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The Big Shift: Rethinking Money, Tax, Welfare and Governance for the Next Economic System

By Deidre Kent, Living Economies, 2017

Leon Salter

BASED ON THE policy discussions of the New Economics Party between 2011 and 2015, Deirdre Kent argues in her book that meaningful reform within the current system is impossible. An alternative model must be seeded, establishing a multitude of micro-governance units. These would have power over money creation, land purchasing, and rule-making. Local currencies would eventually join together to form a second national currency, running parallel to the debt-based money created by banks. With this, a shift from an intrusive, punitive welfare system to a basic income model could come from sharing the rents from land, natural resources, and natural monopolies like airports, ports, and railways.

Deirdre was a founding member of the Living Economies Educational Trust and also played a key role in establishing Otaki Time Bank. She talks to Leon Salter below.

Leon Salter

You assert that incremental change within the current system is impossible because of the influence big banks have over the political system. Can you give a little detail on why and how the banks became so powerful?

Deirdre Kent

After the 2008 Global Financial Crisis the US Government wanted to regulate banks to stop them taking the sort of big risks that caused the crisis. But the political reality was that for every legislator in Washington there were three bank lobbyists, so the resulting legislation was pitifully weak. The financial services industry, including real estate, spent $2.3 billion on federal campaign contributions from 1990 to 2010, which was more than the health care, energy, defence, agriculture, and transportation industries combined. According to Gar Alperovitz, in 2010-2011 the FIRE section of the economy (finance, insurance, real estate) spent nearly $1 billion in lobbying against bank regulation in the USA.

Then, there is the evidence in the book *All the President's Bankers* by Nomi Prins. Distilled from original presidential archival documents, it delivers an account of the hundred-year interdependence between the White House and Wall Street, beginning in the early 20th century. This has resulted in a situation today where there are very few barriers between public office and private power. She argues that bankers' influence doesn't stop with economic decisions; they make foreign policy too. From the panic of 1907, through the formation of the Federal Reserve, to the Great Depression and two world wars, presidents were in close contact with the top bankers. This elite club of top decision making is linked together by exclusive clubs, private schools, and Ivy League Universities; political and banking families are intermarried. Prins leaves us with an ominous choice: either we break the alliances of the power elite, or they will break us.

This close alliance illustrates why governments allow banks to create 98.5% of our country's money but somehow conveniently never tell the public of their decision. When banks loan money to the public they simultaneously write a liability in as their new asset, while also writing a credit in the account of the borrower. The loan comes into the account without being backed by other customer's deposits, so, in effect, money is created.

When the banks are allowed to create most of the money in the system as loans and also charge interest on them, there can never be enough money in the system for everyone to pay off their debts at the same time. The result is that some necessarily lose and go further into debt. Private debt grows exponentially and, then, there is a collapse—this is a cyclical process. So interest-bearing debt-money created by private banks never really works in terms of wealth-generation. It builds up overall private debt and, together with the privatisation of land and other parts of the commons, leads to a growing gap between rich and poor. Bank-created money gets its value from the fact that governments agree to accept it for taxes, so people trust it. Which means the wealth, power, and influence of the big banks increases all the time. This is why we need to set up alternative, localised forms of money creation in Aotearoa New Zealand. This parallel currency would be based at the micro-level, and so cannot be easily targeted by corporations and their lawyers.

LS

Can you explain why change must come simultaneously at the three levels of money, tax, and governance?

DK

Well there is a fourth too. The gradual change from an asset and relationship tested welfare system to a basic income starts at the same time.

Once the decision has been made to set up new currencies, why not do it all together? Remember, we are talking about creating a new paradigm while leaving the old one in place. It is like replacing horse drawn transport with petrol driven cars, or candles with electric light. The old paradigm is of little interest; it has outlived its usefulness; leave it alone. But get the design of the next model right.

It's better to do them all simultaneously—if you do one thing only it actually makes the other things worse. If you only take back the land into public ownership, then the banks get more powerful by getting up to more tricks, as in Singapore where they now use patents as collaterals for loans (which should be part of the commons) instead of land. If you take back credit creation only, the land is still privatised and so the land rent is privately captured. This gives unearned capital gains to those who own the best land and exacerbates inequality. If you retain a patriarchal welfare system you are not respecting your citizens. In order to give respect rather than contempt populations should receive citizens' dividends and participate in major budgeting decisions.

The colonisation of Aotearoa simultaneously introduced massive changes at the three levels of money, tax, and governance. The bizarre concept of individual land ownership was forced on Māori, with all its weird demands. Commercial banks arrived, and with it came their centralised monopoly on credit creation. After a short period of provincial governance, government in Aotearoa New Zealand was also centralised, and Māori had to pay tax to this government, as well as interest to banks. All these insults have enclosed the commons and must all be reversed at the same time for decolonisation to work.

LS

The parallel currency you mention would be a 'decaying' currency—one that decreases in value—meaning people would be forced to spend it on long-term investments such as infrastructure. Can you explain why anyone would want to be paid in this currency (given that its value decreases as soon as you have it)?

DK

The existing national currency is, by design, in short supply. With interest-bearing debt money there is never enough of it in the economy to pay back all debts, with interest, at the same time. In contrast, the parallel or decaying currency is abundant. It is a bit like feijoas, which, when in season, we use as a means of informal, non-monetized exchange (those that grow them give them away to friends and family). They quickly go bad, so their circulation must be rapid, leading to increased exchange and therefore wealth creation for all. You can't hoard them, so you either have to give them away or eat them. In a similar way, with the parallel currency you would either have to lend it to someone who needs it or spend it. And if you have to invest it, history tells us you would invest in something that will bring good returns for the long run. You end up making good long-term decisions.

LS

Another key idea is a land-value tax. The revenue this generates would negate the need for income and transaction taxes, and even pay for a universal basic income. Can you explain how this would work and why it is fairer than the other types of tax?

DK

Actually, I am talking about *land rent* not land tax. That is because, while theoretically judicious, I don't believe a land value tax is politically viable under the current parliamentary governance system in Aotearoa New Zealand. Another option is the nationalisation of land, but that would mean further centralisation, and is also highly problematic politically. This means the only solution is local community ownership of land with a full land rent being paid to the local governance unit. A full land rent is five to six percent of market value per annum, which sounds like a lot, but this would be offset by there being no income tax or GST on trades in the new currency.

The reason land value tax isn't politically viable is that when you impose it, property values fall. No aspiring politician will advocate this while the majority of the voters they wish to appeal to are homeowners (which means that they are landowners). Imposing a land value tax while retaining the landownership concept was a nice idea, but theorists really have to face political reality.

The other big potential sources of public revenue are resource taxes and rents on all monopolies, such as natural resources like water, as well as man-made resources like airports, ports, and railways. Karl Fitzgerald from Progress in Melbourne calculated the enormous potential revenue for the public purse from these, and so did Gary Flomenhoft in Vermont. These studies need to be replicated for our country.

The concept of a land tax has its roots in the writings of people like Adam Smith, Thomas Paine, and others who passionately believed that labour is the sovereign property of the individual, but that the Earth is our common inheritance. Economists have always been keen on land taxes because they do not distort decision making. Most taxes distort economic decisions and suppress beneficial economic activity. A land value tax does not deter production, distort markets, or otherwise create deadweight loss. It encourages people to take good care of things, and it encourages keeping things in as productive use as possible. It stops the speculative land hoarding that prevents homes from being built; it ensures that the most valuable real estate—in city centres—is developed first, discouraging urban sprawl; and it prevents speculative property bubbles, which make rents and first homes so hard to afford. Because it does not affect the supply of land it cannot cause the rents that people must pay to the landlords to be raised. It is easy to calculate and hard to avoid: you can't hide your land in a secret account in the Cayman Islands or in Rarotonga.

A land value tax is a progressive tax: the heaviest tax burden would fall on the wealthiest. It is also an efficient tax to collect because, unlike labour and capital, land cannot be hidden or relocated so the tax base doesn't erode. It would also encourage the more progressive agricultural practices promoted by environmentalists, such as permaculture and vertical farming. It is based on the notion that people ought to own what they produce, but since land is not a fruit of labour, private land ownership has no basis in natural rights and is thus the ideal source of government revenue. Unlike common property taxes, the tax does not count improvements to the land, such as buildings. Buildings are man-made, but land isn't. When you tax buildings, you discourage people from building. Yet, when you tax land, the amount of land doesn't decrease; the supply is fixed. A land rent has all these benefits, but without the political issues of the centralised tax. Instead, it generates wealth at the local community level. It is a tax that strikes at the heart of the land monopoly. In a powerful speech, Winston Churchill said, 'Land monopoly is not the only monopoly, but it is by far the greatest of monopolies—it is a perpetual monopoly, and it is the mother of all other forms of monopoly'.

LS

Your proposed 'small governance units' would have full control over currency generation, land rents and purchasing, and other resources, with decisions taken by boards elected by the local community. Can you give a little more detail on how these would link together to enable national and international-scale decisions to be made?

DK

Yes, the process starts with the establishment of Community Boards, which are the small governance units (in Auckland these would be rather big). These would have the power to create their own local currencies. When the currency the boards create is abundant and the local Council is short of rates, or feels public pressure against rate rises, the Council would be forced to begin accepting rates in the new currency. Eventually, the central government would also begin to accept it for taxes. So what we get is a series of local currency streams converging into a big river, which, while giving life-blood to councils on the way, soon gives life-blood to central government. It is not a series of disparate little currencies that don't get out of their areas; it is a multitude of currencies, all worth the same value, coming together. The community land is bought with the new currency at market value, which is denominated in the bank-created national currency, so the neighbouring currencies are on a par right from the start. After this, land prices are held stable by the increasing public ownership of land, purchased by community boards fully accountable to the people who voted them in at the local level. This also reduces the possibility of land-speculation, keeping a lid on inflation. That is why it is so critical to have inflation controlled conscientiously at every level of governance, not just by a central reserve bank. The community boards would also make the rules on taxation. And it would distribute 'citizens' dividends' to share the rents from land and resources and the rest of the commons. The whole organism of government works as an organic unit where, if one part is sick or goes rogue, the others come to the rescue. All parts interact as in an ecosystem—each is interdependent. As in nature, the integrity of the whole is just as critical as the integrity of the parts.

Remember we would not have done away with bank created money completely. That would still be used for imports and exports. Our new currency would be a domestic-only currency designed to work only for internal trade. Under a dual currency system like this we would save the old national currency for those essential imports, earning it from selling our exports overseas. Now, after talking about it for decades, with this dual currency system we would have structural incentives for import replacement.

LS

There is a tension in the book between this gradual model for change and the urgency of the issues currently facing the planet: climate change and another (much bigger) financial collapse. Can you speak a little about this tension?

DK

Yes, that worries a lot of people. But under this model change is only gradual at the start. Once we attain a critical mass both nationally and internationally it would accelerate rapidly through the snowball effect.

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