

The Joy of Tax

Richard Murphy. [Corgi](#), June 2016

This is a book you must read. Murphy's arguments are ones we all need to understand and promote, because Murphy seeks to turn our understanding of tax economics on its head, and persuade governments that they have misunderstood their role in relation to tax and the economy.

He starts by reminding that tax is good for us and his words are inspiring:

'In a democracy, tax is one of the cleverest of human inventions and one from which we all benefit as a result of the massive contribution to our wellbeing.'

'Tax isn't about oppression, about a loss of income, it's about how to make collective choices that work best for the communities in which we live.'

'Tax works to deliver wellbeing when nothing else can.'

He defines tax as:

'the consideration paid by people who live in a country in exchange for the social contract that exists between them, its government, and each other'

.... and convincingly argues that it *belongs* to the government. Governments do not 'spend tax payers money' (Murphy detests this phrase), they are not merely agents for their citizens, they have a vitally important role of their own: to manage the economy for the benefit of us all.

Murphy has another reason to hate that phrase: governments do *not* have to charge tax to spend money. They can

spend as much money as they like by printing it – as this government has done with Quantitative Easing. Here Murphy is challenging conventional wisdom and a few thousand text books, but has won the backing of the Bank of England for his logic; and his quote from Abraham Lincoln suggest that this was well understood before modern economists suggested otherwise.

Here's the logic.

The economy is made up of money in circulation. Anyone saving money takes it out of circulation and decreases GDP.

The money in circulation comes, then, not from savings but from loans made by banks.

When you borrow money from a bank you have two accounts: the one the loan is lodged in (from which you spend) and the one you repay into.

But no *real* money has changed hands, the bank has simply created these two accounts, you are now spending money nevertheless.

Magic. And the government can do exactly the same – indeed that is precisely what QE is.

If the banks lend too much, or the Government prints too much money, there is too much money in the economy chasing too few things to spend it on, and inflation results.

So the amount of money in circulation needs monitoring and money withdrawn if it overheats. The way the government withdraws money is through tax.

So governments do *not* charge tax and then spend it. They spend and then charge tax to regulate the money supply. There are other roles for tax, which Murphy describes, but none of them is providing the government with money for it to spend.

Murphy also demonstrates that ‘balancing the books’ is not a proper aim for a government, as follows:

The national economy (GDP) is made up of only four sectors:

1. **consumer** spending;
2. **government** spending;
3. **investment** –both government and private sector; and
4. net exports i.e. exports - imports).

The total amount of saving and borrowing between these has to balance. So if any of these groups – consumers, companies, government – saves money instead of spending it, the others have to borrow.

The government is the biggest spender and employer in any economy, so when it talks of making cuts neither consumers nor companies want to spend the money needed to boost GDP.

Consumers don’t because they know that the government no longer offers a safety blanket so they must save to look after themselves. Businesses don’t because consumers and the government are not spending so they have no customers.

And as UK productivity is low our trade deficit is increasing. So the government has no choice but to borrow to meet its unavoidable commitments.

And countries are not the same as companies. When companies sack someone that person is off their books. When governments ‘lose’ people through downsizing the public sector those people still need housing, food, health care etc. They aren’t sacked from the country.

The only way for the government to reduce its deficit would be for

us, consumers, to go into more debt or for GDP to fall. So we become trapped in a vicious circle.

The virtuous cycle arises when government spending (from money it prints) boosts GDP, increasing confidence, and allowing government to increase the tax take, and reduce the deficit.

Along the way he demonstrates that the Labour government were highly responsible managers of the economy, withdrawing money in the years of the dotcom boom, investing modestly (1-2% of GDP) in schools and hospitals when the dotcom bubble burst to avoid recession, and again in 2009 after the world banking crisis to revive the economy by 2010.

Had the coalition not starved the economy of cash at that point we would, he suggests, not still be stuck in recession now.

What a pity the Labour Party has neglected to make that case – but then Murphy would expect that because he realises politicians of all stripes are ignorant about the *real* nature of tax.

He makes a convincing case for combining the tax system with the benefits and social security system (which he describes as a negative tax system) and argues very persuasively (even excitingly) for a national Citizens Income.

His list of the benefits of the latter includes not only the gains to the less well off, but also the increased productivity the country so desperately needs and which has evaded successive governments for decades. Employers will *need* to attract workers by offering high quality work with good training and flexible hours.

His depth of knowledge of the ins and outs of the tax system originated with a sense of unfairness, he is a founder member of the Tax Justice Network. And he points out just how scandalously bad we are in the UK at both horizontal and vertical equity in our tax collection.

In other words people gaining the *same* amount of money but from different sources – earnings, savings, rents, offshore savings..) pay very *different* amounts of tax; and people earning the *most* pay a smaller percentage of their income in tax than those earning the *least*.

Altogether he makes a strong case for a radical revision of the tax system – but is realistic enough to know this must be introduced over a period of time. His last chapter is an hypothetical speech given by a future Chancellor of the Exchequer about this set of changes.

But more than anything he laments our ignorance about tax, and particularly the ignorance of politicians and the media. He's persuasive in arguing that we need all of the following if we as a country are to have a sound process for making decisions about tax:

1. Education about tax and how it really works– for everyone including school children
2. Research into the impact of tax decisions from reputable disinterested research centres (of which there are currently none).
3. Proper preparation for tax policy, moving it to a 'purposive basis' in which every piece of tax legislation is accompanied by a statement of what it is meant to achieve, to guide tax collectors and courts, so that clever tax advisors cannot thwart the will of government by finding loopholes in the detail.

4. Proper scrutiny from relevant parliamentary scrutiny committees, which should have a budget to support their role (*currently not the case, Margaret Hodge's committee has no budget*).
5. Accountability of HMRC to parliament. Historically accountable to the Crown there is no named government minister taking responsibility for it.
6. Much closer relations between HMRC and the public, returning to local tax offices offering advice and support and information.
7. Transparency from Tax Havens and from Multinational Companies, e.g. country by country reporting.

The ideas in the book are exciting and credible. However the book's style and title led me to imagine Murphy as the kind of socially awkward middle aged man you might try to avoid in the pub, and that's a pity - his editor has let him down.

I don't suppose he is like that at all, and his arguments deserve a much snappier, arresting presentation.

Rewritten as a 75 page call to action, in the manner of Thomas Paine's *Common Sense*, this could be phenomenal. We know where that led, and we need this to have that kind of impact.

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