

# It's time to create a safe haven strategy for the world...

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The time has come for some fairly radical reframing of economic policy if not just the UK but the world at large is to survive the challenges that face it.

There are at least three such challenges. The first comes from the bursting of another credit bubble with all the risks that we are becoming increasingly used to after the collapses of 2008 in primarily Anglo Saxon housing markets and in 2012 of Eurozone debt markets. The emerging markets are the likely risk here.

The second comes from the collapse of major corporations, whether they be banks or entities wiped out by officially sanctioned corruption. VW is just leading the pack here.

And third there is something more powerful, which is the combination of threats giving rise to mass migration, whether they be war or climate change.

The unique fact is that right now all three are at risk of happening together. This is a combination of circumstances of such power that unless new thinking both happens and is acted upon we are in deep trouble.

What I can say, for certain, is that markets have no answer to these macro problems, however good they are and will be at creating micro solutions and opportunities within them. We know already, from experience, that the first two challenges are only capable of being dealt with by government action. The third cannot in any sense at all have a market solution: it is, by definition, an externality as far as the market is concerned.

So, the first proposition in creating any solution is that the state is fundamental.

It is then important to note that the reaction of all the active agents who might suffer as a consequence of these challenges is to seek a safe haven. That is tangible in the case of migrants: they need somewhere safe for them, and most especially their children. In my opinion no one should ever doubt the determination of a frightened parent seeking security for their child: there is no more powerful emotional force. The challenge that this creates should not be, and cannot be, understated and has hardly begun. It worries

me, but it is not something I can do anything about in itself. I am not an expert in that issue.

What I can suggest is something different, and that is the change in thinking needed to tackle the first two crises. I happen to think the means to deal with the third will flow as a consequence, and yet the logic of all three is the same. It is that there is in a time of crisis a quest for security.

In that case the second proposition in creating any solution is that safe havens are needed.

Put these two ideas together and you come to the third, key, proposition which is that it is the role of the state to provide safe havens in a time of crisis.

And now move this beyond the tangibly obvious fact that this applies to refugees and migrants and realise that it will not just be those people who are seeking new homes in the crisis to come and realise that what will also be needed are new safe havens for capital as well. When credit bubbles boom, when companies and markets collapse and when banks are in peril then capital also looks for a place to go to whether the storm. And the only place to go is the state.

This realisation creates my fourth understanding, which is that in a time of crisis it is the job of the state to create a safe haven for financial capital.

It is this fourth element of the propositions I am making that is, I think, simply not appreciated at present. If governments are to provide capital with a safe place to weather the storm (and nothing and no one else will, which means that barring the deeply destructive destruction of that capital there is no other option available) then those governments big enough to do this (for which purposes means a relatively selected number) need a plan to do so.

The plan is severalfold (with a considerable number of nuances to add in due course). Please forgive any apparent metaphors making apparent reference to a human migrant crisis: they are necessary simply because the needs are in many ways similar.

The first, and fundamental, element of any such safe haven strategy is to provide a means of passage. It will be necessary to arrange, as far as possible, for the orderly passage of capital from where it does not want to be to where it might arrive. This is not easy. What it requires is that panic is avoided and the transition is not flight, but an ordered flow. In markets that means that protective mechanisms to ensure that companies do not collapse with all their capital disappearing with them must be put in place. This may be painful: the state will, in effect, and whether it likes it or not, underpin the collapse of some companies and allow an ordered exit of private ownership after a serious reduction in the value of equity stakes but long before they are eliminated entirely. And this will apply to bond as well as equity owners. The

necessary powers to take control in this way, without any legal right of recourse from the private equity owners involved, must be designed now. The precedents exist from 2008. We must learn from them, very quickly, whilst strongly resisting mechanisms like TTIP that are so dangerous in challenging this right of the state to intervene to preserve value because of the residual right it gives to capital to claim undue compensation.

Second, the state has to provide an alternative secure place of abode for capital. In essence it only has one, and that is gilts or treasury bonds. Perversely these are in short supply right now precisely because so many are owned by the state. Much as I am associated with the idea of People's Quantitative Easing the possibility of there being a need for more, and not fewer, gilts in issue is now a very real one. But, and I stress the point, the resale of existing bonds may not be the answer as all have positive rates of interest attached to them. I am not at all sure that there is any need for this right now. With all major gilt issuers in the world now offering interest rates of less than 2% in nominal terms, and often (but not always) close to zero in real terms there is no point in the new bonds that might need to be issued to the world's refugee capital having a positive interest rate paid upon it. The option of near enough zero nominal (and so effective negative real) interest rates has to be considered as a policy option, as does the option of planning for nominal negative rates. The state cannot be expected to pay for a flood of capital it did not anticipate receiving, and for which it has to find a use. Investors do instead have to accept the very real possibility that the best option available to them in seeking a safe store of value (which is what capital is for its owner) might involve a cost and not a reward.

Third, this capital has to be subject to state scrutiny. One of the major contributors to the crises in the world has been increasing inequality. It is this that has, at least, in part created the situation we are now in and a safe haven policy for capital cannot be offered without that issue of inequality being addressed. Capital of unknown provenance cannot be permitted to stay in a safe haven system: title must be proven and verified and the fact that the capital was accumulated in a properly taxed fashion must be evidenced in due course. The risk of forfeiture must exist if neither can be shown to be true. The state cannot harbour the assets of those who seek to undermine it.

Fourth, the capital must then be regulated with regard to future flows. The whole reason for providing a safe haven strategy is to prevent the harm caused by unregulated and panic driven flows. Reasonable, accountable and controlled, flows of capital are, of course desirable. But free flows have the ability to create panic and disruption. So capital controls are a necessary part of this process of providing safe havens: those who do make such provision cannot then be subject to the threat of instability because the capital to which they have provided the ultimate favour of delivering secure value then decides to renege on the deal by threatening to exit to secure favours. The risk that flows will be unregulated again cannot be tolerated.

Fifth, this capital has to earn its keep. If that is not by way of tax on income (for there

may not be any) then wealth taxation has to be looked at as a way for it to make this contribution to society. The right balance between wealth taxation and negative effective interest rates has to be considered, but the fact that reallocation of wealth is to happen must be explicitly stated. The current disparities in wealth are incompatible with stable societies and so must be reduced.

And, last, the capital has to be put to use. Let me be unambiguous about this: some will have to be used to fund current government deficits, which will have to necessarily be run to manage the physical consequences of the human tragedies developing around the world, and whether or not those subject to their effects stay where they are or move. No country can be isolated from those impacts. The current cost of dealing with conflict and climate change are real and need to be paid for. There is capital to do this, and if some has to be subjected to tax to ensure that this process of change can be undertaken in an orderly fashion then so be it: that is part of the safe haven policy of providing a secure home for capital in the sense that it is the best available to preserve its future value, which might otherwise not exist. Governments should not then back off from these costs, or the new forms of taxation that they might require to deliver financial stability.

The second use of capital is quite clearly investment, whether it be in the development of housing, agriculture, energy supply, transport and other systems and the new private sector activity required to support these systems. If ever there was a time for National Investment Banks this is it.

This, then, is a safe haven strategy. Its aim is to quite explicitly provide a home for the world's capital when it goes into flight mode, as it might. But, in the process the aim is to make that capital useful, regulated, controlled, taxed, more equitable and fundamentally useful at a time when it could otherwise be destructive if permitted to flow freely in a vain quest for value. We cannot afford that risk of unregulated capital without a safe haven when the world faces so many other issues simultaneously.

What we need is to organise around such a plan for safe havens for the world's capital now. There may be little time to do so. And doing so may be the only way to pay for the safe havens the world's people need.