

## **MONEY AND BANKING SYSTEMS REFORM**

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There has been much discussion among Georgists about just how critical is the need to reform our systems of money and banking. We hold diverse opinions about what reforms are needed, but there is no one who argues for maintaining the existing system and institutions. Deep reforms are not very likely, I suspect. Some states might create public banks, but transferring actual money creation to the government from the Federal Reserve Banks is a long shot. But, perhaps, we could get some of our elected officials to listen to arguments on behalf of an incrementally-potent reform. Read on for details.

Another consensus of opinion among Georgists is that we are nearing the middle of yet another property-market cycle. When this cycle crashes sometime before 2026 the consequences are certain to be even worse than what occurred after the 2008 crash. We in the United States are certain to have a public debt of over \$30 trillion. Servicing this debt without a dramatic increase in public revenue will require huge cuts in other programs.

The nail in the financial coffin is almost certain to be a required bail-out of the banks. The need for a bail-out could be significantly lowered if legislation can be passed to restrict any financial institution that accepts government-insured deposits or over government loan guarantees from extending credit for the purchase of land or acceptance of land value as collateral for borrowing. In the residential sector, the maximum loan amount would be equal to the appraised value (e.g., replacement cost, less depreciation) of the property improvement. Property purchasers would have to come up with the cash to purchase the underlying land, or obtain subordinate financing from an investor or organization willing to take on the risk of being in second position. These investors would price for the risk, which would raise the monthly mortgage loan payment taken on by the property buyers. Although this is certain to lower the number of individuals and households able to achieve home ownership, the demand pull on property prices will also be lessened. And, equally important, the bankers will be protected from irrational exuberance, and we (the taxpayers) will be less likely to have to once again bail out the banks. <<

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