



FIRE, the carrot and the stick

“We need pay rises that over time are sustainable and that means pay rises that are focused on rewarding productivity increases.”

Rishi Sunak in an interview on 15 August 2023 with ITV News

This week, Rishi Sunak implied that the cure for the UK’s abysmal productivity gap (with output per worker now 16% lower than the average for the other six G7 economies) is in the hands of low and middle earners. The dog whistle message here to the shires is that the plebs have to work harder if they want to maintain their standard of living in the face of inflation caused by external factors.

There are many reasons for our poor productivity but experts point to low investment—in research and development, in infrastructure, and in skills, training and education—as the root problem, not workers loafing about all day instead of getting on with their job. And this low level of productive investment is driven by a tax system which makes it more lucrative to inflate rent-seeking sectors of the economy such as finance, insurance and real estate (FIRE) than to invest in the production of goods that people want to buy, and the provision of socially useful services. Of these three horsemen of the Apocalypse, the greatest is real estate, viz land which now accounts for 60% of UK net worth. The reason why the super-rich have been buying land wholesale in these economically uncertain times is because it’s so tax-efficient and that—despite its social and economic inefficiency—is because the tax system has always been engineered for the super-rich, especially in the UK by those who own land and fund the media and the Conservative party.

For 50 years the Labour Land Campaign has advocated taxing land and natural resource wealth to replace economically destructive taxes on work, trade and enterprise which shrink the economy. Vice-Chair Murad Qureshi says, “Reducing taxes on workers, consumers and business is the carrot—but there’s a stick too: making it less lucrative to speculate on sterile assets will drive investment into the real economy where wealth is created rather than extracted.”

This is what happened when Denmark introduced a substantial tax on land in the late 1950s: the redirection of cash mediated measurable positive economic effects (on unemployment, inflation and interest rates as well as productivity) far faster than even the most committed proponents of land value tax had expected. Unhappily, this experiment produced no evidence of the expected longer-term economic effects because the tax was repealed by an incoming, landowner-controlled administration after just a couple of years. 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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