

# The morality of taxation, or David Cameron got this one...

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David Cameron has said [there is a moral duty to cut tax](#) and in the process reveals, yet again his lack of understanding of tax, morality and the economy.

Tax is an economic tool. That is all. Let's not overstate its importance, however excited I get about it. And, like all tools, the only question that can be asked of it is whether or not it is being used to do the right job, in the right way at the right time. The morality of tax comes from answering that question. Tax itself is as neutral as money is in itself: it's how it is used that matters.

It may come as a shock to many, including David Cameron, to realise that tax is a massively multi-faceted tool. What is more, he might even be even more shocked to realise that the primary purpose of tax is not to pay for government spending, and yet his comments clearly reveal that he thinks this is the case. So before it can be decided whether or not tax is moral the uses of tax have to be explained. There are at least five of them.

The first is to redistribute income and wealth because markets create inequalities that are harmful to the economic well-being of those who suffer them and to economies as a whole by reducing overall effective demand. This is a moral purpose as well as an economic one.

Second, tax can and should be used to correct market imperfections; that is the externalities that markets fail to price. In itself this is a moral purpose that seeks to overturn the amorality (at best) of market outcomes.

Third, tax is, and has to be, used to rebalance the economy. This is where fiscal policy comes into play, especially in an era of low interest rates. The simple fact is that whatever some economic theory says markets do not create optimal economic outcomes and governments need to intervene to meet economic objectives that are both desirable and possible, such as high levels of employment. It can do this by counter-cyclical economic spending that deliberately injects money into the economy to boost economic activity for the benefit of everyone — including (and perhaps, most

especially) business when business will not do it for itself. This intervention is a moral act.

Fourth, tax raises democratic representation. Put bluntly, people vote because tax matters to them but the result is that we get government that is held to account by those in whose name it acts. That is a profoundly moral act..

And finally, tax is about raising money. But let's be clear: this exercise is actually reclamation of what the government has already spent into the economy through its commitment to fulfill a democratic mandate. The reality is that spending always comes first and tax reclaim comes second. There are three points of explanation to note.

First, governments can, and always have, spent before they have tax revenues because they can create new money. But this is important: the government needs to create money to provide economic stability to any economy.

Second, that spending is not predicated on having tax revenues available. The QE programme, and the effective cancellation of government debt it has given rise to proves that: deficit spending can be cleared without taxation.

And third, this makes clear that there is a fundamental relationship between tax and monetary policy as well as tax and fiscal policy. Treating tax as an administrative, technical or micro-economic issue, as David Cameron very largely seems to do is, as a result, to fundamentally misunderstand its nature and significance that leads to the promotion of policies that are politically and economically implausible, at best.

Four of these five reasons for tax are essentially moral. Cameron's argument can only relate to the fifth, essentially marginal use of taxation, which is its role in reclaiming the spending government makes as a way of ensuring best economic balance within a country.

So Cameron's argument is wrong. It is based on a fundamental misunderstanding of what tax is and it is based on the idea that a government can only spend when it has raised money. I'd say the first moral imperative of engaging in debate, let alone of being Prime Minister, is to know what you're talking about. Cameron has failed this test.

But he's also wrong about tax. Most uses of tax are inherently moral. In that case you can't say there is a moral imperative to cut tax: rates and uses of tax are not independent and those uses and rates are dependent upon need, which requires moral judgement. Cameron is, very simply wrong.

Finally, even total tax collection is independent of spending because it is vital, if the economy is to be managed for the benefit of everyone and not just those who the market favours, that these two issues are not related because if they are we deny government the right to intervene in the economy - and there's nothing more immoral

than that.

Which is my point: Cameron's call is profoundly immoral. It's immoral either because he does not understand what he's saying. Or it's immoral because what he is saying he will cut tax without care for the consequence. And that's deeply immoral.

We deserve better moral debate on tax than that.