

Why most tax rises now would be economic madness

Published: January 12, 2026, 11:08 pm

Rachel Reeves says she needs to raise taxes to “balance the books.” But that’s not how government finance works.

In this video, I explain why that tax doesn’t fund spending, why raising taxes on most people now would kill demand, and why idle wealth, and not workers, should be taxed if anything has to be at this moment.

The government’s job is to sustain spending power, not drain it.

<https://www.youtube.com/watch?v=iUxvARzRi8U&si=46Bmz9dCoNDEkzHW>

This is the audio version:

https://www.podbean.com/player-v2/?i=aebti-199b874-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

A lot of nonsense is being talked right now about the fact that Rachel Reeves is going to need to increase taxes in the UK because she has to balance her budget. And the truth is, we really do not need tax increases at this point of time because the sole purpose of taxation in this situation is to take money out of the economy that the government has already spent into it, and as a consequence, tax reduces spending

power.

And as almost everybody in the UK right now knows, Britain needs more spending power and not less, and so we don't need tax rises, with one exception, and that is, of course, for the wealthy who hoard cash and assets that do nothing for growth. They should be taxed more. Everybody else should, if possible, be taxed less right now, and I bet you Rachel Reeves will get everything wrong.

Let's just stand back and talk about this. I'll remind you yet again that most politicians in this country still pretend that tax funds public spending.

And they still pretend that a government must balance its books as if there's a magic formula that guarantees economic success, which is defined as tax in equals spending out, even though no government in the UK has done this for 25 years, and in essence, for 330 years.

The fact is that all of this is nonsense because in truth spending always comes before taxation, and that's been true since time immemorial when Kings spent their gold into the economy to induce soldiers to fight for them and then taxed those very same people who had received the gold from those soldiers who had gone on and spent it to make sure that the state coffers were replenished with that gold once more.

The system, of course, doesn't work on the basis of gold now, and coins don't matter inside the taxation system, but the fact is, government spending has to come first, or we wouldn't have the cash that we need to pay our taxes. And this is part of the whole cycle of economic management that the government must undertake, but which, unfortunately, neither the UK Treasury or any Chancellor of the Exchequer has ever seemed to understand.

What is more, neither of them seems to understand that there is no sane organisation of size or value in the economy that seeks to balance its cash flow, which is what they make to be their sole priority. They will try to keep customers satisfied. They will try to keep staff satisfied. They will try to comply with environmental constraints. They will try to ensure that customers are kept happy by not being pursued too fast to pay their debts, or suppliers are kept happy by not being delayed with regard to payment. All of these things will matter to them, as will investment, but balancing the cash flow? They know they have bankers to manage that process for them, with whom they keep good relationships as a consequence, and the government can do exactly the same by being on friendly terms with the Bank of England.

So raising taxes right now would just remove the fuel from the economy that it needs to grow, which is what Rachel Reeves says she wants to happen, and yet what she's doing is setting out to destroy demand created by government spending in excess of tax raised. You couldn't be more stupid than that if you were Chancellor of the Exchequer, if you set out to be that daft as a matter of policy.

Tax rises now would make things worse. I can't put it any other way. Ordinary households are already struggling with real-term pay cuts at present, and taking more from them will kill demand, in particular in local economies, and demand will keep people in jobs. Austerity thinking is economic self-harm dressed up as responsibility, but it's nothing of the sort.

The exception to all of this is taxing idle wealth. Idle wealth needs to be taxed, partly because the amount of inequality in the UK is rising considerably, and that is because there has been asset price inflation, when there has not been inflation in real earnings in the economy.

And the wealth that the wealthiest put aside is idle capacity within the economy. It's potential unrealised. It's money sitting out of circulation. It's opportunity lost. It's money that's stagnant. It is money withdrawn from participation. It's as if the wealthy don't want us to get their hands on the money because we might benefit from it, even if, coincidentally, they do as well, which, as a matter of fact, they would.

So, because they refuse to use their money for public purpose, which is what they should do, it's down to a fair tax system to do that for them, by force if necessary, because, of course, a tax system does have that threat implicit within it.

A fair tax system would recycle idle wealth into productive use.

It would create investment.

It would generate new opportunities for people to earn and work.

And it would deliver greater public services.

And the consequence of all of them would be that there would be more healthy, wealthy people lower down the economy, who would, as a consequence, spend more and therefore create more value within the economy, with the result being that the wealthy would then get wealthier because the companies that they own would see the benefit, but they don't understand that.

So the result is, and the consequence is, that we don't need to talk about draining money from working people, which is what Rachel Reeves is going to do. If we want to grow the economy, we have to keep spending power with those people. Instead tax should be used to curb inequality and not crush demand, and the idle wealthy must be made to pay their shares so that everybody else can thrive.

That's how we fund the future.

That's how we rebuild hope. That's what Rachel Reeves needs to do.

And that I'm afraid is what almost certainly she won't do.

So, what do you think? At this coming budget, should Rachel Reeves be taxing ordinary people more? Should she be taxing the wealthy more? Should she be taxing no one more? Or maybe you don't know.

Let us know. There's a poll down below, and we do take note of your answers. Thanks a lot.

Poll

[poll id="232"]

Taking further action

If you want to write a letter to your MP on 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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