LAND&LIBERTY

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message from the honorary president

Our Friday evening study group this term has been inspired by a reference, during our open day event in September, to something called the 'Consolidated Fund' (CF). For me this raised a suspicion that it might be consistent with Henry George's view that that the power to issue "credit" or "paper" money, i.e. the form of money with which government payments are made and government taxes are collected, is the exclusive function of the General Government.

Our studies, exploring an excellent paper 'The self-financing state: An institutional analysis of government expenditure, revenue collection and debt issuance operations in the United Kingdom' (Andrew Berkeley, Josh Ryan-Collins, Richard Tye, Asker Voldsgaard and Neil Wilson), along with Berkeley's presentation 'The UK government in the UK monetary system' have confirmed my suspicion.

It seems the 'Consolidated Fund' was established following the 'Exchequer and Audit Departments Act 1866' and is the core legal and accounting structure providing a sovereign line of credit which the government uses when it undertakes expenditure. The Act specifies that all public moneys payable to the Exchequer shall be paid into the CF and payments from the fund shall only be made following the authorisation of Parliament either for 'Standing Services', which are permanently authorised, or for 'Supply Services' that need to be authorised annually. The money that the government spends into circulation is voted into existence by parliament and first appears as a liability in the CF's account as 'credit money'. The government is able to take on this liability because there remains a widespread belief that the public are under an obligation to the Crown or government in return for the protections and services it provides. In feudal times this obligation was discharged by the rendering of services, today it takes the form of taxes paid in government issued money!

What the government spends from this fund to improve the health and well-being of all the nation's people, on the presence of good schools, hospitals, transport, communications and energy systems etc. increases the wealth of the nation and its ability to produce more wealth. It also maintains and increases the value of the nation's aggregate land rent. In contrast, the absence of these things and taxes levied on production reduces the will and ability of people to produce and to buy the goods and services that everyone needs. These taxes also reduce people's ability to pay rent for both the buildings where they live and work and for the land upon which those buildings stand. Collecting the nation's land rent as public revenue would not inflate the price of any produced good or service (including buildings), neither would it inhibit any individual or firm from adding value by working. It would remove one of the major sources of inflation and speculation as it would eliminate the inflationary money put into circulation by the interest payments and mortgage sums associated with the purchase price of land.

Our government's economic policy is aimed at continued growth and development and history shows that, while these have increased the annual wealth earned by the nation's producers, they have increased the annual rental value of the nation's land by a much larger proportion. The impact however varies according to location which explains how collection of public revenue based on the rental value of individual land plots is more just, efficient and effective than taxing the nation's producers.

It would also enable the government to spend according to the nation's need rather than being constrained by the 'money market' where the tail now seems able to wag the government's dog! The intelligent alignment of fiscal and monetary policies would enable the government to supply as much of its money as it and the rest of the economy needs. The government would also be able to collect the land rent its spending enlarges and would reinforce the public's belief in its 'credit worthiness'.

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