

# What I want in 2015: sensible debate on tax

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I shouldn't be depressed by debate on tax, but I almost invariably am whenever a politician or an economist discusses the issue.

Since most economists view the world from a right wing, neoliberal perspective they really have nothing very useful to say on tax because their model of the economy sees no useful purpose for it. As far as they consider the issue tax is invariably an imperfection preventing the optimal outcomes that they assume markets will provide and which their models of the economy are built to prove. They do this by the use of assumptions for which there are no rational bases (like people being rational). Alternatively they ignore facts, like tax having a fundamental and seemingly useful role in every economy of note by funding the services that people very clearly demand that a government, and not the market, supplies. But because most economists assume that this is not possible they should, by default, be ignored in debate on tax on the basis they have nothing useful to say on an issue they have never meaningfully studied.

And then there is the problem created by politicians. Let's start with the obvious problem that since Neil Kinnock lost the general election in 1992 no politician has believed it possible to increase tax - barring national insurance and Osborne's deeply unwise 2012 VAT increase and the short lived 50% rate.

Then there's the problem of most politician's incomprehension of what tax is, and what it is for. This is a pretty big theme in my forthcoming book, *The Joy of Tax*, but the essence of the problem (even if we ignore for now the intimate relationship between tax and money) is it seems that all politicians think that the sole purpose for tax is paying for public spending. This is completely illogical: first tax is also used to reprice goods and services and secondly to redistribute income and wealth. These are not incidental roles; they are fundamental. Then there is the fact that tax is at the core democracy: since the time of Magna Carta the need to control the executive's use of taxation has been at the heart of the demand for accountability - and to diminish this role is to ignore the importance of democracy itself in this process.

All of these uses of tax do, however, ignore its vital role in the management of the

economy: the fact that a government can run a deficit and remain entirely viable in the long run (as has happened, in effect, in the UK since the 1690s) is something that is an exclusive privilege of governments if they have the sovereign right to issue their own currency - as we in the UK have (for which Gordon Brown has not been thanked enough). This means that no government needs to balance its books because unlike anyone else the government has the power to change the balance of the money supply to achieve that aim.

Until 2009 that might just have been a theory but now we know it is true: £375 billion of quantitative easing has, since then proved that the government can spend without taxation and effectively cancel the debt it has created to do so without any effective economic consequence if there are otherwise under utilised resources in the economy, as has been the case since then. This should not have been a surprise to anyone: after all, it is now a fact acknowledged by the Bank of England that banks can also create and cancel money out of thin air to meet the demand of the private sector and have no impact on key economic objectives such as inflation if there are existing under-utilised resources in the economy. Why it should be different for a central bank is hard to imagine, except that as the overall best influencer of the price of money it has the greatest chance to do so with least likely damaging consequence arising.

But all of this - and the significance of each of these issues - appears to be totally ignored in taxation debate so that we do instead have discussion solely on the need to balance the books when, firstly, that is as a matter of fact not necessary (as QE proved), secondly might be decidedly harmful to the economy if the result is that resources - like people who want to work and who have the ability to do so - are left under-utilised and thirdly dismisses positive action of repricing market failure, inequality and the role of democracy in managing this process as unimportant when they are vital.

I do appreciate discussion on tax. But in 2015 my wish is that it be informed debate. Without adequate theories of taxation most economists cannot offer that because they view it only as a funding mechanism whilst current politicians have forgotten the intellectual achievement of the post war generation of leaders who perceived it if, sometimes only glimly, as something so much more than that.

What we need are those able to ignite this debate again. Then we could have real political discussion in this country because it is tax that liberates economic possibility. The poverty of current debate is that it thinks the exact opposite to be true.