

## Banks should pay more tax

Published: June 10, 2026, 6:04 am

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Bankers are once again claiming that they are being treated unfairly. Santander boss Ana Botín has argued that higher taxes on banks make no economic sense and that banks should be treated like any other business.

In this video, I explain why that argument is wrong.

Banks are not ordinary businesses. No other sector enjoys the same combination of privileges, protections and public support. Banks can create money when they lend. They operate with the backing of the state. They benefit from deposit guarantees. They know that governments cannot allow them to fail without risking damage to the whole economy.

These are extraordinary privileges, and they generate extraordinary profits.

Then, I explain why banking profits are fundamentally different from the profits earned by productive businesses. I look at how banks create money, why taxpayers ultimately carry the risks when banking goes wrong, and why the public deserves a return for granting banks powers that no other industry enjoys.

After that, I challenge the claim that banks are major creators of investment and jobs. Most UK bank lending is now linked to property rather than productive investment.

At the same time, banks play a major role in driving house price inflation, increasing inequality and shaping the allocation of wealth across the economy.

The video also explores the role of banks in financial speculation, commodity markets and inflation, and I discuss how banks profited from the turmoil that followed Russia's invasion of Ukraine, while households faced soaring energy bills and a cost-of-living crisis.

At the heart of this debate is a simple question. If banks enjoy exceptional privileges, create money with public permission, receive public guarantees and generate profits from those advantages, why should they not pay more tax than everyone else?

The real issue is not whether banks deserve special treatment. The real issue is whether society is receiving a fair return for the remarkable powers that it grants them.

<https://www.youtube.com/watch?v=5AyclS9yVA?si=KpzIUUZ9eB6oLt2g>

This is the audio version:

[https://www.podbean.com/player-v2/?i=gbkkt-1ae4ff1-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo\\_link=episode\\_page&btn-skin=c73a3a](https://www.podbean.com/player-v2/?i=gbkkt-1ae4ff1-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a)

The Debate Ammunition for this video is available here.

This is the transcript:

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Bankers are claiming they're overtaxed. They're alarmed that Andy Burnham might raise taxes on them. They're putting out the messages that this would be unfair.

Santander's boss, Ana Botín, says banks are being treated unfairly as a result of the threats of additional taxation that she thinks they're facing at present, and she's wrong.

She claims banks are no different from other businesses. She says, higher bank taxes make no economic sense. And she's arguing that banks create investments and jobs, but all of that is untrue.

Banks are unlike any other part of the economy, and we are entirely justified in taxing them more than everyone else because of the advantages they get and the extraordinary profits that they make as a result.

So let's stand back and let's just look at this and see what Ana Botín was saying.

She wants us to believe a few simple things. She says banks are supposedly ordinary commercial businesses. Their profits are supposedly no different from anyone else's, and their tax treatment should therefore be the same as any other business of whatever size it might be. And their role in the economy, she says, is entirely constructive. And the reality is very, very different because banks are nothing like other businesses in our economy. And I want to explain why and why we should be taxing

them more as a result. So, stick around to the end, because there's quite a lot to cover.

Banks are not like other businesses. They enjoy enormous privileges granted by the state. They operate within a protected legal framework, and their activities are entirely dependent upon public authority and, indeed, public support.

They can only exist because the Bank of England is there to let their activities happen.

They can only exist because the government lets them use the currency that it has declared to be legal tender.

They can only exist because the Bank of England will bank for them.

No other sector enjoys quite the same advantages, and that matters when we're discussing taxation.

And let's be real. Banks create money through lending; that's what they do. The Bank of England agreed that is the case in 2014. There is no argument about this. Banks do not manage other people's money. They create money, and no retailer or manufacturer can do that. No retailer or manufacturer can literally create their own product out of thin air with no other input required, but a bank can. And no other business enjoys this privilege. Credit creation is central to their business model, and all it involves is the tapping of a few entries into a computer; that is it. That is what they do, and their power comes from a public licence.

Of course, we need to make sure that they make a fair return to us through taxation as a consequence, because we give them that opportunity to make quite exceptional profits as a result, at our expense.

And let's be clear, whilst they're doing this, the state guarantees their banking activities. We know as depositors, if we've got savings, that is, that when we put our money in the bank, the government guarantees its repayment to us if anything goes wrong with that bank. You can have up to £120,000 per person in a bank, and the government will always repay you whatever happens, so long, of course, as it is subject to the UK government guarantee scheme. But every bank that is trading in the UK should be.

And in that case, the banks know that they do not require as much capital as they would otherwise require, because the government is basically providing it to them, almost free of charge. And they also know that if a crisis emerges in the economy, the government will bail them out, because it will be cheaper to bail out the banks than to repay all the depositors. So, ultimately, the banks know that we, the people of this country, bear the risk of letting them operate. In that case, of course, we want the banks to pay for this privilege that we grant them, but they don't want to do so.

And whilst they're doing all this, banks create enormous systemic risk for the whole

economy. Their failures threaten everyone else. Governments simply cannot let them collapse, and that's why regulation exists. It exists because the dangers from banking are very real. And when we carry the ultimate burden via the state, banks should pay heavily for that privilege.

What is more, banking profits are not like those of any other business. They are not like productive businesses because, after all, productive businesses do not make their money by creating money out of thin air and lending it to people. The fact is that the banks create their basic product at no real direct cost. And their income is derived from that privileged position. There's even a name for this process: it's called seigniorage. It is the process of making money out of creating money, and they are not paying enough tax on that, in my opinion. So, of course, they should pay more tax than other businesses do. That tax that they should be paying us for this privilege of creating money out of thin air should be their cost of sale, and we should get the advantage of it.

They are extracting rents from the economy as a consequence of this not happening, and that is abusing us.

When doing this, they are also distorting our real economy. In the way that they choose to grant credit, banks dictate the terms of trade in much of the UK. Their activities are biased towards certain types of activity. Their activities, in particular, overinflate the value of houses in this country by overextending mortgages to people who want to borrow to buy their own homes, and we have seen the enormous social and economic costs of that. Households are bearing that cost, and at the same time, businesses are also facing economic distortions because they cannot secure the funds they need from banks, whilst wealth is being channelled into existing assets.

The outcome is greater inequality right across our economy, and that, it would seem to me, is precisely what banks exist to do. Banks profit from speculation as well as lending, and they are major traders in our commodity markets as a result. Oil, gas and food markets are key examples of areas where they play a major part in the setting of the prices that we pay for the essential items that we need to live.

And their role is not neutral. They're in these markets for one purpose and one purpose alone, and that is to make a gain. In other words, they're there to push up the prices that we will eventually pay. Banks benefit when prices become unstable in an economy, and when does that happen? Whenever there's a period of financial stress, which they exploit for their gain at cost to us. This is the bank model, which results quite directly in inflation. And let me give you an example.

In 2022, Putin invaded Ukraine, and we know what happened next. There was a massive spike in the price of petrol, diesel, and other energy supplies, and fertiliser supplies as well. They all shot upwards. The claim was that the price increase was justified by the fact that there were going to be shortages, but those shortages never

materialised. In fact, a year after the invasion, all prices had returned to their pre-invasion levels. But in the meantime, the banks had done something quite extraordinary. They had made enormous profits out of speculation during that period of chaos after the invasion happened, and they created a cost-of-living crisis.

They created inflation. They passed that onto us. That has now resulted in yet more austerity. The banks profited. They created inflation. They created high interest rates. They created the entire environment, which is to blame for our current economic malaise, and that was entirely their fault. And they asked to be treated fairly by not being taxed as a consequence. That offends me.

And at the same time, let's just deal with this claim that was made by Ana Botín, the boss of Santander, that banks do by their activities, create investment and jobs in the UK economy. This is nonsense.

First of all, large companies rely on debt placements, and that is done by investment banks, not by banks like Santander. So banks like Santander, Lloyd's, Barclays, HSBC and so on, are not the people who are lending to businesses. They might lend to smaller businesses, but the record shows their lending to smaller businesses has declined for years.

Productive investment is not any UK bank's priority now. Most of their lending is linked to property. In fact, 85% of their lending is linked either to mortgages or to property-backed lending, for example, for commercial property as well. Job creation is not what drives UK banking anymore, and let's not pretend it is, although Ana Botín said it was. And I am offended by that claim because I think that's deeply misleading.

And at the same time, let's just throw a little bit of theory into this. Modern monetary theory exposes some of the myths that are behind the claims that the boss of Santander has made. Banks do not need to retain their profits as a consequence of having low tax rates because they do not need to retain money inside their businesses to lend out. Banks create the money they lend at the time that they make a loan, and they increase their deposits automatically as a consequence of making those loans, because somewhere in the banking system, any money they lend will be redeposited in a bank.

So, existing savings are never the source of credit within the UK economy, and nor is bank capital. And as a consequence, lower taxes do not create additional lending capacity within the UK economy, but that is what Santander appears to be claiming. Their argument has no economic foundation.

And at the same time, banks also do not create growth. They can't. They extract value from our economy. That's what they're trying to do all the time in their currency speculation, their commodity speculation, and in the way in which they hike interest rates, they're always extracting value.

They are not investing in growth, which would require them to put money into real businesses. Instead, they're putting money into buy-to-let and financial engineering. None of that actually delivers growth that is worthwhile to the people of the UK. But what it does do is something which banks are really about.

Let's be clear about this. Banks exist to reallocate wealth within our society from those who do not have it, to those who already possessed of it. That is their purpose. They do the upward redistribution of wealth incredibly well. Now that is something we do not need.

We do need banking. Let me be clear. I'm not saying banking is wrong. I'm not saying we don't need it. I am saying the current banking model we have is not serving our society well, and it is not contributing to it properly. I am challenging head-on the claims made by the boss of Santander because I am saying what she is talking about when she comes to banking is something which is socially destructive behaviour, and if you undertake socially destructive behaviour, you should pay the price for that, which is that you should pay more tax if you are a bank.

Economic rents should be taxed more heavily, and that is what banking profits are.

Their speculative activity should face additional taxation, including financial transaction taxes, which should be looked at as a way of limiting their harmful impact upon prices inside the economy for which we all pay.

And public guarantees should require much more compensation than banks are paying at present. Banks should pay for the risks they're creating.

And the real question is not why shouldn't banks be paying extra tax? It is how much extra tax they should be paying.

Ana Botín should be saying, what is the fair price for the privileges that her bank enjoys? Her argument should be supported by facts, and at present it is not, because banks enjoy exceptional advantages. And those exceptional privileges justify exceptional taxation. That is what I'm asking for. That is what I want. She's got to provide a counterargument. I don't think she could.

That's my opinion. What's yours? There's a poll down below. Do you think banks should be paying more tax? I hope you agree with me. If you don't, let us have your comments. Please do like this video, if that's what you do. Please do share it. And if you'd like to buy us a coffee so we can make more of these videos, that would be great.

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## **Poll**

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