Tax in 2027: a personal view

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I spoke at an event in Cambridge last night. This was billed as:

Richard Murphy presents his personal, positive vision - and then leads discussion - on how we can overhaul Britain's tax system (and international tax arrangements) to build a fairer country for all in 2027.

These were my speaking notes, although I did not follow them, exactly, as is my habit:

* **What is fairer?**
* John Rawls
* The veil of ignorance

* The idea that justice exists if anyone, whatever their circumstance, thinks that it does

* In other words ‘fairer’ means seeking to improve the lot of all people, and not just select parts of society.

* **How will we know that we have a fairer country for all?**
* The vital question to ask in every situation. What will a changed situation look like?

* Greater access to opportunity for all
* Social
* Education

* Housing

* Health

* Security in old age

* Protection for
* Children

* Families

* The vulnerable

* Economic
* Real increases in median pay
* An increasing minimum wage
* Greater access to capital for those who want to start their own businesses
* Support for honest businesses who are oppressed by the cheats in our economy
* Tax being paid in proportion to its marginal impact on our well being - progressive in other words

* Inter-generational
* Education without debt
* Housing without debt oppression
* Environmental sustainability

* Most of all, Freedom from Fear
* This, I think is the goal of any decent society
* To provide the safe society all need if they are to prosper
* Free from oppression in all its forms
* Able to feel they can participate in the society of which they are a part
* And secure in the knowledge that there is a safety net if things go wrong for any reason, from cradle to grave

* **What’s the role of tax in all this?**
* It’s massive
* But first we have to understand the true role of tax, government and money
* The liberation we need cannot happen until we open our minds to the possibility that it might happen

* **Why government?**
* Modern government exists to deliver a fair society
* Some might argue government has other purposes. Trust me, they’re wrong

* **What does government do**
* Regulates
* The legislature

* Arbitrates
* The legal system

* Administrates
* Ministers and the civil service

* Protects
* Defence

* Directs
* The economy

* Taxes
* Last of all!

* **If tax is the last thing a government does forget tax and spend**
* No government in history has taxed for fun
* I want to share a secret with you: people don’t like being taxed
* So no government ever wants to tax without reason
* They tax because they spend
* It’s spend that has the priority
* But more than that: the spend comes first

*

We live in a world of spend and tax

* Whenever government spends it does not use your taxes. Instead it tells the Bank of England to make payments for it. In effect, it borrows.

* We know this is true: we've had a UK government debt since 1694. This is, of course, why everything has gone for this country since then. Or maybe, the exact opposite.

* Literally, the Bank of England creates the money for the government

* I promise you that's easy. It doesn't even involve a printing press, although that's pretty easy. Instead the bank just does some double entry book keeping. It says Dr the government's loan account. And Credits the governments current account. And the government then spends the money.

* Now if course there are limits to how much of this any government wants to do: the limit is created by the fear of rampant inflation. So, the government does two things to make sure the money supply is key under control.

* The first is it taxes. That tax does not pay for the government's spending. It can't: it's already been spent. And you can't pay for it twice. So the tax is for another wholly different reason: it cancels the money the government has spent.

* Graphic demonstration made here.

* The second is it decides who it wants to tax to achieve its other goals

* Third, hopefully it integrates these issues

* Fourth, it delivers full employment, low inflation and a better-balanced economy. That's the aim. But that requires a little more detail.

* **Let's remember tax can't do everything - and what it can and can't do is one of the things we have to learn.**

* First, to reiterate tax does not pay for government services. The creation of new money by the government does that.

* Just as we now know that every time a bank makes a loan it creates new money, every time the government spends it does the same thing.

* And just as every time you repay a bank loan the money in question is destroyed - because the money in circulation is reduced - so too when you pay tax the money in question is destroyed

* But this has really big implications

* **First, that perpetual question of 'how are you going to pay for it' disappears**

* Let me absolutely clear: government can pay for anything it wants

* The only limit to it doing so is not having things to buy - because we are at full employment, in effect

* **Second, the question of where does the tax come from is answered**
* The tax is created by the new spending. Government spending does not go into a bottomless pit or some void: that spend is other people's income!

* It may be your income. Some if it is mine

* And we pay tax on it

* And because we spend the rest that is untaxed others get more income

* And they are taxed on it

* And so on

* In fact there is quite a lot of evidence that governments can get more back in tax than they spend, especially when an economy is in the doldrums and unproductive - as ours is right now

* **Third, we can stop using interest rates to control the economy - which crushes all this with debt, like students, the young, struggling families and others whilst unfairly benefitting the well off in many cases**
* We can go back to using tax to control inflation - by raising or lowering tax or turning spending on and off when we get too the end of new streets of houses

* **Fourth, we can begin to design taxes for what they are really good at. I'd suggest there are four such things once its basic task of controlling inflation and giving value to money by being accepted in payment of tax have been fulfilled. They are:**
* Redistributing income and wealth

* Repricing goods and services to allow for market failure - what economists call externalities

* Specifically encouraging some economic activities and discouraging others

* Persuading people to engage with government - people who pay income taxes vote - which is why taking people out of tax has been a policy of the last two governments

* **Fifth, we have a very different way of thinking about the economy, money, tax, what government can do, what we want it to do, what goals we want to achieve, how we want to create a fairer society, and what social outcomes we**

want.

* That’s liberating for us.

* It’s also liberating for tax.

* Tax needn’t be - because it isn’t - just about money.

* We can talk about tax delivering social justice, because it will.

* And a sustainable economy, because it will.

* And full employment, because it will.

* **In fact, tax becomes the best mechanism we then have too shape the country we want.**

* **That’s what I call the Joy of Tax.**

* **My hope is that by 2027 we might all share in it. But I’ll leave the detail to questions. I’ve concentrated on the framing because it’s that which will let us think afresh. Now it’s over to you.**