

Funding the Future

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A new commentator on this blog, called Sammy, [asked last night](#):

I often hear a version of the phrase used in the blog, where the tax taken from the idle wealth can be 'redistributed' for other uses. I'm not sure I can wrap my head around the logic correctly.

Would the tax collected from the idle wealth be paid to the Treasury? If so, does this simply then alter the numbers in the government accounts, or would this pot of money THEN be 'redistributed' by whatever spending process in a second round of spending without touching the accounts? For example moving into a special account dedicated to redistribution for housing however that might work.

Maybe I have totally misunderstood, I think I am struggling to understand where the redistribution occurs, if at all, if I have understood correctly that all spending comes before the taxation has commenced. Apologies if the question is poorly worded, cheers Sammy.

This, I thought, was a very good question that demanded an answer, so this is it:

To paraphrase this question (and I hope I do so appropriately): if the government spends before it taxes, then what exactly is being "redistributed" when we talk about taxing idle wealth?

Let me try to set this out as clearly as possible.

First, all government spending is funded by new money creation, which is actually put into circulation as a by-product of that spending. The process is as follows:

- * When the government instructs the Bank of England to make a payment, the reserves in the banking system increase (for an explanation, see the glossary entry on central bank reserve accounts).
- * That money then enters the economy as commercial bank money because those

banks create that form of money based on the reserves that they now hold when, in accordance with government instructions, they make the onward payment to someone in the real economy.

- * No tax revenue is needed before any payment of this sort is made.

Referring to glossary entries on base money and money creation might aid understanding of these processes.

Second, since taxes do not fund that spending, they instead take money out of the economy. That is the role of taxes in the government's macroeconomic cashflow cycle. Taxes reduce the central bank reserve account balances previously created by the government's spending, and so too the balances of commercial bank created money put into use as a consequence of the government's instructions to banks to make payments on its behalf. As a result, tax performs three essential roles:

- * It takes money out of circulation to stop excess inflation arising.

- * It can rebalance wealth and power by proportionally reducing the cash holdings of those who have more than they need, rather than the balances of other people (we can have progressive taxes, in other words).

- * It gives value to the currency because people know tax bills can only be settled in the currency issued by their government.

Third, redistribution in two ways in this cycle. It happens in the first instance at the moment the government makes new spending decisions. Some groups will receive more government-created income (through benefits, public services and public investment) than others do. That will be deliberate intent. Then, and secondly, others see their ability to accumulate wealth curtailed by the taxes they owe as the government seeks to reclaim the money it has spent into the economy from them. The direction of that redistribution flows from the choices made about both spending and taxation.

Fourth, taxing idle wealth is not in that case about creating a pot of stored money waiting to be spent. It is about:

- * Reducing inequality.

- * Releasing real economic capacity that the wealthy are hoarding.

- * Creating fiscal space for more public spending without creating inflationary pressure.

What actually changes when we tax idle wealth is that the distribution of claims on the economy's real resources, whether they be housing, labour, land, energy, or care, all change. Those claims are taken away from those who are not using them for common purposes, and the government then makes choices that direct those resources towards socially useful outcomes.

So, in answer to the question posed, the Treasury receives taxes. And yes, that does alter the numbers in government accounts. But the reason for doing so is not to fill a pot. It is to clear space for the government to spend again where need exists.

To put it more bluntly:

- * Government spending does the heavy lifting of redistribution.
 - * Tax clears away the economic clutter that would otherwise get in its way.
- And that is why taxing idle wealth matters. It is about reclaiming the power to care.
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Taking further action

If you want to write a letter to your MP about the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, [here](#).

One word of warning, though: please ensure you have the correct MP. ChatGPT can get it wrong.

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