

Funding the Future

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I was asked yesterday on this blog why issues such as tax abuse and the use of tax havens remain important when modern monetary theory is understood. The implication was clear: if tax does not fund government spending, and if enough tax can be collected anyway to control the otherwise inflationary consequences of that spending why worry if some tax that might be due is lost?

I admit that this view has been commonplace in MMT. Neil Wilson, who used to comment regularly on the subject of MMT certainly seemed to share it. Hints of it have turned up not infrequently elsewhere in MMT commentary. And I have always felt the attitude profoundly wrong, which is why I wrote a paper on the subject for a special edition of the Real World Economic Review on MMT last year, [available here](#).

I have already [written about that paper on this blog](#). I won't reiterate what I said there. I would add that [Randy Wray subsequently said of the paper](#) that it was 'the first development in MMT from someone outside the core group'.

I guess it's got some merit then. And what it says is that the reason why tax abuse matters is that unless it is tackled at least six things happen.

First, too little money is initially collected by tax. So inflation is not controlled. The government is not in fiscal control in that case.

Second, to re-establish control they put up taxes on those people they can collect from, and most especially employees, who as a result pay more than fair share in taxes compared to businesses, the self-employed and the owners of capital.

Third, this then creates inequalities and social injustice.

Fourth, this also undermines the ability of the government to deliver its social, economic and fiscal policies through the tax system, which it should be able to do.

Fifth, we then get weak government at best.

Sixth, social order might break down, as is common when tax evasion is rife.

In other words, tax is not just about revenue raising, as argued in The Joy of Tax. Instead there are six reasons to tax:

- 1) To ratify the value of the currency: this means that by demanding payment of tax in the currency it has to be used for transactions in a jurisdiction;
- 2) To reclaim the money the government has spent into the economy in fulfilment of its democratic mandate;
- 3) To redistribute income and wealth;
- 4) To reprice goods and services;
- 5) To raise democratic representation - people who pay tax vote;
- 6) To reorganise the economy i.e. fiscal policy.

In that case, which opinion Randy Wray seems to have endorsed, an effective tax system is key to MMT, and tax abuse has to most especially be tackled when its prescriptions for economic management are being followed.

And as for tax havens, what then becomes clear about them is that they are not only about abusing the tax systems of other countries, they are also about undermining their whole social and economic systems as well. And that's good enough reason to keep them well and truly on our radars.