

the Taxing Wealth Report 2024 and modern monetary theo.

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I had a Twitter direct mail message from a quite well-known person a few days ago, asking two questions about the [Taxing Wealth Report 2024](#). The first was:

If you were PM would you do all those things or just some ?

The second was:

Second question - didn't you say that govts don't really need tax money in order to spend ? Inflation allowing, they can just print? Maybe inflation doesn't allow any more?

I am obviously not going to disclose my correspondence name, but since what they have asked has been quite commonly raised since I published the Taxing Wealth Report, I thought it worth sharing my replies now, noting that more will follow.

With regard to the first question, I said:

No - because there is no need for them all at once. There may be over time, but the change would need to be gradual. Right now, this is a menu of options, not a list of necessities.

There are good reasons for this:

- * The changes would be too much if all were done at once.
- * Spending would be too great if increased to match this revenue, and there would be negative feedback from the economy that might be harmful.
- * Redistribution cannot be done overnight.

In other words, being radical still requires that the rate of change that is possible within society and the economy be respected.

On the second, I said:

Your question on the role of tax in the macroeconomy is a good one, and one which several people have asked me. I will produce both a blog and video on it, soon. However, in preparation, let me explain it to you.

It is always true that taxation follows spending i.e. the government has to create the money with which tax can be paid before it is possible to collect it. It is, therefore, always, technically possible to finance some elements of spending without taxation as deficits can be run. But as the more sober proponents of modern monetary theory (like Stephanie Kelton and myself) suggest, this is only possible subject to the constraint of inflation, which we now are reminded is very real.

If an economy is at full employment, or if it is not but only has resources that will take time to put into use, then any attempt to increase its spending when there aren't resources to acquire will create the risk that additional government spending might result in inflation unless it is matched by additional taxation soon thereafter.

This is clearly the situation that the UK is in at present. It is said that there are more than two million people who might be able to work, but they certainly won't until the government spends more on mental healthcare, in particular. So, with that expenditure necessarily being frontloaded and those people not being able to work until sometime after those services begin, additional taxes might well be required in the meantime to control inflation. We can grow if that spending happens and those people really are able to work as a result (which is another question, altogether). But that growth must be put to beneficial use and not be wasted by the risk that inflation creates, which would immediately curtail it. Additional taxes, in the meantime, avoid that risk of inflation happening.

I have not changed my tune. Taxation does not fund spending. But additional spending can, in situations like the one that the UK is in at present, require extra taxation. That might look like the same thing, but it isn't, because if you understand that the spending comes first, then you also realise that the additional taxes should not be designed for the purpose of revenue raising alone, but should also reflect the social priorities of society, such as redistribution of income and wealth, and the need to address market failures like climate change. These are the ideas implicit in the Taxing Wealth Report 2024.

Does that make sense?

Comments are welcome.

As noted, more may follow on this. And please do not assume that I think 2 million people are available for work - I used an example.