

WEALTH

Wealth has its root in wellbeing. There is wellbeing when man is given the ability to exercise the particular talents in work on the freely given natural resources of the Earth to produce goods and services for the benefit of both the individual and society as a whole. This creates real wealth to satisfy the needs and desires of all in a process of exchange. Markets are necessary for exchange and money is used as a means of exchange and for recording uncompleted exchanges. Nothing else can justifiably be called wealth.

CAPITAL

Talents include the ability to conceive of and construct tools to make work more productive. Tools range from the simplest hand tools to a wide variety of sophisticated structures and include commercial buildings, machinery, infrastructure and inventory, as listed by Piketty. It is a particular form of wealth and the distinction is simply that it is wealth to be used not for current consumption but to assist work in the future to produce more wealth for consumption then. Capital does not include land. Land, in the widest sense of the term, exists without any form of human work. It is the source of everything needed in order to work. It exists before any wealth can be produced by work on its natural resources. True capital is wealth used to produce more wealth. Land exists before the production of wealth starts. Therefore land is not wealth and cannot justifiably be called capital. It is only the private appropriation of the rent that gives to land its value as supposed capital. This claim can now be traded in the property market which is governed by land values.

CAPITAL GROWTH

The treatment of land as capital is the starting point for the growth of inequality. It is the opportunity to claim the rent of land that explains the constant "capital" growth demonstrated by Thomas Piketty. Further growth is made possible by investing surplus rent receipts for a variety of purposes in the financial economy, all of which then constitutes a further claim on real wealth including real capital. The result is that the land owner can claim wealth in the form of goods and services without providing any wealth in exchange. These claims constitute a perpetual drain on wealth which would otherwise be available for exchange between those working in the productive economy.

The drain of wealth from the wealth producers is by the arbitrary taxation of earnings. In the natural system, the rent of land, freely negotiated and willingly given, is available to meet all government costs and to meet the needs of all those who are unable to provide for themselves. When rent is claimed by a private owner, these costs have to be met instead by the taxation of earnings, an unnatural additional burden on wealth producers. The private receipt of rent on land with its consequent market value, together with the opportunity to claim ownership of real capital is the simple answer to Piketty's enquiry. Piketty does recognise the significance of land, but does not pursue it, on the grounds that it is difficult to separate the value of land from the value of buildings and other improvements. The fact is that professional surveyors can reach agreement on the value of any plot of land whether or not it has been developed.

LAND VALUE AS A COMPONENT OF "CAPITAL"

The value of agricultural land prior to 1910 constituted the largest part of private capital as defined by Piketty. After the major upheavals affecting the period up to about 1970, the proportion of private capital represented by land began to recover and

could now once again be the largest part of private capital. This figure does not appear separately in Piketty's analysis because he does not consider it possible to separate its value from that of the buildings on it and therefore refers only to "real estate". A further large proportion of private capital is now represented by financial claims on buildings, machinery and infrastructure, as mentioned above.

A major difference between the situations then and now is that prior to 1910 the rent of land was received by a relatively small number of hereditary landowners whereas the benefits of land ownership are now spread very much more widely. This may spread the claims on wealth more widely, but it does not help those who just work to produce the real wealth to satisfy the growing claims upon it. It clearly demonstrates why young people are constantly advised to get a foot on the property ladder. It is strange that this never seems to be identified as the root cause of inequality. It is this private ownership of land which underpins the unsustainable growth of private "capital" so clearly demonstrated by *Capital in the Twenty First Century*.

RESTORING EQUALITY

The proposed tax on capital is not the solution because it attempts to deal with a problem which need not have arisen. The real problem is the current understanding of what constitutes capital, which Piketty does not sufficiently question.

The correct way is to stop the growth of inequality at source by restoring the rent of land for those who create it. The value of both commercial and residential land is created by the presence and work of society as a whole. Land value is naturally a surplus over and above earnings. Land value is created by society working together and belongs to society as a whole, not to an individual owner.

The apparently inevitable inequality identified by Piketty can be stopped by raising a government levy on the annual rental value of land to replace the taxation of earnings. It is not an additional tax and it does not interfere with security of tenure. It is a payment of the natural surplus in addition to earnings, as recompense to surrounding communities for the benefit that private occupation of land confers on some and for that reason removes from others. It has been considered many times by politicians, advocated in several authoritative reports and has widespread support.

BENEFITS OF A LEVY ON THE USE OF LAND

A levy on the annual value of land would:

- i) Encourage access to land so that all may work to generate and retain real wealth, including real capital, free of taxation.
- ii) Prevent the continual unsustainable growth of so-called capital, which is an accumulation of claims on wealth arising from the unjustifiable appropriation of the rent of land.
- iii) Ultimately restore economic freedom and justice to capitalism.

It cannot be denied that this proposal would meet considerable resistance but it has the merit of solving at source the problem of unsustainable "capital" accumulation which creates the inequality shown so clearly by Thomas Piketty. The problem of inequality needs urgent attention. In *Progress and Poverty*, Henry George makes the prescient observation. "What has destroyed every previous civilization has been the tendency to the unequal distribution of wealth and power".