CHAPTER 13

DEFINITIONS

> The least-bad tax is the property tax on the unimproved value of land, the Henry George argument of many, many years ago.
>
> **Milton Friedman** (1912–2006),
> American Nobel economics laureate

The main purpose of this book has been to communicate the ideas of LVT to those with no special knowledge of economics, and therefore I have used terms and meanings as they are generally understood in common usage. However, there are, in certain cases, definitions used by economists that have specific meanings and need to be explained.

Wealth

As commonly understood, material wealth is considered to be represented by the possession of goods, money, land or natural resources. But this view is misleading. Goods are certainly wealth, but money, land and natural resources are not (see below).

Material wealth is only produced through a combination of labour applied to land (all natural resources). Land is only one of the elements of wealth production, not wealth itself. Natural resources remain only potential wealth until labour is applied.

Knowledge is also a form of wealth, which may be exchanged for money or goods. It is knowledge that provides the basis for the service industries.

It is necessary to appreciate these distinctions for a proper understanding of the principles behind the land value tax.

Money

Money is a deferred claim on wealth; it is not in itself wealth. It is a representation of wealth, the value of which depends entirely on the trust of society that it will be honoured as a medium of exchange. It also has value as a means of wealth storage. It may be exchanged for tangible wealth or for a service, at which point the deferment is passed on to the seller.

It is generally considered better if money has no intrinsic value. A problem in the past with gold and silver coins was that they were often clipped, and the clippings melted down to make duplicates.

Apart from notes and coins it does not need to exist physically. Notes and coins have largely been replaced by the electronic credit system, which is generally considered more convenient and efficient. Exchanges of money may take place by the alteration of figures on the account sheets of the parties concerned, or by electronic

transfers, the accounts being stored in a computer memory. In every case it depends on the existence of trust.

Land

As generally understood, land is taken to be simply the dry surface of the earth on which we live and work. But for economists the definition extends to all natural resources: oil and minerals below ground, natural forests, fish in the sea, even the radio spectrum—in other words all the gifts of nature that are not man-made.

In Chapter 5, Resource Rents, I necessarily make this distinction. But for the purposes of land value taxation, in the urban context, the 'land' in question is not something tangible, but rather an abstraction: a two-dimensional area on the surface of the earth for the exclusive use of which any owner or occupier is liable to a charge.

Property/Real Estate

In the UK the word *property* is generally understood to refer to a building and the site upon which it stands, considered as one combined item. This is how it is used generally throughout this book, unless indicated otherwise. In the US the same combination is known as real estate.

Of course, where land value taxation is concerned the two elements have to be viewed separately, so one might speak of property in the land only or the building only, but this should be made clear if such is the case.

The word *property* is also used to describe any tangible object that a person or organisation may own. It is also employed in the intangible world of ideas, patents, copyright, trademarks etc., usually described as 'intellectual property'. This area is complex and problematic and best left for a separate discussion.

Earnings

Earnings are the direct reward for work done. Earnings may take the form of money, produce, manufactured items, modified natural resources, or any other form of wealth that may be exchanged for money. Where a return arises from a situation where no work is done (as with interest on savings), the return is considered to be 'unearned'.

Wages

Wages are that share of earnings paid to an employee by an employer, usually in the form of money, but they may also be in produce.

Capital

The word *capital* may be used in two different ways by economists and non-economists alike.

It is commonly employed to describe the total asset value of a person or a company; their total wealth is their capital. Where a property is concerned, the selling price is its capital value, determined at the point of exchange. The annual rental value 'capitalised' is a guide to its selling price.

The other definition of capital, more commonly used by economists, is 'that part of wealth used to create more wealth'. This second definition is somewhat more complicated.*

The workman's tools are his capital, the farmer's seeds are capital. Any tool or machine—even a whole factory—may be capital. However, it is more often represented by money, which is lent at interest to an entrepreneur to purchase the means to produce more wealth. This is the basis of the 'capitalist' system, in which the lenders are banks or investors looking for a return on their money.

Another form of capital is intellectual capital (or skill). A teacher's knowledge is his or her capital. It is another form of 'tool', which expedites the process of wealth creation and may be exchanged for a payment, as with any other form of labour.

Economic Rent

The most commonly understood meaning of 'rent' is the payment made to a landlord for a house or flat, or to a company for a hire-car or other equipment. This is known as 'contract rent', where an agreement is signed by both parties.

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* The financial website Investopedia describes several types of investment capital: debt capital, equity capital, working capital and trading capital: refer to, https://www.investopedia.com/terms/c/capital.asp

The payment of a rent is for the use of something owned by another. This ownership may be extended to intangible things such as patents or monopolies, the owner of which can exact a payment for access by others. Economists may refer to 'monopoly rents', 'scarcity rents' or 'information rents', all of which allude to the ownership of some asset or advantage which may be exploited to gain an income—some form of economic rent.[1]

However, the term *economic rent* is generally understood to relate primarily to land, and it is only this form that I concentrate on in this book. As mentioned in Chapter 1, this economic rent (or the Law of Rent) was first described in Ricardo's book *On the Principles of Political Economy and Taxation*, in which he stated that the rent of land is 'that compensation which is paid to the owner of land for the use of its original and indestructible powers'.[2] He also noted 'rent is always the difference between the produce obtained by the employment of two equal quantities of capital and labour'.[3] Ricardo also identified the margin of land value, below which no rent could be exacted. His theory has been summarised thus:

> The rent of land is determined by the excess of its product over that which the same application can secure from the least productive land in use.[4]

In other words, for the same input of labour, sites of equal size will provide different levels of product because of some relative advantage (which in the agrarian situation is fertility or some other natural advantage).

It has to be remembered that Ricardo's theories were devised at a time when economic ideas were still based largely on an agrarian economy. But the Ricardian 'differential rent' may still be applied to the urban situation, where land values differ, according to their location.

Rentier

A rentier is a person who derives a rental income from an economic situation towards which he has made no contribution. A rental payment can be justified through the simple fact of ownership. Traditionally the word 'rentier' was applied to the absentee landowner and is of French origin.