Tax banks more, now!

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According to a report in the Financial Times this morning:

Global banking executives have warned that they will divert investment away from the UK if taxes on the sector are raised, telling Andy Burnham's government that it risks further damaging London's position as a financial centre.

Senior bankers said they would no longer choose the UK as their main European hub in the same way as they did before Brexit, according to a survey of US, EU, Asian, African and Middle Eastern lenders with large British operations by the sector's main lobby group.

The comments emanate from a UK-based lobby group called UK Finance, which is, unsurprisingly, supported by the UK banking sector. Also unsurprisingly, the Financial Times, which knows on which side its bread is buttered, has faithfully reported them.

The questions that arise, however, are whether we should take the threat seriously and, at least as importantly, whether we should worry about the risk of it happening.

The failure of the City of London

When it comes to the threat, I have great difficulty in believing what is being said. Whilst it may be true that the reputation of the City of London, and its significance in the European banking market, may not be as great now as it was before Brexit, there are very obvious reasons for that.

One is Brexit itself, but more significantly, London's reputation has not recovered since the 2008 financial crisis, which required far bigger bailouts in this country than elsewhere, indicating the scale to which UK finance failed. That story of failure, more than anything else, may explain why London lacks the appeal other markets now have.

Combine that with the fact that, as the London Stock Exchange regularly suggests, there are many fewer new companies now wanting to list their shares in the City, precisely because the UK so long ago gave up producing anything of value that might create a company of worth, and focused on financialisation instead, and you have the perfect mix for a declining operation, which is what the City of London now is.

My suggestion is that UK Finance is looking for an excuse to cover banks' failings rather than offering any form of serious analysis.

The finance curse

The second question, however, is the more relevant one. Should we be worried? The answer is very definitely no; we should not be worried.

The City of London has had a corrosive influence on the UK economy throughout the entire neoliberal era.

Margaret Thatcher destroyed manufacturing in the UK to deliberately promote financial services in its place. In the process, she reoriented the country's economic focus to London and its hinterland. As a consequence, she utterly skewed the income and wealth distributions of the UK. That undermined the fortunes of the other countries in the United Kingdom and regions of England outside the South East.

As a result, she also created a powerful lobby interest that continues to this day, even though it has never created much of real value.

Thatcher was utterly confused when it came to economics. She thought that a £1 increase in the value of activity undertaken to meet human need was equivalent to a £1 increase in the value of a financial asset, like a property or a share, when that is utterly untrue. Meeting need creates real wealth. Increased financial worth provides a false impression of well-being inside a bubble that must eventually burst, as the UK economy is waiting to do.

Her misplaced belief is what drew, over the years, hundreds of thousands, and maybe millions, of people with talent who could have created real products, companies and genuine wealth for society into meaningless careers in the City of London, which might have created personal fortunes for them, but which came at the cost of the destruction of genuine economic process and value creation for everyone else in the UK.

Far from creating value, that created the finance curse, which describes the way in which the City of London has drained the country’s productive activities of talent, has distorted its wealth distribution, and inflated the exchange rate to bring hot money into the UK, at a cost to us all in terms of inflation, excessive mortgage costs, unnecessary unemployment, and continued beatings from the Bank of England.

Should we therefore regret that the City’s finance sector might shrink in size? I reiterate, the answer to that question is most definitely no. This is a necessary transition that might enhance our chance of genuine well-being.

And do not, for one minute, think that tales of falling tax paid will be of consequence. Tax does not fund public spending; government money creation does that. And if the government spends to put to use the idle resources a shrinking finance sector creates, it will always add value to the economy and recover the spending through the multiplier effect. This means any claims by the banking sector that we depend on them to provide health, education, defence, criminal justice, and more in the UK are just more nonsense that reveals the scale of their ignorance of how our economy really works, which is why we can do without them.

The bankers can, then, complain, as they always do, about the injustices heaped upon them by the state on which they are utterly dependent for the creation of their own well-being, because without the money it creates they would have nothing to do. We, however, should properly understand that we could do with many fewer of them, and will be better off as a result.

Why tax banks more?

So, should John Healey increase the taxes on banks in October? To this, my answer is an undoubted yes.

That, though, is not because we need the money that such a tax will raise. I reiterate, government does not spend tax receipts; it creates the money it requires when it spends. There is no such thing as taxpayer money. But what that, however, means is that tax plays a fundamentally different role within our economy from that which these bankers think.

Tax has an essential role in controlling inflation, but beyond that, in allocating resources within the economy so that they might be used to best effect. The City of London has for far too long made excessive demand upon our resources, with consequent cost to us all, and if this tax achieves a desirable goal of re-allocating activity away from the overblown banking sector and into other activity which can create genuine value inside our economy, it will be a success.

Taxing banks more is, then, something John Healey should most definitely be doing this October. We could all win as a result.