

The world's opinion on tax havens has changed, and the ...

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It's not so long ago that the Economist was a died in the wool believer in tax havens. As a bastion of free market thinking it thought tax havens played a key role in the free flow of capital.

And now the world has changed. And nothing is better indication of that than the change in the opinion of the Economist. This is from [its latest editorial](#) (and I've omitted all the sections on information exchange, which it also now supports):

Tax policy is, for the most part, a jealously guarded national competence in the EU. The authority to tax citizens is seen as a central attribute of sovereignty. Critics say a refusal to pool powers at EU level risks creating a “race to the bottom”, with each country trying to outdo its neighbour. Yet if so, the danger in harmonisation must be of more oppressive taxation. Smaller, poorer countries on Europe’s periphery have every right to levy low rates of tax. Britain should not have to sign up to a financial-transaction tax it dislikes. If France insists on taxing its rich citizens at a rate of 75%, it can blame only itself when they leave.

Yet co-operation in an age of mobile capital is necessary to ensure that international companies pay their taxes. A tougher policy of naming and shaming tax havens is a start. More transparency on where companies earn money, employ staff and pay tax is desirable. Renegotiating double-taxation agreements could close some loopholes. But all this is best done globally. Agreement within the EU would help, but is held back by a mutual suspicion. At one end stand European institutions seeking to build their empires. At the other stands Britain, with its innate aversion to any arrangement that has a European label.

Countries need to find a middle way. Not all tax competition is “harmful”, even if in some forms it may be. Elaborate tax schemes can give big multinationals an unfair advantage over smaller domestic firms. Joint action should not be an excuse to force up Ireland’s 12.5% rate of corporate tax. But inaction that allows firms to engineer a rate more like 2.5% for themselves is inexcusable. In such a world, sovereignty comes at a cost that too often goes unrecognised.

Now there are minor issues I would still raise with that argument, especially on tax competition, but they're now issues of nuance, not substance. And the message is fundamentally right. It is only by cooperation now that any hope of beating tax abuse exists, and with it any chance of ensuring capital contributes to the cost of society.

That's the challenge for the G8. I hope it can rise to it.