Taxing unearned gains, such as increases in land values, to fund climate change prevention

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I Introduction

i) This paper explores the possibility of heavily taxing unearned gains to fund measures combating climate change. By unearned gains I have in mind things such as: increases in property prices, including increases in the value of land due to gaining planning permission or finding valuable natural resources on the land; money gained from selling discovered valuable natural resources, such as oil, copper, diamonds; increases in value of holdings of other scarce natural resources such as precious metals. We will see that the basic idea is both philosophically defensible and intuitively attractive and accessible: the individual may be entitled to keep what he has earned but that which is unearned he has no special entitlement to. Therefore, it may be taken from him by taxation or suchlike.

We will see that this measure also has the interesting and valuable side effect of reducing unearned inequalities of wealth. In the UK, according to a recent ONS report, there is no more inequality of incomes (measured after tax and benefits are taken into account) than there was in 1970. However, inequality of wealth has increased substantially, so it is here where inroads need to be made.

ii) Let us start by distinguishing natural resources from labour. Broadly speaking natural resources are things which are of a type which would have existed even had mankind not existed. (Clearly there is a grey area around, for instance, animals and plants which have been bred by man). Manufactured items have both a natural resource and embodied labour component. For instance, a gold ring contains both the natural resource – gold – and the embodied labour which was responsible for finding, smelting and casting the gold into the ring shape. If you smelt down the gold ring and recast it into a broach then you are destroying the labour embodied in the ring shape, and replacing it with your labour which is embodied in the broach shape. Throughout the natural resource remains in existence.

Clearly a person's labour has a special connection to him. Prima facie, it is *his*. Thus if others, such as a gang or a government, are to take it from him by force (as the tax system does), then they need to provide a well-founded justification for doing so. We can distinguish two types of justification.

On the one hand are justifications based upon it being clearly best for him or those close to him that the tax be taken – for example to pay for army, police, local environment, his healthcare, the incarceration and reform of criminals, and suchlike. These are things that he and those close to him benefit from, so he is not harmed, does not lose out overall, if money is taken from him and others in fair proportions and spent efficiently on such things. This type of justification is not too hard to give and has a widespread intuitive appeal.

On the other hand, there are those justifications based upon it being best for others that the money be taxed from him – for example because it is used to keep alive the unemployed, the mentally and physically disabled, the elderly, to make more comfortable the life of lower earners, and to prevent climate change and suchlike environmental problems harming unknown future individuals. Whether such justifications can be given is not my concern here (I think that they can in certain cases). Nevertheless, it is fair to say that philosophers are deeply split on what ethical theory is the correct one – and even about whether it makes sense to talk about a correct ethical theory – and thus what is the correct argument (if any) for taking by force via the tax system the fruits of an individual's labour in order to spend it on preventing climate change. Thus it is hardly surprising that philosophers have been unable to convince sufficient citizens or members of governments for adequate steps to be taken.

I think that it is beholden on moral philosophers to come up with better accounts, and if they do then I think they will be able to convince sufficient citizens and governments to take adequate steps to prevent climate change. However, until then, in the pragmatic spirit of John Broome's recent work let us put to one side those contentious arguments for taking by force the fruits of a person's labour in order to spend them on combatting climate change. This paper will therefore focus exclusively on unearned gains, in other words, gains which are not the product of the person's labour. I have in mind gains the individual may make through owning property or other scarce natural resources (such as gold, copper, diamonds etc) which increase in value; or through a valuable natural resource (such as oil or precious metals) existing on his property. This increase in wealth is not earned, is not the product of the person's labour. Therefore, he has no special entitlement to keep it. How can this insight be integrated into our current complex tax and property regimes, in order to yield tax revenues which could be spent on combatting climate change?

Section II argues that valuable natural resources (such as oil and precious metals) should not belong to he on whose land they are found, but rather they should be held in common and the proceeds of selling them should be used to combat climate change. This measure should be combined with the measures in any one of the following three sections. These range from section III's proposal which requires relatively simple modifications of the current Capital Gains Tax system and which still constitute an improvement on it, to section V's proposal which is ethically ideal but requires more substantial change and so has more difficulty in gaining electoral support.

Section III argues for a substantial increase in Capital Gains Tax (CGT) on gains realised upon selling holdings of property and scarce natural resources such as precious metals. It also argues for extending CGT to an individual's home. Some practical difficulties with both measures are explored and ameliorative measures suggested. Section IV postulates a rolling CGT which is levied every three or four years regardless of whether the property or holding of precious natural resources is sold. Again practical difficulties are confronted and ameliorative measures suggested. Section V argues that a land value tax set at the market rental value that the land would have were it unimproved captures all unearned increases in the value of the land. The proceeds of this tax should be distributed equally to all citizens, effectively constituting a basic income. This then enables all citizens to afford increased taxes on activities (such as oil burning) which destroy and degrade the natural environment. These tax revenues can then be spent on combatting climate change and other natural resource damage and degradation, and invested in things such as scientific, technological and medical research which provides compensatory benefits to future generations for that natural resource damage and degradation which does take place.

II Ownership of discovered natural resources such as oil

One simple measure would be for the government to legislate that discoveries of valuable natural resources (such as oil) on a person's land do not belong to him. The valuable natural resource is not something he has created or earned. Rather these resources may fairly be deemed to be held in common.

The money raised from selling these resources could then be spent on combatting climate change, on the grounds that future generations have as much entitlement to a well-functioning climate as we do, and that were we to deprive them of this then we would be wronging them. We might be able to use up much of the oil and gas without harming future generations provided that we bequeath them alternative energy sources. However, there is no corresponding substitute for bequeathing a well-functioning climate. Nor indeed, is there a replacement for certain other natural resources, such as the ozone layer, biodiversity and certain rare metals (if mining passing asteroids does not work out). Therefore, these too need protecting.

A company would simply be employed by the state to extract these resources – such an arrangement is common enough in the developing world. The landowner would only be paid for any labour undertaken by him which led to the discovery, and for the inconvenience he suffers, for example having to move out, and for the loss in value of his land (if the oil does not belong to the landowner and there are oil rigs camped on the land then owning it is of little use until the well is exhausted, the oil rigs leave and any pollution cleaned up).

The proceeds from the sale of these natural resources would be invested in combatting climate change and protecting other irreplaceable natural resources, so that although future generations are deprived of certain natural resources which are consumed, they are at least less likely to be harmed by climate change or by the absence of irreplaceable natural resources.

How much money this would raise varies from country to country and era to era. In the USA in recent years it would have raised a lot because of the boom in oil and gas production. Though now that oil and gas prices have fallen, revenue would have fallen dramatically, given the relatively high costs of much US production. There are other natural resources mined in the USA too of course, selling which would raise significant sums. In the UK revenues from North Sea oil have fallen likewise, and there is not a great deal of mining, quarrying etc taking place. Thus whilst this measure is worthwhile, it may not on its own raise sufficient revenue to combat climate change. Therefore, in the next two sections let us look at how additional money can be raised from unearned gains by modifying the capital gains tax regime.

III Modifying current Capital Gains Tax laws to increase yield from unearned gains

i) Let us now consider heavily taxing unearned capital gains. In those countries which have Capital Gains Tax (CGT) it is payable only once a chargeable asset is sold. In the UK a chargeable asset is defined as a personal possession (other than car) worth over £6k, property other than your main home, shares and businesses (whether selling the business as a whole or just some of its assets). It is levied on the difference between the purchase price and the sale price. The tax due from a higher rate taxpayer is 28% for residential property and 20% for other assets. It is 10% less for basic rate tax payers. Entrepreneurs pay 10% when selling their business. For all there is an £11k per annum CGT tax free allowance. There are many additional rules and qualifications but these need not concern us.

Consider two simple modifications to the capital gains tax system. I will focus on the UK CGT regime but these modifications could also be made in other countries. First, raising the rate at which capital gains tax is levied on capital gains accrued through possession of a scarce resource, such as property or gold – including where the value of the land mushrooms due to gaining planning permission. Such gains are not earned, so the individual is not entitled to retains such gains. And unlike incomes taxes, sales taxes, or

CGT on other aspects of the business, increasing the tax rate on such gains would not discourage individuals from working, so would not reduce economic growth.

Why not tax such unearned gains at a very high rate, maybe even 100%? Unfortunately, things are not that simple.

First note that currently if a business sells an asset on which it makes a capital gain then it will not have to pay capital gains tax if the money is used to purchase a replacement asset. This is called rollover relief. It is a good rule, because businesses have to be able change their assets in order to respond to changing market conditions, and there is no reason to take money out of the business in tax each time it has to make such a change.

If a capital gain from appreciation of property and other scarce resources is not rolled over like this but were rather taken out of the business then it is subject to CGT. However, if the level of CGT on property and other scarce resources is very high then this is likely to have the consequence of encouraging businesses to hoard land and other scarce resources. If a business owner would not make much money from selling them then why sell them? Especially given that at some point in the future the business might need to buy them back.

We could make two modifications in response to this. First, we could have a tax rate low enough to make it worth the business owner's while disposing of the land or other scarce resource in order to pocket the capital gain. For example, 50%. He would be pocketing half the gain so it is still worth his while to sell the asset. This still raises much more money than the current rate. Note that which tax rate would as a matter of fact maximize revenues is an empirical matter upon which further research is needed.

Secondly, currently there is a three year limit to how long such capital gains can be 'rolled over'. This means that if an asset is sold then another must be bought with the money within three years, otherwise capital gains tax is due. However, we could modify that rule and say that although the capital gains tax is due after three years, if the business subsequently needed to buy land or other scarce resource, then the company could be reimbursed for the tax it has paid. This measure would mean that there was no advantage to the business in hoarding idle scarce resources such as land on the off-chance that it might need them in future.

Note that whilst the above discussion has focused upon business property, the same points can be made regarding holdings of other scarce natural resources, such as precious metals. If a company or individual owns a ton of copper and it doubles in value then this is not money that has been earned. Therefore CGT at the proposed higher rate should be paid.

I think the foregoing measure could realistically be implemented in the current political climate in the UK. Not only would the modifications to Inland Revenue, business software systems and accounting protocols be relatively straightforward, it should also be possible to garner sufficient support for this change amongst electors for political parties to contemplate making the change.

ii) Let us now examine the second modification to the UK capital gains tax system. This is to levy capital gains tax on the sale of the individual's main house. There are millions of UK home owners whose home has increased in value by more than £100k. This is not money they have earned. It is a result of the vagaries of the housing market, which are driven by the country's overall economic performance, the supply of houses (mainly influenced by the number of houses built and extensions added to already existing houses, which in turn is heavily influenced by planning laws) and the demand for houses (mainly influenced by birth rates, immigration rates and family breakdown rates).

Applying a relatively high level of CGT to homes raises similar issues to those we explored above in connection with increasing capital gains tax to business holdings of property. First recall the foregoing discussion of rollover relief. Consider what happens when an individual sells his home whether in order to move with his job or to get somewhere bigger or smaller. If he had to pay capital gains tax at that point then he could not afford to move, so would be stuck where he is. This would be bad for him and bad for the economy.

To overcome this issue we could enact a system where when an individual sells his house and buys another, then he only pays CGT if the second house is cheaper. In other words, he only pays CGT on that portion of the capital gain which he pockets. If he sells his house and does not buy another then he pockets the whole capital gain, so CGT is due on all of it. The latest the CGT on the whole gain would be payable would be at his death – where it would be due regardless of the prevailing rules regarding other parts of his estate.

As in the business case, this measure comes with the risk that individuals might be discouraged from selling a house and buying a smaller house or no house, if they suspect in future they might need to buy one or a larger one. This would lead to inefficient use of housing. Therefore, as in the business case, we could add the rule that if an individual sells a house and then buys no other house, or buys a smaller house, so pays CGT, then if in future he bought a house, or a larger house, then he would have the relevant portion of CGT reimbursed. As already noted he would still pay it eventually – at his death at the latest.

Calculating the optimal CGT rate in the home owner case is even more difficult than in the case of business property. With regard to business property, if the individual chooses not to sell a property due to the high rate of CGT then he has an incentive to at least rent out the property, which means it will be used efficiently, to the benefit of the economy and country as a whole. However, in the case of residential housing, if the CGT rate is too high then the individual might choose not to downsize. He might choose to stay living in a house larger than his needs if he does not have the incentive of pocketing sufficient cash from the move. Given a limited supply of housing, and a particular shortage of affordable family homes, this would not be good for the country. This suggests that the CGT rate might need to be lower than for business property.

Another modification which might reduce the disincentive to downsize would be to let the seller pocket the cash from the downsizing, so he has it to spend; but to deem him to still owe the CGT due to the Treasury. This would then be recouped when his (new, smaller) property is finally sold, which will at the latest be upon his death. Thus he could be allowed to postpone paying the CGT subject to there being sufficient equity in the smaller home and any other blue chip investments of his, to be able to eventually pay the tax owing.

For example, imagine he bought a house for £100k which increased in value to £400k. He then sells this and buys a retirement flat for £200k. He made a total capital gain of £300k. Imagine CGT is charged at 50% so he will eventually have to pay £150K. However, he is allowed to pocket the £200k realized in this transaction because he still owns a property worth £200k. Thus the government can be assured of getting its £150K sooner or later. He could still sell this property and buy another, as before, subject to retaining sufficient equity in the house and blue chip investments that the government can be assured of getting its money sooner or later. He would not be allowed to sell this house and blow the cash. When his final property is sold (for example when he dies or moves into a care home or in with family) then from this the £150K owing is taken, plus any interest. If the sale price of the property does not cover the amount owing then the outstanding amount could be recouped from other savings and investments he has, if any.

This would raise the question of whether interest should be levied on the sum owed, and if so at what rate. It seems like it should be charged, and should be levied at a higher rate than the interest he could get by putting the money in a bank: otherwise he has no incentive to pay the CGT. This might though have the consequence of the sum owed increasing to be higher than the value of the home and other investments against which this loan were secured. This might also happen if the value of housing decreased. However, this might be one of those imperfections which we would have to put up with. This measure would still raise a great deal of revenue.

In the UK stamp duty currently provides a disincentive to move and to downsize. This might be abolished once CGT on homes is introduced. Otherwise, in combination with CGT the financial disincentive to downsize might be too great. CGT is a fairer and more justifiable tax than stamp duty and would raise more revenue. Moreover, the version of CGT outlined above provides little disincentive to move so would engender more flexibility in the housing and labour markets. Currently those – mainly the young – who have to move regularly in their career find it is hardly worth buying a house because of the costs of buying and selling, once Stamp Duty is factored in.

Finally, note that the current CGT system does not take into account inflation. Thus if someone buys an asset and it increases in value in line with inflation, then he has to pay CGT when he sells it, even though in real terms he has made no capital gain. This might be thought unfair. If so then an improved CGT regime might have CGT falling only on the above inflation capital gain. On the other hand, the current system encourages individuals to sell business assets which they only make gains on in line with inflation allowing access to the asset for those who can make above inflation gains using it. This is beneficial to the economy overall. It also makes admin costs easier and so cheaper. Likewise, when calculating CGT on an individual's home not taking into account inflation makes the calculation simpler and encourages the efficient use of housing. On the other hand, given CGT on homes would be an unpopular measure with many, and its major selling point would be its fairness, it might be politic to only charge CGT on above inflation capital gains.

In sum, the two modifications to CGT outlined in this section have the potential to raise billions from taxing unearned gains from increases in the price of property and other scarce resources, which could be spent on combating climate change. It will have the side effect of reducing unearned inequalities of wealth. The second of the two modifications would involve increase the taxation of residential housing, and in practice gaining electoral support for this would be an uphill battle. In order to sweeten the pill and incentivise voters it might be necessary to use some of the proceeds of this measure to reduce the basic rate of income tax. This in combination with the steadily increasing proportion of individuals who are not owner occupiers and the compelling justness of the measure might enable it to gain the requisite level of popular support.

IV Rolling Capital Gains Tax

One of the drawbacks of the current CGT system, which is shared by the modified system proposed in the foregoing section, is that if an individual holds an asset such as property which increases in value, then so long as he continues to hold that asset he can profit from its increased value. For example, imagine someone buys a house which he rents out. The price of property then doubles, and rents with it. Now he can charge twice as much rent as before, but he has not done anything to earn this increased income. This shows how those with wealth in property and other scarce resources not only benefit from unearned increases in the value of that wealth, they also benefit from corresponding increases in unearned income.

In this section I propose that CGT be levied on increases in capital value of property and other scarce resources every 3 or 4 years regardless of whether the property etc. is sold. In this case, there would have to be estimates made of the increase in capital value of the property and other scarce resources and the CGT due would be calculated on that. This would require a fair bit of admin – though there might be elements of self-assessment – hence it might only be carried out every 3 or 4 years.

One consequence of applying this approach strictly would be that those home owners and business which are asset rich but cash poor would have to either take out loans to pay the CGT, or sell their home, business premises etc. In this case we would find that introducing this measure would result in a drop in property values – and in the value of other scarce resources to which this measure applied, such as gold. This is because investing in these assets would be less profitable, and because of the numbers of owners having to sell. Soon a new equilibrium would be reached. Thus as well as raising extra tax which can be spent on combatting climate change, this would reduce inequalities of unearned wealth.

How would this affect businesses? Well imagine a landlord who takes out a mortgage to buy a house for £300K and rents it out for £1k pcm. After paying his mortgage and the running and repair costs he makes a fair profit. When house prices and rents double, under the current system he suddenly draws in £2k pcm rent. However, his costs have not increased, so he has a massive unearned increase in income, as well as a massive unearned increase in wealth. Under my proposed system as the house has increased in value by £300K, he would have to pay CGT on that increase on the (let's imagine) 3 yearly assessment. If it were levied at 50% then he would have to pay £150K. To do this he would have to increase his mortgage by £150K. He could afford the increased mortgage payments because the rent has increased. So the proposed measure would reduce both his unearned increase in wealth and his unearned increase in income.

Now consider a more contentious example. Imagine a small business operating in London which owns its premises. As the value of the premises goes up from £300k to £600k over the course of 3 years, it has to pay CGT in the 3 yearly assessment. Imagine this is levied at 50%. It has to find £150K. Yet it is not especially profitable so has to sell the premises to some other business which is sufficiently profitable to be able to afford the premises. It sells the premises for £600K, pays the £150K CGT and now has to find premises which cost £450K. This might be thought to be just how the market works – the more profitable companies deservedly occupying the more valuable premises. They are more profitable because consumers pay more for their goods or services, because they find them more useful and valuable to them. However, it might be rather disruptive, especially where the company in question has built up a local customer base, as many companies do, from cafés and plumbers to small law and accountancy firms.

Homeowners would be similarly affected. Someone might have bought a house in a town where property prices generally increase. His home increases in value from £300K to £600K, so he owes £150K CGT. But his income has not increased, so he cannot afford either to pay the £150K bill nor can he afford the payments on a £150K higher mortgage. Thus he has to move, probably from his road, maybe from his part of the town, and maybe from the town itself. This would be disruptive for individuals and communities.

A possible solution would be for the government to lend the homeowner or small business the sum in question, where that loan would be treated like a student loan. Namely, it only has to be paid back when the individual is earning over a certain amount, and where the interest rates are quite favourable. Or, in addition, it would be repayable if the property is sold and another not bought, or repayable in part if a property of sufficiently less value bought, as discussed in the previous section. This way the home or small business owner could stay where they are. If their income were sufficiently high then they would pay a certain amount towards what is owed, but would do so in the knowledge that this money can be recouped by selling the property.

As in the previous section, one issue needing more exploration would be the level of both the CGT and the interest charged on the loan. If rates are quite high then it would regularly happen that, with compound interest, the money owed would over time come to exceed the value of the property. This would indicate that the rates should not be set too high. Even then it might still on occasion occur; however this just has to be accepted as one of those suboptimalities that tax systems always have.

What would happen if the value of property went down? Well imagine a case where it goes up over three years so then the owner was liable to pay CGT on the increase, and then went back down to the original value over the next three years? Well, if the individual has not paid the CGT but rather simply owed it to the government, as just described, then the amount owed would be reduced accordingly – to zero in this example. If the individual had already paid some money to the government then he could reclaim it from the government. This would be no big deal – business commonly reclaim various expenses from the government. At some point (at death at the latest) the individual will sell the property and not use the proceeds to buy another property. At this point the gain is pocketed, so, as with standard CGT discussed in the previous section, a final reckoning of his CGT bill can be made. Provided that over time property prices increase – as they always have – the government will still raise significant sums from the proposed rolling CGT.

Rolling CGT as described in this section has the potential to raise even more tax from unearned gains than the previous section's proposal. It would also further reduce unearned wealth and incomes, thereby reducing unearned inequalities of wealth and income. However, it would require a more substantial change in the tax system so implementing it would cause more administrative upheaval for firms and governments. Still once the change is made things would settle down, and the gain would be worth it. Applying the measure to the individual's home would have more difficulty gaining the requisite political support than applying it to business assets, as discussed at the end of the previous section.

V Land value tax distributed as basic income for all so that everyone can afford higher taxes on activities which destroy or degrade natural resources

This section outlines the ethically ideal approach. I will start by outlining the account of my paper, 'Property rights, future generations and the destruction and degradation of natural resources.[i] Then I will connect it to the foregoing.

Ronald Dworkin asked us to imagine 100 shipwrecked people washed up on a desert island.[ii] It is clear, he pointed out, that the fair distribution of the island's natural resources – such as land, forest, fresh water – would be an equal one. No individual has responsibility for the existence of land or other natural resources, and so no individual has a claim to have more than another person. This is the default position, and there is no compelling argument for harming one person by giving him a less than equal share, in order to give a larger than equal share to someone else. It is also the only distribution that all could be relied upon to agree upon.

My paper argues that future generations are as entitled as we are to our country's and the world's land, climate and other natural resources. Current citizens are no more responsible than them for the existence of these things. It would be arbitrary to think that one group of citizens are entitled to more of these things than another simply in virtue of happening to come first. It follows that if a contemporary citizen does something which damages or degrades natural resources – such as burning oil which both deprives future generations of the oil and contributes towards damaging their climate – then he has to pay a tax on this activity. Some of the proceeds of this tax are spent on combating climate change and other environmental harms that the activity does, and the rest is invested in what Rawls called Primary Goods – goods which are useful for living a good life within a wide range of the most plausible conceptions of the good. This includes: general scientific, technological and medical advances; the arts and humanities; and building a more educated and ethical society. The higher the tax the more it discourages the destructive activity, and the more cash it raises to invest in protecting the environment and providing compensating primary goods. Thus the tax should be set at a level where the amount of the activity which results causes an amount of harm which is balanced by the environmental protection measures and investment in primary goods paid for by the tax. The outcome is that future generations inherit a Commonwealth composed of the remaining natural resources plus the compensating primary goods, which is no worse than the Commonwealth that the current generation inherit, and no worse than they would have inherited had the activity in question not been engaged in.

In practice the Commonwealth that future generations inherit will be augmented by: donations made to the Commonwealth – for example by artists and scientists who share their work freely; and by goods which are created by the current generation to benefit themselves but which as a side-effect also benefit future generations. This latter category includes roads and buildings that we build for our own use but which will last beyond us, and medical and technological research that firms undertake to boost their profits but which create knowledge which will benefit future generations.

Let us now see how this account connects to the previous sections' discussion of unearned wealth. We have just seen that no citizen is responsible for the existence of his country's land or other scarce natural resources. Correspondingly each citizen should be held to inherit an equal share of the land and other scarce natural resources of his country. It would be impractical to give each citizen a particular patch of land to call his own, given how modern economies function. Thus an equivalent outcome can be obtained by instituting a land value tax. The land value tax is levied at a rate equal to the market rental value that the land would have were it unimproved – so not drained, levelled, supplied with electricity, built on etc.. Such activities are labour and we are here interested in goods which are not created by labour. Note that when land gets planning permission its unimproved value increases, so the land tax correspondingly increases. The total raised by the land value tax is shared equally amongst all citizens. This effectively constitutes a basic income. Then each citizen can use this basic income as he sees fit. How much it amounts to will vary from country to country.

On this approach it is the land which is taxed, not that which is built on it. Consider that identical houses in Chelsea and Wigan cost a similar amount to build. The difference in their value – in the cost to buy or rent them – is the difference in the value of the land. Thus the land value tax on an acre of Chelsea will be substantially more than that on an acre of Wigan.

We can discover the value of land in a particular area by looking at how much building plots sell for. And also by simply looking at the current cost of purchasing a property in a certain area, subtracting the cost of building that property, to arrive at the cost to buy the land. We can then use that as a basis to work out what annual land value tax would render the cost to buy that land near zero, and set the land value tax at that rate. Land value tax has adherents across the political spectrum. Unlike income taxes, sales tax and corporation tax, it has little distorting or negative impact on economic activity, is impossible to avoid and reduces unearned inequalities.

Any increase in value of the land simply results in a higher land value tax. As demand for land increases as it has in recent years, so the land value tax increases. There are parts of the country where the cost of property has hardly budged over the last few years – in such areas the land tax would not budge. In other areas it has more than doubled, in which case the land tax would double. Think of the way that currently rents in a town increase when there is more demand, for example if a town becomes more prosperous. On the proposed system rents would stay the same and the land value tax would go up. As a result, the owners of property would not enjoy the unearned windfall that they currently do. No individual secures for himself unearned capital gains or unearned income through ownership of land. Effectively the gains in land value which under the current system accrue to the owner of the land will on the proposed system lead to an increase in the land value tax, the proceeds of which are distributed equally amongst citizens. Things would be similar for a possession tax on other scarce natural resources such as gold and diamonds.

As a result, most citizens, particularly the less well off, would be better off than at present. Thus citizens would be able to afford the aforementioned tax on activities which destroy and degrade natural resources. In addition, a major source of unearned inequality of wealth would be eliminated. It would be a more just system to both present and future generations.

Finally, note one small fly in the ointment. A somewhat similar issue would arise with regard to payment of the land value tax as arose with regard to payment of the rolling CGT. An individual business or home owner might find that the area he happens to be in enjoys substantial increases in demand for property and thus for land, with the result that the land tax goes up substantially. He might not be able to afford the increased land value tax so might be forced to move to a cheaper area. Given that the basic income increases in line with the total revenue from the land value tax which increases in line with the average increase in land values, this problem would only afflict individual homes or businesses in areas which have an increase in demand for property, and thus an increase in land value tax, which is substantially above average. For example, an individual home or business in a part of London that becomes gentrified.

One response would be to bite the bullet and say, ‘Too bad, no one has an entitlement to live or base their business wherever they want, everyone has to simply live and base their business where they can afford. Many individuals today cannot afford to buy or rent a home in the area they were brought up in. This would happen less often under the proposed system.’ The alternative would be to embrace the idea posited in the previous section: individuals and businesses established in a certain area who find themselves with inadequate incomes relative to a rapidly increasing land value tax borrow from the government the money needed to pay the increase in land value tax, where the loan in question is treated like a student loan.

In conclusion, this paper has offered a choice of measures for sequestrating a substantial portion of the unearned gains that many individuals currently benefit from. These have the potential to raise billions of pounds in the UK. These revenues can then be utilised for combatting climate change and suchlike. The proposed measures range from the most easily implemented, which involve a couple of modifications to the current Capital Gains Tax regime, to the ethically ideal system which requires a land tax which funds a basic income, coupled with substantial taxes on activities destroy or degrade natural resources. Correspondingly, the chances of gaining political support range from high to low. Whichever measures are implemented constitute an improvement on the current system, both in terms of generating funds to combat climate change and in terms of reducing unearned inequalities of wealth and income.

Notes

[i] Published in *Moral Philosophy and Politics* Jan 2015, available here: http://www.degruyter.com/dg/journalprintahead.articlelist.resultlinks.fullcontentlink:pdfeventlink/$002fj$002fmopp.ahead-of-print$002fjmpp-2013-0007$002fjmpp-2013-0007.pdf?t:ac=j$002fmopp

[ii] Ronald Dworkins, *Sovereign Virtue: Equality in Theory and Practice* (Cambridge: Harvard University Press 2000), Chapter 2.