By Tommas Graves
If we had land value taxation, how would the banks deal with the lack of security represented by the value of titles to land used as collateral for loans?

A FALSE SECURITY

Considering that there is a well attested real property cycle of eighteen years or so, but the banks continued to lend as we approached the credit crunch, supposedly backed by the security of title deeds to land, it might be necessary to reconsider. Sub-prime means security lacking, yet banks happily lent, and parcelled the dodgy loans among themselves, until the situation was utterly confused. So it may be said that the assumption of the security of land titles as collateral caused the banks to miss out on the real security for a loan, the ability to repay from the extra product expected as a result of the loan.

FROM COMPLEXITY TO SIMPLICITY

The reforms which we propose offer a comprehensive move from the immensely complex systems which we now have, towards a simple system based on fairness, ethics, and compliance with the laws of nature. The proposal is to collect that fund which is created by the community as a whole and to use it for community purposes. As a result taxation will not be necessary, and those who can work will keep the whole product of their labour. As a consequence, land titles will have no value as items to be traded. But, as it is actually provided to us free, that would seem to be natural. In this context, all natural resources are included in the term "land". Land only has a value because we accord ownership to it. But we do not need to do this, as long as there is a proper system of ensuring secure occupation for land users.

REWARD FOR WORK

If we compare the current system with the proposed system we may see some factors bearing on the bankers function. It can be shown that the cost of wages is about double the reward for work. This is hardly surprising, as wages are the only item large enough to collect all the tax we apparently need. But it is having an insidious and damaging effect. We have got so used to it that we do not notice that labour-intensive work is disappearing, that every project is judged by the smallness of the labour input, that services are declining, and that values are different according to whether you are an employer or an employee. The attempt to collect so much tax on the base of employment has spawned a huge volume of legislation. On our proposals there would be no taxes on wages. Wages could rise until they became the maximum available on the best site not yet used, in accordance with the classic theory of the nineteenth century economist David Ricardo. Effectively, production could be free of tax.

DISTRIBUTION OF THE RESULT OF WORK

Instead of so much wealth landing up in few pockets, wealth would become much more fairly distributed. The needs of the community as a whole are met by a simple assessment of annual rental value, based on the site occupied. And, since it is also known that the present system actually creates unemployment and leads to poverty as well as great riches for some, the proposals would, after a time, reduce the amount of taxes required for mitigation, for instance through costly welfare payments.

BENEFITS

We can achieve these enormous benefits, but at the loss of private property in the free goods of nature. The price of land titles reduces to nil. But anything produced by work, of course retains...
its full value. Building and site improvements are not affected by land value taxation. Any infrastructure works carried out by the community will increase the annual charge, or if deleterious, will reduce it.

BANKING CONSIDERATIONS
Now we can mark some of the effects on banking. Firstly, the cost of everything will reduce because wages are no longer taxed. Couple this with the fact that users of sites will have not have to make large up-front payments in order to use them, bank lending will reduce. The bankers risk will be much less. It will depend on his assessment of the viability of the project, and the bankers' will have to develop their skills in order to make better judgements about each individual enterprise to which they extend credit. The viability of projects will increase due to lack of taxation bearing upon it. Those involved will have a greater interest in the project, because they have received greater rewards from their work. The bankers will not have to rely so much on getting hold of wealth accumulated by the rich, which itself will not accumulate so fast. It is part of the benign cycle that takes place when existing taxes are replaced by using land rent as public revenue.

BALANCE SHEETS
There has to be a transition period, and we need to deal with banks' balance sheets as they are now. Property deeds can be held as security, but in this case they cannot be part of the bankers' balance sheet. If they are in his balance sheet, he has bought them. Then they are his risk. If he holds deeds as security, and the value of the security decreases because it no longer includes land values, the banker has no worries unless the borrower cannot repay. This will be less likely due to the greater viability of the project noted above. But some will fail. There will probably be a need for some mutual fund to be set up to cover bankers' losses due only to the lack of security from land values. All future loans will be assessed by reference to the new conditions.

If the banker has bought land this will be in his balance sheet, and in this respect he is no different from any other business or person who has acquired land under "old" rules. If the land has been acquired with borrowed funds this is part of the general problem faced by almost all existing homeowners. Again, the lenders need have no worries so long as the terms of repayment are maintained. A number of options are available. The lender may be allowed to add a limited percentage to his lending rate to compensate for the extra risk. If he has a mortgage over the property it may be assumed that he is the owner of the property up to the value of the loan, and so shares the annual value with the occupier. A mutual fund to catch disasters may be set up.

THE RESULT
There are sure to be difficulties over the period of transition, but they should be put in context of the enormous benefits arising when the reforms are complete. A huge debt burden will be removed from business and homeowners alike. Administration will be vastly simplified. The connection between work and reward will revolutionise society. A society which accepts that the resources of nature are free for all will be happy in the knowledge that it is acting justly.

Note. For further enlightenment and a vision of what could be, readers may like to refer to a new novel by John Stewart "Prime Minister" ISBN 978-0-85683-274-1 published by Shepheard Walwyn, in particular pages 70-72 and 150-152.