

Funding the Future

It's time to increase the tax on unearned income. It's ...

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George Monbiot has an excellent article on tax [in the Guardian this morning](#). At its core is an argument for land value taxation, which he explains has long had powerful support. As he puts it:

In 1909 a dangerous subversive [explained the issue thus](#). "Roads are made, streets are made, services are improved, electric light turns night into day, water is brought from reservoirs a hundred miles off in the mountains — and all the while the landlord sits still. Every one of those improvements is effected by the labour and cost of other people and the taxpayers. To not one of those improvements does the land monopolist, as a land monopolist, contribute, and yet by every one of them the value of his land is enhanced. He renders no service to the community, he contributes nothing to the general welfare, he contributes nothing to the process from which his own enrichment is derived ... the unearned increment on the land is reaped by the land monopolist in exact proportion, not to the service, but to the disservice done."

Who was this firebrand? Winston Churchill. As Churchill, Adam Smith and many others have pointed out, those who own the land skim wealth from everyone else, without exertion or enterprise. They "levy a toll upon all other forms of wealth and every form of industry". A land value tax would recoup this toll.

What Churchill was more broadly describing was the concept of economic rents. So is [Aditya Chakrabortty in the Guardin this morning](#) when he says with reference to the philosophy of Davos:

[W]hat's wrong with the argument the Terry Leahys and the Bob Diamonds make for their extreme wealth? Look, the line runs, we work bloody hard for it; we're worth it. And it's true: unlike previous generations of the ultra-wealthy, many of the modern super-rich work for a living, in running major businesses or in finance (although the [Davos guestlist](#) still includes plenty of sheikhs and royals). But that doesn't mean they truly earn the millions they claim.

Take a look at who's in the Davos set. Last spring, two American academics, Jon Bakija and Brad Helm, and a US Treasury official, Adam Cole, [published the most](#)

[comprehensive analysis yet](#) of the richest 0.1% earners, based on tax returns. Of these top dogs, nearly two in three were top corporate executives and bankers. And the story in both those professions has not been of brilliant returns to shareholders or vast improvements for society, but of wealth extraction and lobbying politicians, Davos-style. In particular, the tale of modern high-finance is of generating transactions, whether in corporate mergers or sub-prime mortgages and then skimming off some of the cash.

That's extracting rent in exactly the same way that the property owner does. Economically the logic is the same. This is all unearned income, and we should not be granting it favours which increase the divisions and stresses in society; we should be taxing it.

That means we need land value taxation for sure, but we need progressive income taxation, capital gains tax at the same rate as income tax and enforceable corporation tax too if these rents are to be collected. And then there's the need for reform of inheritance tax.

I really must get round to writing the Joy of Tax. It is next on my list.