

The Account Podcast: The role of tax

<https://www.taxresearch.org.uk/Blog/2023/06/01/the-account-podcast-the-role-of-tax/>

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I have published a new podcast this morning in which I seek to explain the role of tax in government financing, society and the economy, all in a matter of minutes:

https://www.podbean.com/player-v2/?i=y9ymz-14210cd-pb&from=pb6admin&am&p;share=1&download=1&rtl=0&fonts=Arial&skin=1&font-color=&logo_link=episode_page&btn-skin=c73a3a

This is what I said, near enough:

I want to talk about tax. There's nothing very unusual about me doing that. As a chartered accountant I've been doing it for the last 40 years or so. What I realise as a result is that the vast majority of people really have very little understanding of what tax is and that is despite the fact that almost all of us spend more on paying tax than we do on anything else in life. That fact alone makes it staggering to me that so few people understand what tax really is, or what it does.

For example, I suspect that 98% of people think that tax pays for government services, but it doesn't.

Not one penny of the tax paid in the UK to our government in Westminster is used to pay for government spending.

Instead, every single penny that the UK government spends is paid for with money that the government borrows all day and every day from the Bank of England, which is the bank that it owns. The government can spend whatever it likes because it has that bank. What is most especially true is that it never has to wait for taxes to borrow money to come in before it can spend because all the money that it wants is available to it whenever it wishes simply by asking its own bank to make it available.

So why do we tax in that case? Well, firstly, because the government has to control inflation, of course, it could not spend the amount of money created for it every day by the Bank of England without inflation very quickly going out of control. So, the government taxes to reclaim the money it has already spent, and by doing so, it controls inflation. In my opinion this is the first, and most important reason why any government taxes.

Second, a government taxes people because it wants us to use the money that it creates in our routine transactions in the economy. We do that if we have to pay significant amounts of tax to pay because we cannot afford to take the risk of doing anything else when tax has by law to be paid by law using the currency government creates. As a result, the government gets control of money in our macro economy, and as a result gets quite a lot of control of that economy, which is exactly what it wants.

But in addition to these two reasons for taxing, the government also taxes to deliver its economic and social policies. So, it uses tax to redistribute income and wealth. It also uses tax to reprice goods and services, including the likes of alcohol, carbon, and tobacco, the prices of which it increases, whilst it reduces the price of health, education, food, and children's clothing using tax.

The government also uses tax to reorganize the economy. It provides subsidies to businesses who are doing things that it wants to happen, and it removes those subsidies from those activities that it does not want to flourish.

Finally, governments tax because they know that people who pay tax are more likely to vote. Tax is what I might call the consideration in the social contract between us and our government, and people want a say on that contract precisely because they pay tax. Tax is then the mechanism that we use to hold the government to account, and which in turn makes it accountable to us.

For all these reasons tax is incredibly important. But despite that, it does not do the one thing that most people think it does. It does not pay for our public services.

As a result I have another myth to shatter. There is no such thing as taxpayers money. However often our politicians like to talk about taxpayers money nothing changes the fact that we don't pay for the benefits we get from government spending, which is instead funded by the Bank of England. We pay tax to control the inflation that would result from them that process of money creation. Tax is then only charged to destroy the money that the Bank of England creates to let the government spend, day in and day out.

Any politician who says otherwise is either revealing their ignorance or is spreading a convenient myth, which they know to be untrue.

It's time our politicians told the truth about tax.

It's time we understood tax.

It's time we realized that tax is the most amazingly powerful instrument to control inflation, but most of all, to shape the society that we want with.

But tax isn't necessary to let the government spend because its own bank provides the money for the government to do that.