

# There is lots of money available - if you know where to...

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I think the time has come for me to note the project that I am working on this summer.

Like so many readers of this blog, I was appalled to hear Labour shadow minister, Lucy Powell MP claim recently that “there is no money left”. This is very obviously untrue: the government creates all the money it spends, and there is, in theory, no limit to the amount of money it might create. Her claim was very obviously wrong.

I am also, of course, aware that modern monetary theory suggests that tax does not fund government spending. That is a proposition that I agree with.

However, as a matter of fact, if a government wishes to pursue policies that are likely to create full employment, then if it is to spend more on activities that it thinks are necessary on behalf of the population to whom it is responsible it must find ways to withdraw the additional money that it has spent from circulation within the economy or inflation will follow. The best way to do that is by raising additional taxation.

In the work that I am doing I am presuming that the government is seeking to create full employment. I am also presuming that it will do so by meeting the demand for government services on which most of the population are dependent, meaning that more must be spent upon them.

As a consequence, whilst additional tax will not fund additional services, extra tax revenues will be necessary if those services are to be supplied. This, as a consequence, requires that those potential additional sources of tax revenue that might be used to achieve this purpose be identified, and identifying and quantifying those additional taxes is what I am working on.

The Conservative government has shown no willingness to do this. Its recent attempts at taxation reform have been bodged in the main and have been profoundly harmful because they have significantly increased the rates of tax owing by those on low income in the economy, particularly because of the impact of frozen tax allowances at a time of rising inflation.

Labour has shown only a little more interest in this issue. It has suggested that there might be just two additional sources of tax revenue on which it might rely. It is their suggestion that cancelling the domicile rule might raise a little over £3 billion a year in additional tax revenue, although of all tax estimates that might be made this is one of the hardest to prove. In addition, they are suggesting that by abolishing the VAT exemption enjoyed by private schools an additional £1.6 billion or so of VAT might be raised each year. Those two sums are, together, the sum total of their ambition.

I am at present, ignoring the plans of all other political parties. That is not because they are unimportant. It is instead because, given the current state of political opinion polling, they are unlikely to have significant influence on this issue during the course of the next Parliament.

There is, of course, one other factor to take into account here, and that is the obsession of modern politics with the household analogy. This presumes that the government is unable to create new money when that is glaringly obviously untrue. Instead, this analogy suggests that a government must instead explain the source of all new funding for its plans as if this is something that is wholly within its control when everyone knows that it is not. The vagaries of the economy make forecasting tax revenues hard in many cases. The combination of these two factors is, however, the inevitable question asked by every journalist whenever a politician puts forward a proposal, which is “how are you going to pay for it?”

What I am, in essence, preparing is a whole raft of data to answer that question.

I have started with a calculation of the likely additional capacity to tax those with high income and wealth in the UK. Such is our tax system that there is considerable scope available.

From there, the work explores the theoretical reasons why raising additional tax from those with higher incomes and wealth would be appropriate at this moment, even if it was simply for the purpose of redistributing the overall current tax due. This review will also consider how undertaking this exercise would likely reduce both the size of tax gaps in the UK and the risk of tax spillovers arising.

Having considered these theoretical points, which are likely to be in appendices in any eventual publication, I am then preparing a range of recommendations for reform. At present, I think that there will be at least twenty of these, of which nine have now been researched and written. These relate to capital gains tax, VAT and national insurance. Unsurprisingly, there will be more recommendations with regard to income tax than anything else, but corporation tax, inheritance tax and transaction taxes are all also within the scope of the review. Even so, I do not pretend that it will be comprehensive.

What the review will not recommend is a wealth tax. The reason is that when there are so many simpler, more straightforward, more cost-effective and efficient mechanisms

for raising tax revenues from those with income and wealth than a wealth tax it makes no sense to introduce such a tax when it is likely to face significant opposition and simultaneously be a nightmare to operate.

There is one other thing to note. Whilst every recommendation that I make will be costed based upon data available from UK government sources, I will not be proposing that any government adopt all the recommendations I make, not least because some of them might overlap or contradict each other. The aim of the exercise is not to suggest that more tax should be raised for its own sake when additional taxes can only be justified by the provision of additional services. Instead, the object of the exercise is to defeat the argument that there is no money available to permit such expenditure to take place when that is plainly untrue.

What the report will supply is a complete smorgasbord of options that any politician or political party might need to fund its proposals with all of them being designed to improve both the horizontal and vertical tax equity of the UK tax system whilst reducing the levels of tax abuse within it.

My editors will begin to look at what I have written on this project in the next week, and I hope that thereafter parts of the report will be published in stages on this blog over the weeks to come so that it can have a form of peer review here before the work is finalised. With luck, it will be out in September in time for the party political conference season.