

Tax After Coronavirus (TACs) : Tax and the value of mon...

Published: January 13, 2026, 8:33 am



Tax After
Coronavirus

Tax and society

As was discussed [in the introduction to this section on Tax and Society](#) within the [Tax After Coronavirus \(TACs\) project](#), tax has at least six roles to play in any society. One of the least understood roles is that tax underpins the value of the money we use in society. This section explores this issue.

Ratifying the value of a currency

Most governments are very keen to have macroeconomic control of the economy for which they are responsible. In other words, they want to make sure that their economy runs in the best interests of the people who live within their country for the simple reason that this makes them popular. To achieve this objective a government usually wants control of the currency in issue within their jurisdiction. There are of course voluntary exceptions, like the eurozone and the CFA Franc, or Ecozone, in West Africa. There are also some countries that deliberately peg the value of their currency against that of another state, most commonly the US dollar. These exceptions apart, however, most countries do issue their own currencies.

That does not, however, mean that their currency is, necessarily, the one most commonly in use in their jurisdiction. Nor does that mean it is the one that most people within their jurisdiction have confidence in. It is not uncommon for jurisdictions to have two, effective, parallel currencies in use, with the second very often being the US dollar. There is, however, considerable risk to a country if this situation occurs.

This risk arises partly because such a situation means that it is very easy to disguise transactions taking place in the second currency that is in use in a jurisdiction: this can often encourage growth in the size of the shadow, or unrecorded, economy of the jurisdiction. But, at least as significantly, the impact of this use of a second currency is that it tends to be very difficult for the government in question to borrow in its own

currency, and that means that it is, in effect, a currency user, and not a currency creator. The result is that it has to settle its debts in the currency of another country, which currency has then to be earned through export earnings, on which the country can then become dependent.

This does in very many cases leave it deeply economically vulnerable for two reasons. The first is that any downturn in its trade can leave it with considerable difficulty in servicing its debts, and that can result in domestic economic crises as imports are threatened. Second, it is also vulnerable to the economic policies of the country whose currency it uses. For example, if the USA increases its interest rates for wholly domestic economic reasons that may have a considerable knock-on, or spillover, effect on the currency of a country that has debts denominated in dollars as such loans will usually become more expensive to service as a result, so increasing economic pressure on the country in question for no good local reason. As a matter of fact, there is little evidence that the US Federal Reserve takes this issue into account when setting US dollar interest rates. The consequence is risk for the many countries that are forced into using the US dollar.

There is, then, a considerable advantage to a country if it can ensure that its own currency is the only, or main currency in use for the transactions undertaken within its jurisdiction. If the amount of tax that is owing in a jurisdiction is significant in proportion to overall income, and if it is a legal requirement that this tax be settled in the currency of the jurisdiction in question, then it is very likely that the majority of the transactions in that jurisdiction will use that currency because the exchange rate risk of using any other currency becomes too significant otherwise, most especially if tax has to be paid regularly.

The result is that tax demands force people and businesses within a jurisdiction to use the currency that its government has issued, meaning that tax ratifies the value of that currency in use. This issue is little understood, or commented upon, but has a real significance: a country with currency sovereignty, which means that it can borrow in its own currency, is as a consequence in a possession of significant economic strength compared to others that do not enjoy this advantage. This is because such a country can always settle its debts using its own currency, which it can create on demand, and it can, therefore, at least in theory never default upon its obligations to its foreign creditors or be beholden to them. As many developing countries, in particular, know freedom from this risk is an enormous asset and an effective tax system can help deliver it.