Funding the Future

The state is the foundation of prosperity

Published: January 13, 2026, 7:23 am

I am speaking at the launch conference of SPERI - the Sheffield Political Economic Research Institute next Tuesday. The paper I'll be presenting is here. The foundation of my argument is that the state is the foundation of prosperity in a modern economy and our mistake in economic management has been to miss this obvious point.

As I say in the paper:

"The goal of economics can be subject to dispute. Few would, however, disagree that prosperity is at its core. The definition of prosperity can vary and argument about its distribution will continue to the end of time, but for the purposes of this paper a relatively narrow and rather conventional definition of prosperity will be used. I will assume that prosperity is represented by property rights that can be exchanged in a market.

It is precisely for that reason that I argue that the state is the foundation for prosperity. In my 2011 book, The Courageous State[i] I argued that the state is integral to the organisation of modern society. It does not matter how or why the state came about: it is now integral to our lives. I also argue that there is good reason for that: the evidence of the consequence of failed states is now readily available to us, and clearly unacceptable. With rare exceptions we accept the role of the state precisely because it provides the organisation and structure in which we can achieve our personal objectives,

There is, however, inherent in this acceptance of the role of the state an implicit assumption that the state must also fund its activities. It follows that for there to be a successful state a majority of its population must accept its legal right to tax. For many a statement that the state has a legal right to tax would seem to be a statement of the obvious but under the influence of Hayekian thought this idea has been challenged in recent years, as a result of which it has become commonplace for some to say that all tax is theft and to add that the fact that the state endorses that theft does not legitimise it.

It is my contention that this claim is wrong. My reason for saying so is a simple one. If, as I think most libertarians would agree, prosperity is recognised as the accumulation of property rights then the legitimacy of those property rights is fundamental to the definition of prosperity, and the fact is that in modern society property rights are established by contract law created by parliamentary legislation and enforced through courts whose legitimacy is established by the processes of the state. Indeed, there is almost universal consensus amongst those who accept any role for the state that the preservation of these property rights is a primary function of government.

This, however, creates a problem for those who argue that the state is the arbiter and preserver of property rights and yet does not have the legitimacy to tax because once it has been conceded that the state can make law relating to property then it has also to be agreed that the state also has the right to make other law: including the right to levy tax to ensure that the system of property rights it has established can be maintained by law. This, however, means that tax laws are created by the same process that creates a right to property: the two are indistinguishable.

In fact, I argue that the right to property is the same as the right to tax: both are simple applications of law. Of course the legitimacy of both laws is dependent upon the legitimacy of the government: it is accepted here that for all practical purposes a government elected on a universal mandate without interference in the electoral process is legitimate. In that case it follows that property rights and taxes are equally legitimate. More than that though, they are in fact one and the same because a property right might grant a person the right to hold a particular asset, but so do taxing rights. A tax is, after all, no more than a claim on property by government.

Of course it can be argued which comes first: the right to hold property or the right to tax, but this is a futile exercise. Once it has been conceded that the right to hold property is not vested in the power of physical force but on the legitimacy of law it is conceded at the same time that the government is the arbiter of property rights, and it can therefore determine the precedence of claims upon them. Unsurprisingly, as a consequence, a government can determine that its right to collect tax represents a higher claim to property than that of the individual to accumulate wealth without hindrance.

The consequence is that it is entirely legitimate for a taxing right to say that if an event happens, such as receipt of income, then tax is due (albeit in some cases the right amount of tax might be nothing). And, again, this logic says that if an asset is acquired then in a great many cases value added tax is payable, and so on. In other words, the right to acquire, hold, use, transfer, sell and even discard many types of property is entirely conditional upon the taxes due as a result of those actions having been paid.

Two things follow from this observation. The first is that almost without exception in a modern economy property rights are conditional: the claim to an asset is conditional on tax due being paid with the right of remedy on the part of the government if the tax due is not paid, including the right of the government to claim title to the asset on which tax has not been paid.

The second consequence is that the commonly held view, oft quoted by politicians, that governments spend other people's money is, quite straightforwardly, wrong. Governments spend their own money, legally theirs, properly collected, and not subject to a claim by any other person.

Of course governments are accountable through the ballot box for the amount of tax that they wish to collect, and for the use of the tax collected, but that does not mean that they are agents for those who make payment of tax. They act as a principal in this matter.

The consequences of the state having the power to tax

A state that realises that it has to power and right to tax, and has the power and right to act in its own right and not as an agent of others is a very different animal from one that thinks it is spending other people’s money. Governments run by people who realise they have the power to tax; the power to legislate and regulate and the power to intervene in markets are very different from those run by people who think that a government is a mere agent of business within an economy. The former is what I call a courageous state, the latter I term a cowardly state.

The cowardly state is associated with neoliberal thinking. Margaret Thatcher and Ronald Reagan were the creators of the cowardly state. They were the first in what is now a long line of frightened politicians who have been elected to the highest offices of state with either no idea of what they are to do with the trust that has been placed in them since they believe that it is the market and not the state that must take the initiative with regard to the creation of prosperity and as such feel they are powerless to act, and do not act as a result, or, worse still, they are in power with the apparent intent of misusing their positions to undermine the state in which they hold office by transferring its functions to the private sector where they do not belong. Privatisation, outsourcing, the Private Finance Initiative, the Third Way, the Big Society and cuts in the face of recession all are steps taken on the neoliberal path of cowardly politicians backing away from their responsibility to exercise the power of government on behalf of us all. As a result this issue of determining the right to tax is not just important, it permeates the whole ethos of a government.

The reality is that a government has the sole right to make decisions on the level of tax and the use of tax revenues, which is precisely why it needs to have confidence in its own actions, both on tax and macroeconomic policy more generally. For it to willingly incapacitate itself by believing that it is agent for those who make payment of tax, and in particular (in a neoliberal environment) that it might consider itself especially accountable to those who might make some of the largest tax payments, is simply wrong. Tax paid arises because tax is due: no one single pound of tax paid gives rise to any greater obligation to account for its use than does any other. That is not to say that the government is not accountable; far from it, but it does say that is a universal, and not a particular obligation. It is to the ballot box that a government is accountable, and to no one else.

A belief in the right to tax therefore changes everything: the government is not taking from the private sector: the private sector is due what is left after the government has taken its share. More importantly; the state is not beholden to the private sector or any part of it as that right to tax has been given to the government by the electorate at large. However, in that case if the private sector is to prosper it is also beholden on the government to ensure that the environment in which it can do so exists. The relationship between the two is not that of the supplicant asking for a favour of the private sector if the latter should be so kind as to consent to make the payment; the state is the partner of the private sector in the process of creating wealth in which both can then share. That means a courageous state has no excuse at all for failing to intervene when it thinks intervention is necessary.

---

[i] **Murphy, R. 2011. The Courageous State. Searching Finance, London**