

*Every time I look [at this blog's glossary](#), I seem to note more gaps or omissions than explanations that I need, even though there are already many hundreds of terms defined within it.*

*Rather embarrassingly, I have noted in the last few days that the word tax has no entry, which seems like a fairly significant omission, so I have added this entry to the glossary:*

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## **Tax**

Tax is a compulsory charge imposed by a state on individuals, corporations and economic activity.

Tax is often misunderstood as the means by which a government supposedly raises money to fund spending. In a modern monetary economy (such as the UK's), that description is wrong. Tax plays a far more fundamental role in:

- \* Legitimising a currency.
- \* Controlling inflation.
- \* Shaping economic behaviour.
- \* Managing demand.
- \* Addressing inequality, and
- \* Reinforcing democracy as the consideration in the social contract.

Tax is therefore a core instrument of political economy. Its key functions include the following.

### ***First, tax gives value to money.***

The requirement that taxes be paid in the state's currency creates demand for that currency. This underpins the monetary system. People work, trade and accept money because they must ultimately settle tax obligations with it.

### ***Second, tax controls inflation and manages demand.***

By withdrawing spending power from the economy, tax helps prevent inflation when total demand exceeds productive capacity. The purpose of tax is not to “pay for” public spending, but to make space in the economy for that spending to occur without causing price instability.

***Third, tax shapes behaviour and markets.***

Tax influences what activities are encouraged or discouraged. It can restrain harmful behaviour (such as pollution or speculation), support socially valuable activity, and correct market distortions. Tax systems always embed political choices about what and whom an economy values.

***Fourth, tax redistributes income, wealth and power.***

Because markets distribute income according to power and ownership rather than need or contribution, tax is essential to counteract inequality. Progressive taxation on income, wealth and rents is a key mechanism for reducing the concentration of economic and political power.

***Fifth, tax expresses democratic legitimacy.***

Tax is one of the most visible expressions of the social contract. It reflects collective decisions about obligation, fairness and responsibility. A tax system perceived as unjust – because of avoidance, evasion or favouritism – undermines trust in both the state and the economy.

From a Funding the Future perspective, tax should be understood as a tool for economic management and social justice, not as a household-style budget constraint on government. The real limits on public spending are ecological capacity, productive resources and inflationary risk – not the availability of tax receipts.

A well-designed tax system is therefore essential to a politics of care: one that curbs excess, supports public provision, restrains rent extraction and ensures that the benefits of economic activity are shared rather than captured by those with the greatest power to avoid contributing.

See also Reasons to Tax.

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***Please note that the last line refers to another new glossary entry on 'Reasons to Tax'. This is as follows:***

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## **Reasons to tax**

Since I wrote my book ***The Joy of Tax*** in 2015, I have suggested that there are at least six reasons to tax, which are as follows:

- 1) ***To ratify the value of the currency***: this means that by demanding payment of tax in the currency it has to be used for transactions in a jurisdiction;
- 2) ***To reclaim the money the government has spent into the economy*** in fulfilment of its democratic mandate;
- 3) ***To redistribute income and wealth***;
- 4) ***To reprice goods and services***;
- 5) ***To raise democratic representation*** since people who pay tax tend to vote;
- 6) ***To reorganise the economy*** through fiscal policy.

You will note that each of these includes the letter R. If you reconstruct them without trying to make them the “six Rs of taxation”, and instead present them in plainer English, they then become:

### **1 - To give the currency value.**

When the government requires taxes to be paid in its own currency, everyone needs that currency to settle their tax bill. That guarantees it will be used in everyday transactions.

### **2 - To withdraw money the government has spent.**

Tax takes back some of the money the government has put into the economy so overall spending stays under control and inflation is limited.

### **3 - To reduce inequality.**

Tax can shift income and wealth from those with the most to those with the least, helping create a fairer society.

### **4 - To influence prices and behaviour.**

By taxing some things more and others less, a government can make certain goods and services more or less attractive, changing what people buy and produce.

### **5 - To strengthen democracy.**

People who pay tax tend to engage more with politics and are more likely to vote,

which deepens democratic participation.

## **6 - To shape the economy deliberately.**

Tax is a key tool for steering the economy, supporting some activities, discouraging others, and aligning economic outcomes with social goals.

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Tickets are now on sale for the **Funding the Future live event in Cambridge** on 28 February. [\*\*Tickets and details are available here.\*\*](#)

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