

The EU encourages immigration and tax abuse

Published: January 16, 2026, 2:35 am

A decade ago it would have been hard to imagine the issues of immigration and tax avoidance being so prominent in news headlines, but as a matter-of-fact they are. It's also a matter of fact that both are more significant than they should be because of the failings of the European Union.

The EU was designed around the theoretical principles of free trade that some economists have long argued maximise human wealth. Whether that argument is correct, or not, is not the subject for discussion here. What the idea required was that there be free movement of both capital and labour within the EU. The ideas underpinning both are similar.

In principle if there is free movement of capital then money from any member state can move to any other in search of the best return on investment. The logic is that this means the most meritorious projects will attract the funding they require and the consequence will be growth maximisation across the EU as a whole. What is more, it is assumed that the international pressure that this will create will force those less competitive or innovative states to copy the practices of those that attract most funding and so everyone will, eventually, benefit.

In the case of labour, it is assumed that if people can move freely the states paying the highest wages will attract most labour because, firstly they need it, and secondly they can make most productive use of it. The supposed benefits are twofold. If those states that need it can attract labour then it is presumed that growth can happen without wage inflation because a steady supply of new, immigrant, labour will keep rates down. Secondly, as with capital, it is presumed that less efficient states will transform their labour markets to copy those of the more productive ones, and that will in turn spread good practice and higher overall wages.

The trouble with these theories of labour and capital is that, like so many things that work in economics textbooks, they have not translated to reality. In the case of capital that's because economists have almost never taken note of tax havens, regulatory arbitrage, tax or tax abuse when they come to proffer their idealistic vision of free

markets. The truth has been that instead of capital flowing to the places that could make best use of it for productive purposes a significant number of EU states, including Luxembourg, Ireland, Cyprus, Malta, the Netherlands and the UK and its tax havens (which for these purposes count as part of the EU) have put in place measures designed to attract capital on the basis of the higher market returns that can be obtained from market and tax abuse hidden behind the secrecy that they have been willing to offer. The result has been dysfunctional markets, the growth of a rentier economy, a reduction in investment in productive capital and lost growth at the cost of a parasitical financial services industry. Far from dragging states upwards a race to the bottom has ensued.

In the case of labour economists forgot, yet again, a number of quite important factors. The first is the reluctance of many people to move: such things as social ties never occurred to the economists who promoted the theories that underpin the single market, and nor did they exist in their idealistic calculations. Nor, since many of these theories were promoted before the growth of the welfare state, did those free market theories take into account the fundamental changes in wage pressures that this has created, with resulting significant differences in the labour markets of each member state. The inevitable consequence is that these unanticipated, but entirely predictable (even in the 1950s) factors were ignored in the design of the EU and this failure has been perpetuated over decades with the consequence that flows of labour are nowhere near as free as economists assumed, social security systems have on occasion been abused and, most important of all, labour market freedoms designed to prevent wage inflation have in fact been used to force real wages to be stagnant when economies as a whole have been growing. In other words, the race to the bottom has, once again, been the outcome.

These faults may be accidents. They arose from believing theory and not practice. They are the consequence of dogmatic beliefs that far too many economists are still willing to promote, aided and abetted by big business, who have gained extraordinarily from gaming this system. But the fact is that if we want the EU to work these faults need to be eradicated.

Those states who abuse tax systems, including the UK with its low rates, refusal to tax corporate income from outside our country and blind eye failure to even collect tax returns from companies incorporated here that claim they trade elsewhere so that the countries where they really owe tax can collect no data on their activities, have to be prevented from perpetuating their abuse. If this means suspension of the free market whilst they put reforms in place, so be it.

And those countries that wish to protect their populations by providing a sensible and appropriate safety net for those in need must be allowed to do so without being abused by other states that refuse to provide the same protection for their own populations.

Unless these fundamental, and systemic, flaws in the design of the EU are addressed it cannot achieve the objective of delivering real economic growth and increasing prosperity to those who live within it. In that case its purpose for existence has to be questioned.

My concern is that David Cameron is opening negotiations with our EU partners today on proposed changes to the conditions on which the UK is a member of that community but I suspect that neither of these issues will be the focus of his concern. In that case he is misleading the country on the prospects for the outcome of any such deal and as a result the savings that the EU does provide to the UK in terms of relatively open markets and consistent regulation will be lost. We could be heading for the worst of all possible worlds.