

# **A New Political Economy**

**by Deirdre Kent**

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# 1. What Happens When you Annoy Giants?

I was once a tobacco control lobbyist. Knowing the tobacco manufacturers were giving them a hard time I visited the Tobacco Growers Association who told me the thing they both feared most was tax hikes. So I knew exactly where to focus. I put up a sign up in my office asking, 'What would annoy the tobacco industry the most?'

Designing an alternative political economy will require a strategy to overcome the power of big money. It's always a battle of strategies. So let's see what happened when really big money power got annoyed.

In New York in the late 19<sup>th</sup> century, David Rockefeller and JP Morgan had close ties with the Rothschilds, then the wealthiest family in the world. That century a succession of American presidents had been trying to wrest the money monopoly from the banks. Andrew Jackson had called banks a 'den of vipers and thieves'<sup>1</sup> and Thomas Jefferson had warned that 'children will wake up homeless'<sup>2</sup>. Then Abraham Lincoln even temporarily succeeded.<sup>3</sup>

To make matters worse, along came a young journalist called Henry George.

His 1879 book *Progress and Poverty*, sold millions,<sup>4</sup> and soon he was the third best known American after Mark Twain and Thomas Edison. He influenced the British Labour Party and travelled the world. Land barons, industrialists and bankers swung into action. They couldn't lose their wealth just because of this young upstart. George had argued landowners should pay ongoing rent to the community. Labor should not be taxed. The three factors of production were land, capital and labor.

*To neutralize his growing international influence, a group of wealthy individuals used their money to buy scholars to distort the discipline.* In 1892 oil magnate John D Rockefeller funded Chicago University and banker JP Morgan funded Columbia University. They appointed presidents who chose suitable economists to distort the language. When 'land' was subsumed under 'capital', the word 'land' disappeared from economics textbooks. Other modifications followed. It worked a treat. Few now question income tax and few economists talk about land.

And to please the banks who profit from private land ownership, mention of the words 'money', 'credit' and 'banking' was omitted. Soon academic teaching on money creation was reduced to a brazenly inaccurate paragraph or two, misleading generations of students.

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1 <http://www.silverdoctors.com/gold/gold-news/andrew-jacksons-speech-against-central-banksters-as-true-today-as-in-1832/>

2 <http://www.forbes.com/sites/robertlenzner/2011/11/06/thomas-jefferson-warned-the-nation-about-the-power-of-the-banks/#4154d5bd2aac>

3 See *The Money Masters How International Bankers Gained Control of America*, 3 1/2 hour documentary <https://www.youtube.com/watch?v=UrJGIXEs8nl>. Although this film is ridiculously long and has some inaccuracies, it is still worth watching.

4 George, Henry: *Progress and Poverty: An Inquiry into the Cause of Industrial Depressions and of Increase in Want with Increase in Wealth*. London: Hogarth Press Ltd, 1879

When you distort the very discipline of economics, you brainwash graduates, who in turn mislead politicians, journalists and the public. With the study of economics so badly emasculated, politicians and institutions are left without tools. By systematically omitting all four words — land, money, credit and banking — from the discourse, economics has failed us.

This was the birth of neoclassical economics and is documented in *The Corruption of Economics* by Fred Harrison and Mason Gaffney.<sup>5</sup>

Professor Dirk Bezemer found a mere 11 economists, none of whom were neoclassical economists, had predicted the 2008 Global Financial Crisis — a disgraceful record for any discipline, considering the loss of homes, jobs and savings involved.<sup>6</sup> These same people are now among those warning of a much larger and wider financial collapse, as debt deflation takes hold and globalization locks us ever more tightly together. The absence of reality-based economic theory leaves millions of environmental and social activists — along with the compassionate right — floundering helplessly about, trying to solve growing inequality and the climate crisis.

With an apparently helpless public watching on, corrupted economics has concentrated wealth in the hands of a few and is making our planet less inhabitable by the day. The process is now so complete that national reform is no longer politically possible. Money brings influence and corporations are more powerful than elected governments. It seems we are locked in.

## 2. Towards the Next System

I am now going directly to the solution I offer. It will show we aren't actually quite helpless against the parasitic minority. We *can* find a route to a decentralized eco-socialism. And here is how the essay will proceed after that:

A discussion of the philosophy of change concludes we must tackle it as a system; so the current political economy is left untouched and a new one seeded. We then talk of the need to adapt to a post fossil fuel era and address possible routes to a complete financial collapse.

A section on money ends with a scan back in time to identify what money (and land) systems underpinned advanced civilizations. This segues into a discussion of land as wealth, how land became privatized and how land ownership led to industrial and banking power. In turn this results in an explanation of the growth imperative that drives climate change. Then we face political reality and figure out a strategy to confuse the corporates.

The penultimate ingredient is governance reform, where we apply biomimicry to develop a nature-mimicking form of decentralization.

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5 Gaffney, Mason and Harrison, Fred: *The Corruption of Economics*. London: Shephard-Walwyn in association with Centre for Incentive Taxation, 1994

6 <http://www.debtdeflation.com/blogs/2009/07/15/no-one-saw-this-coming-balderdash/> Professor Steve Keen writing on his blog July 15, 2009. 'No-one saw this coming? Balderdash!' He teaches at Kingston University, London. His book: Keen, Steve: *Debunking Economics: The Naked Emperor Dethroned?* London: Zed Books, 2011.

The last element is a basic income. Currently operating tax and dividend systems are described, suggesting a viable method of funding a basic income. After describing a range of partial solutions currently in operation, we watch the magic unfold and draw to a conclusion.

## The Proposed New System

A community designs a new currency and buys up local land with it, giving them a revenue source in land rent. Implement participatory budgeting to ensure publicly elected bodies spend revenue in the right balance between infrastructure and Citizens Dividends. Communities immediately redistribute the land rent to their citizens, gaining political approval from the working poor and beneficiaries. As more land is purchased and the money pool grows larger, negotiate with 'higher' levels of government to share revenue.

*When hundreds of thousands of small communities assert their right to acquire functions like currency creation and design, revenue gathering, inflation control, the elite will find themselves at a loss.* There will be just too many fires for them to put out. We adopt new paradigms at community level and develop a new system while the ugly old one withers. Redistributing rent from land and natural resources will give us hope for social justice and eventually for peace.

While other policies at other levels of government should also be implemented, the following suggestion is at the heart of the proposed next system:

- Leave the Existing System Alone

What Bernard Lietaer says the current 'yang' currency needs to be balanced with a 'yin' currency.<sup>7</sup>

- Elect a Community Board

Members decide what is critical for their area in infrastructure — a functioning water system, a port, a roading system, a local radio station, a micro electricity grid, Local Area Networks for internet. The Board is responsible for planning and community development. Keep numbers small. As with all boards, maybe make half the places for men and half for women.

- Elect a Currency Board

This Board designs and issues a new currency. They also have to keep it stable which is a challenge. It will eventually become a community bank. This Board must be willing to cooperate with neighboring boards. Its new currency will decay by design. (see Chapter 14) The members ensure security and decide if it will be digital or notes. To avoid inflation, they adjust the rate of decay and the amount issued. Or they pass excess currency up to the next level of government.

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7 Bernard Lietaer and Stephen Belgin *New Money for a New World* (p227–223)

- Elect a Land and Resources Board

Members decide what land to buy, making recommendations to the Monetary Committee. They also look at the local resources — water, fish, forests, minerals. You might give veto power to the local indigenous people, as they know which land is most sensitive to them.

It seems like a lot of elections, but you need plenty of elected people to act as checks and balances on the other boards. This is big stuff you are dealing with. Each small board has a range of vital functions they are not accustomed to, and it is critical to avoid corruption.

The Community Board will serve a population of around 5000 – 25,000 people. Know that you can both make and enforce local rules, especially rules relating to your currency and your revenue gathering. Resist interference from national government in matters you believe are local matters. Tell them to go away. You will help them later when your currency and revenue schemes are scaled up. Write your own *Declaration of Interdependence* and pin it to some public door.<sup>8</sup>

The next phase is for the Currency Board to pay staff partly in the new currency. (This is called spending it into existence). The currency decays with time. Or you could issue it as a Citizens Dividend. Once trust is established (hopefully very soon), use it for buying up land. This brings revenue. Pay the rates (local taxes) of those whose land you bought because they will provide you with good income. Persuade local businesses to accept the new currency for payment.

This Board has other decisions to make. Do we insist on compulsory purchases? Only mortgage free land? Is there a local business in our district that has privatized part of the commons? (minerals, intellectual property, water, infrastructure). Do you want an opt-in scheme or quickly buy the land of polluters and exploiters? Buy land from land trusts?

- Employ a Valuer to set up a Land Rental Index.

Not all land needs assessing, just a sample. Set the index at 100. Land rentals are fairly stable over time. After a year the Index may rise to 105. This is a smaller percentage than an interest rate going from 4–5%.

- Compile and maintain of directory of local citizens, including all children.

Each will be eligible to regular dividends.

- Have your Community Board communicate early with neighboring governance units.

Determine when you will need to cooperate with other boards for roading, sewerage, water supply, transport, stormwater infrastructure. Be sympathetic to your local council when they have rating (local tax) arrears and use it as a bargaining tool so your citizens can pay their rates in the new currency.

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8 An example is at <http://neweconomics.net.nz/index.php/2016/09/declaration-of-interdependence-by-a-community/>

- Employ participatory budgeting.

Any decision about whether to spend new revenue on infrastructure, administration or on Citizens Dividends will be done with participatory budgeting. There will always be a tension between the two. Since many in Alaska get so attached to their dividends, without participatory budgeting Alaska isn't funding enough infrastructure.

With this solution in mind, let's move on to the risks we are facing.

### 3. Global Risks Signal Trouble Ahead

*The set of global problems that humanity is facing presently may turn out to be as important to our continued evolution as the oxygen crisis was to emerging life. Never in the history of the human race have the dangers been so extreme, yet in their role as evolutionary catalysts, they may be just what is needed to put us up to a higher level.*

*Jean Houston, scholar, philosopher and researcher in human capacities*

Naomi Klein in her landmark 2014 book *This Changes Everything* laid down a challenge.<sup>9</sup> She understood the magnitude and significance of climate change and connected it with our dysfunctional global economic system. 'Climate change', she wrote, is a 'civilization wake-up call. A powerful message — spoken in the language of fires, floods, droughts and extinctions — telling us that we need an entirely new economic model and a new way of sharing the planet. Telling us we need to evolve.'

People everywhere have been agonizing over corporate capitalism and many instinctively know there is something fundamentally wrong with our political economy. If we want a new system, how will we get there? Ah, you say, that means complementary currencies, public banking, local food initiatives, community building street activity, Airbnb, tiny homes or more cooperatives. Yes, many do contain the seeds of a better system. *But a new economy must be designed at a much more fundamental level.* There must be a vibrant, flowing money system, a well thought-out tax system and a nature-mimicking governance system.

The global economy is fragile and volatile and there are indications we are well into a debt deflation spiral. U.S. President-elect Donald Trump's massive infrastructure spending, under the current paradigm of money creation, will just accelerate it.

Deflation is a central bank's worst nightmare because there is little they can do. Negative interest rates as practiced have brought unexpected results, not always good. Analysts have pre-

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9 Klein, Naomi: *This Changes Everything: Capitalism vs The Climate*. Australia: Penguin Group, 2104

dicted the global economy will crash again. But while ATM machines still operate and the global distribution system still functions, we still have the chance to put a new system in place.

A crash will be very painful and I hope we aren't going to have one. Banks are a critical part of the global financial system and money is the foundation of economic life. To crash a financial system is to kill the heart of our economic body. I treasure every day we have without a crisis, because it is another day to prepare. But the six biggest banks are bigger than ever and they are each exposed to tens of trillions of dollars in derivatives. Regrettably there are multiple routes to a financial crash.

Satyajit Das, a Sydney bank consultant in the area of risk management and author of *A Banquet of Consequences* says, 'If changes are not made, then the forced correction will be dramatic and violent, with unknown consequences.' He likens the global economy to a 'giant unstable sand dune where the addition of one grain of sand can cause collapse without warning.'<sup>10</sup>

Actuary Gail Tverberg writes that peak oil didn't play out as expected because we didn't factor in the financing of the oil industry (more on this later). Commodity prices dropped because of a build-up of debt from the growing cost of extraction.<sup>11</sup> Nations that are most dependent on oil exporting like Nigeria are suffering, sometimes to the point of mass starvation.

We have already seen a taste of what might happen. The rust belt precariat, with no other hope, turned to Donald Trump. Brexit flabbergasted everyone. Property prices plummeted in fracking towns in North Dakota as unemployed workers moved away. UK job losses in oil will reach a quarter of the workforce by the end of 2016.<sup>12</sup> Oil producers are pulling out of uneconomic ventures.

It usually ends with a banking crisis. The global economy goes down when big banks stop trusting each other. Markets become volatile. By July 2016 Deutsche Bank was sitting on a €54.7 trillion derivatives exposure<sup>13</sup>, twenty times the German GDP. By mid-November a sixth of Italy's bank loans were nonperforming.

Neoclassical economists themselves failed to predict the 2007-8 Global Financial Crisis because they left money, credit and banking out of their discussions. They blindly accepted the unsound theory that banks are just intermediaries, ignoring their role of money creation. So they missed private debt as a factor. Secondly when they subsumed land under capital, that messed up their equations. Lastly, they ignored the limits of cheap-to-extract oil. Eight years later they are still wondering why they missed it.

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10 Das, Satyajit: *A Banquet of Consequences: Have We Consumed Our Own Future?* Penguin Books, Australia 2015

11 The Connection between oil prices, debt levels and interest rates <http://oilprice.com/Energy/Energy-General/The-Connection-Between-Oil-Prices-Debt-Levels-and-Interest-Rates.html>

12 Oil downturn to wipe out over a quarter of North Sea jobs. 10 June 2016 *The Telegraph* <http://www.telegraph.co.uk/business/2016/06/09/oil-downturn-to-wipe-out-over-a-quarter-of-north-sea-jobs/>

13 According to Investopedia A derivative is a contract between two or more parties whose value is based on an agreed-upon underlying financial asset, index or security. Common underlying instruments include: bonds, commodities, currencies, interest rates, market indexes and stocks.

Just as we can't leave politics to politicians we certainly can't leave economics to economists. The planetary emergency we face is no joke. While past civilizations collapsed individually, today we face the prospect of planet-wide collapse.

Cell biologist Bruce Lipton says the recipe for the threat of mass extinction is to become one super organism. The current system needs to break down. 'So instead of being fearful, let's ask what is forming. The falling apart should be cheered.'<sup>14</sup>

It is not just economics, it is the social chaos. After the deeply divisive 2016 US election, Sally Goerner reminded us that civilization-threatening collapses go through clear stages. Once the 'economic royalists' infiltrate institutions and rig political and economic system to favor the elite, the next step is the erosion of democracy. When internal pressure reaches a breaking point, anti-establishment candidates turn up, both good and bad. She said we have forgotten the lessons of the 1760s, 1850s and 1920s.<sup>15</sup>

While most societies have lived with war, we now have the added factor that there is a scramble for the last remaining fossil fuel reserves. Investigative journalist and international security scholar Nafeez Ahmed<sup>16</sup> has explained the conflict in Syria partly in resource terms, saying that there is competition between the world's biggest oil companies for their offshore oil and natural gas reserves and that is why they all court Assad.

Oil companies know the facts. American Shale Oil candidly admits on its website: *'The peaking of world oil production presents the US and the world with an enormous challenge. Aggressive action must be taken to avoid unprecedented economic, social and political costs.'*

So the future of life on the planet depends not just on our own personal willingness to evolve but on our courage to change the fundamental paradigms of our economic system and build a new one. 'Green growth' and 'smart growth' can't occur within the current faulty structure. The expansionary model that worked for the last two centuries is overdue for replacement. As inventor Buckminster Fuller said, 'You never change things by fighting the existing reality. To change something, build a new model that makes the existing model obsolete.'<sup>17</sup>

Disruptive technologies always surprise, so let's go there.

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14 Global Oneness Day 2016. <https://globalonenesssummit.org/>

15 <http://evonomics.com/why-trump-phenomenon-is-a-sign-of-oligarchy/> Why the trump-sanders phenomenon signals an oligarchy on the brink of civilization-threatening collapse.

16 <https://medium.com/insurge-intelligence/western-firms-plan-to-cash-in-on-syria-s-oil-and-gas-frontier-6c5fa4a72a92#.p3y8rozbb>

17 Buckminster Fuller Quotes [https://www.goodreads.com/author/quotes/11515303.R\\_Buckminster\\_Fuller](https://www.goodreads.com/author/quotes/11515303.R_Buckminster_Fuller)

## 4. Applying Systems Thinking to Wicked Problems

Many want to tackle intractable problems issue by issue. Why did my hunch always say NO, NO, NO?

Quantum physicist Fritjof Capra<sup>18</sup> says there are multiple reasons why we are destroying our natural environment. He said we are thinking linearly and not holistically. Why do we want to save the spotted owl? ‘The answer is because of the relationship of the spotted owl to humans.’<sup>19</sup> In nature each living system is self-organizing. What is sustained is the web of life, and networks are the basic unit of life. We can’t divide up a living system because it breaks those relationships and destroys the patterns.

So let’s talk about the relationships between the BIG PROBLEMS in the global economic system. In a system where everything affects everything else, if you change one element it sets off a chain of responses, and some are unintended.

What happens if we don’t tackle the political economy as a system? If we just change the tax system, the banks get more powerful. If we remove income tax and sales tax and only tax land and other monopolies, we still have continuing growth of private debt and regular bank collapses.

If we change the money system but ignore the tax system we get land speculation, growing inequality and booms and busts. Change both of these but not the governance system and we get a disenfranchised population mistrusting elites.

Nor is it helpful to tackle it symptom by symptom. If we focus on, say, affordable housing, and forget about its relationship to bank credit and a tax system favoring real estate, we miss again. Spain built more houses but it didn’t solve their affordable housing problem. If we focus only on low wages, overlooking its relationship to energy, the tax system and corporate debt, and try to solve it with a higher minimum wage, then unemployment rises. A living wage won’t solve sluggish money circulation.

Dealing to tax havens while turning a blind eye to a faulty tax system will be expensive and ultimately ineffective.

## 5. Whole System Shift Gives Us Guidelines

The trouble is we have a very short window of opportunity because of accelerating climate change. The new model will include a money system, a tax-and-dividend system and a partnership model of governance. And it has to be wrapped up in one elegant package — quite an ask.

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18 Capra, Fritjof. *The Web of Life: A New Scientific Understanding of Living Systems*. New York: Anchor Book, 1996

19 More recently Fritjov Capra and Pier Luigi Luisi, have written a book *The Systems View of Life: a Unifying View*, 2014. The authors talk of the implications for politics, economics, medicine, psychology and law.

Here is the thinking. Since so much power is now concentrated in global corporations and super wealthy individuals, you can't implement major reforms at national level. So how about trying it locally? If we want community owned land, where is the money to buy it? Ah, create a second currency. Watch out for inflation and corruption! If we want to give out dividends from resource rents, at what level will this be done — central or local government? If local, how local? We want to tax land and untax labor. But you can only impose land rent locally and drop income tax nationally. They must occur at the same level. If we do it locally that means wresting more powers from central government. Can we share the rents locally, creating a local registry of citizens? Yes.

No matter how we tackle it, it must not be sudden. The new system must come into existence gradually. The bigger you are, the harder you fall. Principle 9 of permaculture says *'Small and slow systems are easier to maintain than big ones, making better use of local resources and produce more sustainable outcomes'*.<sup>20</sup>

So it looks like we are going to start a new currency with new rules at local level. We then have the elements of the next economy. The old economy will gradually die down to a less dominant form.

Money is created at the lowest possible level of government by spending it into existence, not lending it into existence with interest. The rules governing trade in that currency are determined locally, reforming the tax system. We need to share the values of the commons so a small Citizens Dividend is paid out. Power, function and revenue flow from the periphery to the center in the new system. Money created by neighboring districts will on a par with the national dollar as each is measured against land values. The new money tributaries gradually form a river, a new national currency.

## 6. The Need to Adapt

No species can survive unless it adapts to its environment.

### **Climate Change and Fossil Fuel Depletion**

Energy is at the heart of everything we do and oil is an extremely dense form of energy. To push your car 30 miles would take 6-8 weeks of hard labor but a little petrol will get you there for a few dollars. We use fossil fuel energy not just to power our vehicles and machinery, but to make our cement, plastic, pharmaceuticals and paints. As the low hanging fruit becomes exhausted, the cost of mining fossil fuels rises, and eventually it becomes unprofitable.

When climate scientist Bill McKibben first wrote in 1989, he says he didn't foresee the pace of change. He continues to be astonished at the rapidity of loss of Arctic ice, increasingly devas-

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<sup>20</sup> As quoted by Andrew Martin <http://onenesspublishing.com/2016/09/the-12-permaculture-design-principles/>

tating cyclones and other extreme weather events. We now have a very limited timeframe.<sup>21</sup> If we are going to get to 1.5 degrees, a goal set in Paris, we will need to close all the coal mines and some of the gas fields we're currently operating long before they are exhausted.<sup>22</sup>

Founder of the Carbon Tracker, Mark Campanale, calculates there is so much unburnable carbon in the reserves of oil, gas and coal companies, that even if there was no further digging or mining activity than now, we would still overshoot the 2 degrees.<sup>23</sup>

## Financial collapse

Actuary Gail Tverberg says the global economy can't grow fast because the cheap-to-extract energy is depleting. Global trade isn't growing and central bankers can't solve it even with historically low interest rates. More energy is needed now to extract energy. She then takes us through a chain of effects leading to stagnant wages and continuing economic decline.<sup>24</sup>

By the same process, extracting commodities eventually becomes unprofitable. The downward spiral leads to asset prices and the price of agricultural land falling. This leads to debt defaults and bank failures, affecting banks, insurance companies and pension plans.

She says investors and financial advisors who haven't factored in energy believe that it is cyclical and the price of commodities will turn around.

Tverberg concludes there is no way out of the problem over the long term. We will have reached our 'Minsky Moment'.<sup>25</sup> Many others see it coming — Nicole Foss and Raul Ilargi Meijer of The Automatic Earth, Michael Snyder, Jesse Colombo, Steve Keen, Wolf Richter, Yves Smith.

Adapting to sudden worldwide financial collapse may be humanity's biggest challenge.

## 7. How change happens in nature

In nature change comes in waves. There is a pulsing where change happens slowly for a while, then there is a sudden growth spurt.

Nature preserves what works and modifies what doesn't, so it has a conservative element. Evolution happens at the margins, where ecosystems meet. But just as a caterpillar develops miraculously into a butterfly, evolving economics could suddenly surprise us.

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21 After Fossil Fuels: The Next Economy. An Oberlin College and Conservatory conference on the Transition to a Clean Energy Economy. Oct 6–8, 2016.

22 [https://newrepublic.com/article/136987/recalculating-climate-math?utm\\_medium=email&utm\\_source=actionkit](https://newrepublic.com/article/136987/recalculating-climate-math?utm_medium=email&utm_source=actionkit). Recalculating the Climate Math by Bill McKibben.

23 After Fossil Fuels, the Next Economy. An Oberlin College and Conservatory conference on the Transition to a Clean Energy Economy. Oct 6–8, 2016.

24 <https://ourfiniteworld.com/>

25 Hyman Minsky, economist, said the money system we have now is inherently unstable, will lead to debt build up that ends in a 'Minsky moment'

Evolutionary biologists observe change over long periods of time. Elizabet Sahtouris, tells the story of the evolution of bacteria.<sup>26</sup> Like us ancient bacteria entered an age of imperialism. They devoured their resources and ended up in crisis. Their first attempts at 'globalization' were based on competitive exploitation of each other with no concern for all others' wellbeing.

*'Many such colonies died, until somehow they finally managed to evolve the cooperative scheme we call the nucleated cell... In fact, their invention of these huge cells is what makes you and me possible, for each of our cells is one of their descendant cooperatives. Some of the greatest catastrophes in our planet's life history have spawned the greatest creativity! And therein lies my hope for humanity.'*

## 8. Unspoken Underlying Beliefs

To have a new changed system growing up alongside the old one, we might start by examining the underlying paradigms (unstated beliefs) of our current system. It is these we want to change, as they give the greatest leverage.

These are some of the underlying assumptions:

1. Humans have an absolute right to exploit nature's resources.
2. We are separate from each other and from our environment.
3. There should be only one currency in a country.
4. The only way to fund big ticket items is to borrow from banks at interest.
5. The value of our currency can only be kept stable by adjusting interest rates.
6. The money system we have is value neutral.
7. We can individually 'own' land, the bounties of our earth and the heritage of our ancestors.
8. The main way to raise revenue is by taxing labor, sales and company income.
9. Central government has the right to dominate 'lower' levels of government.
10. The only way is for each person to have enough is by a paid job.
11. The political economy is like a clockwork model.
12. Democracy has reached its peak.

## 9. What will the solution assume?

I think you can see where this is going. I believe we are one with the Earth (The river and I are one, say Whanganui Maori.) The economy is a subset of the ecosystem. Humans are just one

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<sup>26</sup> Elisabet Sahtouris: The Biology of Globalization <https://ratical.org/LifeWeb/Articles/globalize.html>

species in a whole system, dependent on the healthy functioning of the whole. The purpose of a political economy is to give people access to food, shelter, health care, education, a sense of belonging and hope for the future. We can tax the exclusive use of the commons instead of taxing labor. There is a vast unpaid, uncounted economy on which we all depend. We are beneficiaries of centuries of human knowledge, art, science, wisdom, inventions, culture, and have a right to our portion of the common wealth. The revenue potential rent from land and other monopolies is greater than anyone thinks.<sup>27</sup>

We should organize politically much as any functioning ecosystem in nature self-organizes, with shared decision making and ongoing negotiating between the needs of the parts and the needs of the whole. Hierarchies must be replaced by holarchies, nested wholes within wholes.

Money is a human invention and should be consciously designed. If money is to represent a claim on something material it must decay like that material. Each country should have at least two currencies, one for domestic use and one for trade. A wide range of feedback mechanisms enhances democracy, ensures the health of all the parts and the stability of the domestic currency. Our economic system must enable the waste of one entity to become the resource of another, minimizing energy use in transport. It must mimic nature, drawing from nature's 3.8 billion investment in design.

It should combine the best of the left and the right, conserving what is good and changing what doesn't work.

## 10. The Big Shifts Needed

The following big shifts are needed: —

1. From bank created money to a consciously designed and publicly created and controlled currency.
  - Money will be spent into existence.
  - Optimum velocity of circulation must be built into the currency design.
  - Simple mechanisms for keeping the currency stable must be designed in.
2. From 'ownership' of land and resources to sharing the values of the commons.
  - From taxing labor to paying resource rents.
  - Sharing the rents through distributing dividends. This will eventually lead to a Basic Income replacing the intrusive and costly welfare system.
3. From domination to partnership
  - Centralized governance to be replaced by distributed governance.

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<sup>27</sup> Karl Fitzgerald of Prosper Australia in "Total Resource Rents of Australia — Harnessing the Power of Monopoly, calculates the potential revenue as almost as big as the current government revenue. <https://www.prosper.org.au/2013/12/03/total-resource-rents-of-australia-2/>

- There will be interdependence between all levels of government with a variety of feedback loops.

Now we go on to talk about money creation and then land tenure systems. A search round the world will describe what underlying elements existed at the time certain societies were both prosperous and less unequal.

## 11. How Money is Created

It's disturbing when universities spread falsehoods about the money creation process, as they are supposed to be repositories of knowledge. When they fail in that duty and their students go on to get jobs in banking and institutions, how much greater is the crime? When journalists are misinformed by economists, how can society ever learn the truth? Do other disciplines have books with equivalent titles of 'Unlearning Economics' or 'Sack the Economists'?

Ex-banker Michael Kumhof is the senior research advisor in the Bank of England, specializing in the financial system, income inequalities and the oil supply. He co-authored two important papers describing modern money creation. After his first paper when he was at the International Monetary Fund, he told a seminar,

*'Virtually all money is bank deposits. The key function of banks is money creation not intermediation. The entire economics literature that you see out there today is that it is intermediation, taking the money from granny, storing it up and then when someone comes and needs it I can lend it out to them. That is complete nonsense. Intermediation of course exists, but it is incidental and secondary and it comes after the actual money creation. Banks do not have to attract deposits before they create money. I'm a former bank manager. I worked for Barclays for five years. I've created those book entries. That is how it works. And if a leading light economist like Paul Krugman tries to tell you otherwise, he does not know what he is talking about.'*<sup>28</sup>

A similar Bank of England working paper followed.<sup>29</sup> It said bank lending creates deposits. Writing on his blog, Professor Steve Keen said he did not expect university lecturers to change their lectures any time soon.<sup>30</sup> And they didn't.

So let's get the facts about money creation right.

*Bernard Lietaer and his co-authors reason it is politically impossible to reform money at national level because —*

- You can't do a pilot study.
- Replacing a monoculture with another monoculture is no way to generate diversity.

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28 More of Kumhof's transcript is at <http://neweconomics.net.nz/?s=Kumhof&submit=Search> Kumhof worked at the IMF at that stage.

29 Banks are not intermediaries of loanable funds — and why this matters (3.7MB) Zoltan Jakab and Michael Kumhof at <http://www.bankofengland.co.uk/research/pages/workingpapers/2015/wp529.aspx>

30 Steve Keen said this on a tweet after mid 2015, when the paper was published.

- You will still get monetary crashes.
- There are too many bank lobbyists anyway.<sup>31</sup>

Gar Alperovitz says that FIRE (finance, insurance, real estate) section spent nearly \$1billion fighting US bank regulation in 2010-2011 alone.<sup>32</sup>

## 12. Consequences of Interest Bearing Debt Money

*The first consequence* is instability. Economist Hyman Minsky<sup>33</sup> pointed out, ‘neoclassical theory relegates money and finance to the sidelines’. He says the financial system is a fundamentally unstable process, rather than a self-balancing one. He predicted the explosion of home mortgage securitization that eventually led to the Global Financial Crisis. He leaves us with a legacy of sentences and phrases like ‘Stability is destabilizing’, ‘that which can be securitized will be securitized’ and ‘money manager capitalism’.

Minsky economist Professor Steve Keen wrote,

*‘An economic theory that ignores the role of money and debt in a market economy cannot possibly make sense of the complex, monetary, credit-based economy in which we live. Yet that is the theory that has dominated economics for the last century. If the market economy is to have a future, this widely believed but inherently delusional model has to be jettisoned.’<sup>34</sup>*

Lietaer,<sup>35</sup> recognizes this system instability. ‘According to the IMF data, there were 145 Banking crises, 208 monetary crashes and 72 sovereign debt crises between 1970 and 2010. This represents a total of 425 systemic crises, an average of more than 10 countries getting into trouble each year!’<sup>36</sup>

*The second consequence* is growing private debt. The website of Positive Money UK says:

1. Banks create new money when people go into debt.
2. For every dollar of money, there is a dollar of debt.
3. If we want more money in the economy, we have to go further into debt.
4. If we try to pay off debt, then money disappears.

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31 *Money and Sustainability; The Missing Link* by Bernard Lietaer, Christian Arnsperger, Sally Goerner and Stefan Brunnhuber, a Club of Rome Report 2012 p130.

32 Gar Alperovitz *What Then Must We Do?*, Chelsea Green Publishing, Vermont, p76

33 Wray, L Randall. *Why Minsky Matters: An Introduction to the Work of a Maverick Economist*. Princeton University Press, 2015.

34 *Debunking Economics* by Steve Keen, p 57–58.

35 See [https://en.wikipedia.org/wiki/Bernard\\_Lietaer](https://en.wikipedia.org/wiki/Bernard_Lietaer) for his qualifications and publications.

36 *Money and Sustainability, The Missing Link* by Bernard Lietaer, Christian Arnsperger, Sally Goerner and Stefan Brunnhuber, p51.

*There is a third consequence.* Lietaer and Belgin claim that having a ‘yang’ money system whose shadows are greed and scarcity perpetuates patriarchal behavior.<sup>37</sup>

*The fourth consequence* is that an interest bearing money system when combined with a private land tenure system leads to the economic growth imperative (more on this later). On a finite planet, this is a suicidal structural flaw.

## 13. The Power of Currency Design

If we want to solve intractable and life-threatening global problems, we are going to have to use all tools available. Though most people appear unaware of our power to design currencies, this new awareness will open up possibilities.

There is a saying in architecture that we create the house and then the house creates us. Bernard Lietaer believes it is the same for money.

*‘Greed and competition are not a result of immutable human temperament; I have come to the conclusion that greed and fear of scarcity are in fact being continuously created and amplified as a direct result of the kind of money we are using.’<sup>38</sup>*

Those in the complementary currency movement understand what a currency is. My book on the topic describes currencies like LETS, time banks and many others.<sup>39</sup> Each currency is created by a community of people who agree on the rules and practices; no complementary currency is created as interest-bearing debt.<sup>40</sup>

## 14. Discovering Silvio Gesell

Economic crises like depressions can throw up persistent thinkers and, as Voltaire said, *‘No problem can withstand the assault of sustained thinking.’*

Following in the footsteps of Henry George (1879 book), Silvio Gesell (1906 book)<sup>41</sup> and John Maynard Keynes (from the 1930s), today’s thinkers must now brainstorm how to save humanity from extinction.

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37 Bernard Lietaer and Stephen Belgin *New Money for a New World*. Qiterra Press, 2012.

38 Bernard Lietaer: Interview with Yes! Magazine, 1997. <http://www.yesmagazine.org/issues/money-print-your-own/beyond-greed-and-scarcity>

39 Deirdre Kent: *Healthy Money Healthy Planet — Developing Sustainability through New Money Systems*, Craig Potton 2005

40 Authors like Thomas Greco, Margrit Kennedy, Bernard Lietaer, Jacqui Dunne, Stephen De Meulenaere, Stephen Belgin, John Rogers, Jem Bendall have documented a variety complementary currencies and shown how each has a different way matching excess resources with unmet needs. In particular Bernard Lietaer, author of *The Future of Money* and many more books he has co-authored with Stephen Belgin, Gwendolyn Hallsmith, Margrit Kennedy and Jacqui Dunne. Lietaer’s Club of Rome book *Money and Sustainability*, *The Missing Link* was co-authored with Christian Arnsperger, Sally Goerner and Stefan Brunnhuber.

41 Gesell, Silvio: *The Natural Economic Order*. Reprinted and translated from the 6<sup>th</sup> German edition, 1934. Originally published 1906

While much of Keynes' advice was heeded, George and Gesell have been largely ignored. Despite his considerable influence for three decades after his astute thinking on currency design and velocity, Gesell is now all but forgotten. Fortunately an English translation of his 1906 book *The Natural Economic Order* is online.<sup>42</sup>

A German manufacturer and exporter working in Argentina, Gesell developed his theory of money during the depression of the 1890s. He offers simple answers for stimulating an economy and ensuring currency stability. No wonder Keynes called him 'a strange, unduly neglected prophet'<sup>43</sup> and wrote 'I believe that the future will learn more from the spirit of Gesell than from Marx'.<sup>44</sup>

From painful experiences as a businessman with unsold goods in his warehouse Gesell observed that manufacturers were at a disadvantage. Their merchandise deteriorated waiting for someone to buy them, while those with money watched their money increase. He concluded that those who hold money should be on the same footing as those who hold goods. Money should itch in the pocket.

*'Only money that goes out of date like a newspaper, rots like potatoes, rusts like iron, evaporates like ether, is capable of standing the test as an instrument for the exchange of potatoes, newspapers, iron and ether...Money is an instrument of exchange and nothing else. Its function is to facilitate the exchange of goods....'*

*'We must make money worse as a commodity if we wish to make it better as a medium of exchange.'*

*'As the owners of goods are always in a hurry for exchange, it is only just and fair that the owners of money, which is the medium of exchange, should also be in a hurry.'*

*When Gesell advocated that money should decay, this had the potential to turn ideas about banking, capital formation and even some human behavior upside down.*

Many call this 'demurrage money', demurrage being the charges that ports charge companies for the time they have their ships using the port. Margrit Kennedy preferred the more positive term 'circulation incentive'. Charles Eisenstein argued the word 'decay' should be reclaimed. In nature decay — part of the natural cycle of regeneration and rebirth — should be welcomed.<sup>45</sup>

We justifiably worry that having an imperative to spend, people will exploit natural resources. So let's impose high enough resource rents to block those avenues of spending. Afraid we will overuse forestry building houses? Impose resource rents on timber. Afraid we will dam every river or irrigate every field? Put a price on water.

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42 <http://www.geokey.de/literatur/doc/neo.pdf>. Silvio Gesell's book translated into English by Philip Pye.

43 John Maynard Keynes 1936, p 353

44 *General Theory of Economics* by Keynes, Chapter 23

45 Eisenstein, Charles: *Sacred Economics: Money, Gift, and Society in the Age of Transition*, 2011

## 15. Dual Currencies in History that Worked

Two elements of our proposed system are present in each of the following historical examples.

They are land rent and a dual currency. There is a domestic-only decaying currency and a trading currency. Although there are definitely challenges, the following have worked rather well.

From time to time, during crises, governments themselves have created new currencies. They have either established a new bank for the purpose, or have done it through their treasury. In 1923 Germany added a new domestic-only currency, the Rentenmark and it stopped hyperinflation almost overnight.<sup>46</sup> Farmers released their crops to the cities. It marked one of the most extraordinary monetary experiments of all time, yet it is ignored by most historians.

During a 1912 rebellion in China a treasury-issued currency helped. Abraham Lincoln in defiance of the banks issued 'Greenbacks' to fund the civil war. Britain issued Bradburies in 1914 to fund the Great War.

But better still, at least three times in history there was a decaying domestic currency.

### **Dynastic Egypt for over 2600 years**

The Dynastic period (between 2950 and 332 BC), came to an end when the Romans conquered Egypt and they reverted to a monopoly currency, metal.<sup>47</sup> During that extended period trading currencies coexisted with a domestic currency backed by corn or wheat. The trading currencies included standardized gold rings and silver bars used for buying real estate, marriage contracts and luxury items.

The domestic currency was the ostraka — pottery shards. When a farmer wanted to store wheat or corn, he took ten bags to a warehouse and was given a dated pottery shard as a receipt. When he returned a year later to claim his corn the guards gave him only nine bags. The tenth was to pay for the storage and for guarding against vermin and thieves.<sup>48</sup>

Hence there was an incentive to spend ostraka quickly. They spent it on things that would last — wine presses, water wheels, fowl traps, enviable irrigation systems. Records show they maintained their equipment particularly well. They also made significant advancements in science, education, music, craftsmanship, astronomy, mathematics and art.

During this period fish, meat, fruit, vegetables, beer and wine were plentiful. There were lots of holidays (one record says workers only worked 18 out of 50 consecutive days) and medical treatment was to a remarkable standard. Bone records show there were healed broken bones,

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46 The fascinating story of the lead up to this horrendous hyperinflation after World War One has been described in a Adam Ferguson: *When Money Dies — the Nightmare of the Weimar Hyperinflation* The book is free online.

47 For this section I am drawing on the many writings of Bernard Lietaer and his co-authors.

48 A brief description is at <http://www.transaction.net/money/cc/cc04.html>. but is better to refer to the books.

amputated limbs and even brain surgery. There was a high degree of literacy, where maids wrote out their laundry lists and dressmaking advice was written by servants.

However, because Lietaer and his various co-authors didn't address the tax system, they may have missed the full story. The exceptionally prosperous and stable period was probably caused by the combination of the tax system and the dual currency system. Probably peasants had to pay rent to their landlord in produce. It is unlikely there was income tax or sales tax.

## **Central Middle Ages, Europe 1040–1280**

A second example provided by Lietaer and Belgin, though less sophisticated and not based on the natural decay of food, is a European currency in the Central Middle Ages. Again each area typically had two currencies — one for long distance trade, (a royal coinage) and one local, a currency that decayed over time.

Archbishops, bishops and abbots would issue thin silver bracteates (thin plates) to circulate as currency. These one-sided fragile coins were minted in many areas of Europe.

Although the regularity differed from area to area, the dated bracteates were recalled at intervals and re-issued with a lower silver content. Typically, when a noble died and power was transferred to a new one, four coins had to be handed in and three issued in exchange.

The era was marked by an unusual level of prosperity. 'Saving' was done by building up long term assets rather than amassing money. Cathedrals were built, waterwheels and windmills were maintained, as were mills, ovens, wine presses and other heavy equipment. Anyone with money to spare would put it toward the community effort of building the gigantic cathedrals, which assured them of paying pilgrims for centuries to come.

Because of the penalty for hoarding, bracteates circulated many times faster than the national currency, enabling a significant improvement in the quality of life of all who handled it. It was during this period that the first wave of universities was founded across Europe with developments in mathematics and science. Lietaer and Belgin report that,

*'A number of medievalist historians said that that quality of life for ordinary people in the 12<sup>th</sup> century may well have been the highest in all of European history... Workers, for example, seldom had less than four courses at lunch or dinner.'*

*Working hours were limited to six hours a day five days a week and in some regions they may have had as many as 170 holidays a year.*

For agricultural land, the yields were high. The population probably doubled in two centuries and the bodily remains of both men and women were taller, showing overall better nutrition.

*'The women of London were taller on average during the 10<sup>th</sup>–12<sup>th</sup> centuries than any other period in recorded history, measuring a whopping 7 centimeters taller than her Victorian counterpart.'*

By 1300 there were almost 1000 cathedrals in Europe, one for every 200 people. The authors say faith alone can't explain this construction any more than they can explain the remarkable prosperity of the ordinary people.

It all came to an abrupt end when the dual currency was abolished and replaced by a monopoly of royal coinage. Re-minting became illegal in 1300.<sup>49</sup> The Late Middle Ages were dark, with a depression lasting 150 years.

As for their tax system, everyone who issued coins would have had peasants paying ground rent or tithes. Again one could argue that the prosperity resulted from the same combination of the currency system and the land rent.

## Great Depression Currencies in Europe

During the 1930's depression, Gesell's theory was put into practice twice, once in Germany, then in Austria, and each time it transformed the economic landscape. In each case, because of pressure from banks, it existed briefly.

In 1932, the mayor of the Austrian town Wörgl had read the works of Marx, Proudhon and Gesell and had watched the successful experiment in Germany. His town was seriously in debt; 500 of its 4300 workers were out of work. So he convinced his council that they had nothing to lose by trying an emergency scrip. He persuaded local businessmen and the newspaper to back the idea.

Issuing 40,000 local schillings (or work certificates) in three denominations, they deposited the same amount in the bank in national currency. Each certificate had 12 spaces on the back. It had to be validated every month with a stamp worth 1 per cent of the nominal value. If people wanted to exchange their local currency for Austrian schillings, they could do so with a 2 per cent penalty, high enough to act as a discouragement.

In his book *Stamp Scrip*, Irving Fisher says,

*'Despite initial skepticism, the booster effect soon began to work. Taxes, in arrears since 1926, were repaid. Seven streets were rebuilt and asphalted, a reservoir was built, 12 roads were improved, the sewer system was extended, trees were planted and forests were improved. The construction of a ski jump was started in January 1933, along with a water basin for the fire department. A bridge in the town still bears the inscription "Built with free money"'.<sup>50</sup>*

Unemployment in Wörgl dropped by 25%, when in the rest of Austria it had risen 10 per cent during the year from August 1932 to August 1933.<sup>51</sup>

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49 Email from Roger Svensson, a student of bracteates, to the author, 2012

50 Irving Fisher *Stamp Scrip*, New York: Adelphi, 1933

51 Email to author from Tune Revsgaard Nielsen, PhD student researching Gesell. 21/10/2016

Soon the ‘miracle of Wörgl’ had attracted attention around Austria, with 200 other towns wanting to copy the system. But in November 1933, just 15 months after it was put into circulation, the government made it illegal. The town went back to 30 percent unemployment.

Lietaer says that the work certificates circulated fourteen times as fast as the national currency.<sup>52</sup> This means it was doing fourteen times the good.

Once again it was the combination of the dual currency and the land tax imposed by local authorities that did the trick, though there may have been a small income tax.

Nowadays this currency would be easier to administer; it would be digital so we wouldn’t need to stick on stamps.

## Complementary Currencies

While a range of complementary currencies can match unused resources with unmet needs and build community, these are usually on too small a scale to have any effect on housing or food supply. There may be exceptions. But they do raise general wellbeing and hope.

Now we will go on to discuss why land rent is so important.

## 16. Why a Philosophy of Tax is Connected to Land Tenure Systems

We have started to discuss land rent, an ongoing cost of holding land. Henry George said it didn’t matter if land was publicly or privately owned as long as the full rent is collected. Most of George’s followers, assuming land is owned privately, call it a Land Value Tax. An example of the way land could be publicly owned is the following.

The Ottoman Empire, which expanded and thrived between the early 14<sup>th</sup> and early 20<sup>th</sup> centuries, owed its success to its land tenure system. The reason they managed to muster an enormous army (at its height there were a hundred thousand warriors) to conquer neighboring countries was that there was plenty of treasury surplus. The abundant revenue was from land rents; labor was not taxed.

A fundamental concept of sharia law was that the earth belonged to God. The Emperor Süleyman the Great was God’s agent. There were three ways land could be publicly owned. *Timar* land was for the army, justice, tax gathering and administration. *Waaf* land was religious land for schools, hospitals, orphanages, parks, financing small businesses, libraries etc. *Mulk* land was for villagers and tribes.

However, as with all publicly owned land, when a country is not watchful, the system gets corrupted. Author Andro Linklater<sup>53</sup> wrote,

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<sup>52</sup> Three books subsequently co-written with Bernard Lietaer quoted a 2007 study by Fritz Schwartz, *Das Experiment von Wörgl* These figures are taken from that study.

<sup>53</sup> Andro Linklater, *Owning the Earth The Transforming Effects of Land Ownership*, Bloomsbury, 2013

*‘Starting after the powerful Süleyman died, the distant landowners gradually became resentful of the revenue they had to pay to the government to maintain its army and the empire declined from the 19<sup>th</sup> century. A decentralized administration became centralized and less transparent and this led to a decline of enthusiasm to contribute. People somehow forgot their military obligations and the government transferred some the burden of taxes on the surfs.’*

## 17. Land Ownership is Privatized in England

Linklater’s book *Owning the Earth — the Transforming History of Land Ownership* is a fascinating chronicle of the history of civilization. During the 15<sup>th</sup> to 19<sup>th</sup> centuries in England, land was gradually taken from the public. Peers, bishops and knights noticed that if they enclosed their land by planting hedges or digging ditches, it was more productive. Animals confined to one area manured the land. So the ‘nobility’ cleared off their tenants, cottagers and laborers. These were numerous. Sir Thomas Grey once supported around 340 people who ploughed, sowed and harvested crops and looked after the animals, and in return the workers paid him dues.

The process of enclosing land was made illegal by Henry VII, because homeless vagabonds roamed the highways. There were fines and imprisonment.

Then Henry VIII made himself head of the Church of England and ordered the monasteries to surrender their land — a fifth of the good English farmland — to the Crown. To pay for his wars he later sold off half and raised £1,400,000. So land speculation is not a modern phenomenon!

Over the next century, despite spasmodic rebellions from the dispossessed, the process continued relentlessly.

After two centuries the enclosures were well advanced. Linklater again,

*‘It was a measure of the landowners’ influence in Parliament that more than four thousand ‘Inclosure acts’ were passed between 1700 and 1830, allowing their promoters to hedge and fence in most of this land as private, exclusive property... Altogether some seven million acres were transferred into private ownership through the enclosure orders, brutal testimony to the political power now wielded by landowners.’<sup>54</sup>*

If private ownership of land brings unearned profits, what is the best way for land to be ‘owned’? If the pilgrims to the USA found working the land together resulted in unresolvable resentments against freeloaders, *we might have to look to the most secure leasehold arrangements*. Rolland O’Regan addresses this topic well<sup>55</sup> and Germany could well be a model.

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54 Andro Linklater: *Owning the Earth: The Transforming History of Land Ownership*. Bloomsbury, 2013, p176–7

55 Rolland O’Regan *Te Ara Tika Ten Undelivered Lectures* 1980, Wellington New Zealand. Elements of a Just Lease p124–135

## 18. Land Ownership led to Expansion of Banks and Industrial Power

After a couple of centuries of enclosures, landowners who used to borrow from creditors gradually changed to borrowing from banks. By 1750 the value of land was no longer determined by its yield of crops and animals; the high demand for land was now a factor. This had led to a privileged class of landowners with big estates. *Soon they discovered land is not just useful for profit making but as collateral for loans.* A new class of well-connected wealthy land barons, exploiting new inventions financed by loans, became industrialists and bankers. Two stories illustrate this:

*'The Duke of Bridgewater employed both his land ownership privilege and his influence with government ministers in 1763 to build a canal, Britain's first entirely artificial waterway, so that he could transport coal from his huge estates to the city of Manchester forty miles away. He pledged part of his landed property to borrow £25,000 and used his political connections to have no fewer than four Acts of Parliament passed allowing the compulsory purchase of land along the canal's proposed route. The commercial success of the duke's enterprise unlocked a flood of capital for other canals, eventually creating a transport system that would allow manufacturers and miners to reach their markets cheaply.'*<sup>56</sup>

*'A wool-to-cloth manufacturer could expect to return profits of 20 to 35 percent on the money invested, paying off the capital cost of its building and equipment in four to five years. In Nottinghamshire, George Robinson built no fewer than six mills on the river Leen in the 1790s and paid off the full cost from his profits in one year. By the early 1800s he had earned enough money to set up Moore and Robinson's Bank that financed the textile industry in the area until the late nineteenth century.'*<sup>57</sup>

Land ownership brought into existence a politically powerful, highly capitalized class of property owners who used their land to make more money.

In its turn this caused a large increase in the number of private banks.

*'Until banks became commonplace in the mid-nineteenth century, manufacturers generally created the credit for their businesses by pledging the value of their property to their suppliers, and in turn would provide credit by carrying the debt of their customers. They became, in effect, their own bankers.'*<sup>58</sup>

This is in accord with anthropologist David Graeber who reversed the conventional wisdom that money was invented to replace barter, saying most earlier societies were divided into creditors and debtors.<sup>59</sup>

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56 Andro Linklater *Owning the Earth — The Transforming History of Land Ownership* p180

57 Ibid p182

58 Ibid, p182

59 Graeber, David: *Debt: The First 5000 Years*. New York: Melville House, 2011

## 19. Land Tax or Land Rent?

The term 'land rent' often puzzles newcomers. Land rent is what an owner of bare land charges a tenant annually. Land rent is the total rent for a property minus the rent for the house. It has also been called land location fee, site location fee, ground rental, land rates or economic rent.

When land is privately owned and a full rent is announced, the market price drops so the tax base declines. Because land rent is calculated as a percentage of the market price, it can be contested. Public ownership is less complicated, with fewer opportunities to contest the payment. Moreover, as Martin Adams emphasized, *land tax implies ownership while land rent doesn't*.<sup>60</sup>

Land gets its value from either nature or society. Governments build railways, roads and schools, local governments provide water and sewerage, the community brings markets, shops, businesses and organisations. Since the uplift was created by the public it belongs to the public. A tax (or more strictly a rent) on land value cannot be evaded as you can't hide land. *The issue is to find a politically feasible way of doing this.*

This income should be shared by all levels of government and a portion might be given out as a Citizens Dividend. But everyone can't occupy the same piece of land. So those who have the best land should compensate the rest of us for the privilege they enjoy.

And the commons is extensive. Private enterprise should not include private ownership of the elements of life. Everyone by right should have access to land, water, airwaves, fisheries, minerals, electromagnetic spectrum, any public utility such as a port, airport or the monopolistic rights to reticulate wires, pipes, roads and rails. The principle is that we should 'pay for what we hold or take but not for what we do or make'. Patents and copyrights should last a short time, before becoming part of the commons.

Advocates of land tax include Adam Smith, David Ricardo, John Stuart Mill, Pierre-Joseph Proudon, Silvio Gesell, Henry George (followers are called Georgists), Winston Churchill, Dr. Sun Yet-Sen, Mark Twain, [Milton Friedman](#), [Joseph Stieglitz](#), Michael Hudson, [Herman Daly](#), Mason Gaffney and [George Monbiot](#).

## 20. The Land and Money System

Two groups of economic reformers often claim they have the complete answer to poverty. First are the monetary reformers who want the Government to issue the country's money without debt. Second are Georgists who want to replace income tax with land tax. The movements have historically been hostile to each other.

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60 Martin Adams, *Land: A New Paradigm for a Thriving World*, North Atlantic Books, 2015

Why? When monetary reformers advocate money being spent into existence without interest, some don't realize that the extra money goes into land speculation and other forms of asset inflation. Georgists argue that interest rates should be higher to stop land inflation.

Most economists, having been mistaught by universities on money creation, dismiss monetary reform. They know low interest rates cause land speculation and view interest rates as necessary to cover the risk to the creditor. Fortunately, a growing number now grasp the significance of both issues, but flounder when challenged to come up with politically realistic ways for implementation.

Professor Michael Hudson's article<sup>61</sup> says land and money are both monopolies.

Citing Simon Patten's 1891 paper, he writes,

*'The problem, Patten says, was that moving against just one monopoly (land) would simply leave more economic rent for others to appropriate: It is, therefore, a popular error to suppose that the rent of land absorbs the whole of the surplus.'*

*According to Hudson, land tax, which Henry George thought could be brought in gradually, was hard to introduce.*

*'Land taxation has turned out to be the most difficult to achieve of all the 19th century's economic reforms.'*

These two issues always intertwine in the colonization process. 19<sup>th</sup> century British Colonists to New Zealand brought with them two major economic institutions — western style banks and a private land tenure system. The colonists desperately wanted freehold land — defined as 'land free of rent'. As with most indigenous people Maori had no concept of land ownership; their people didn't own the land, the land owned them. Their money system<sup>62</sup> was based on debt, obligation and relationship.<sup>63</sup>

Colonization brought these two damaging changes all over the world. What is needed is a way to reverse it.

James Robertson puts it neatly<sup>64</sup>,

*'Land and Money issues are intertwined. Whoever controls the most valuable land sites and natural resources will eventually control the money supply. Whoever controls the money supply will eventually control the land.'*

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61 <http://michael-hudson.com/wp-content/uploads/2010/03/0801GeorgesCritics.pdf>

Henry George's Political Critics. by Michael Hudson. *Am J of Economics and Sociology*, Vol 67, no 1, Jan 2008

62 David Graeber, *Debt the First 5000 Years*, Melville House, 2011, p108 dismissed the widely held belief that once upon a time there was barter and later there was money. No anthropologists can find evidence to support that. A 'gift' did not mean exchanging something freely!

63 The Maori word utu, while the common meaning is revenge, is more accurately defined as reciprocity.

64 James Robertson in a newsletter. He was the co-founder of the New Economics Foundation in UK in the mid 1980s, after a distinguished career as a civil servant.

*Most tax systems grow like topsy. To suddenly change it is a hopeless task; by 2012 80% of New Zealand's tax revenue came from taxing labor, enterprise or sales when it should be coming from land rent, 'sin taxes' and rent from natural monopolies. This may well be typical.*

*We are now faced with the task of combining these major reforms.* We need public creation of money without interest, a full rent for the exclusive use of land and natural monopolies, and a basic income to replace the welfare mess. After sighing over the complexity of the shambles needing to be cleaned up, our New Zealand New Economics group<sup>65</sup> concluded you have to start again with a new currency and link it to a new tax and welfare system.

## 21. The Growth Imperative Confounds the Analysts

Ask what causes the growth imperative and you won't find too many clear answers on the internet. Yet we need to find the answer. Today's global economy is 300 times the size it was in Adam Smith's day<sup>66</sup> and growth can't go on forever. What is this imperative that forces us to clear fell native forests and mine fossil fuels? It is through this imperative we are systematically destroying our arable land, polluting our oceans, and exceeding the earth's capacity to absorb our greenhouse gas emissions.

I have been curious about the topic since the New Zealand Values Party raised it in 1972. I thought I found the answer a decade ago when I discovered the money supply had to keep expanding. It seemed credible that the money system alone was responsible. It wasn't till mid 2016 I learnt that it is a combination of the money system and the land tenure system.

When I asked Professor Steve Keen what caused the growth imperative, he answered,

*'Our credit cycles are almost always tied up with property speculation. One cycle drives the other, and they influence each other in a positive feedback loop that leads to breakdown...Even on conservative linear econometrics, it's the credit cycle that drives the land price cycle.'*

Since you only get property speculation when you don't collect the full rent on land, for me his answer meant *the tax system combined with the money system produces the growth imperative.*

## 22. A Strategy to Confuse the Mega-Corporates

Let's go back to 2010 and see where we were then. Occupy Wall Street was a prolonged sit-in against the greed and recklessness of banks, publicly bailed out in 2008.

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65 We met regularly from late 2011 to mid 2015 to discuss policy. Website is <http://neweconomics.net.nz>. What was a party became a movement in May 2015.

66 Why it's time for Doughnut economics. Kate Haworth TED talk. <https://www.youtube.com/watch?v=1BHOflzxPjI>

While many understood the money issue, few could apparently figure the land issue. New York's Scott Baker canvassed occupiers, giving them options for remedying inequality. They understood the need to restore money creation to Government, they liked state banks, but when it came to land, that was another matter. Baker reported,

*'Yes, the Left at least believes in the right to the Commons for all, but try to tell them they should pay Land Rent, and you might as well be talking to a Tea Party arch-libertarian. They may agree in principle when I point out the value of the buildings around Zuccotti Park is due to location (that makes a good talking point), and that rent from that location belongs to the community that created demand for it, but when it comes to their own home ownership, well, surely we are not suggesting that they are speculators?'*<sup>67</sup>

So what is our strategy now? Though banks and oil giants have size going for them and 'corporations rule the world',<sup>68</sup> their size is also their weakness. They delight when we lobby Washington or any capital because that is exactly where they can win

Smaller groups can be more nimble. If thousands of mosquitoes can annoy an elephant, so thousands of small groups acting together can win political campaigns. Centralized tobacco companies couldn't cope against a range of vocal non-smokers' rights groups. In the 1970s and 1980s Nuclear Free groups in every New Zealand electorate caught the nuclear industry with its pants down and won.

It will be much the same with the current crop of mega-corporates. If small communities reassert their right to govern and reclaim some major functions, the corporations won't know who to sue first.

At least the future is starting to look brighter.

## 23. Tax and Dividend Reform

Economist Thomas Piketty wrote, 'Taxation is not a technical matter. It is preeminently a political and philosophical issue, perhaps the most important of all political issues'.<sup>69</sup>

Unhappily the current tax system puts a brake on economic activity, reduces purchasing power and helps concentrate wealth. While people have come to accept income tax as normal, there is no inherent logic in taxing work — one would have thought it wise to encourage it. It is only the banks that force that on governments because they want the best security — land.

Income taxes were imposed in UK in 1798 to pay for the Napoleonic wars, but were minor and temporary at first. In US they became permanent from 1913.

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67 Scott Baker writing in an email correspondence between Georgists. Quoted with his permission.

68 One of David Korten's books was called *When Corporations Rule the World* 1995

69 Piketty, Thomas. *Capital in the 21st Century*. (Published in French, 2013.) Harvard University Press, 2014 p493

Zero income tax is charged in Arab countries like Kuwait and tax havens like Bermuda. At the other end are Denmark, Sweden, Chad, Belgium, Netherlands, Finland and France, all with a top income tax rate of over 60%.<sup>70</sup>

But this hasn't always been the case. According to Fred Harrison, in the UK land tax provided 100% of the tax take from 1066-1216 but over the centuries this steadily reduced to a mere 4%.

Sales taxes in most countries now make a major contribution to revenue. Scores impose 20% sales tax or more. However, because the poor spend all their income, it is a regressive tax. It reduces total purchasing power and is an administrative burden on small businesses.

Fred Harrison in *The Great Claw-back Scam* explains how, while the rich pay about five times more tax in their lifetime than the poor, the government pays it back many times over by allowing them so much unearned income. *'Governments spend their money on hospitals, schools and transport and that lifts the value of their land by far more than they ever pay in taxes. He says it is a 'cover for a cruel hoax'.*

More recently a Financial Transaction Tax has been proposed, but unless this is done internationally it won't work. People will just move their bank accounts to another country.

## **Sharing the Value of the Commons in Alaska**

So that future generations could share the bounties of the Alaskan oil business, Governor Jay Hammond in 1976 set up a permanent fund. Shortly after the oil from Alaska's northern slopes flowed into the pipeline, all adults who had lived there for at least a year have received a regular dividend. It is a small, yearly payment, financed indirectly from oil revenues, to every citizen who lives in Alaska — *including all children.*

The lowest individual dividend over the years was \$331 and the highest \$2669.

## **British Columbia's Carbon Tax**

In British Columbia taxes are redistributed from those who pollute the biosphere most to those who pollute it least. Carbon taxes don't have to be electorally unpopular. The only politically viable carbon tax is a tax shift.

British Columbia's right leaning Liberal Government introduced a carbon tax in July 2008, starting at a low rate and increasing every year. It was successful as far as it went, both for reducing emissions and for the economy. Income taxes dropped to 10% and there was a drop in fossil fuel use.

A 2012 survey found it had 64% approval rating. This was because it was revenue neutral. The Minister of Revenue is obliged by law to look at the tax take from carbon tax and reduce other taxes by at least as much. So it is just a tax shift.

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<sup>70</sup> Wikipedia [https://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_tax\\_rates](https://en.wikipedia.org/wiki/List_of_countries_by_tax_rates)

But ultimately they couldn't raise it high enough due to pressure from not just the oil industry and all its downstream businesses, but also from trade unions.<sup>71</sup>

## 24. Basic Income for All

If you pay people an unconditional basic income the results are promising. Universal Basic Income is not a new idea. It was proposed by Tom Paine, almost enacted into law by Richard Nixon in 1969 and supported by Milton Friedman. Conservatives like it because it simplifies the welfare system; liberals because it gives hope to the underemployed.

In 2009 a London charity decided to give 13 homeless men £3000 each, no strings attached. The Washington Post reports,

*Their desires turned out to be quite modest. A phone, a passport, a dictionary — each participant had ideas about what would be best for him. None of the men wasted his money on alcohol, drugs or gambling. A year later, 11 of the 13 had roofs over their heads. They enrolled in classes, learned how to cook, got treatment for drug abuse and made plans for the future.<sup>72</sup>*

Similar pilot studies in Namibia, India, Brazil, Canada and Mexico have found reduced crime, truancy, malnutrition and teenage pregnancy. There were more business start-ups, improved relationship between parents and their children, improved health. More people returned to education.

With robots and automation, stagnant wages and increasing social tension, there is an urgent need for a basic income. Driverless cars will bring more job losses.

A basic income will neutralize unions opposition to adequate carbon taxes. It can be funded from resource rents, and that includes land.

## 25. Turning governance upside down

What are the alternatives to a patriarchal governance system?

In countries with English unitary legal systems national politics effectively controls local politics. Laws are passed in Parliament and local authorities must stick to them. Central government can interfere with democratically elected local bodies. They can delegate certain powers but withdraw them at whim.

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71 James Hansen, author of *The Storms of My Grandchildren* also recommends a 'fee and dividend system where all the carbon taxes collected are returned to the people', as does Peter Barnes in his book *Owning the Sky*.

72 *Free Money Might be the Best Way to End Poverty*. Washington Post, 29 Dec 2013 [https://www.washingtonpost.com/opinions/free-money-might-be-the-best-way-to-end-poverty/2013/12/29/679c8344-5ec8-11e3-95c2-13623eb2b0e1\\_story.html?utm\\_term=.21372ddddd9f3](https://www.washingtonpost.com/opinions/free-money-might-be-the-best-way-to-end-poverty/2013/12/29/679c8344-5ec8-11e3-95c2-13623eb2b0e1_story.html?utm_term=.21372ddddd9f3)

By contrast, in federalism powers are constitutionally divided. There is a covenant between the central authority and the state in the division of powers. Nonetheless the federal government is still more powerful than a state.<sup>73</sup>

To reform governance we might look to nature. John Fullerton writes *'Instead of the self-serving, command-and-control methods we so often use today, we must seek to align our planning and policy interventions with the self-organizing, self-nourishing, self-regulating characteristics of healthy systems in nature.'*<sup>74</sup>

We know that:

1. In a healthy organism there is 'empowered participation of all parts and continuous negotiation of self-interest at all levels of organization'.
2. Nature saves energy and resources by its superb organizational principles.
3. Change happens at the periphery. Nature knows best where adaptation is needed. (When Frederic Laloux wrote of the 'Advice Process' used by certain businesses, he found it led to a thriving organization with happier individuals and greater productivity.<sup>75</sup> This resembles change happening at the periphery because, provided they follow certain rules to protect the whole, a single individual can make changes.)
4. In nature each cell can respire, ingest, digest, excrete, and defend itself against toxins and other threats. From this we could deduce that the smallest governance units need certain vital functions.
5. In a healthy organism there is empowered participation of all parts. So it should be with the different levels of government. Frederic Laloux says hierarchical relationships makes people behave like children.<sup>76</sup>
6. In nature there is continuous negotiation of self-interest at all levels of organization. No part steals necessary resources from others. In nature sick parts are nourished by other parts.

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73 Federal Government Is More Powerful Than State Government, July 16,2013 NY Times <http://www.nytimes.com/roomfordebate/2013/07/16/state-politics-vs-the-federal-government/federal-government-is-more-powerful-than-state-government>

74 John Fullerton *Regenerative Capitalism How Universal Principles and Patterns Will Shape our New Economy*, Capital Institute, 2015

75 The Advice Process, spelt out in Laloux's book is the method of making decisions by an individual only. But that person must seek advice from both someone with expertise and someone who is going to be affected. The advice is placed on the public record for all to see. See Laloux, Frederic: *Reinventing Organizations: A Guide to Creating Organizations Inspired by the Next Stage of Human Consciousness*. Brussels, Belgium: Nelson Parker, 2014

76 A brief article by Laloux is at <http://www.leadershipandchangemagazine.com/reinventing-organizations/>

Yet central government in New Zealand is currently threatening to seriously deplete council assets.<sup>77</sup>

7. Nature is resilient and responsive. A hierarchical government is brittle and vulnerable.

Hierarchical governance makes big government easy lobby fodder for big business because corporations cough up big dollars to buy biddable politicians. After suitable donations, politicians find it easier to agree to the food industry's demands to make saving seeds illegal. Mysteriously in August 2016 the British government threatened to step in if councils don't fast-track fracking applications.

Naturally some functions must be delegated to a larger authority. For example it is inappropriate for a provincial board to take charge of arterial roads or rails.<sup>78</sup>

So instead of having a central authority overriding the decisions of smaller units, the decisions will be negotiated.

The move from domination to partnership is a challenge. History tells us those with power usually want to hang on to it and get more power. Financial analyst Nicole Foss warns,

*'It is important to realize, however, that we are not going to be left in peace to do that which needs to be done. Solutions do not come from the top down, but interference does, because decentralization represents a threat to wealth concentration at the center, and that is the goal of all human political systems. Wealth is extracted from the periphery in favor of the center, and the center has an inexhaustible appetite'.<sup>79</sup>*

Taking back certain powers from central government in order to carry out our reforms won't be a smooth ride. In our model, a small governance unit would not only have a fundamental right to exist, it would have sovereignty over at least: —

1. Revenue gathering powers (imposing rents on the exclusive use of the commons)
2. Currency creation and design powers.
3. Welfare/tax reform power distributing a Citizens Dividend to all citizens.
4. Rule-making power (including the power to choose the tax rules for trade in its currency).

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77 In 2106 in New Zealand, Tim Shadbolt, Mayor of Invercargill, said the Better Local Services Bill should really be called the 'Crushing of Local Democracy and Seizing of their Assets Bill.' He pointed out that Invercargill had a business empire consisting of energy companies, a property portfolio, forestry, airport and assets worth \$212 million.

78 The provincial system of government in New Zealand was replaced in 1875 after several provinces tried to fund building railways and got themselves into serious debt.

79 <http://theautomaticearth.blogspot.co.nz/2012/01/january-3-2012-storm-surge-of.html> From an article on Decentralization by Nicole Foss 2012

## 26. Partial Solutions — Finding a Transition Pathway

To create a new system, a range of partial solutions already exists. Although they may not look like it now, these are the first signs of the new economy. But as a butterfly doesn't resemble a caterpillar, so the new system will look quite different.

None of the following contain all these ingredients and none of these include governance reform. Would-be innovators might weigh up how their energy should be spent, always having in mind whether their 'solution' is on a transition pathway to the next system.

### **Worker Cooperatives**

In cooperatives, a range of individuals own and operate a company.

The most commonly cited and positive experiment has been in Spain. The Mondragon Federation of Worker Cooperatives with 80,000 workers is now the tenth largest business in Spain, but they have to compete in a globalized market. In 2013 one of their cooperatives, whiteware manufacturer Fagor, collapsed due to competition from China and the property bust.

Here is a modern example of what cooperatives can do. In a depressed area of Cleveland a range of cooperatives, including those in the food growing and laundry businesses, sells to local hospitals and universities on a large scale, thus integrating themselves into the local economy.

### **Social Enterprises**

Social Enterprises, around for a while, are typically nonprofit organisations that operate businesses to generate revenues to enable them to fulfil their missions, making them less dependent on government and philanthropic funding. They build locally controlled wealth that helps stabilize community economies and provide training and jobs. It helps strengthen management and business capacities of the non-profit, which can boost their overall effectiveness. A simple example would be a charity funding itself through owning a second hand shop for donated goods.

### **Savings Pools**

New Zealand has initiated Savings Pools where a group gets together and pools its savings. An adaptation of the Swedish JAK Bank model, reciprocity replaces interest. If a member borrows \$1000 from the pool, she must also, during the time she is paying back her interest-free loan, save an equivalent \$1000 for other members to use. Designed by members of Living Economies Educational Trust including permaculture teacher, Bryan Innes, these pools have mushroomed fast. Templates, software and agreements are available for pool members.

The big advantage is that it builds community, allows loans to be chosen democratically, and many just find relief in talking about their personal finances.

While it operates within the current money system and the remaining pool money is held in commercial banks, members with more capital feel less vulnerable to banks 'bail-in' provisions and less likely to lose money in a financial collapse. It could operate well in the new currency also.<sup>80</sup>

## Land Value Rating (Local Tax) Systems

San Francisco under two Georgist mayors after the 1906 earthquake and fire rebuilt very compactly.<sup>81</sup> New Zealand's Wellington and Napier were built without sprawl under land value rating system.

If you charge rates (local taxes) based on the land value only it —

1. Encourages development and building because there is no financial disincentive to improve land.
2. Prevents urban sprawl.
3. Saves infrastructure spending.
4. Prevents leapfrogging — or holes in a city's development.
5. Is progressive. Because property ownership is more concentrated than income, the rich pay more.
6. Stops rents from rising. (With Capital Value Rating, the landlord pays higher rates after house improvements so raises rents)
7. Forces slum landlords to sell or develop.
8. There is the possibility of a mix of rating systems. Pennsylvania has lower the tax on buildings and raised the rate on land.

There are two provisos. Rates must be reduced for those whose land already serves a public purpose e.g. for conservation or if the property has historic value. In addition rates for elderly who are asset rich but income poor can be deferred till their estate pays their back rates.

While land value rating systems are good for social justice and urban planning, they don't connect the local taxing system with the national one. In New Zealand local taxes only collect a tiny fraction of the full land rent. Taxes on labor must be correspondingly reduced and this solution lacks a mechanism. If you make local taxes tax deductible it favors the rich.

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80 A fuller description is at <http://www.le.org.nz/savings-pools>

81 Mason Gaffney expands this in his 2013 Mason Gaffney Reader. He also cites single tax mayors in Cleveland, Detroit, Chicago, Vancouver and Houston. Also <http://www.onthecommons.org/magazine/forgotten-idea-shaped-great-us-cities>

## Community Land Trusts

A Community Land Trust (CLT) is a private, non-profit corporation, created to acquire and hold land for the benefit of a community, and provide secure affordable access to land and housing for community residents. It allows permanent tenure, democratic governance, but most importantly affordable houses, farms and businesses as it takes speculation out of the equation.<sup>82</sup>

A land trust separates the ownership of the land from the ownership of the buildings on it. The land is retained forever in a trust; it effectively removes that land from the market. The buildings are owned by families, businesses and organisations.

Challenges involve the cost of buying the trust's land.

When land rent is added, both the rent to the trust and the taxes to local government, it is unlikely to be a full land rent of say 5–6% of the land value. Moreover, the CLT has no authority to lower taxes on labor.

## Land Value Capture

This is a politically acceptable way of collecting part of the land rent for the public purse. The principle behind it is encapsulated in Prosper Australia's poster of a fat man with a top hat saying, *'Your taxes fund the infrastructure that make my land more valuable'*.<sup>83</sup>

It has been used widely for funding essential infrastructure. Essentially the public requires private owners to contribute part of the uplift in land values to fund infrastructure. In 1894 Congress enacted laws requiring property owners to fund half the paving of streets, gutters, curbs and footpaths of the District of Columbia. Hong Kong used it for their Mass Transit Railway. The Sydney Harbour Bridge, built during the 1920s, was 30% financed by council rates on the land-only component.

## Public Banking

Ellen Brown in her 2013 book *The Public Bank Solution* wrote;

*'Two banking models have competed for dominance for thousands of years — public and private. In the public model, interest and profits belong to the community, and they are returned to the community... Usury banking dominates in Western countries today, but 40 percent of banks globally are publicly owned. These are largely in the BRIC countries — Brazil, Russia, India and China.'*<sup>84</sup>

She said with massive populations that needed to be fed and housed, society could not afford to support a parasitic financial elite. *'Banking and credit become public utilities, sustaining the economy rather than mining it for private gain.'*

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82 This definition comes from the Kotare Community Land Trust, <http://kotarevillage.org.nz/introduction-to-community-land-trusts/>

83 [http://realestate4ransom.com/wp-content/uploads/2013/01/Your-taxes-2\\_grey\\_600.gif](http://realestate4ransom.com/wp-content/uploads/2013/01/Your-taxes-2_grey_600.gif)

84 Brown, Ellen: *The Public Banking Solution, From Austerity to Prosperity* 2013

While this doesn't solve the money issue completely it does go a long way to making banking fairer.

Public banks, like the Bank of Dakota return profits to the community and take fewer risks. However, Kiwibank in New Zealand borrows money on the wholesale global market and both are part of the debt money creation system. And because the bar for entry into starting a bank is high, it is only feasible with support from a larger authority.

## The Singapore Experiment

Singapore's public land ownership is the perfect experiment to see what happens if you reform the land tenure system but not the money system. Furthermore, *it serves as an ominous warning that in the presence of globalized labor and capital, it is fruitless to have just one country carrying out reforms.*

When Singapore gained independence from Britain in 1965 the new government quickly curbed land speculation by acquiring land compulsorily. It shifted the tax burden onto land. About 90% of the land is now publicly owned. Because this stimulated productivity, Singapore lowered income tax; now the top rates are 20% for individuals and 17% for companies. It is a clean, green, safe place to live, with low unemployment. Though it is commonly cited as one of the more "Georgist" places in the world, according to inequality researcher Richard Wilkinson it now also has the highest inequality in the world<sup>85</sup>.

This was because Singapore became an international banking hub and money concentrated with banks. There are about 125 banks, only five of which are local. Most of the huge transnationals route hundreds of millions of dollars through Singapore.

Secondly, for different reasons, it has attracted both rich and poor from all round the world. The rich come because of the low tax rate and Singapore is a good place to manage their money. Singapore's TrustNet describes itself as a 'one-stop shop' employing lawyers and accountants for 'high net worth'. Sadly, Singapore has also imported cheap labor from Asia and has no pension scheme for the elderly.

## Comprehensive Capital Income Taxes

French economist Thomas Piketty, wowed the world with his best-selling book *Capital in the Twenty-First Century*. His solution to inequality was a global wealth tax. Considering there is no global government, that is a bit hard!

New Zealand economists Gareth Morgan and Susan Guthrie in their book *The Big Kahuna* proposed a *Comprehensive Capital Income Tax* (CCT). Wealth arises from owning cash, deposits

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85 TED talk [https://www.ted.com/talks/richard\\_wilkinson?language=en](https://www.ted.com/talks/richard_wilkinson?language=en) Book: Wilkinson, Richard and Pickett, Kate: *The Spirit Level: Why Greater Equality Makes Societies Stronger*, Penguin Books, London 2010

pension plans, factories, mines, shares, property or corporate bonds. You pay the tax on the equity in your house. They say,

*'In The Big Kahuna we integrated the proposed wealth tax (the 'comprehensive capital income tax') with income tax so that all assets are treated the same. At the moment assets that produce ready cash pay income tax, but assets that don't, do not. Our CCI tax collects tax from assets that don't currently pay income tax while not double-taxing those assets that produce ready cash.'*<sup>86</sup>

Although these are an improvement on no land taxes at all, these authors have all adopted the neoclassical economists' dogma that land is just another form of capital. Each of these partial solutions has within it the start of the new system, but they all in some way run up against a wall. Something is missing. While they are not the Next System they have lessons in them. Then, as Leonard Cohen said, 'There's a crack in everything, that's how the light gets in.'

## 27. Watching the Magic Unfold

Observing the results, we will be truly astonished. It is almost as though a fallen domino set has begun to rise, piece by piece. Although there will be bumps along the way, soon we get:

1. A better, fairer tax system with sufficient reliable revenue.

The tax system is simpler and tax evasion becomes impossible. The black and criminal economies no longer gain an unfair advantage. There are no regressive taxes or dead-weight taxes putting a brake on the economy.

2. New life in industry, and a sea change in horticultural and agriculture methods.

*A robustly flowing currency gives brings multiple opportunities for viable new businesses, including manufacturing. Because the new currency has a penalty for hoarding, investment decisions are long term. Sharing is more natural and generosity becomes the norm. Democratic local banks and savings pools operating in new dollars steer money into viable new ventures.*

Instead of saving we become long term investors. Our capital intensive purchases will be funded through Savings Pools or through a new bank. Next generation ethical businesses will be funded. The new dollars, with their built-in circulation incentive, allow the flourishing of post fossil fuel industries in energy, transport, building, food, clothing and medicine. These will also be more reliant on human ingenuity than on pesticides, fertilizers or huge quantities of water. We will watch the rebuilding of healthy soil. Clean green technology will finally blossom.

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<sup>86</sup> <http://morganfoundation.org.nz/capital-taxes-versus-capital-gains-tax/n> Morgan, Gareth and Guthrie, Susan: *The Big Kahuna: Turning Tax and Welfare on its Head* Public Interest Publishing, Auckland, New Zealand 2011

3. Lower prices and higher wages equals more purchasing power.

*When new dollars are free of deadweight taxes, the resulting increased purchasing power cannot be underestimated. The affordability of labor and of locally produced goods increases dramatically. Holders of the new Dollars find they can easily access the basics of food and clothing. Import substitution starts happening. When employers pay their employees in income tax-free new Dollars to supplement their dividends, they get a contented workforce. And when workers discover their new Dollars go further they are doubly happy.*

4. Reduction of private debt.

Since you don't have to use your precious national dollars, the new Dollars start a process of gradual reduction of private debt. This can only be good.

5. Because it is taxed, land will be used more efficiently.

*No more the gentleman farmer indulging in a rural lifestyle wasting valuable food growing land. Corporate farms reliant on fossil fuels, being less profitable, are cut up and sold. The housing stock is used better. Cities become more compact, saving transport money and energy.*

6. Regional development.

The attraction of cities where a growing portion of the economy is in the FIRE section — finance, insurance and real estate — will fade. With less pressure to move to big cities for jobs, regions will regenerate, taking pressure off housing in the big cities. The new Dollars will flow to the regions without impediment.

7. It starts a new method to fund local authorities.

*No longer will so much revenue come from the regressive policies of universal fixed charges. Without capital value rating that discourages improvements, building will flourish.*

8. Growing Citizens Dividends gradually frees parents from unfulfilling jobs.

Research appears to indicate parents choose caring over boring jobs. Educated mothers grow great children, reducing the financial demand on the state. Since everyone now has enough, there is less crime. Culture blooms, not only because of guaranteed financial support, but because there is more leisure time.

9. Ethnic minorities, women and low income people of every culture will benefit from this policy.

They will all be recipients of the ever-expanding Citizens Dividends while having real choice in participating in the flourishing new economy.

10. With publicly owned land and zero interest we get low cost housing

Land comprises half the price of housing.

#### 11. Gambling, Alcohol and Other Drugs

Due to more purchasing power, higher 'sin' taxes will be possible without a big backlash from consumers.

#### 12. Imports

Since the new dollar is only for domestic use, the national dollar goes further to buy necessary imports.

#### 13. Social Harmony

Transforming the land tenure system has effectively changed the tax system to tax- and-share. With a basic income providing security, there is increased social harmony. As the population glimpse a positive future, political crises will calm.

#### 14. Smaller government

A better nurtured, healthier and more educated population delivers unexpected rewards. With reduced the demand for expenditure on health, education, prisons and administration, ironically eco-socialism has delivered smaller government.

#### 15. Central governments can levy more effective carbon taxes.

Now that the unions and underemployed can envisage a more secure financial future, they will no longer protest high carbon taxes.

#### 16. Incentive to work

Because we have untaxed labor and sales, there is more purchasing power. People are able to work harder, earn more and buy cheaper.

#### 17. Democracy is enhanced

The existence of participatory budgeting and powerful local committees obliged to cooperate with their neighbors invigorates democracy.

#### 18. Large Corporations Will Change

Some will die and their resources recycled. There will be a new burst of import substitution. It would be hard to predict the nature of the desperate backlash from banks.

#### 19. New Institutions Emerge

An interlinked network of local currency committees emerges alongside our Wall Street-influenced Central Bank. Networks of savings pools finance new business.

#### 20. Obstacles

The most difficult challenge in the process will be to get the new currency accepted and then, as soon as possible, to carry out the first public purchase of land using new dollars.

Someone has to go first. There has to be a land owner ready to receive a large payment of 'hot potato money' — money that has to be spent quickly.

Another challenge will be in claiming the right to have the new dollars free of income tax and sales tax. Central government is sure to intervene and the battle is on.

## 28. Quietly Growing a New System

We are steeped in the story of competition, separation and conflict because those are the paradigms of the old economy. We can now design our major economic tools to reflect new paradigms based on oneness, cooperation and compassion.

Oneness leads to systems thinking. Thinking that way allows us to combine a range of urgently required but previously hard-to-implement reforms and to plant the precious fertilized seed beside the old economy. That is what we have done, always looking to nature for guidance for our model.

The new seed grows into an entirely new system. Private investment behavior changes because of the currency design and public investment is decided by participatory budgeting. The new tax system overhauls the ownership structure. Because we have imposed resource rentals on every possible monopoly, nobody can profit from buying and selling our common wealth. The issue of private or public ownership needs no further debate, since there is no profit to be made from privatizing the commons. Gross inequality is on the way out.

Each country can adapt this alternative proposal for their circumstances. A new international system must also be developed using the same principles. Despite significantly lower energy input, economies can actually thrive. They are just more localized.

The fact that there are clear examples from history where similar conditions ushered in eras of relative prosperity indicates that our solution is practical. While those in Egypt and the Central Middle Ages may have arrived their system by accident, ours is deliberately designed. It's like the joy of a planned pregnancy.

I get so excited when occasionally the full impact of this proposal hits me. The policy is powerful, elegant and simple. It creates new jobs for a low carbon economy, just what is needed to counter the accusations that a carbon tax will 'tax us back to the stone age'. And it does the whole thing gradually without shocking the economy.

It's well over a century now since land barons, industrialists and bankers conspired to corrupt economics. We can take off the blinkers now and stare at what they hid from us — land, money and banking.

Carrying out the vision will require courage and work. As someone once said, 'Hope is a verb with its sleeves rolled up'. It's much more fun to do something than to complain about what is wrong, and action is the antidote to despair.

Despite our new awareness the path won't be smooth. So hang out with courageous people. Concentrate on refining the new system, knowing what you focus on grows. It's so worth doing. A new political economy is our biggest and brightest hope for healing ourselves, society and the planet.

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