Labour Land Campaign Press Release – 3 December 2020

**Confusing rents and profits**

Yesterday's first Reith Lecture by ex-Governor of the Bank of England Mark Carney addressed the subject of values (as in social values) versus value (as in market price). As so many economists do, he began his lecture with reference to Adam Smith and then went on to describe how policies driven by free market thinking have systematically failed to bring about desirable outcomes in many spheres, economic as well as social. In the question and answer session at the end, Mariana Mazzucato, Professor of Economics of Innovation and Public Value at University College London and the author of “The Value of Everything”, pointed out that by "free", Adam Smith had meant a market free from economic rent, not free from regulation.

When Smith and his successors talk about economic rent, they are talking about unearned income: receiving wealth without generating wealth; making money without creating anything of value; profiting from the ownership of an asset without having to do anything to improve said asset. Most of the cash you pay to your landlord (what normal people call "rent") is economic rent (plus a bit for deterioration of the bricks and mortar); most of the "money made from money" accumulated by the super-rich is economic rent (apart from any invested to support productive industry and innovation); most of the interest you pay on your mortgage is economic rent (with a bit to pay for cleaning the bank's windows and the secretary's wages).

Mazzucato asked a simple question about the consequences of "confusing rents with profits" and the relationship with conflating price and value. She pointed out that Carney had barely mentioned the idea of rent in his lecture and, conspicuously, nor did he mention the R-word in his answer.

In Smith's day, the main source of economic rent was land – agricultural land. While that is a far less important component now than it was then, not so much has changed as one might think: residential land now accounts for half of the UK's net wealth and is a far more lucrative source of unearned income than then. Like Adam Smith, the Labour Land Campaign (LLC) advocates a land value tax to capture some of the unearned economic rent that landowners enjoy at the expense of the landless and the nation's economic health. All the reasons why the father of economics originally recommended the taxation of land wealth 250 years ago still apply. And in a world of serial crises – financial, environmental, health - there are even more reasons for repairing our outdated, broken taxation system

LLC Secretary Carol Wilcox says: "Until those who control our financial system understand the crucial difference between rents and profits, we can never hope to achieve a taxation system which fulfils Adam Smith’s four canons of taxation: taxing land rent is fair because it is on unearned income; it is certain because it is based on independent valuations; it is convenient because it is impossible to hide land; and it is efficient because it does not stifle productive economic activity like taxes on work, trade and enterprise.“ENDS

***The Labour Land Campaign is a voluntary organisation working for land reform.***

***It advocates a fairer distribution of land wealth through a Land Value Tax.***

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