

There are six reasons why we need taxes

<https://www.taxresearch.org.uk/Blog/2024/05/07/there-are-six-reasons-why-we-need-taxes/>

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I posted this video this morning on a theme familiar to many here, I suspect:

<https://youtu.be/I6A8ZyuoRyQ?si=M6yRMNzawJRwZ0bn>

If the link does not work, [it's also here](#).

The transcript is:

There are six reasons why we need taxes.

The first and most obvious is to control inflation. As I've explained before on this channel, every time the government spends, it creates new money to do so. It borrows it from the Bank of England, it spends it into the economy to deliver on its policies, and then it has to tax to bring that money back out of the economy under its control, when it cancels it. Literally. It puts it out of use.

That's the biggest reason why we tax, but there are five other reasons as well.

The second one, many people think is a little obscure, but let me make it clear. Unless we did have tax, and unless we had to pay it using the currency that the government creates - the pound in the case of the UK - then that pound would not have value.

Because the government requires that taxes be paid using the pounds that it creates, to fulfil the promise to pay that it prints on banknotes, and which are implicit. in all its electronic spending, then unless it takes those pounds back in settlement of tax liabilities, it couldn't require that our pounds be used for all the transactions that we undertake in all our shops, in all our trading, and everything else.

And it is that requirement that we pay tax that gives the pound value in exchange, which therefore makes it useful as a currency. So, tax creates the value of the pound.

Then there are other reasons why we tax.

First, there is inequality in the UK. Inequality of income and inequality of wealth. Tackling those becomes the third reason why we tax. Tax is used as an instrument to reduce inequality in the UK.

Next, there are market failures in the UK, because people are addicted to alcohol and to tobacco, and they overuse carbon, which has a massive cost to society, and so on. The government imposes taxes on these 'bads' to prevent us over consuming them, and, as the result, tries to reduce the impact of these things on society as a whole.

Then, there is something called fiscal policy. We've just talked about the 'bads'. Fiscal policies are the 'goods', the things that the government wants to encourage, whether it be investment, or education, or healthcare, it can use the tax system by lowering the rate of tax on people who do these things or supply those services, to therefore encourage people to actually deliver goods for the benefit of society.

And finally, the sixth reason to tax is that tax represents a social contract between us, the population, and the government. In that social contract, there has to be what is called, in legal terms, a consideration. Something that represents the payment between us. Well, tax is the consideration in the social contract, and because we have to pay tax and therefore have a relationship with government, we're interested in what government does.

And there's quite a lot of evidence that people who pay tax, vote. That's why more people vote in general elections than do in local elections, for example, because council tax is not nearly so significant a tax as income tax, VAT, national insurance, and the other taxes that we pay to central government. So, we literally tax to encourage people to partake in our democracy.

Six reasons to tax. None of them to fund the government, all of them to deliver social benefit. It's a pretty good thing, this tax.

That's why I once wrote a book called 'The Joy of Tax', because it is what literally shapes our society.