

# The Guardian on Cayman

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The [Guardian has commented](#) on the [Cayman story](#). I am the expert referred to in what follows:

*A wealthy tax haven, a tropical paradise: it's fair to say that the popular image of the [Cayman Islands](#) is not one of an economy on its knees, with an alarming black hole in its public finances.*

That is, however, the reality. As Chris Bryant, a junior Foreign and Commonwealth Office minister, makes clear in an official letter, the islands cannot afford to take on further borrowing to try to get out of trouble without doing the unthinkable: raising new taxes. In other words, the Caymans are learning the hard way that there is no such thing as a free lunch, and the FCO has just told them to start charging. Experts believe that other tax havens, including Jersey, which has a deficit of about £100m, and Guernsey with a shortfall of £50m, are also running unsustainable business models.

What the Caymans and the rest are really selling is secrecy — that is their core product — so it follows that far greater transparency is needed to combat [tax avoidance](#) and evasion, particularly by multinational businesses; a report by the TUC a couple of years ago estimated that £12bn a year is lost to the UK Treasury from the 700 largest corporations. Multinationals currently shift billions of pounds of profit from country to country, often to or through tax havens in order to reduce the amount they hand over to the authorities.

One way of dealing with this would be for the International Accounting Standards Board to overhaul company reporting so multinationals have to state all the jurisdictions in which they operate, and have to distinguish transactions carried out within the group from those with third parties. That would highlight operations in politically unstable regimes, tax havens and other sensitive areas, and crack down on the practice known as transfer pricing, by revealing whether a group appeared to be using havens for profit-shifting purposes.

The reaction of the financial and corporate sector to the idea of paying their fair share

of tax is likely to outrage, as with the suggestion they curb excessive bonuses. But the credit crunch has rammed home the need for a radical rethink on both. Companies claim they have a responsibility to shareholders to minimise the amount of tax they pay, but what about their broader responsibility? The tax avoided has to come from other sources: in the UK that means squeezing more from medium- and lower-income individuals and smaller firms. But it is poorer countries, which should be receiving revenues from firms operating within their borders, that are harmed the most. Their public finances are often more dependent on corporate taxes than rich nations, and they have less ability to challenge the might of the multinationals. The tax gap left by corporations has to be filled by aid or debt, and both of these are a poor substitute in governance terms for revenues raised from tax. Tax builds relationships of accountability between governments and citizens, while aid and debt build relationships of dependence on foreign donors or creditors.

Bryant points out with black, Sir Humphrey-esque humour in a letter to the leader of the Caymans that the global recession has put a large number of countries, including the US and Britain, in a similar situation to that of the embattled tax haven — having to consider economic stimulus against a background of weakening public finances.

The British Isles are somewhat larger and economically more diverse than the Caymans, which are run by global business for global business. But as the rows over a possible [Tobin tax](#) and the reforms to the taxation of non-doms show, the UK government regularly comes under immense pressure from the City to keep its tax privileges intact. The Caymans show us what happens when a state allows itself to be captured by corporate interests. That way, disaster lies.

Quite so.

I'm delighted my work has highlighted the causes of this issue, the scale of it and the solutions.

Now I want to see action to bring the necessary change about. After all, how close do we have to get to another economic disaster before we put change on the table?