

Funding the Future

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As the [Financial Times](#) noted yesterday:

Sir Keir Starmer has rejected calls from senior Labour figures to fill a growing fiscal hole with big tax rises, warning: "I don't think you can tax your way to growth."

They added:

Starmer is under pressure from the likes of deputy leader Angela Rayner and former prime minister Gordon Brown to increase taxes to pay for higher public spending, including on welfare.

They then noted:

[T]he prime minister insisted the biggest problem facing Britain was a lack of growth. "The question is how do we grow the economy and create wealth," he told the BBC's Today programme. "I don't think you can tax your way to growth. We have high tax as it is."

For the record, Starmer is right. No one taxes their way to prosperity. However, he is right for all the wrong reasons, and the consequences for his economic policy and this country are terrible.

The reason for my suggestion is that tax does not ever pay for government spending. In fact, it does not pay for anything. It cannot, therefore, deliver growth. All it can do is manage, to great effect, the consequences of additional government spending, paid for as all such expenditure is by new money creation via the Bank of England.

What Starmer needs to know is that tax has at least six purposes:

- 1) To ratify the value of the currency: this means that by demanding payment of tax in its own legal tender, a state requires that it be used for transactions in its jurisdiction, giving it macroeconomic control of the economy as a result.
- 2) To reclaim the money the government has spent into the economy in fulfilment of its democratic mandate. That money was created by the Bank of England on the

government's behalf. The Bank of England will always do this: it has a legal obligation to make any payment requested by the government if the spend has been authorised by parliament. It does, in effect, mark up the government's overdraft as a result, never asking how that sum might be repaid, whilst knowing that in practice taxation is the primary means of recovery of that sum expended, which tax payment then cancels the process of money creation that the Bank has undertaken on the government's behalf.

3) To redistribute income and wealth.

4) To reprice goods and services, most especially where markets have failed to take the cost of externalities into account, e.g, in the cases of alcohol, carbon, tobacco, gambling and other such items.

5) To raise democratic representation because there is evidence that people who pay tax also tend to vote.

6) To reorganise the economy, i.e. through fiscal policy which establishes the government's economic priorities.

Starmer does not realise this. Whether he has never been told, or whether he has ignored the advice he has been given, is beside the point: the consequence is that he spreads misinformation and promotes an economic policy that sells the country short, whilst imposing unjust burdens on some (the working people he claims he exists to serve) whilst demanding too little from those with the so-called broadest shoulders (the wealthy).

Ideas are powerful. If he simply understood this one blog post, he could transform the fortunes of the UK.