

Unless landlords and banks take the biggest hit from th...

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The realities of the world we now live in are daily becoming more apparent. I noticed an article yesterday that made me reflect on a post I wrote here more than a month ago. The [article suggested](#) that no more than 8% of dentists thought that they could be financially viable with the new requirements for PPE.

In [the post I reflected on I said this](#):

What I am suggesting is that whatever we think or do we are heading for the most almighty economic crash. The things that we have treated as stores of value - which are mainly shares and both commercial and residential property - are massively overvalued now. And there is nothing we can do to prevent the value of them crashing because the Ponzi style financialisation that has gripped western economies - and those of the US and UK in particular - for the last forty years was always heading for a massive crash, and now it has arrived. The genie is out of the bottle and it will not go back in again.

But that is not to say that our government (and other governments) are left powerless in the face of this. They are not. They can still make a decision about which factor of production - labour, business (enterprise), banks (capital) or landlords they wish to favour in the crisis to come.

If they favour people and business and sacrifice landlords (whos assets will survive, come what may, albeit at considerably less worth) and banks (which will inevitably need to be nationalised) then more people and many more businesses might make it through the coming crisis. If they favour landlords and banks - as the UK government is at present - then the chance that much business at all will survive this is pretty remote. And in the end, nor will the banks or the landlords either. That's my bleak prognosis. And either way, pension funds and pensioners are in deep trouble: most will now be dependent on the state, which means much more generous provision has to be thought about now than we have ever previously imagined.

The issue with dentistry is precisely this. The only thing that the coronavirus epidemic has actually changed with regard to dentistry is the requirement for PPE. That, of

course, is very real and will undoubtedly impose a cost. But, this one thing apart, our capacity to supply dental services has not changed since the onset of the coronavirus crisis. Instead, what has changed is the viability of providing that service through private practice, which is the way in which this part of the NHS (or rather, in very many cases with regard to dentistry, not the NHS) works.

What I also venture to suggest is that those private NHS dental contractors who were surveyed also presumed that the additional PPE costs would either have to be absorbed through price increases, or through the loss of profit margin having taken existing cost structures into account. Those who thought they remain viable despite the cost, and consequent price increase, no doubt serve affluent communities. There will, undoubtedly, be some who think that an additional £30 per dentist visit is neither here nor there. The other dentists realise that this is not true for many of their patient base and so they forecast financial difficulties for themselves as a consequence. In principle, they are right to do so: no one has yet suggested that there will be any change in their cost structure as a consequence of the coronavirus crisis.

But what I am suggesting is that when it is very apparent that the cost of undertaking many activities in society is now going to change quite significantly, at least a period of time and perhaps thereafter because of the need to protect us from coronavirus infection, then it is quite absurd to presume that this cost will be absorbed by abandoning many such activities even when we have the human and sustainable resources to deliver them simply because we insist on maintaining two things. One is the level of rent on the premises required to undertake these activities and the second is the level of financial burden to borne by those businesses that have, instead of renting, acquired assets which will no longer have the value paid for them.

The simple fact is that for many dentists rent or financial mortgage obligations will be one of the heaviest cost that they have. This will also be true of many other sectors, with hospitality being one that particularly comes to mind.

The reality is that sometime soon we are going to face a choice and that is the one that I outlined in my previous post, but which is worth reiterating nonetheless, because it is so vital to the future direction of our economy.

We can decide now that we are going to prioritise the preservation of jobs and the continued delivery of services that people want and even need, or we can decide to prioritise the ultimately hopeless goal of seeking to preserve the value of rents and financial assets when doing so will, inevitably, be in vain if there is mass unemployment (as I predict) and so no end user for these assets, come what may.

My construction of that last sentence does, of course, make clear that I think there is no real choice here. The reality is that we have suffered a significant, one off, and

absolutely fundamental change in the cost structure of the supply of goods and services in this country. I happen to think (unlike the US stock market) that the reversal of this change is exceptionally unlikely to any material degree. Given that we have no idea when, or if, coronavirus will be eliminated (and you will note as a result that I have very little confidence in the vaccine currently being developed for this purpose, largely because it has not been cleared for use as yet, or even been subject to any successful clinical trial, and we have never, as yet, succeeded in creating a successful vaccine for a coronavirus) then what we face is a fundamental change in the cost structure of the production of many goods and services in our society.

In accounting jargon, gross profit margins are going to fall as a consequence. That means that there will be reduced capacity to cover overheads. Overheads include rents and the interest cost of servicing mortgages and other loans. And if services are to still be provided on a for-profit basis then either prices have to rise, or something has to give in that overhead cost base.

In some cases it may be that prices will need to rise. I cannot dispute this. Some aspects of our consumer society will no longer be viable. This is inevitable, and given the need to reduce our consumption to meet net zero carbon requirements, it may also be appropriate. But the need for dentistry will not go away. It is socially desirable, and necessary. And I suspect that many who work in the profession are already not well paid: most people in most practices are not dentists, after all. Wages cannot, therefore, bear much of the cost change without real issues arising.

So, what do we do? Do we increase the price of dentistry? Do we increase the state subsidy? Or do we require an across-the-board rent cut from landlords and interest waivers from the providers of finance so that they take the hit of this crisis, as they inevitably will in the longer term as it becomes apparent that the capacity to pay rent and interest costs will, whatever happens, eventually be significantly reduced if vast numbers of businesses fail, as they will if rents are not cut. And, I stress that I say 'inevitably' for good reason, because rents and interest costs are always, in effect, an extraction of profit from an activity by unearned capital at cost to those who produce that activity, and those who pay for it. In other words they are always a burden on consumers and those who work.

So, I go back to the question I asked before, which is now ever more pressing, and which is, who are we to priorities now? Is it people who work, or the owners of assets? And I stress as I did before, that there is in reality only one real choice, which is labour, because the owners of assets can only preserve their value if people are at work, and they won't be if they try to preserve those values at current prices. But, this does not mean that they will not try to do so. And if the government supports them what is coming our way will be very torrid indeed.

The World Bank has [predicted a massive rise in poverty today](#). We will witness it unless the government demands that landlords and banks take the hit from this crisis and that

continuing the productive economy takes priority. But that has for so long been contrary to their thinking I cannot see them doing that. And I am very worried as a result.