

Do we need to tax?

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A commentator on this blog has asked why I think it necessary to tax, most especially in developing countries, when I also argue that government spending can also be funded by quantitative easing (or printing money in plain language) and government deficits.

I have, a great many times, argued that there are five reasons to tax, which are:

- 1) Raising revenue;
- 2) Redistributing income and wealth;
- 3) Repricing goods and services that markets misprice;
- 4) Raising participation in democratic representation;
- 5) Reorganising the economy.

There is, immediately, and very obviously one answer to the question of why we tax implicit in this list, which is that tax could not be used for goals 2 to 5 if we did not charge it. Some, of course, might think that quite acceptable because they do not think these are reasons to tax, but that would turn the question I was asked into little more than a rhetorical demand for comment on what can only ever be one aspect of the answer, and I hope that was not expected. In that case let me answer in this broader context.

Firstly, let me make clear that in theory I think it plausible for a country to raise revenue to pay for all its public services without taxation. This is for the reasons already noted: it has, for example, been proven that money printing can fund deficits without creating inflation. It is also clear that deficits can be funded by bond sales when societies as a whole want to save (as is the case at present). There are other reasons as well. For example, there is very clear evidence that in some countries, such as those with considerable resource wealth, services are effectively funded by economic rents and not by tax. In that case the answer to the question of whether or not we need tax

revenue is technically that we don't.

That though is a technical answer which has virtually no practical relevance. Firstly that is because societies do want to redistribute both income and wealth and reprice market failures. Tax makes that possible. More than that though, as a matter of fact societies without tax lack a fundamental control for balancing their economies as they might wish. In practice, for example, even if you could print all the money you wished to pay for services you would, almost certainly, not know when to stop. The historical precedents for doing so are widespread. Tax provides that balancing tool. In that role it is essential. When economic capacity is reached then printing money is a recipe for disaster: tax takes its place in that situation and reduces demand as a mechanism for cooling an economy. Interest rates are a blunt instrument in comparison. Don't dismiss tax then; it has a role to play in all economic management. In fact, I now think revenue raising and economic management are intimately related tax objectives.

None of this discussion considers the fourth issue: raising representation in a democratic environment. This is fundamental. As Rebecca Bennyworth of the ICAEW tax faculty concluded last Friday at its tax assembly, tax is not something that should be done to people, it is something that people should participate in as part of a social contract between them and the state. Tax is, in my view, the consideration in that contract, and that consideration is vital. Without it there is no reason, and even no way, a government can be held to account. Look around the world and the evidence for that is readily available. That fact, by itself, makes tax, as Zoe Williams said on Friday, beautiful in and of itself.

But that is still not enough in itself. Tax does, as part of the democratic process, also provide the mechanism for making choice about what tax is meant to achieve. In other words, the decisions about redistribution and repricing are inextricably linked to the democratic decision making process that tax drives.

So why tax when technically it is possible to do without it? Simply because we actually don't want to tax just to raise money. That's a necessary function of deciding where we want to balance our economy as part of a relationship between tax, debt and money. But we also tax because the relationship tax provides with the political process empowers choice. Treating tax in this way is not about technical choice, it is about embracing society and its choices, which works, of course, so long as you think there is society.

I am told some don't.