

This speech was made at an event organised by the New Economics Foundation in the National Portrait Gallery to mark the publication of the Report on *Creating New Money: A Monetary Reform for the Information Age*, written for NEF by Joseph Huber and myself.

Alternative Mansion House Speech, 15 June 2000

FINANCIAL AND MONETARY POLICIES FOR AN ENABLING STATE

Introduction

As far as I know, this is the first alternative Mansion House speech. So what kind of speech should it be?

Clearly, it should be about money. But from what point of view? Should it say things that people in the money business - those who attend the official Mansion House dinners - would want to hear? Should I imagine that, sitting here listening to me now, are “my Lord Mayor, Mr Governor, my Lords, Aldermen, Mr Recorder, Sheriffs, Ladies and Gentlemen of the City”? Or should I direct my speech to people who believe that the existing system of money and finance is a basic cause of the poverty, social injustice, environmental degradation and sheer economic inefficiency that disfigure our world today?

As I thought about this, I recalled the saying that “If you can’t ride two horses at the same time, you shouldn’t be in the circus”. The gap between the perceptions of those two groups of people - people professionally involved in the mysteries of the money business, and people outside it whose lives are affected by it - is an important gap. It needs to be bridged. The attitudes and actions of both groups will help to shape the world in the 21st century. So I should try to speak in terms that both will find relevant.

I shall speak about the need and prospects for a new economic strategy for this country and, by extension, for the world of which we are part. In particular, I shall speak about the challenge this raises for public finance - or, more precisely, for fiscal and monetary policy.¹

¹ **Fiscal policy** is “the combination of spending and tax policies which the Government uses to promote fairness and sustainability in the public finances, and stability for the economy”. **Monetary policy** is “the tool of macroeconomic policy operated by the Bank of England’s Monetary Policy Committee that seeks to achieve the Government’s inflation target by influencing aggregate demand”, at present through changes in interest rates. Definitions from the Glossary in *Analysing UK Fiscal Policy* published by HM Treasury, November 1999.

One of my main themes will be the need to share the value of common resources more equally than today, and to adapt existing fiscal and monetary institutions and procedures for that purpose.

I will start by outlining two aspects of the present situation.

- A negative aspect is the increasingly serious criticism and active opposition being expressed against the existing financial and monetary system - globally, nationally and locally.
- A positive aspect is that in the last three years significant improvements have been made in this country's institutional arrangements for handling public finance and monetary policy.

Next, we will note another negative. Questions about the future of many of today's taxes as reliable sources of public revenue are demanding an urgent response. But there is a potentially positive consequence - an opportunity to shift the collection of public revenue on to a new footing - more rational, more intelligible and fairer.

Then we will turn to the creation of new money, on which the New Economics Foundation is launching a report today. The proposal to issue new money as public revenue and put it into circulation as public spending, rather than continuing to allow commercial banks to issue it as profit-making loans, will benefit almost everyone. It reflects the same principle as will make sense for future taxation. The monetary value of common resources should be treated as public revenue. It should not be 'enclosed' as private profit.

Next we will touch briefly on public spending. In particular, we shall ask whether, in a society of responsible citizens, some of the public revenue generated by the value of common resources should be shared out as a contribution to the income of every citizen.

Finally, after a word about how these ideas could apply to the global economy, we will end with some thoughts about relations between commons, market, and citizens; about how regulating those relations will be a central task for an enabling State; and about how fiscal and monetary policies should be designed for that task.

Basic to much of all this will be the concept of a "free lunch". Mason Gaffney, the distinguished professor of resource economics at the

University of California, has pointed out that right-wing libertarian economists are wrong when they proclaim TANSTAAFL (There Ain't No Such Thing As A Free Lunch). The truth is TISATAAFL (There Is Such A Thing As A Free Lunch). The important questions are: WIGI (Who Is Getting It)?, and WOTGI (Who Ought To Get It)? In fact the economy offers many free lunches, as we shall see.

The Present Situation (1)

The existing system of money and finance, and the dominant role of corporate power in world trade and investment, are attracting growing criticism and opposition.

Financial people are understandably outraged by the violent aspects of recent demonstrations in places like Seattle, Washington and the City of London. But these demonstrations are a symptom of a growing worldwide perception that today's economic and financial institutions are economically unjust, socially exploitative, and ecologically destructive. People in the banking and financial sector may not share this perception. But they do need to accept that it exists. And they need to take seriously that many people see them as responsible for much of what is wrong.

- It includes the systematic transfer of wealth from poor people and countries to rich ones.
- It includes the money-must-grow imperative that compels people to make money in socially and environmentally damaging ways.
- And it includes diverting economic effort and enterprise towards making money out of money, and away from providing necessary goods and services.

This growing attitude towards big money and finance is reinforced by more general dissatisfactions. Here are a few examples.

- People's experience, well-documented by opinion surveys, is that more money does not necessarily mean more happiness. Economic progress in its present form can damage quality of life. The closure of branch banks in rural areas is one of many examples.
- People see a growing readiness on the part of governments to give priority to the goals of multinational corporations over the wishes and wellbeing of citizens (as over GM foods); and they see governments increasingly committing taxpayers' money to support corporate business (as over public/private partnerships).

- In this country, the New Labour government's support for business is supported by an old labour perception of work - that the only valid form of work is a job - that people should work for employers as employees - that business is the indispensable organiser of people's work. The result is experienced as doubly negative: what are put forward as socially inclusive policies have socially divisive results; and the value of necessary unpaid work by people for people, like parenting and caring, is downgraded.

The Present Situation (2)

Over the last three years the UK government has introduced significant institutional improvements in the arrangements for handling monetary and fiscal policy. In his Mansion House speech last year the Chancellor, Gordon Brown, explained that the new long-term framework which the government had put in place was based on three principles:

- (1) clear objectives for price stability and sustainable public finances;
- (2) well understood rules, including
 - (i) the new system of monetary policy-making centred on the now operationally independent Bank of England, and
 - (ii) the 'golden rule' that the government's recurrent spending budget must be balanced over the economic cycle;
- (3) transparency in policy-making, and an open system of decision-making in both monetary and fiscal policy.

In my view, Gordon Brown and the present government are to be congratulated on these changes. They provide a starting point for progress towards a monetary system and a system of public finance that will be fit for a democratic country in the information age. Perhaps in his speech at the Mansion House this evening the Chancellor will develop what he said in his James Meade Memorial Lecture last month. He spoke then about the need, "not for big government, but for better government, what we might call an enabling state", and he spoke about the need for "a credible and radical view of citizenship as responsible citizenship". If, this evening, he were to explore what those ideas could mean for the future of monetary and fiscal policy, as we are doing here this morning, we would all be getting somewhere.

Coming Problems for Public Revenue

However rosy the British government's finances happen to be at this particular moment, it is widely recognised that pressures to reduce existing taxes will continue to grow.

In an increasingly competitive global economy, the mobility of capital and highly qualified people will continue to press national governments to reduce taxes on incomes, profits and capital.

In ageing societies, opposition will grow to taxing fewer people of working age on the fruits of their efforts, in order to support a growing number of so-called "economically inactive" people.

Internet trading ("e-commerce") will make it more difficult for governments to collect customs duties, value added tax and other taxes and levies on sales. This applies especially to sales of products and services that can be downloaded directly from the internet - including music, films, pictures, games, and advice and information of every kind. The internet will also make it easier for businesses and people to shift their earnings and profits to low-tax regimes.

International bodies like the OECD and the EU are demanding action against tax havens. A 1998 report estimated that the £400 billion invested in Britain's tax havens - like the Channel Islands and Isle of Man - meant a tax loss of at least £20 billion a year to the UK exchequer. \$6 trillion was estimated to be held in tax havens worldwide. The results, apart from lost tax, include economic distortions and criminal money laundering on a massive scale. The best way to tackle this will probably be to shift taxation away from things that can migrate to tax havens - like incomes, profits and capital - to things like land which cannot migrate.

These growing pressures to shift the tax base away from things that can escape tax by moving elsewhere reinforce the positive economic, social and environmental arguments for taxing "bads", not "goods". Two recent American reports called "Tax Shift" and "Tax Waste, Not Work" spell out these arguments. The idea is to move the burden of taxes away from useful enterprise and employment on to the ownership and use of common resources, including land, energy and the capacity of the environment to absorb pollution. For example,

the carbon/energy tax proposed by the EU in the 1990s would have used the revenues from taxes on fossil fuels to reduce the levels of tax on employment.

The fact is that the present structure of taxation is highly perverse.

- Today's taxes fall heavily on employment and on rewards for work and enterprise, and fall lightly on the use of common resources. So they encourage economic inefficiency in the use of resources of all kinds - over-use of natural resources (including energy and the environment's capacity to absorb pollution), and under-employment and under-development of human resources.
- In addition to those damaging economic, social and environmental effects, today's taxes are unfair and illogical. They penalise value added - the positive contributions people make to society. They fail to penalise value subtracted; only exceptionally do they make people pay for using or monopolising common resources and thereby preventing other people from using them.
- The present tax system allows rich people and businesses to escape, or at least minimise, their tax obligations. Among the devices available to rich people are tax havens and family trusts. Two business devices currently attracting attention are: the decision by some companies to pay their staff with stock options; and 'mixer companies' set up in Luxembourg or the Netherlands - estimated to save leading British companies £4bn a year by exempting their foreign earnings from UK tax.

It is all a great mess. After paradise lost, you can almost imagine Satan sitting down with Beelzebub, Moloch, Belial and the rest of his cabinet, to design the most damaging tax system they could persuade the human race to adopt. Could they have done much better than what we have now?

Sharing the Value of Common Resources

These problems open up the need and the prospects for a new approach to fiscal policy, designed to collect the value of common resources as public revenue, and to share it among all citizens.

Common resources are resources whose value is due to Nature and the activities of society as a whole, and not to the efforts or skill of individual people or organisations. Land is an obvious example. The

value of a particular land-site, excluding the value of what has been built on it, is almost wholly determined by the activities and plans of society around it. For example, when the route of the Jubilee line in London was published, properties along the route jumped in value. Access to them was going to be much improved. So, as a result of a public policy decision, the owners of the properties received a windfall financial gain. They had done nothing for it and they had paid nothing for it. We had given them a “free lunch”. Calculations made in a New Economics Foundation report in 1994, and based on 1990 values, suggested that the absence of a site-value tax on land might be costing £50bn to £90bn a year to UK taxpayers - an important failure, but only one of many, to collect the value of common resources as public revenue.

By contrast, the recent auction of licences to use the radio spectrum for the third generation of mobile phones in this country over the next twenty years, raised £22.5bn for the government. That is an excellent example of the contribution which the value of common resources can make to public revenue. The Chancellor and the Treasury deserve praise for it.

Important common resources include:

- land (its site value)
- energy (its unextracted value)
- the environment’s capacity to absorb pollution and waste space - for road traffic, air traffic (e.g. airport landing slots)
- water - for extraction and use, and for waterborne traffic
- the electro-magnetic (including radio) spectrum
- genetic resources
- the value arising from issuing new money.

Their aggregate annual value is very great. Sharing it out among all citizens would go far to eliminate the need for many existing taxes.

So, among future sources of public revenue there will be less reliance on conventional taxes than today, and more on payments for licences and tradable quotas, charges for the use of water, road space and other common resources - and revenue from issuing new money. We shall no longer tax people and businesses as heavily as now on what they earn - by useful work and enterprise, by the value they add, and by what they contribute to the common good. Instead, we shall

require them to pay for the value they subtract by their use or monopolisation of common resources.

This change is essential if we are to create an environmentally sustainable economy. The New Economics Foundation's Living Planet Index, developed with World Wide Fund for Nature, estimates that we have destroyed one third of nature's resources over the last 30 years. The economic costs of climate change have doubled for each of the last few decades according to the insurance giant Munich Re. If that pattern continues, by 2060 the costs will be greater than total Gross World Product.

Creating New Money

"Creating New Money", launched by the New Economics Foundation today, is about how new money is issued - new money denominated in the national currency, i.e. pounds sterling in the UK. It is not about new currencies - parallel or complementary currencies like LETS or Time Dollars. Those are important innovations, but different.

At present in Britain less than 5% of new money is issued and put into circulation by the government and the Bank of England as cash (coins and banknotes). The remaining 95% of new money is non-cash money created and put into circulation by commercial banks. The situation in other countries is similar. As J.K. Galbraith has commented, "The process by which banks create money is so simple that the mind is repelled. Where something so important is involved, a deeper mystery seems only decent." The banks simply print the money out of thin air into the current accounts of their customers - as interest-bearing, profit-making loans.

Interest on these loans gives the UK banks supernormal, special profits of about £21bn a year - compared with their supernormal profits of £5bn a year from cash machines, which were criticised in the Cruickshank report earlier this year. The annual loss of public revenue from allowing the banks to create the non-cash money is about £45bn - equivalent to about 12p on income tax. Total supernormal banking profits from this source in the USA, UK, Eurozone countries, and Japan are about \$140bn a year. With a "free lunch" on that scale, no wonder some of the cats get fat!

The necessary reform is simple - but our minds should not be repelled by its simplicity! There are two sides to it.

(1) Central banks should create the amount of new non-cash money (as well as cash) they decide is needed to increase the money supply. They should credit it to their governments as public revenue. Governments should then put it into circulation as public spending. In deciding how much new money to create, central banks should operate with a high degree of independence from their governments - as the Monetary Policy Committee of the Bank of England now does.

(2) It should be made illegal for anyone else to create new money denominated in the official currency. Commercial banks will then be excluded from money creation. They will be limited to credit-broking as other financial intermediaries are - borrowing, but no longer creating, the money they need to lend.

This reform will restore “seigniorage”, in a form adapted to the conditions of the Information Age. That is to say, it will restore the prerogative of the state to issue money, and to capture as public revenue the income that arises from issuing it, in an age when most money has become information. Originally, seigniorage was the revenue enjoyed by monarchs and local rulers from minting coins. It reflected the fact that the coins were worth more than the costs of producing them. As, over several centuries, the physical characteristics of money have changed from metal to paper to electronic bits and bytes, and as banking practices have developed, the relative importance of that original source of seigniorage has gradually dwindled. Now that almost all money takes the form of electronic entries in computerised bank accounts, extending the traditional principle of seigniorage to non-cash money will correct the anomaly that has grown up over the years.

The arguments for this monetary reform are not limited to the contribution it will make to public revenue, considerable though that will be. As the report explains, it will have beneficial social and environmental effects. It will be very beneficial for the economy as a whole. For example, it will tend to bring about lower interest rates and lower inflation; and it will tend to create greater economic

stability, by enabling the central bank to smooth out the peaks and troughs of business cycles more effectively than it can do today.

It will also help to clarify monetary statistics, monetary definitions and monetary terminology. This is a crucial point. The distinction between means-of-payment money and store-of-value money - between the functions of sight deposits and savings deposits - has become blurred in recent decades. The result is that the concepts and definitions on which monetary understanding and policy-making are based are now even more obscure than they were before. It is not at all clear what is now included in the "money supply". The different definitions of money - M0, M1, etc, up to M4 - are abracadabra to most people. One might imagine that a monetary priesthood had deliberately set out to conceal from citizens and politicians of democratic countries how the money system works, and how it could be made to work better for the common good.

The proposed reform will mean that the whole stock of national currency circulating in the economy will have been issued by the central bank. It will include all the non-cash money in everyone's current accounts, together with the cash which everyone holds. It will be easy to calculate how much of it there is. It will no longer be necessary to juggle with M0, M1, M2, M3, M3 extended, M4, and so on. There will simply be the one amount of plain money M. Everyone - and that includes politicians, officials, bankers and monetary experts, as well as a growing number of citizens, bank customers and taxpayers - will be able to understand better than today how the system works. As befits the citizens of a democracy, we will be better able to evaluate and discuss the monetary and financial policies and policy options which are presented to us. This reform will mark an essential further step towards what, at the Mansion House last year, Chancellor Gordon Brown called "transparency in policy-making, involving an open system of decision-making in both monetary and fiscal policy".

Public Spending

I shall now mention briefly three points that are likely to play a more prominent part in public debate in the coming years.

The first is about the payment of taxpayers' money to business corporations. Governments now dole out huge sums in contracts, subsidies, inducements, incentives and various other contributions to corporate budgets. To take subsidies alone, it is estimated that, worldwide, \$1.5 trillion is spent every year on perverse subsidies - perverse, in the sense of having economically, socially and environmentally damaging effects.² This surely can't go on.

The second point is about "hypothecation". This means earmarking revenue from particular taxes or charges to be spent for specified purposes. It applies particularly to environmental taxes. For example, congestion charges on motor transport in cities are expected to be more readily accepted if the revenue from them is used to improve public transport. And studies have shown that the regressive effects of energy taxes - which hurt poor people relatively more than rich people - can be reversed if the revenue from them is recycled as "ecobonus" payments to everyone in the area affected by the taxes.

The third point is the probable further extension of benefit payments or tax credits to guarantee a basic income to various categories of people. The working families tax credit scheme, introduced by the present UK government, is leading on to a debate about how to guarantee the income of active citizens such as carers (for example by paying their national insurance), parents (an idea championed by Harriet Harman) and even social entrepreneurs. Foreseeably, combining developments like these with the ecobonus principle, may lead towards a universal citizen's income - support for which is already growing. This would be paid, as of right, to all citizens. It would replace many existing social benefits and tax allowances. It would recognise that, in a society of responsible citizens, some of the public revenue arising from the value of common resources should be shared directly among them - and only some of it be spent by government officials and businesses on other public spending programmes.

The Global Dimension

² Norman Myers, *Perverse Subsidies: Tax Ss Undercutting Our Economies and Environments Alike*, IISD, Winnipeg, Canada, 1998.

The principles we have been discussing for national public finance and the creation of new money apply at the global level too.

The Commission on Global Governance recognised five years ago that global taxation is needed “to service the needs of the global neighbourhood”.³ Global taxes, based on the use each nation makes of global commons, could include:

- taxes and charges on use of international resources such as ocean fishing, sea-bed mining, sea lanes, flight lanes, outer space, and the electro-magnetic spectrum; and
- taxes and charges on activities that pollute and damage the global environment, or that cause hazards across or outside national boundaries, such as emissions of CO₂ and CFCs, oil spills, dumping wastes at sea, and other forms of marine and air pollution.

The Commission also pointed out that international monetary reform is becoming urgent: “A growing world economy requires constant enlargement of international liquidity”. The “Creating New Money” report suggests that the principle underlying the reform it proposes could be applied at the global as well as the national level.

Revenue from global taxes and global seigniorage could then provide a stable source of finance for UN expenditures including international peace-keeping programmes. But not only that. Some of the revenue might be distributed to all nations according to their populations, reflecting the right of every person in the world to a "global citizen's income" based on an equal share of the value of global resources.

This approach:

- would encourage sustainable development worldwide; it would generate a much needed source of revenue for the UN;
- it would provide substantial financial transfers to developing countries by right and without strings, as payments by the rich countries for their disproportionate use of world resources;
- it would help to liberate developing countries from their present dependence on aid, foreign loans and institutions like the World Bank and the International Monetary Fund, which are dominated by the rich countries;

³ Commission on Global Governance, *Our Global Neighbourhood*, Oxford University Press, 1995.

- it would reduce the risk of another Third World debt crisis; and
- it would recognise the shared status of all human beings as citizens of the world.

Some Concluding Remarks

First, then, the value of common resources should be fairly shared.

Second, sharing the value of common resources should be seen as predistribution.⁴ Whereas redistribution aims to correct the outcomes of economic activity after the event, predistribution shares the value of essential inputs to economic activity. Whereas redistribution is dependency-reinforcing, predistribution is enabling. Because it addresses the underlying causes of economic injustice, inequality and exclusion, predistribution is an essential feature of a prosperous economy in an inclusive society. It reverses the private ‘enclosure’ of common resources on which so much conventional economic development has been based - and still is.

Third, whereas there are such things as free lunches, a free market economy is a sheer impossibility. In countries like this, governments take about 40% of GDP (the total value of the country’s economic activity) as taxation. They take it out of the market economy as taxation, and then put it back into the market economy as public spending. This has a massive impact on relative costs and prices throughout the economy - with the taxes adding to the cost of everything that is taxed, and the public spending reducing the cost of everything it supports. The proverbial ‘level playing field’ is a mirage. The total composition of public revenue combined with the total composition of public spending will always provide a framework for the economy which skews its price structure some ways rather than others. That being so, the central aim of fiscal and monetary policy must be to provide a framework that encourages outcomes which accord with democratically decided choices and preferences.

Growing numbers of people share a vision of a more people-centred and earth-centred society - less business-centred, state-centred and employer-centred than the society we have today.

- As citizens of such a society, we will be more equal in esteem, capability and material conditions of life than we are now.

⁴ I owe this thought to Joseph Huber, co-author of “Creating New Money”.

- We will find it easier to get paid work. But we will no longer be so dependent on employers to organise it and provide our incomes.
- The industrial-age class division between employers and employees will continue to fade - as the old master/slave and lord/serf relationships of ancient and medieval societies have faded. It will become normal to work for ourselves and one another. Public policies will enable us to manage our own working lives.
- In exchange for our right to share in the value of the 'commons', we will expect to take greater responsibility for ourselves and for the wellbeing of our families, neighbourhoods and society.

This vision of the future calls for a reconstruction of public finance and the monetary system. To some it may seem utopian. But, as I said three years ago in a report to the European Commission, the dividing line between the new economics and the mainstream is not static. As independent voices spread awareness of the need for change - as, for example, about the environment - mainstream opinion shifts, after a time lag. As forward thinkers move ahead and mainstream opinion moves to catch up, no firm boundary can be drawn between the policy implications of the new economics and the evolving political agenda.

As Ed Mayo says in his foreword to *Creating New Money*, "Many of the ideas developed by the New Economics Foundation and sister organisations around the world seemed obscure or unlikely when we first set them out. We look forward to monetary reform moving to the centre stage of public and policy debate in the way that ecotaxes, stakeholding and debt cancellation have done. We invite your participation in helping to shape this debate for the economy of the future".

James Robertson
June 2000