

Tax works

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As I often note, there are six reasons to tax, which I usually summarise as follows in a way that reflects my thinking about modern monetary theory:

- 1) *To ratify the value of the currency: this means that by demanding payment of tax in the currency it has created, the government forces that currency into use for most transactions in its jurisdiction, giving it a high degree of macroeconomic control as a result;*
- 2) *To reclaim the money the government has spent into the economy in fulfilment of its democratic mandate. The aim is to control inflation;*
- 3) *To redistribute income and wealth;*
- 4) *To reprice goods and services;*
- 5) *To raise democratic representation because people who understand that they pay tax tend to vote;*
- 6) *To reorganise the economy through fiscal policy, i.e., by running government deficits and surpluses that influence the overall mood of the economy.*

As should be apparent, at least three of these are not really economic goals, as such. Objectives 3, 4 and 5 all focus on social policy and the need for government to direct it.

That could also be argued of the others as well. After all, the only reason for requiring macroeconomic control is to deliver outcomes that the government thinks are desirable for the people of the jurisdiction it governs. That's about social policy as well, at the end of the day - at least for those politicians who can look beyond growth as goal in itself.

Why note this? I do so because it is very obvious that tax as an instrument of economic and social policy is working right now. It is not always working as the government and others might want, but it is, indisputably, working.

The examples are all around us. The farmers' argument with the government is all about tax and whether or not the wealthy should be privileged by it. The farmers would instead say it is about correcting market failure. Either way, there is no doubt it is about how, where and for what reason tax should be used as a policy instrument.

The same is true for the argument about employers' national insurance.

And come to that, a small but growing complaint about applying inheritance tax to residual pension pots is all about the taxation of wealth.

I could go on. My point is, however, a straightforward one. It is that tax changes behaviour, and often quite dramatically. This is precisely why I wrote a book called [The Joy of Tax](#). It's slightly out of date now, but only slightly, and that is because much of it was about why tax is the most powerful instrument to effect change within any society that a government has available to it.

If you want to change income and wealth distribution, use tax.

If you want to make the economy green, use tax.

If you want to clear up the mess that business makes, use tax.

And so on and on.

Tax works. That's the message. But those politicians who think that the only reason for tax is to fund the government just don't get this. They believe tax constrains us. That is nonsense. It is what happens in the real world that constrains us, and tax is there to influence that. If only they understood what taxes could do for us, we'd live a lot better.