

Why discussion of tax increases at this moment is so ut...

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There is something very strange going on in UK political discussion at present.

As [The Observer noted](#) at the weekend, right-wing think tanks have all appeared to accept that austerity is dead and unrevivable. They have accepted the idea that deficits are here to stay for the time being.

Meanwhile [in the media](#) and amongst some on the left discussion on the necessity for tax increases is commonplace. This is also [true amongst mainstream politicians](#).

The paradox is obvious. The right gets the need for a Keynesian recovery. The media, and some in the left, and in politics in general, do not.

I should add, that on the right there may be some macroeconomic comprehension of their logic for making their suggestions. Elsewhere, I regret to say that macroeconomic understanding is very weak. And modern monetary theory, with its emphasis on the spend and tax rather than tax and spend cycle, is at best, hopelessly misunderstood.

And that is profoundly dangerous. Unless we get tax right now the risk of economic harm is enormous, when the economy is already exceptionally vulnerable. So these are the stages required for the management of tax during this crisis.

Stage one

This is where we're at. Nothing is required right now. Furlough and loans are doing the heavy lifting at present, although furlough cannot last forever and loan schemes need to be replaced with equity investments.

Stage 2

This period arrives as furlough and loans in demand come to an end. That is likely to be later this year. The sticking plasters are then over. The new economic reality will be emerging.

That reality will be horrible, with maybe 25% of the U.K. unemployed. The focus will be in getting people back to work. That will only happen if there is either a) new private sector demand or b) a Green New Deal. There really aren't other options. Neither is helped by tax increases which reduce demand and create the sense that there is no money to risk on investment in anything green. Overall, then, deficit or not, this would be the last moment for overall tax increases.

That is not to say tax reforms are not needed in Stage 2: they are. We do need to tax wealth more. That's to tackle growing inequality and the sense of social injustice it is creating. The Tax After Coronavirus (TACs) project explains why and how these reforms should be made. There are many of them. They are shovel ready. And they should be done now. But, crucially, the proceeds should be used to reduce tax on those with lowest earnings. Council tax reductions are one of the most obvious ways to deliver this reform. There are many others.

Consideration might also be given to an excess profits tax.

Additional funding for tax collection and enforcement would also make sense during this period. This would require, for example, full country-by-country reporting. It would also require that measures be taken to stop small business tax abuse through the use and abuse of incorporation. The reason for these measures is not their revenue-raising potential, as such. It is instead that these measures would substantially improve tax morale at a crucial time. When everyone is under pressure the idea that someone cheating is particularly unacceptable: that is why these particular reforms are needed. But, I stress, this would not be the time for overall tax increases. Tax cuts will be required.

Stage 3

No one knows when stage 3 of this process will arrive. But it will. Sometime in the next two years there will be a need for a new tax consensus to fund the post coronavirus settlement.

There will be post coronavirus settlement. As has been said by many, nothing will be the same again. I am not suggesting that I know what that settlement will be: I am suggesting that it will be different from the settlement that existed until February 2020.

Only at this stage will we learn what the post coronavirus economy might look like. It might be something new, where we have learned the value of care, of education, of the need for much enhanced public transport, of bicycle and walk-friendly commuting, of decent broadband so that people can work at home, of living with less because we have found we do not need it, and flying far less often. If that is the case then it is very likely that the proportion of our national income that will be spent through the state will increase.

If, and I stress only if, that is what becomes apparent as the new settled will of the economy, will tax increases be needed. And even then, they will only be required as we head towards full employment. That is because tax increases at Stage 3 are not required to fund the new level of state spending, which can always be funded by money creation if necessary without risk of inflation arising because we will not be at full employment. They are instead required when we reached a point where there is competition for resources within the economy because full employment is being approached, and the desire is that those resources be directed toward state-run, and not private sector, activity. Then, and only then, will tax increases be needed to make sure that the space for those state-run activities exist within the economy by reducing the scope of activity within the private sector to make sure that overall there isn't excess demand for resources, which would otherwise lead to inflation.

And when those tax increases happen it is vital that they be consistent with the goals of the economy as it is then being run. So, they must be redistributive. They must support sustainability. They must address inequality. They must tackle rentier activity. Tax increases are not just about revenue raising: they are always about the delivery of the overall objective of a government.

Stage 4

Stage 4 is the longer term: the time when it is now commonly said that we must pay for the coronavirus crisis. However, that is not true. We will never need to pay for the coronavirus crisis.

The income of this period has been lost. Capital has been reduced as a result. And the only reason why we would wish to make payment for the coronavirus crisis would be if we wished to restore capital to the position that it had before that crisis began. And yet we know that there is, at present, massive inequality in our society. That is because capital is badly distributed, with a small minority holding far too much of it. And the question that has to be asked of those who claim that repayment must be made is, why would you want to restore that inequality? Why, in other words, do you wish to punish those who work for a living to restore the capital well-being of those who have savings and investments, when we already know that the distribution of wealth is harmful to many in society, to the extent that even those bastions of right-wing thinking called the World Bank, the International Monetary Fund and the Organisation for Economic Cooperation and Development all agree on this issue?

I suggest that we do not need to restore that inequality. As a result no repayment of the cost to capital (whatever that might be - and it is hard to tell, since no one is compelling anyone to buy government bonds right now) should be made in the future as a result of the cost of the coronavirus crisis. That cost should either be absorbed by the state by quantitative easing funding, with new money for use in the economy replacing the lost capital, or it should simply be allowed to wither away through long term inflation, which the use of perpetual bonds would permit. But what will never be required is that tax be

used for this purpose.

Add all these facts together and the case for tax increases is remarkably weak, excepting for the reason of redirecting the economy for social purpose in Stage Three as (and when, I hope) full employment is reached again.

In that case, can the discussion be laid aside for now, please?