How tax can shape society if we understand modern mone...

Published: January 13, 2026, 2:56 pm

I mentioned yesterday that Prof Andrew Baker, a colleague at the University of Sheffield, and I had won an award for our academic journal paper on “Modern Monetary Theory and the Changing Role of Tax in Society" in the academic Social Policy Association's 2021 Awards round. That journal paper is here, and is free to access because of support for our work from the University of Sheffield. Andrew, rightly I think, suggested that a note on the arguments that we make in the paper might be appropriate here.

Firstly, the article uses insights from Modern Monetary Theory (MMT) to show that rather than taxing first and then spending the resulting revenues, governments first spend, bringing money into existence in the process, and then effectively recover some of that outlay through taxation. This is a spend and tax cycle, rather than the tax and spend cycle that most people, politicians included assume exists. Narratives of public spending as taxpayers' money don't make much sense in this context: all money is actually created by the government when understood in this way.

What we wanted to show was how thinking about tax in this way brings its role as an instrument of social policy more sharply into focus. It also highlights its capacity to incentivise some economic activities and disincentivise others. In that way we suggest that tax can itself be used as a tool to shape society, or to achieve objectives governments and electorates agree to prioritize by shaping incentives, prices and redistributive patterns.

This then means that whilst tax is not the lifeblood of public services (although its function in managing the consequences of public spending makes it fundamental to their delivery), it instead constitutes an enormously powerful tool to shape society and social relations as a whole, creating a need to explicitly announce and specify the objectives to be attached to various tax policies.

In our paper we identified that the current UK tax system is far from socially neutral, but rather weakens the social contract, in a fashion that has little macroeconomic rationale. Over £400 billion of tax reliefs and allowances are provided each year in the

UK as revenue the government chooses not to collect. These reliefs effectively operate as a form of social tax expenditure (tax spending). Much of the reasoning behind this spending is wholly unexplained.

What we also found was that 81% of UK wealth is held in heavily tax incentivised assets. We estimate that around 25-30% of that £400 billion of reliefs are used to provide subsidies for this purpose. The UK's system of allowances and reliefs therefore has a substantial redistributive effect, in effect subsidising the already wealthy. When as MMT recounts, savings are not required to fund investment and reliefs potentially create leakages that may interfere with what we call taxation's cancellation (or removal) function, which limits the money supply created by government spending to control its impact on inflation, we call for a systematic evaluation and overhaul of the UK's system of allowances and reliefs. We show that the primary impact of using tax expenditure to prioritise savings and unearned investment income is to create regressive social effects.

This work builds on some other work we have done in designing a new system or methodology for evaluating tax systems, (called spillover assessment) and assessing the extent to which a national tax system has 'redistributive integrity', that is whether it acts to reduce, rather than increase inequality. This work has been picked up by international organisations including the World Bank and the related Global Initiative for Fiscal Transparency (GIFT), for whom we have just prepared a commissioned 195 page report on how to build more transparent tax systems by publishing information and reports on their performance against a set of agreed criteria. This includes a set of high-level principles of tax transparency that GIFT and the World Bank are working to adopt. The award-winning article is one of the underpinning academic pieces for this work with Washington DC-based international organisations.

In the paper we suggest these insights create possibilities for using tax to achieve social objectives such as mitigating income and wealth inequality, increasing access to housing, or funding a Green New Deal. Our intent in the article was to challenge social policy researchers to think through how tax systems and social tax expenditures might be redesigned, so that they serve creative social policy purposes. We concluded that in an era of extensive central bank credit creation, or quantitative easing, taxation's role will be pivotal in offsetting benefits arising to the already asset rich and mitigating the rise of inequality during the pandemic.