

On capital controls: an extract from the Courageous Sta...

Published: January 13, 2026, 6:21 am

[Capital controls are in the news.](#) They are something I called for in Chapter 18 of [The Courageous State](#) when discussing the need to tackle tax haven abuse. I wrote there:

The measures suggested in this chapter are forms of capital control: they are intended to make sure that capital is accountable wherever it is. This is essential if the inevitable increase in the rate of return to capital that has been a characteristic of the last thirty years, and which has been so harmful to the world economy, is to be corrected. The proportion of the world's income paid to labour has to increase if people are to have any prospect at all of realising their potential, meeting their needs and even of paying their debts, which in itself makes this a matter of self-interest for capital itself.

I believe that tackling tax haven abuse, demanding that capital owns up to who owns it, making capital account for where it is and what it does there and changing tax systems to ensure tax is paid in the right place at the right time will have an enormous impact on the way in which capital behaves. You cannot make capital transparent without changing its behaviour. We know this to be true. Measuring and reporting something changes behaviour in the physical world: it will do the same in the world of finance.

But that does not mean that the changes suggested will be willingly acceded to. I realise that will not be the case. Tax havens and multinational corporations will resist these changes. In that case, given the threat such abusive activities pose to the stability of the world economy and to the well-being of the people of the world the Courageous State will have no choice but to suggest sanctions on those states and those companies that refuse to cooperate with the process of transparent accountability which will assist the process of making capital accountable to people once more.

There are steps in this process. The first is one of active engagement in research on these issues and promotion of the alternatives. The Norwegian government is a current exemplar of good practice on this issue through its work on tax havens and its promotion of the Task Force on Financial Integrity and Economic Development, of which I should declare I am a committee member. It is a truism, and sometimes an annoying

one, to say more work is needed in this area, but on this occasion that is true.

Second, the governments of Courageous States have to be willing to join together to tackle this issue. We saw that this was possible in April 2009 when the London Summit of the G20 said it was willing to impose sanctions on those states that refused to cooperate to end tax haven abuse. The rhetoric was sound and the threat was appropriate. Unfortunately, the OECD failed to deliver an appropriate standard for assessment of tax haven abuse and as yet the sanctions have not needed to be used. However, the important point was that a precedent was set: the possibility of action was at least anticipated.

Third, the measures to enforce capital controls have to be designed. This is no small task. It has been thirty years since we have had effective capital controls and the knowledge and experience of their operation has largely been lost. That means lessons have to be learned again. This is not the place to suggest all the measures that might be required: however, it is clear that measures that might include the following are needed:

- * Creation of lists of 'black' and 'white' states: white states being those to which it is presumed payment is acceptable. To achieve that status a jurisdiction would be required to have matching capital controls in place and appropriate accounting and taxation systems.*
- * A presumption that all payments for goods might be made without objection — but that banks arranging payments must have evidential support that the payment is for this purpose.*
- * Payments for services will be subject to tax withholding at source by default with payment being approved without such deduction only if paid to white list states and for agreed types of genuine services, which would always exclude payments for royalties, licence fees, interest, leasing, management charges and such services that are easily subject to transfer mispricing.*
- * Payments for investment purposes, whether for direct investment or portfolio investment will all require prior consent for payment.*
- * Payments for speculation will be subject to quota allocation, which could be withdrawn at any time.*

Of course, the reality of capital controls will be complex: that is not denied. And of course they will impose cost. But that cost will be a price worth paying. Thirty years of the free flow of capital has resulted in at least 5% of world GDP shifting from labour to capital. And that shift has massively destabilised the world. The recreation of a stable environment in which people can achieve their potential is the goal of the Courageous State. That is unlikely to be possible without capital controls. Unpopular as they will be with the owners of unfettered capital, they are essential if order is to be restored to

markets, economic stability is to be recreated and world peace is to be preserved. I suspect they are as significant as that. For which reason capital will have to be taken on in its own best interests to create the controls which will also let it prosper, which is very unlikely in the current situation where it is all too obvious that the absence of controls has allowed situations to develop that are utterly disorderly and where massive loss of value for capital is the likely outcome. Surely capital controls are better than that?

I still think so. Not least because the possibility of that massive loss in the value of capital has now been shown to be a reality.