

# Who pays for COVID-19? In search of tax justice

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Good evening and thank you for inviting me to speak this evening.

It is my first suggestion to you this evening that we are living in the after-Covid world. The AC world if you like.

My second suggestion is that the world we once knew – the Before Covid or BC world – has now gone. It is, I suggest, history.

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In this lecture I want to look at what this means with regard to three issues. The first is the meaning for the UK's national finances. The second is the dispute that some have suggested exists over who should supposedly pay for the crisis that we have and are enduring. The third is what this might mean for tax.

If that sounds like a roller coaster of a ride, let me start with some words of comfort that set the scene for what is to follow.

First, I want to make clear that there is no one who now needs to pay for the Covid 19 crisis. That is because it has, as a matter of fact been paid for. Quantitative easing – called it the magic money tree if you like – has already settled the bill, in full. There are consequences still to manage but no one need pay again for a bill that has already been settled.

Second, despite what you have no doubt been told, the national debt is well under control, and may be falling as a percentage of GDP and this is likely to be the trend for some time to come.

And third, whilst overall we need no overall tax increases within the UK economy for some years to come if we are to have any chance of an economic recovery, then that recovery is dependent upon significant changes being made in our tax system to tackle inequality. The last

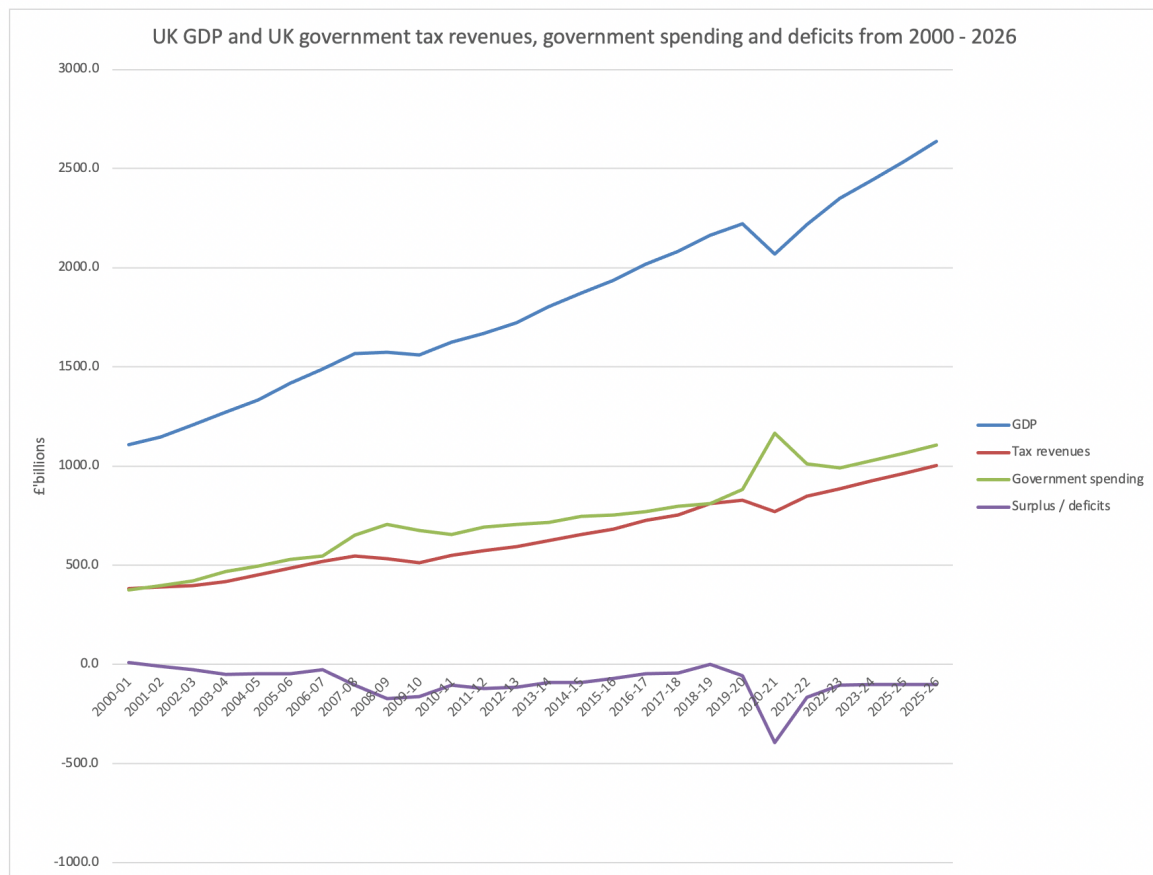
decade has been extraordinarily kind to the wealthiest in the UK. It is time that they shouldered their fair share of the UK's tax bill. I would go so far as to say that our recovery is dependent upon it.

So, having fulfilled my first job by telling you what I am going to say, let me get on with saying it.

## The AC world

I have been monitoring the UK's national finances in detail since 2000, when I began my own database to do so. This is a summary of the UK's GDP, tax revenue, tax spend and deficit from 2000 to 2026, with all figures for 2019-20 onwards being estimated, of course:

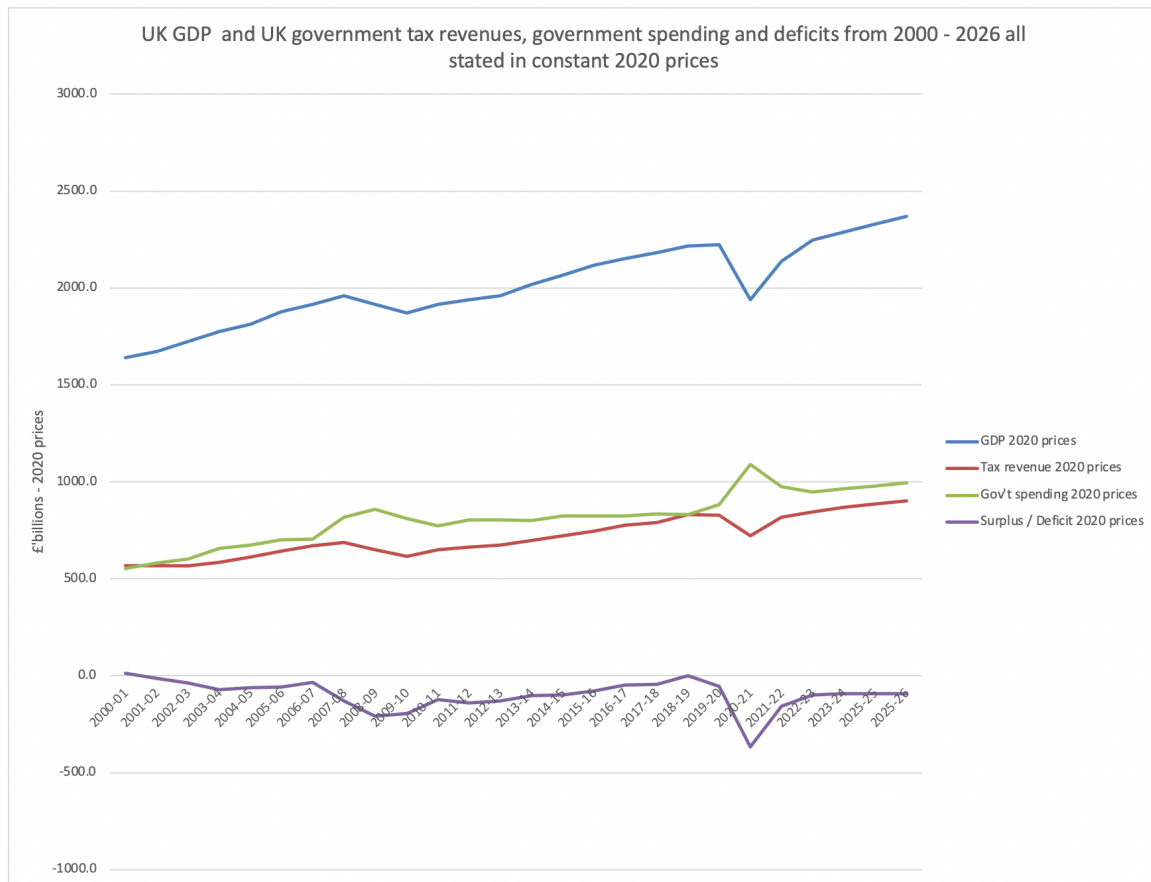
Chart 1 – UK national finances 2000 – 2026



Source: Author's summary of HM Treasury Budget reports and Office for Budget Responsibility publications for the periods noted.

This sort of chart makes most politicians hyperventilate so let me restate it straight away in 2020 prices because that makes it easier to understand what is really happening.

Chart 2 – UK national finances 2000 – 2026 as stated in 2020 prices



Source: Author's summary of HM Treasury Budget reports and Office for Budget Responsibility publications for the periods noted.

The first lesson should be noted: for those who think that inflation now has no impact on the UK economy, think again. It very clearly does.

Second, note that the worst downturn in 300 years has knocked us back about a decade in terms of GDP.

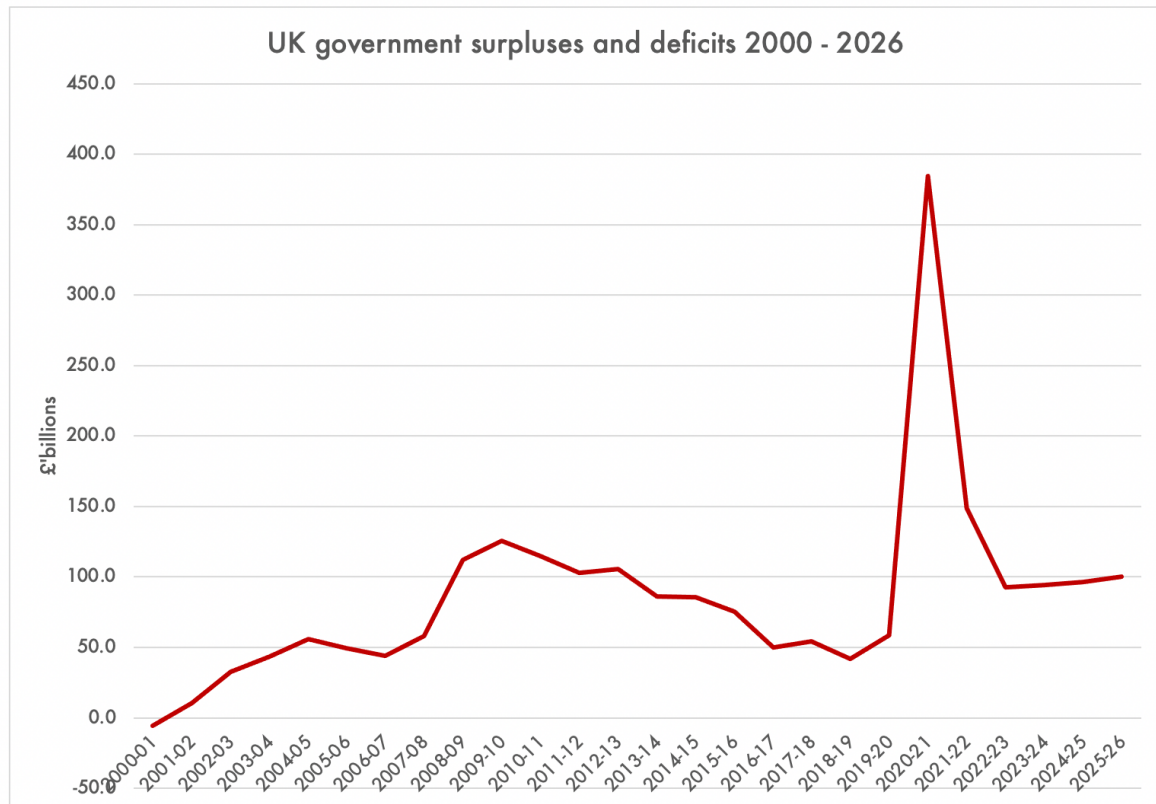
But third, note that the chance that we will bounce back as the government forecast suggests here is very low.

And then note that even if we do government deficits are here for a long time to come.

The simple fact is that the capacity to 'pay for Covid' which I keep hearing people say we must do very clearly does not exist if this chart is anything like right: the next few years are going to be tough enough without adding to the burden, if the Office for Budget Responsibility are anything like right, and they are usually wildly optimistic.

But just in case of doubt let me emphasise the deficit issue, which is the subject on which so much discussion focuses. These are the deficits from 2000 onwards. I have shown the forecast until 2026 for comparison:

Chart 3 – UK government deficits 2000 – 2026 in current prices of the period

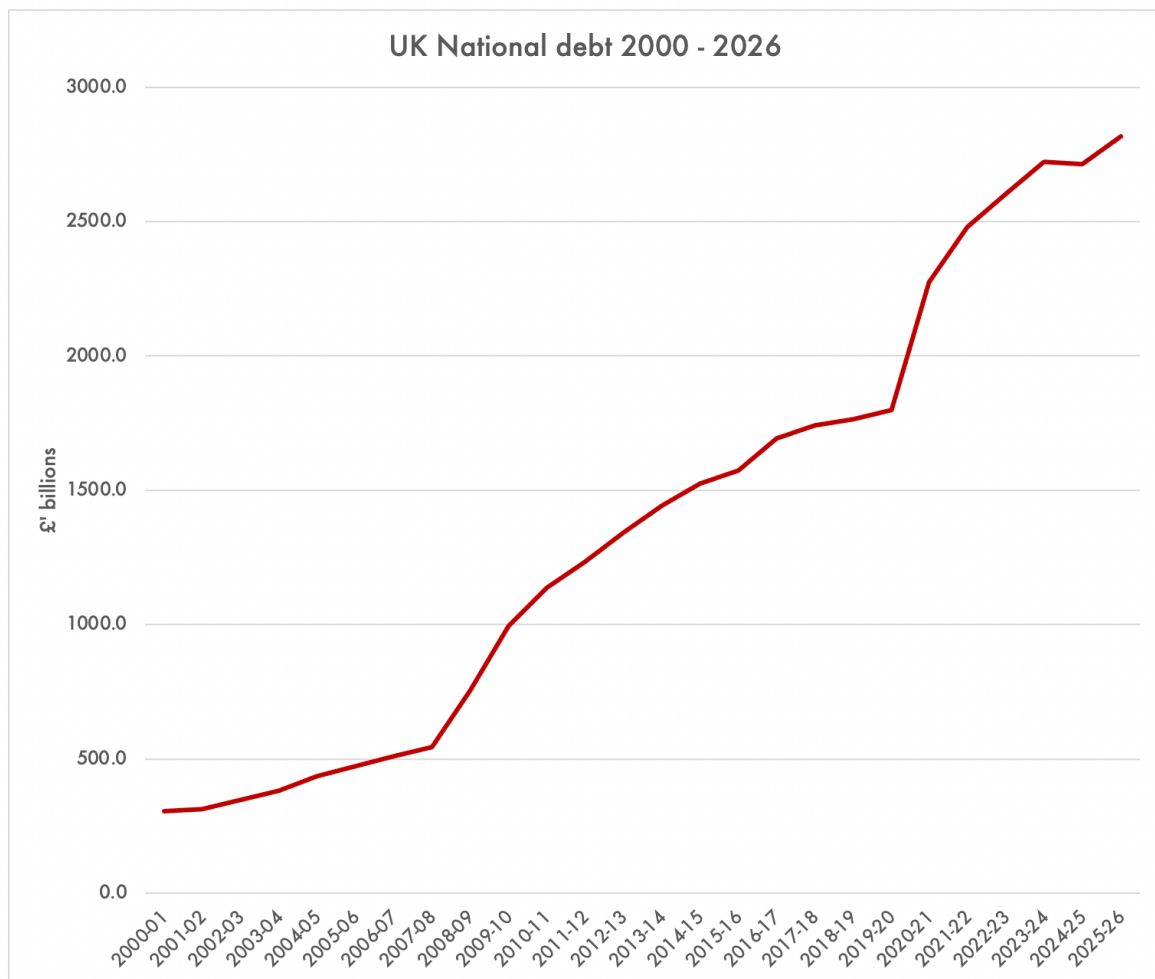


Source: Author's summary of HM Treasury Budget reports and Office for Budget Responsibility publications for the periods noted.

We see three eras. One before the 2008 crisis. Then there is the 2008 crisis and its aftermath. Finally we see the current massive deficit and the Office for Budget Responsibility forecast which is for continuing substantial deficits, and I would remind you again that history has shown that they are always too optimistic: it has never been otherwise.

This pattern has given rise to the following supposed accumulation of government debt over that period:

Chart 4 – UK government debt 2000 – 2026 in current prices of the period



Source: Author's summary of HM Treasury Budget reports and Office for Budget Responsibility publications for the periods noted.



This is the point at which most commentators – like Liam Halligan on Channel 4's Dispatches this week – say we are destined for hell in a hand cart.

I am not going to do that for one simple reason. We are not. There is good reason for thinking otherwise. This is all down to a policy that the UK has used since 2009. That is quantitative easing (QE).

The Bank of England says of QE that:

## Figure 1

### The Bank of England's explanation of quantitative easing

"Quantitative easing is a tool that central banks, like us, can use to inject money directly into the economy.

Money is either physical, like banknotes, or digital, like the money in your bank account. Quantitative easing involves us creating digital money. We then use it to buy things like government debt in the form of bonds.

The aim of QE is simple: by creating this 'new' money, we aim to boost spending and investment in the economy."

Source: <https://www.bankofengland.co.uk/monetary-policy/quantitative-easing>

Importantly, they add:

## Figure 2

### The Bank of England's use of quantitative easing

"[Our] large-scale purchases of government bonds lowers the interest rates or 'yield' on those bonds. This pushes down on the interest rates offered on loans (eg mortgages or business loans) because rates on government bonds tend to affect other interest rates in the economy.

So QE works by making it cheaper for households and businesses to borrow money – encouraging spending.

In addition, QE can stimulate the economy by boosting a wide range of financial asset prices."

Source: <https://www.bankofengland.co.uk/monetary-policy/quantitative-easing>

What does this mean? I suggest that there are four things of importance.

First, the number of government bonds in issue in the markets falls when the Bank of England undertakes QE, which it always does with the permission of HM Treasury.

Second, the interest cost on those bonds is in effect cancelled: the interest is still paid but in effect it goes straight back to the Treasury as the owner of the Bank of England. The claim that there still is an interest cost on these bonds is, then, a touch disingenuous.

Third, because HM Treasury now controls the bonds and has effectively cancelled the interest on them and to date not a single bond acquired under the QE programme has ever been sold back to the market it is entirely fair to say that for accounting purposes the substance of what has happened is that the government bonds repurchased by the Bank of England have been cancelled.

If there is any doubt as to what that means, let me spell it out in the plainest possible language: the government's debt has been repaid. The government has cancelled it. Like the proverbial parrot nailed to its perch, it is no more.

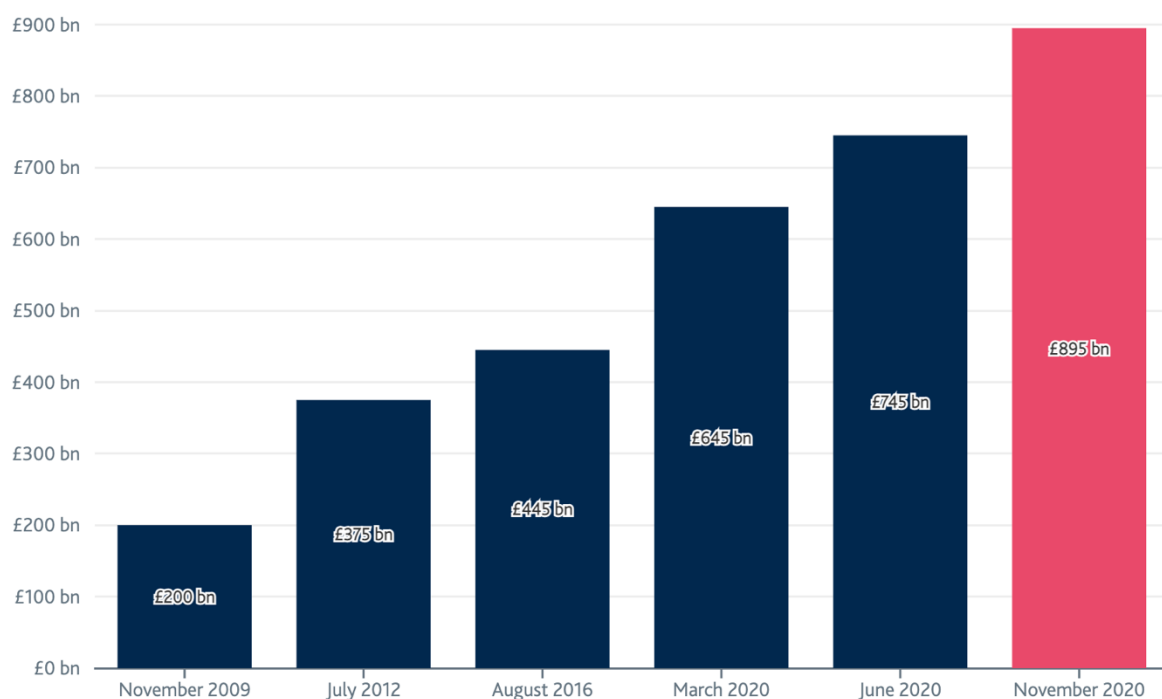
And what killed it? QE did. Or, the magic money tree, if you like. But I think that's a bit flippant.

So how much debt cancellation are we talking about?

Chart 5 - Bank of England quantitative easing purchases approved – 2009 – 2020

**We have been increasing the amount of Quantitative Easing**

Bank of England purchases of bonds in £ billion

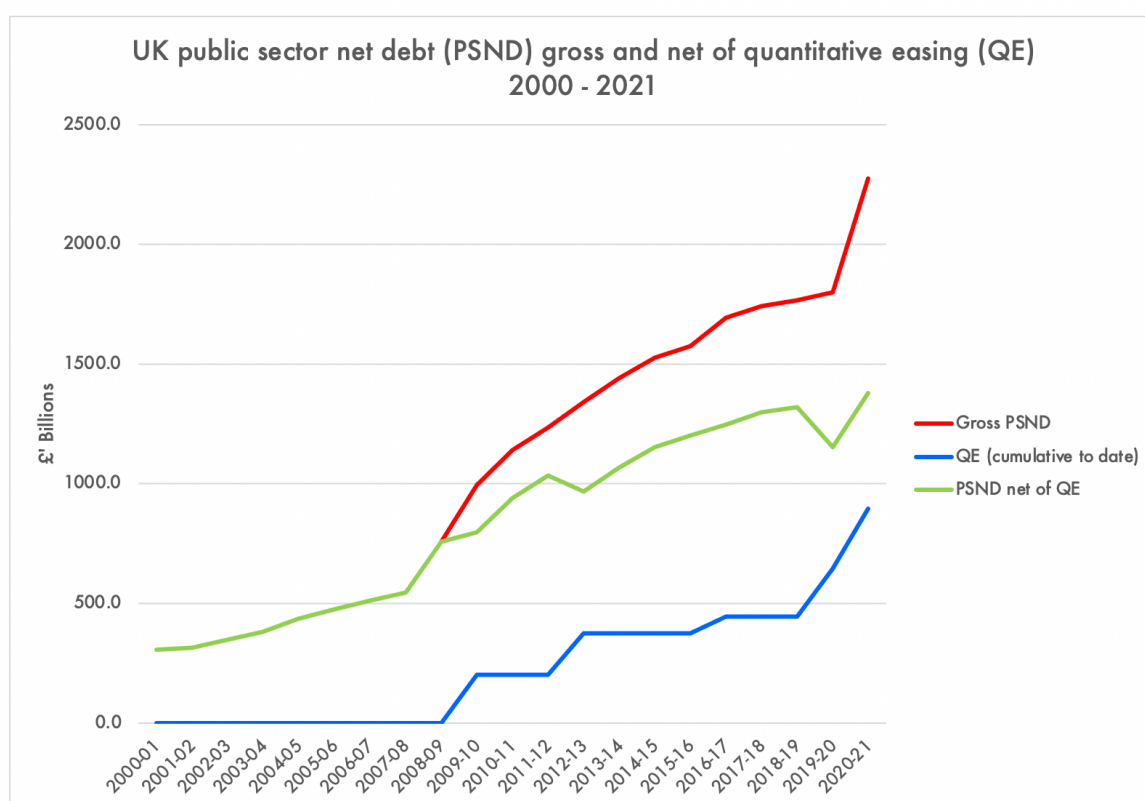


Source: <https://www.bankofengland.co.uk/monetary-policy/quantitative-easing>

Note too how distorted these issues are: £450 billion has been approved since March 2020.

The impact of this debt cancellation programme on the UK's national debt has to be noted. For this purpose I have used national debt figures issued by the Office for Budget Responsibility:

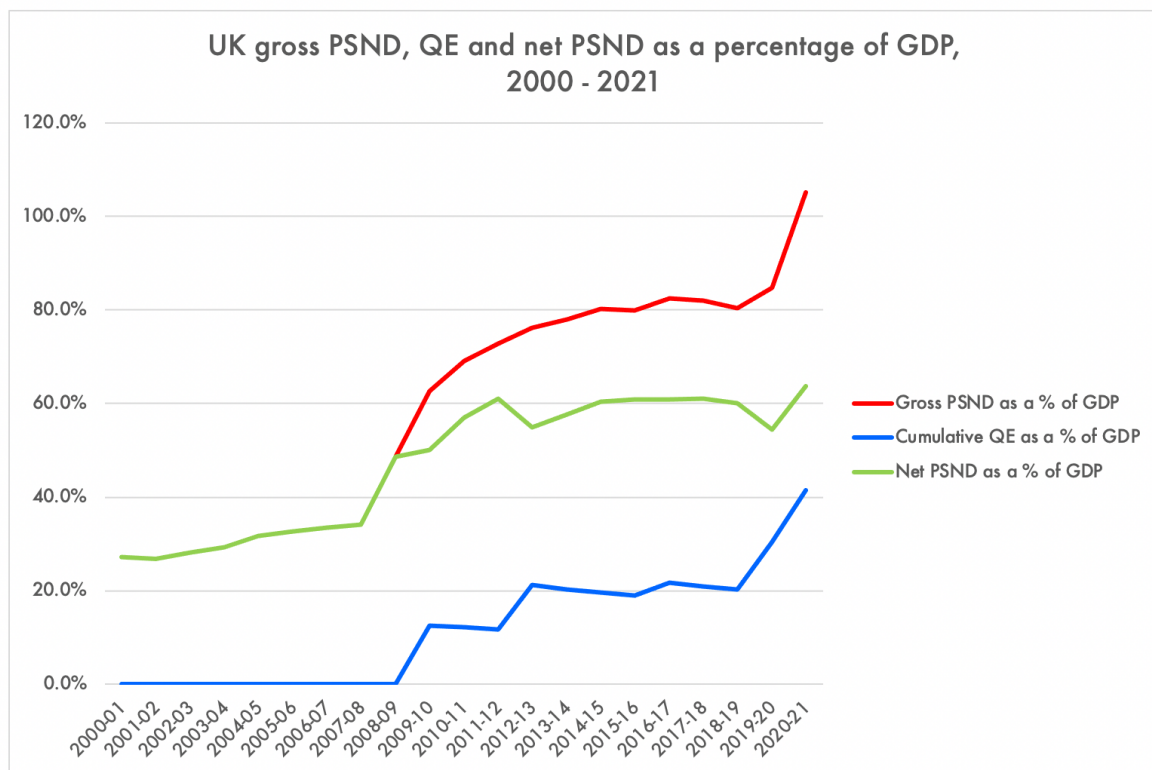
Chart 6 - UK national debt figures before and after taking quantitative easing into account, 2000 to 2020



Sources: Office for Budget Responsibility and Bank of England and author's calculations

Again some restatement of this data helps. The same numbers stated as a percentage of gross domestic product are telling:

Chart 7 - UK national debt figures as a percentage of GDP before and after taking quantitative easing into account, 2000 to 2020



Sources: Office for Budget Responsibility and Bank of England and author's calculations

The point that is made is a very straightforward one, and is that UK national debt is under control, and stands at about 60 per cent of GDP now, as it has done for the last decade. The recent upkick is as much due to GDP falling as it is to debt rising.

So how does this national debt vanishing trick work? What is the other side of the entry, because as all the accountants present will know, for every debit there has to be a credit?

The answer is to be found in what are called the central bank reserve accounts that the UK's clearing banks maintain with the Bank of England. Almost without exception these have over the last decade matched, billion to billion, the cumulative value of quantitative easing operations noted above.

And what are the central bank reserve accounts? They are simply a record of the amount held on deposit by the UK's clearing banks with the Bank of England. They reflect the amount of new money injected into the UK economy as a result of QE, which is as noted previously, exactly what the Bank of England says it does when creating QE.

So, is that new money part of the national debt? I have to tell you that the answer is that it is not. I have three reasons for saying so.

The first is that the Bank of England says that bank notes are not part of the national debt. That is for the simple reason that they can only really be repaid using themselves. So how are they in any meaningful way debt?

Second, I can tell you that after agonising exchanges with the Office for National Statistics during last autumn I finally worked out from their

cryptic answers that they too do not include bank notes in the national debt.

And third, the Bank of England describe banknotes plus the balances on the central bank reserve accounts as 'base money', or what they call the 'ultimate form of settlement' within the UK economy. It is the money used by the commercial banks to pay each other after the 2008 banking crisis. And if banknotes are base money and are not in the national debt then neither can the central bank reserve accounts be in the national debt either. They are something else altogether. Call it the national capital if you will, but they are certainly not debt.

And the consequence of all this is that the national debt should be stated net of QE. And if it is QE has kept the national debt at around 60% of GDP for the last decade. There is no crisis in that case. And nor will there be. I think it safe to say that for precisely that reason that there will be more QE to come as a consequence over the next few years when I, and the Office for Budget Responsibility, expect deficits of £100 billion or more a year to accrue. I expect QE – or new money – to pay for those too.

But more important is my conclusion, towards which all this commentary has been heading. And that is that there is nothing left to pay for the



coronavirus crisis. It has already been paid for. QE, or new money creation has settled the bill. So what is all the fuss about?

I suggest to you three things. The first is that governments since 2010 have always been dishonest about quantitative easing. It has suited their agenda to claim that there is growing national debt when after 2011 that has not been true as a percentage of GDP. Why did they do that? To provide the justification for imposing austerity. It is hard to find any other excuse.

Second, the Office for National Statistics has been dishonest about the national debt to suit this agenda. There are other errors in its calculation of this sum I have not got time to mention now, but its claim that gilts owned by the Bank of England are still debt when they are not is, in my opinion, dishonest accounting that discredits it.

And third, the government still want this story to exist to make sure we do not become comfortable with what we have seen the state could do for us in the AC – the After Covid – world. We have seen what can be done, but they do not want a big state that meets our needs, and so perpetuate a claim that is not true about the fact that there is debt to be repaid.

I will tell you again then. Very simply, there is no debt to be repaid because it has already been repaid. Not one penny more is owing.

## Tax justice

So, let's move on to tax justice, the second theme of this talk.

There are three important points to make. The first is that we now know tax does not fund government. Nor, come to that, does borrowing. The reality is that government money creation does. This has been true since 1866 when the Exchequer and Audit Departments Act was first passed. It was last updated in 2000. Under this Act the Bank of England will always pay whatever the government instructs it to do. It does not check that tax revenues have been received first. Nor does it say 'hang on there, you need to borrow first'. The Bank of England simply creates the new money that is required by the government.

It so happens that until QE came along this process was pretty much hidden from view, but now we know that it exists, and we should acknowledge the fact. The result is that government spending now has to equate to taxes, plus net receipts from borrowing and the increase in the amount of money created either by QE or simply by increasing the government overdraft with the Bank of England, which was reauthorised in 2020. So, the idea that taxes fund spending is now a myth.

The myth that there is a shortage of money has, then, also been shattered. There isn't.

Nor does the government spend taxpayers' money. It doesn't.

It spends the money it creates all by itself, because unlike everyone else, it has its own bank.

The truth is out in the open: the government is free to spend so long as there are useful things for it to buy. And what is more, as more than a decade's experience has shown, as long as we do not reach full employment the risk of inflation is minimal. In other words, we can afford to do whatever is possible within our economy, subject to environmental constraints, of course.

And this has been noticed. Around the world agencies, including those dens of socialist intrigue called the International Monetary Fund, the World Bank and the OECD, are urging governments like that of the UK to spend more and not increase taxes right now. So why is that?

It's because they know, first of all, that the coronavirus crisis has already been paid for in countries like the UK.

They also know our economy is 9.9% down now on 2019 - its biggest decline in 300 years.

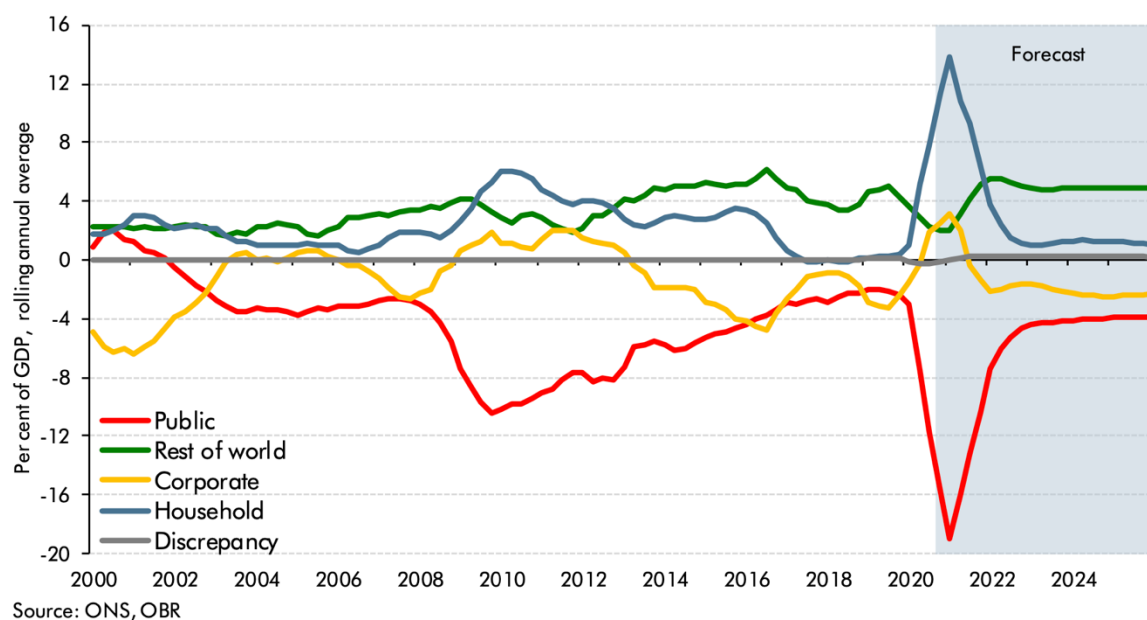
And they also know that there is no guarantee that reopening – which we now know will be happening – will be at all easy. Something like 90% of UK businesses have had government support in the last year. Despite that many are desperately short of capital. The chance that they might fail when trying to get going again is very high. Our economy is intensely vulnerable now – and maybe more so than it has been in the last year.

In that case charging more tax – overall – is the worst thing the government can do because it takes demand out of the economy when we actually need more demand.

And that matters. I'll introduce another chart. This is of what are the called sectoral balances in the UK economy. This version comes from the Office for Budget Responsibility last November:

## Chart 8 - The UK sectoral balances as noted by the Office for Budget Responsibility in November 2020

Chart 2.31: Sectoral net lending



Source: Office for Budget Responsibility Economic and Fiscal Outlook November 2020 <https://obr.uk/efo/economic-and-fiscal-outlook-november-2020/>

I cannot explain all this in depth, but in essence the logic of the chart is that for every borrower there has to be a saver, as a matter of fact. So, if the government borrows (the red line) then either households (the blue line), or business (the yellow line), or the overseas sector (the green line) has to save. That's it. And it is a fact. Double entry accounting requires that to be true. And it is shown to be true in practice.

Two things matter now. One is to note how household savings have skyrocketed during the last year – which is a fact known to be true. The other is to note that the government thinks these savings will be spent quickly, which experience as plotted on this graph after 2008 shows is quite emphatically not true. After crises people take quite a long time to recover their mojos.

I raise this to suggest what tax justice really requires now. And that is whilst we do not, overall, need to raise tax we do most urgently need to address the inequality arising from Covid 19. Whilst some households are in dire stress as a result of Covid others are saving vast sums. The result is that inequality is growing rapidly.

And that's on top of already growing inequality. This table, based on ONS wealth surveys shows the increase in UK wealth from 2010 to 2018:

**Table 1 The composition of UK net wealth increase 2010 - 18**

	Increase in wealth	Annual average
	£'billion	£'billion
Property Wealth (net of loans)	1,562	202
Financial Wealth (net of loans)	815	105
Physical Wealth e.g. cars, household goods, collections, artworks etc	239	31
Private Pension Wealth	2,570	332
Total Wealth increase (including Private Pension Wealth)	5,186	669
Total Wealth increase (excluding Private Pension Wealth)	2,616	338

*Source: ONS Wave 3, 4 and 5 wealth data and author's calculations*

The first thing to note is that in the period 2011 – 18 the national income of the UK was £13.1 trillion, and in that same period the increase in net wealth was almost £5.2 trillion. It follows, of course, that not all of this increase could have come from savings. Some reflects increasing market prices, much of it very obviously fuelled by QE. The Bank says that is an aim of QE, after all. This increase in wealth disparity was the result of government policy.

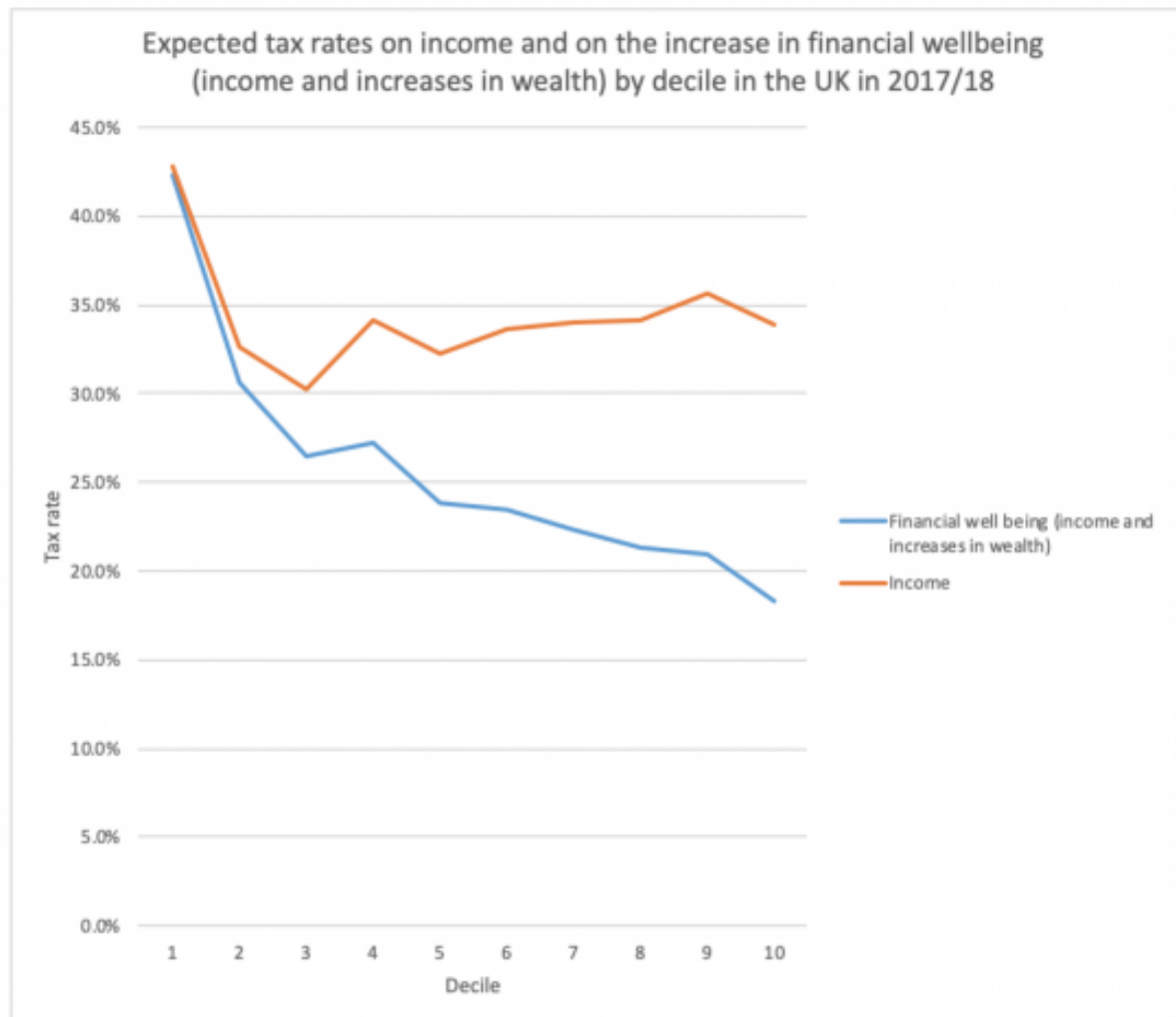
Second, my research shows that the overall effective tax rates on income during this period were unlikely to have averaged more than 29.4%, but those on wealth increases did not exceed 3.4%.

Third, if these rates had been equalised it would, at least in principle, have been possible to raise an additional £174 billion in tax revenue per annum from the owners of wealth.

Fourth, because there has been no attempt at equalisation and because the distribution of the ownership of wealth varies substantially across the UK, which variation is reinforced by factors such as age and gender where substantial inequalities exist, the effective tax rate of the 10% of those in the UK who are in the lowest earning group of taxpayers exceeds 42% of their combined income and wealth gains in a year, but the equivalent effective tax rate for those in the highest ten per cent of UK taxpayers ranked by earnings is less than half that at just over 18 per cent. This is summarised in this chart:



Chart 9 - Expected effective tax rates on the increase in financial wellbeing from income and gains by decile in the UK in 2017/18



Sources: ONS wealth data; HMRC income data; HMRC tax paid data; author's calculations

We have then a massive inequality problem in the UK. We might not need to increase taxes overall now, for fear of tipping the economy into recession but we need to tackle this inequality in two ways. One is through tax, and the other is by addressing the issues arising as a direct

consequence of government deficits increasing private wealth at a time when investment in government bonds is not possible. I deal with them in turn. You may be relieved to hear that there are no more charts from hereon.

## Addressing inequality with tax and related reforms

For those who think that tax is all about raising revenue, let me ask you to think again. I have already shown that tax revenue is not necessary for government to spend during the course of this lecture. You do not have to believe in what is called modern monetary theory to think that true: QE has proved it.

The other dimensions to tax are as important as revenue, in my opinion. Its role in tackling income and wealth inequality is a part of this. Around the world it has been shown that progressive taxation can successfully tackle at least some of that inequality, if not all of it. Since we have a crisis of inequality now what can be done using tax?

First, we need to improve the position of the least well off. Increasing universal credit, and not just by retaining the temporary £20 Covid boost, is clearly vital in achieving this.

Then we need to provide access to cheap loan funds for those in debt distress. It's the least the state can do. It can borrow for nothing, in

effect. Why can't it share that benefit with those most in need, instead of having them penalised by high rates? And for those who think those idea of state backed loans for those who need them a very strange concept, maybe 80% of UK companies have such loans right now. Why shouldn't ordinary people get the same support when they need it?

After that, reduce taxes (and most especially national insurance) on the earnings of those on low pay, noting that income tax will make little difference for them right now.

Then there should be council tax rebates for those on low pay, whilst in general the rates of council tax for the least well off who are likely to live in the lowest value houses should be cut.

And we should provide the BBC licence fee free to those on benefits, paid for by the government, and not the BBC. Like many poll taxes, the licence fee is penal on those least well off.

Those are starters on what might be considered to help those in need.

But what about taxing to reduce inequality at the top of the income and wealth orders in the UK? This, I stress, is something we should do to tackle inequality though, and not because we need the money.

That point is worth repeating: we do not need to feel grateful to the rich for the tax that they pay. We now know that taxes are just part of the government fiscal cycle. Instead, we need to tax the rich more because

they are rich. And before anyone says this is the politics of envy, it isn't. This is about pure, hard-nosed economics. Being rich is problematic because the rich earn money from being rich. And most of that money earned from being rich is paid by those who aren't well off. If you're in doubt as to the fact that the least well off subsidise the rich, just call the payments from those with the least to those who have the most interest charges and rent and you'll see exactly what I mean. The fact is that if the gap between rich and poor is too big we create an unequal society.

And that means that we also end up with a poorer society. That's because the rich will, in that case, control more and more of the income, as they do now. They, though, will save more and more of that income, and that's a real problem. And the problem with too much saving is easily explained. It arises because the more that is saved in a society the less is spent on generating income. And as a result it ends up poorer as a consequence. Savings don't generate income. They may redistribute them, but they never create them. So, societies that have too big a wealth divide don't thrive.

So the simple fact is that tax has to correct for these trends, or failings, if we are to have a thriving, innovative, and wealthy society, which a country socially divided by inequality cannot deliver.

So what to tax more? First, the obvious ones. For example, we need to increase corporation tax, which is the tax on company profits. This will only hit the companies that have done well from Covid, of course. Only

they will have profits. The rate is 19% now. It could easily go to 25% and be internationally competitive.

Then there is capital gains tax. First, make the rate equal to income tax. It is equivalent to income, so why not tax it as such? Second, cut the second tax free annual allowance that this tax gives to the wealthy. Why should they get two allowances when the rest get one?

Next, there's investment income like rents, interest, dividends, income from trusts or whatever else. People who work for a living have to pay national insurance on their earnings but the wealthy don't, but still get the benefits society provides. So we should introduce an investment income surcharge. That could be at 15% on all investment income over £5,000 a year, but higher for those of pension age. You have to be very wealthy to earn more than £5,000 of investment income a year right now. This is just creating a level playing field.

And then what? Remove the national insurance cap. Why should those on higher rates of pay have a national insurance rate of 2% on those higher earnings when most people pay at 12%? That's just not fair. So that cap has to go.

And another tax with a cap has to be changed too. That's council tax. The top bands, which are capped so that few pay more than £3,000 a year should be replaced by a new tax based on a percentage of property value.

And while we're talking rates, why does income tax stop at 45%?

Wouldn't 50% be fairer on incomes over, say, £300,000 pa?

One or two more ideas. First, we should stop the tax relief that lets the wealthy claim back more tax on their gifts to charity than basic rate taxpayers can. Why should the rich actually benefit from charity?

And the same is true on pensions - why should the rich get more tax relief?

Add all this up and a wealth tax can, to be honest, wait. That will take several years to introduce when some of the above could be happening in April. No wonder the government likes the talk of wealth taxes - it puts off extra tax on those best off for a long time when we need it now.

Just a couple more things. How much will all this raise? Not £290 billion, I can assure you, which is by how much I estimate that the government has increased private wealth directly or indirectly as a result of QE in the last year. So the wealthy will still be winning hands down from this crisis. I am really not being unfair.

But how much precisely? I can't tell you, because anyone who is honest knows it is almost impossible to predict tax yields exactly when making changes of these sort. But I stress again, these tax changes are not really all about raising money. They are about tackling inequality.

Increasing inequality is the pernicious, so far largely unseen, consequence of Covid, and its impact may well last longer and be massively detrimental to millions of people's lives, whilst unfairly enriching many others. But Covid should have taught us that we do live in community.

If that's the case then we need tax increases now. But the money raised should not be used to supposedly 'pay for Covid', because QE has already done that. The money should be used for a positive programme of redistribution to increase the incomes of the last well off and the country as whole.

### **Tackling savings**

And finally, there is one other issue. The money created by QE has poured into financial markets. This is one of the reasons why they have been inflated. The low interest rates created by QE is the other reason. And those already the wealthiest have benefited by far the most. Their existing investments have gone up in value, considerably. That is a phenomenon also encouraged by the £60 billion or so tax relief that is given to savers each year. Most goes to those contributing to pensions, where the upfront subsidy of £55bn goes to those contributing a bit over £100bn a year into pension funds, with the £70bn going into ISAs a year getting the rest.

I suggest that most of that subsidy is wasted, and QE makes matters much worse. That is because QE is denying the people the chance to buy as many gilts as they might. Instead, QE directs people towards either cash saving or riskier financial products instead.

Cash saving is literally dead money. It does nothing at all for the economy. But there is more than £1.6 trillion held in cash right now. None creates a penny's worth of new investment. The same is also true of most stock exchange saving. Most large companies have not used shares to fund new investment for decades. And as for saving in property, most goes into land values, and that's just rent by any other name. So, most UK saving is heavily tax subsidised speculation at best, and delivers little or no net gain to the economy. And government deficits, by increasing private wealth makes this worse. As does QE by forcing people away from gilts.

This is why I have, for almost twenty years proposed what Keir Starmer put on Labour's agenda last week, which is savings bonds where the sums saved are hypothecated for social purposes.

I'd have regional bonds, and not national ones. I might also have NHS, education and green bonds too. They'd actually be nothing more complicated than a long-term fixed interest rate cash deposits but the point is fourfold in the context of this evening.



First, I'd only allow these bonds in ISAs, and I might require them as part of all new pension contributions. Government savings subsidies have to have a social price attached to them.

Second, if the rate was even just 1% I think this would significantly alter savings allocations and provide the capital for significant new investment in the economy. This would rebuild the relationship between saving and investment that is history in the current UK economy.

Third, this activity bridges the inter-generational gap: savers are old and have grey hair: the young would get the benefit of this investment.

Fourth, this would ease some money out of the massively overheated financial markets that we have that totter on the brink of a collapse all the time.

I was pleased Keir Starmer proposed this plan. But I have to add, his suggestion was underdeveloped.

But if I offer you a conclusion it is this. There is no developed solution for the problems we face at present. But if we think big, and if we think about systems as a whole, and if we truly understand the nature of

money, savings and debt, we might just get through the economic crisis that a lack of understanding of those issues could really create right now by the application of wholly false remedies for problems that do not exist, like trying to pay for Covid when we've already done so and there is no issue left to address.