £100 they earn but are annoyed by this 50% restraint on their appetites.

Interest moves wealth from the poor who need to borrow to the rich who have spare to lend. In a debt-based economy the super-rich will eventually own the world: a rising tide raises yachts and overwhelms the leaky boats of the poor. Do we want a world of envy, hatred and terrorism, or one of cooperation?

Alaska distributes a dividend to all residents, including children, from its oil revenue reserve fund. It has had the great benefit of eliminating child poverty. Land is a common resource, therefore appropriate for the state to distribute money through taxing it.

Conclusion

These three fundamental reforms are not party-political, though only the Green party has taken them seriously so far. If the present government implements them – they have, after all, been recommended by its friends in the IMF, The Economist and the Financial Times - it would remove the likelihood of another financial crisis; it would relieve the suffering and anxieties of the majority of voters; it would automatically tackle the dangerous level of inequality that has divided society onto two economic planets; and it would enable the government to take initiatives to reduce the catastrophic dangers of a changing climate. The party that adopts these reforms would truly become the party of the centre.

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Positive Money's website has a video of a conference lasting 90 minutes for those who have patience: "Fixing the Banking System for Good". 17th April 2013, Philadelphia, USA.

Lord Adair Turner, Former Chairman of the UK Financial Services Authority, **Michael Kumhof**, Deputy Division Chief, Modeling Unit, Research Department, International Monetary Fund and some other big senior figures in the economic, monetary, and financial worlds discussing **ending fractional reserve banking**.

See www.positivemoney.org/2013/04/video-from-the-conference-fixing-the-banking-system-for-good.