

# The economic truths that seem to have passed Labour by

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I [commented yesterday on LBC](#) on Rachel Reeves telling the Sunday Telegraph that she has no plans to increase taxes on the wealthiest people in the UK.

The [FT has an article](#) this morning summarising her comments. At the core of their piece, and her comments, is this paragraph:

*Speaking to the Sunday Telegraph, Reeves said Labour had no need to levy any form of wealth tax because her party would be rigorous in holding down public spending.*

This is a staggering claim because there are so many assumptions implicit in that suggestion, which is a fair synopsis of the Telegraph article, which I have read.

First, there is an implication that taxes fund spending. They do not, of course. The Bank of England funds spending with the monetary equation being balanced by a combination of tax, borrowing and money creation. Reeves must know that but does not acknowledge it. To pretend that tax and spending are directly related, as she implies, is to deny the whole reality of fiscal policy and the economic tools within it.

Second, Reeves ignores the fact that tax is an instrument of social policy. It is the primary tool available for tackling inequality at the top end of the income and wealth spectrums, and what the statement she has made implies is that Labour must be happy with the current levels of inequality that exist in the UK even though they are very clearly destructive for society as a whole. That is a quite staggering position for a party on the supposed left of politics.

Third, this implies that Reeves believes that those with wealth are the generators of value in the economy. Actually, it is the spending power of people and government that, in combination, create value in our economy. But she thinks otherwise. The whole idea that wealth, disconnected as it now is from the making of investment in the economy, has anything to do with value generation is absurd, but this fundamental economic truth has clearly not yet permeated the core of the current Labour Party.

Fourth, the idea that all wealth is equal is implicit in this claim. That is not true. Wealth

from, for example, speculation and rent extraction are not value-adding activities for the economy, and to suggest that they should enjoy low taxation (as they do) is an insult to those who work for a living.

Fifth, the idea that the current obvious injustices within the tax system should be retained - which means that those with income from unearned sources will continue to pay much less on their income and gains than do those with income from work - is being supported by Reeves, which is simply contrary to any known form of economic justice.

Sixth, there is the issue of spending. What Reeves is promising is austerity when what we need is spending to tackle the enormous problems that we face that cannot be resolved by private sector spending.

So why do this? Reeves is pandering to the idea put forward by Sangita Myska at the start of my interview with her yesterday that if we tax more, people have less to spend, and so the country is worse off. This is not true, of course. Government spending does not go into a bottomless pit, never to be seen again. It is spent on people and with businesses. In other words, government spending becomes other people's income. They pay tax on that and then, by and large, spend the rest. As a result, government spending stimulates the economy. What is more, it does so to much greater effect than does leaving income with the wealthy, who simply save what they get - which is precisely why we have such enormous wealth inequality in the UK now. Since, as a result, government spending has a much higher multiplier effect than leaving income with the well-off, the best way to grow the economy is to tax the rich and for the government to spend more - with the added benefit of much improved public services along the way. But again, Labour does not seem to know this.

Instead, Labour wants to maintain the status quo. And as Sangita Myska asked in her programme, what is the point of that when almost nothing seems to work now? I wish I could answer that question, but I cannot.