

Why we need to tax banks more

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As the [FT has noted](#):

Santander chief Ana Botín has hit out at the UK's bank taxes, saying the regime "makes no economic sense" as lenders brace for a further hit if Sir Keir Starmer is replaced by a more left-wing prime minister.

As they added:

Botín said: "The question is, why single out the banks in particular and impose additional taxes? We already pay a corporate tax rate of around 30 per cent, our profit margins are nowhere near those of monopolistic players, and we're not reaping windfall profits.

"If policymakers are looking for sectors earning outsized returns, there are other places to start."

She added that bank lending to businesses "drives investment and job creation".

This, I think, passes for serious economic commentary from a person like Botín, who, we should hope, has thought about the economics, social purpose of banks, and their consequences for the taxation of banks. What is apparent, however, is that she thinks banks are just like any other business. That's a suggestion that needs to be addressed.

Banks are different

The reality is that banks are not like any other business, despite what Botin claims.

Banks are highly regulated institutions that are granted unique privileges by the UK state that are unavailable to any other business sector.

In particular, banks are completely unlike other companies. They are licensed to create money through lending and, for that privilege alone, banks should be subject to special taxation treatment.

In addition, as Botín should know, Santander's business model depends on a state-backed monetary system and central bank support. This is not true of manufacturers, supermarkets or retailers.

What is more, unlike any other business, banks' business is explicitly underpinned by the government through the provision of a guarantee to those who place deposits with them. No one would trust them without that guarantee. People need to know that they will be bailed out when banks fail, but as a result of it, banks know they will be. Their profit-extraction model, which is based on these guarantees, deserves special tax treatment as a consequence.

Banks create systemic risk, and they should pay a very high price for that in the form of taxation.

Banks are rentiers

What is more, as we know, banks do not profit in the normal sense. They do not buy a commodity and sell it, although bankers would like to pretend that they still take deposits and lend, which is a myth that has been debunked, [even by the Bank of England](#). **Instead, banks extract rents from society by creating credit at no direct cost to them, and this rent-extraction process imposes considerable costs on UK households and the business sector, and it also distorts prices, not least in the housing market. This is a rent extraction. It is not a profit-generating activity in an economic sense.**

Banks as drivers of inflation

This, however, is not the only way in which banks extract rents. We also know that banks are among the largest traders of raw materials and commodities in the UK. They trade oil, gas, electricity, all our major foodstuffs, and other raw materials, including most base metals.

As a result, when there is a threat of shortages in these markets, they exploit that situation to manufacture excess profits for themselves. In the process, they also manufacture inflation. In fact, it's probably quite fair to say that the biggest drivers of inflation in the whole UK economy are our banks.

As evidence, look at what happened after Putin's invasion of Ukraine. Prices of many raw materials, and especially oil, gas and fertiliser, rose dramatically due to speculation about shortages. A year later, no shortages had taken place, prices had returned to their pre-invasion levels, but the banks had, in the meantime, created an inflation spike, a cost-of-living crisis, and had extracted enormous profits from the economy.

These banks are not neutral players inside our political economy. They are entrenched within it for one purpose, which is to extract profit from it through speculation that exploits consumers.

Banks do not deliver investment or jobs

In that context, Botín's claim that banks help create investment and jobs in the UK economy should be seen in a proper light.

Bank lending to the small business sector has been falling steadily for decades, to the point where it is now very hard for most small businesses to secure any form of bank support for their operations. And it is known that approximately 85% of all UK bank lending is either for mortgages or is secured by property collateral. In other words, banks are not interested in lending for investment or job creation. To claim that they are is just totally misleading at best, or disingenuous at worst.

Banks do not need to retain profits to lend or grow the economy

Meanwhile, modern monetary theory, or MMT, shatters the idea that banks must be allowed to retain profits as a basis for lending. This is not true.

As a matter of fact, banks create deposits when they lend, and they are not therefore dependent upon retained reserves for this purpose, because, as a matter of fact, they do not lend existing funds to those persons to whom they grant credit. There is, therefore, no argument to be found for this reason for lower taxation. Any such claim is economically false.

Nor is it true that banks must be allowed to retain profit to fuel growth. If growth were an appropriate objective, banks do not assist it with their activities. Growth is created by real economic activity, but as already noted, banks are not willing to fund that. Instead, they fund the buy-to-let market, speculation, share buybacks and other such extractive activities. Banks harm growth.

Banks as reallocators of wealth

It is true that any economy needs banks. I am not disputing that. But the banks we have are not involved in constructive activities in the UK. At best, their primary function is to allocate wealth from those who lack it to those who already possess it. This is not a useful economic activity. It is a destructive one. And precisely for that reason, we do need to tax banks more.

Why we need to tax banks more

We need to tax at higher levels the rents that banks extract from our economy.

We need to tax banks' speculative activities much more heavily, including by imposing financial transaction taxes, to limit the harm banks cause to our economy.

We need to tax, at higher rates, the real upward reallocation of resources that banks facilitate within the UK.

And we need to tax them more, because the UK state underpins the activities of these antisocial organisations, and we need to be heavily compensated for bearing that risk.

Conclusion

Ana Botín's comments are deeply and profoundly misleading.

Her claim that banks should be treated like any other business is wrong.

Her economics comes from a point of privilege, with the intention of maintaining it.

Her claims are not based on facts.

They should be ignored.

And at the same time, genuine questions should be asked, such as why should a person so willing to mislead be in charge of a UK bank? I have no answer to that.