

Funding the Future

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It is a recurring theme of this blog that the money that the government spends is not 'taxpayer's money' but is instead money that is the government's rightful, and sole, property. I have said it so often that it's almost boring to say it again, but since it has come up yet again in the discussion on capital gains tax entrepreneur's relief it is worth repeating why this is the case.

Firstly it is because as, for reasons I note in detail in [The Joy of Tax](#), governments technically never need to tax in order to spend. A sovereign government with its own currency can always create all the money it needs in order to spend in exactly the same way that commercial banks can create money for lending, which is out of thin air. In fact, as I also argue in that book, they only ever tax to, firstly, prevent inflation, and second to achieve the social goals of redistributing wealth, repricing market failure, raising representation in a democracy, ratifying the value of money in a jurisdiction and reorganising its economy through fiscal policy.

But, secondly, when they do tax governments have an absolute entitlement to the tax revenues they raise. I explored this issue in the [Salter Lecture](#) I gave at the Quakers' Yearly Meeting in Bath in 2014 from which the following extract is taken:

At its core tax justice demands that each person pay the right amount of tax at the right time, in the right place and at the right rate.

Right has a special meaning here. It means that not only do you comply with the law. Tax avoiders can claim they do that. It does not even mean that you comply with the spirit of the law — which is what HM Revenue & Customs expect. It is about putting this desire to do the right thing into action, so that what is declared for tax purposes reflects the economic reality of what the taxpayer has actually done.

That, at least, has been our usual explanation of the term 'right' but the reality is that it reflects something broader than that. It is our belief that we are people who live in community. But that community is not made up of those immediately known to us, as neoliberalism might, at best, suppose. We think that community between people known and unknown is something that is a pre-requisite for a life well lived.

Without that community there would be a continual struggle to preserve ownership of property, to secure the means for survival, and to maintain the boundaries around communities that are necessary if it is to invest in its own identity, traditions and future, as all do, for a community does reflect a culture, even if it is one that should develop and evolve over time.

Tax provides the mechanism to achieve these aims in a non-violent way. It's not just that it pays for the process of government that defines in turn the extent of the community, the way it identifies and transfers property rights, and which protects its more vulnerable members: tax does this in a democracy with the willing consent of the members of that society. That combination of consent and tax takes away as a consequence the cause for much dispute. As a result, tax is one of the foundations of peace.

We pay a price for this: indeed American Judge Oliver Wendell Holmes, Jr. said in a speech in 1904 that 'Taxes are the price we pay for a civilized society'. I would agree. But I would go further than that. I would suggest that we don't as such pay taxes. The funds that they represent are, I suggest, in fact the property of the state. After all, if we give the state the power to define what we can own, how we can own it and what we can do with it — and we do — then I would argue that we also give the state the right to say that some part of what we earn or own is actually its rightful property and that we have no choice but pay that tax owed as the quid pro quo of the benefit we enjoy from living in community.

This philosophy is, of course just about the polar opposite of that of the neoliberal who thinks that all taxation is, in effect, theft of the private property of the individual that the state must, by coercion and threats wrest from their possession. That notion of tax as theft is, by the way, commonplace in neoliberal thinking. Its expression in milder form gives rise to the term used by politicians of all parties in recent years when they talk about spending 'taxpayers' money', with the clear implication that the government really does not own the funds in its possession. Well let me inform you that there is no such thing as 'taxpayers' money': it is the government's money to do what it will with in accordance with the mandate it has been given and for which it will have to account. It is the government's money precisely because we owe it to them in accordance with the laws that we, by consent, have agreed to comply with and which underpins the society of which we are a part and in which we wish to live in reasonably peaceful harmony.

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In so saying, of course, let me make clear that there is taxpayer's money: it is the money they have the absolute right to enjoy after they have paid their tax. I genuinely struggle to see why some have such difficulty in understanding this glaringly obvious concept.