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MORALITY AND THE LAW – THE ONLY WAY TO GO IS ETHICS

There is nothing moral about paying taxes. There is, however, a legal obligation to pay taxes. It is an offence to evade paying. The legal requirement is enshrined in the law. However, there can be no obligation, legal or moral, to pay more than is demanded by the law. Fairness does not come into it. If the tax system is unfair, all that is needed is that Parliament change the law. Tax is a matter of meeting requirements enforceable through the courts of law. By contrast a donation made to charity may be considered a moral act precisely because it is not a response made under threat of prosecution but is action taken as the result of a donor's unfettered choice. Note that a charitable gift need not be "fair", in that it can be held to be in support of an objective which some or many might regard as already adequately endowed or perhaps be intended for a dubiously worthy cause. Morality, the law, and fairness can be uncomfortable bedfellows.

People can move. Some property is fixed, but a lot is transportable. If a government wants certainty of income, surely it should be aiming to tax fixed property rather than people and entities that can be moved or hidden? What is the point of high taxation such as income tax on earnings, value added tax on goods and services, corporation tax on good profitable businesses? What messages are being sent out? How many householders have without fail insisted that their plumber or electrician supply an invoice with the VAT added to the charge? How many legislators keen to close tax loopholes have never submitted a swollen expense claim or finessed a dubious fiddle? Truly, morality, the law, and fairness can be uncomfortable bedfellows.

Taxation – a key distinction

Our Latin dictionary defines the verb, *taxo, taxare,* as *to estimate, rate, appraise the value of anything*. In modern English, this is still the meaning in the courts of law, where a taxing master is one who *taxes* costs by examining them and allowing or disallowing the various component items claimed.

A wider use of the word has largely taken over from the strict, etymological meaning, so that *taxation* to-day signifies *a government charge on certain things to provide money for the state*.

The expression, taxation of land values, may therefore mean the action of collecting a charge on the value of land to provide revenue for the state or, more simply and in accordance with the original meaning of the word, the act of appraising land in accordance with values assessed on and assigned to various plots or parcels.

The use of *taxing* land value in the classical Latin sense presents no difficulty beyond making clear the use intended. However, adopting *land value taxation* in the broader modern meaning does the policy a dis-service.

The justification for allowing such a usage is that, in the U.K., that is how, historically, it has been known. In the early years of the 20th. century, there were, successively, the Land Values (Scotland) Bill, 1907, the Land Values (Scotland) Bill, 1908, and the Finance (1909-10) Act, 1910 (which introduced a number of land taxes, none of them actually land value taxation, even though the preliminary campaigning had indeed been for proper LVT!). Later, Section III of the Finance Act, 1931, was entitled Land Value Tax. For well over a hundred years, there have been numerous inquiries, in and out of Parliament and Whitehall, referring either to land value taxation or to its local government equivalent of land (or site) value rating.

Yet, equating LVT with taxes such as income tax, corporation tax, the council tax, the uniform business rate, capital gains tax, value added tax, import duties and excise duties, is to underestimate the superiority and singular character of the former. All of the latter are taxes on work – on the productive process itself or on trade in goods and services or on accumulated savings devoted to capital formation.

Land is not man-made but is a gift from Nature, part of our planet, Earth. No one paid to have it produced!

What each plot is worth, depends on the demand for its qualities, for the social and other benefits and opportunities it offers. Each plot constitutes a monopoly location.

Properly and, as far as practicable, fully implemented, an impost based on the assessed *[taxed]* rental value of land is to be viewed as a payment to the community for benefits actually received. What the landholder pays to the Exchequer is thus compensation for what he gets the exclusive right to enjoy.

Although generally known as LVT, this policy is more accurately described as a National Land-Rent Charge. The Land Value Taxation Campaign is therefore advocating the collection of the rent of land for public revenue purposes, to be effected by passage of a National Land-Rent Bill [a].

The basic case for the National Land-Rent Charge ("LVT")

(a) The moral, ethical argument

Whether there was a formal Creation or not, whether there was a Divine Creator or not, it is indisputable that the Earth was not made by Man.

From this it follows (i) that all men have equal rights in the bounty of Nature; and (ii) that no man can with moral legitimacy lay claim to private ownership of any part of that which Nature has freely provided. These principles are universal. Our immediate concern, however, must be to ensure their application where we have the political authority, namely within the United Kingdom.

We use the term, land, to mean the material universe apart from man and his products. The exertion of labour by man is what confers legitimacy on the claim to ownership: a man may not own what neither he nor any other man created.

(b) The economic argument, from observation and inference

The value of land is of course influenced by such purely natural factors as the terrain, soil type, climate, and minerals. It is, though, the presence and activity of the population as a whole which actually confer differential values on sites. Land value is determined by the demand for living, working, and recreational space. It measures the advantages of a particular piece of land over that of the poorest land in use.

Land values are affected by the provision of services such as water, gas, and electricity. They are protected by the police, the fire and hospital services, and flood control. Communications (road, rail, river or sea port, aerodrome) are especially significant, and every improvement to the infrastructure will result in higher land values overall in the areas affected (though individual sites will not benefit equally, and a few may even lose value in the short run).

We notice how North America has developed in the 520 years since Columbus; how in the U.K. the comparatively recent preference for trade with continental Europe instead of the Commonwealth has affected the fortunes of East Anglia and Merseyside; how Aberdeen and its hinterland have been changed by the discovery and exploitation of North Sea oil; how the growth of service industries at the expense of much “heavy” or “smokestack” industry has resulted in the redistribution of jobs and of people; whilst at a local level, we see how one-way streets, parking regulations, and re-positioning a pedestrian crossing can affect the relative attraction of competing shop sites.

The individual landowner, in his capacity as owner of land, clearly is powerless to create his own land value, although if he were also to exert labour or provide capital he would, in those distinctly different rôles, play his small part as a member of the larger community. The landowner as such, though, performs no useful function. His sole "contribution" to the process of wealth creation is to charge labour and capital for access to what Nature has already provided free, at a price which reflects the extent of past, current, and anticipated future levels of economic activity. Values which ought rightfully to be public, have to be "bought back" from landowners before anything new can be done!

(c) The pragmatic argument: raising revenue in an efficient, superior way

Essential government services must be paid for somehow. The advantages of LVT are that

(i) it is cheap to collect;

(ii) its yield is certain and potentially large;

(iii) it cannot be avoided or evaded; and

(iv) it does not add to the cost of living, because, as all economists agree, it falls on those who have a beneficial interest in land and cannot be "passed on" by them in the form of higher rents for occupiers or higher prices for goods or services made on, or sold from, the premises. In short, land is "price inelastic".

The revenue raised replaces existing taxes, which fall on personal earnings and on the goods and services people provide for each other by productive effort.

Work and enterprise are rewarded. Merely holding land becomes unprofitable. Landowners, obliged to pay the LVT, need to generate the necessary income. Valuable land that is unused and under-used has therefore to be put to an appropriate use.

Recapitulating the essential concept of LVT

Wealth is the result of the application of Labour to Land. Some Wealth is consumed. That part which is put back in to the productive process or is in the course of exchange, is Capital. Wealth is divided, Rent to Land, Wages to

Labour, Interest to Capital. The words themselves do not matter, but the ideas do. That accountants do not distinguish land and capital, that rents are paid on buildings as well as land, that returns to labour may be called salaries or fees and include perks, ought not to confuse politicians and economists (unless they wish to be deceived, of course!). In particular it is essential to distinguish Land, Capital, and Wealth, and also therefore Rent and Interest. Clarity of thought defeats a smokescreen of verbiage.

We are paying over land values now, but in a haphazard way and to the wrong people! Anybody renting a piece of land has obviously to pay the landowner, and site rents are included in payments made for use of buildings. If a property is being purchased with the help of a bank or building society, the loan repayments include a land value element. Even if land is fully paid for, the freeholder has to carry an "opportunity cost" which is the income forgone through having his money tied up in capitalised land rent. What happens to-day is that we pay land values, which rightfully are public, to the private landowner, and then suffer taxes on our private earnings, goods, and expenditure, to finance public needs. It is ridiculous. Landowners are not to blame: but the system of landlordism, is.

Land values are not government's to give away. Morally they belong to us all equally and in theory should be paid out on a *per capita* basis as a sort of reverse poll tax. It is purely for convenience that we argue that government keep them for essential public revenue requirements.

The moral basis for LVT is payment for benefits received. The landholder pays a duty in return for exclusive enjoyment of the natural and social advantages of his site. What he achieves thereafter, he is free to enjoy untaxed.

Land has its own ability to pay: its value is derived from and reflects its capacity to produce a return with the appropriate investment of labour and capital. LVT restores meaningful recognition that all land is vested in the Crown [b].

Land value is the one thing that should never be privatised [c].

Conclusion

Payment of a tax on fixed hereditaments can be neither avoided nor evaded. In this it is inherently superior to a tax on whatever is movable. A National Land-Rent Charge falls on nothing that has been man-made. Being both publicly created and sustained, the annual rental value of the land is the ideal source for public revenue requirements. LVT is good politics and good economics. Perhaps above all, it is based on sound ethics.

CHINA at maritime odds with INDONESIA, JAPAN, and PHILLIPINES

In our Issue No. 199, we drew attention to controversies, mainly about ownership of natural resources, in the waters around the Falkland Islands. This, though, is not the only area where national interests are clashing.

"Although disputes over sea territory have focused on sovereignty, there are big economic implications for which countries control which parts of the sea. The South China Sea is a strategic area for shipping lanes – a third of the world's seaborne traffic passes through the waters – and it is used as a commercial fishing ground…Wang Yilin, head of Cnooc, **China**'s state controlled energy group…announced Cnooc had made a 'big' gas discovery in the Yinggehai basin, which lies off the west coast of Hainan island", a basin that is right on the border between **Vietnam** and China. Any petroleum development there is sure to set off a political dispute. Analysts calculate that the quantities of crude oil and natural gas lying under the South China Sea which it would be economically feasible to extract "could one day double China's current proven reserves…Hanoi issued a formal complaint in June when Cnooc put up for auction oil and gas blocks that Vietnam believed were in its territory". In recent months, China has likewise raised alarms with the **Philippines** over boundaries in the South China Sea, making claims on what the latter has long considered to be its own territorial waters. "China has also clashed with **Japan** over the [Japanese-administered] Senaku, or Diaoyu, islands in the East China Sea, a dispute that sparked violent anti-Japanese riots in China and hurt business ties between the two countries. The tensions over rival territorial claims have raised fears among China's neighbours and the **US** that Beijing will become more militarily aggressive as its economy grows" [d]. As we have noted previously, oil and gas under the seabed are natural resources, denominated as land in political economy. It might all end in a series of conflicts, but, if so, let us call it what it is – a land grab.

A PARKING SPACE IN ST. IVES, CORNWALL

"An investor who paid £400,000 for a house" used "some of its land to create…five parking spots…each 20ft by 8ft" and sold them for a total of £271,000 [e]. The five spaces are "a brief walk from the town centre" [f] but are open to the elements, and "were sold on the condition that they could only be used for parking" [g]. An estate agent explained, "There is simply not enough parking capacity in the town for the number of people that are here", and added, "If a house has a parking space in St Ives the value shoots up, so the spaces will pay for themselves" [f]. The average cost of a space, £54,200, "is more than twice the county's average annual wage" [h]. Are they being taught in school that owning 160 sq. ft. of land beats working for a living?

TRADE – THE WINDS OF CHANGE

The United Kingdom's entry into the European Common Market (now, after a series of transmogrifications, the European Union) was followed by significant turns in its trading relations with the rest of the world. The most evident has been the lurch to the east at the expense of the west. Ports like Glasgow, Belfast, Liverpool, and Bristol have declined, whilst the previously comparatively small ports of Grangemouth and of East Anglia have grown in importance, even if the north-east of England as far south as Lincolnshire and the ports of the south coast have not enjoyed the same success. Trade was being diverted from North America, the southern hemisphere, and Asia, to Europe. In the process, with the exception of banking, insurance, and related services, the U.K. was becoming a peripheral state off the north-west coast of the EU instead of a focal point of world trade. Other forces were of course at work too, and to some extent the dash to Europe was a display of political funk, an escape hatch, a way of having someone bigger and above one to blame for essentially home-made failures. Regrettably, this was accompanied in some by a supercilious desire to be at the heart of Europe to give a moral lead (!).

As weaknesses are now showing clearly in the European fabric, there are signs not merely of dissatisfaction with the EU and the British position within it, but also of fresh thinking, where it matters – in the boardrooms of some of the bigger companies. First, however, is an illustration of the dilemma faced after 40 years. "Ford's decision to consolidate its European manufacturing operations has been driven by plummeting demand for vehicles sector-wide in the region…It is going to be a challenge for the car industry to drive a meaningful economic recovery in Britain, especially for those companies with a heavy reliance on sales in Europe" [j].

Against that are three examples of a more hopeful kind. Consumer goods giant Reckitt Benckiser's "strong third-quarter results were underpinned by an excellent performance in emerging markets" [k]. "Unilever's strategy looks like it is working. Focusing on growth in emerging economies is boosting both the sales and profit [with] particularly strong performance in Brazil…The strategy involves launching products…into new markets to capture growth…Emerging market sales now make up 55pc of the total. Unsurprisingly, Europe was weak" [m]. "Britain's biggest drug maker GlaxoSmithKline said it intends to increase its investment in its Indian and Nigerian divisions, as part of a long-term strategy to expand into emerging markets…Last month, GSK announced a review of its European operations as sales fell…a decline which could lead to significant job cuts" [m].

Quite apart from trade issues, countries on the geographical and economic margin of Europe, should be to the fore in the campaign for LVT.

HOUSEBUILDING MUDDLE

According to Fathom Consulting, "despite numerous reports that the country is suffering from a desperate shortage of homes…the private sector is not building houses because, at current house price levels, there is no effective demand. Housing starts have not recovered following the house price crash of 2007-2008, and are 24pc below their level of a year ago…This speaks volumes about what lies at the heart of the problem – namely an overvalued housing market and an excessive private sector debt." The report estimated "fair value" for "house prices" to be "30pc below current levels." Were this to occur, it would be "likely to push a number of lenders to the brink of insolvency…A better way of stimulating housebuilding, Fathom said, would be to force prices to fall back to their equilibrium level by forcing banks to repossess struggling borrowers and disclose their hidden bad debts. Bank of England money printing could be used to recapitalise the banks. That would leave them free to lend and make houses more affordable again" [n].

The key error in this galimatias is the failure to notice that builders are in the doldrums not because labour costs have soared and not because the interest rates on capital have risen, but because building land was and still is heavily over-priced. The correct policy to apply is one which squarely addresses this problem. Men have been laid off because there is no work, and capital lies unused and might even be rotting. Landholders, though, have no 'carrying costs' to prevent them leaving their land idle (unless they are speculators who have borrowed to buy land at the height of the market, perhaps), and can await an eventual turn of fortune's wheel. What would shock them into action? The answer of course is an announcement by the Government that a National Land-Rent Charge (LVT) is to be brought in with all speed, affecting all land, and will start with a hefty initial percentage levy. We guarantee the land shortage will melt faster that one can say "Fathom Consulting". Happy New Year!

[a] This section (here slightly modified) first appeared in "Practical Politics", Issue No. 122 (April 2003)
[b] This section (here slightly modified) first appeared in "Practical Politics", Issue No. 26 (March 1992)
[c] This sentence first appeared in "Practical Politics", Issue No. 67 (January 1997) [d] Leslie Hook, "Financial Times", 10th. November [e] "Daily Mail", 29th. November [f] Tom Whitehead, "Daily Telegraph", 5th. November [g] Victoria Ward, "Daily Telegraph", 29th. November [h] "Daily Telegraph", 27th. August [j] Angela Monaghan, "Daily Telegraph", 26th. October [k] Ben Martin, "Daily Telegraph", 25th. October [m] Questor, "Daily Telegraph", 26th. October, 27th. November [n] Philip Aldrick, "Daily Telegraph", 27th. August

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