

## Why the Panama Papers really matter to people in the UK

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I was on the Jeremy Vine show on BBC Radio Two at lunchtime today, discussing what the impact of the Panama Papers might be on most people living in the UK. I argued that there are numerous impacts.

First, some are glaringly obvious. For example, we now believe that at least 94,000 properties in the UK (some of which are large parcels of land) are owned by offshore companies. Many of these are in London and the south-east of England and the consequence is that there has been a wholly inappropriate house price boom in these areas where large numbers of properties are now held for investment purposes, or almost as a form of reserve currency. The net effect is that very large numbers of people are unable to buy properties near where they work, where they were brought up and so have their relatives and friends, and where they wish to live as a result.

Alternatively, those who can buy properties are paying far too much for them, and a disproportionate part of their income is absorbed in mortgage interest payments as a result. This over-inflates the banking sector, massively reduces the disposable income of large numbers of people in the UK, and so suppresses economic activity, whilst disrupting the social life of millions. That should be good enough reason, in itself, to justify action.

Second, I am aware that the people of this country are empathic, and many have considerable concern for developing countries. We also, as a nation, are one of the few who have committed to pay 0.7% of our GDP in international aid. What I can say with confidence is that if only we tackled tax haven abuse and stopped very large quantities of money flowing illicitly out of many of the world's developing countries, which flows are evidenced by the Panama Papers, then we could not only reduce the amount of aid we have to spend (which some would welcome) but we could do something much more important still. We could ensure that those developing countries could keep their own money over which they could then make democratic decisions as to how it might be used to support healthcare, education, investment in infrastructure and the development of their economies in accordance with their own choices, which would really fuel the well-being of all the people who live in those places, which is at present enormously harmed by the corruption and loss of funding which results from tax haven activity.

What is more, the self esteem of these places would be so much higher because they would not be aid dependent, and I believe that is, in itself also a matter of priority.

Third, inequality in the UK would be reduced if we were to stop tax haven abuse. It is glaringly obvious that if some in society are able to accumulate wealth untaxed then their wealth will grow at a faster rate than the wealth of those who can save out of their taxed income. This is a mathematical certainty. Therefore, tax havens and the opportunities that they provide to the wealthiest to save untaxed simply exacerbate the overall level of inequality in the UK, and what we know from the book *The Spirit Level*, by professors Richard Wilkinson and Kate Pickett, is that inequality is harmful to everyone in society. Tax havens undoubtedly increase inequality: they cause direct harm as a result.

Fourth, there is the problem of moral hazard. If it is obvious that some in society are cheating on their taxes, whether legally or illegally (and cheating can be both) then the willingness of others to comply with the requirements of the tax system is eroded. That is inevitable. The consequence is also obvious: less tax will be paid, whilst more illegal trading will take place. Both are deeply dangerous. Less tax paid means a lower level of government services, which impacts upon education, health, pensions, social security and the social safety net, defence, basic services such as fire and the police, and so on. Very few in the UK want to see such cuts, whatever they feel about the need for a balanced budget (or not). In that case, the direct and indirect impacts of tax havens is very obvious: we are all worse off because we have poorer services.

But, perhaps even this is not as important as the illicit trading that is encouraged. What we know is that if markets are to work well then there must be a level playing field on which they operate. Tax cheating undermines that level playing field. It provides some, who are willing to cheat, with an advantage over those who are honest. The honest are disadvantaged, the cheats are advantaged. But the cheats will show a number of characteristics which are also deeply antisocial, and contrary to the best interest of society. They are highly likely to have a short-term view. They are unlikely to invest for the long-term benefit of their businesses or society, or the country as a whole. They are the least likely to train people. They are unlikely to recruit apprentices. These businesses are, therefore, those of least worth, and yet the failure to tackle tax havens provides a bias towards them that is deeply prejudicial to the interests of all those businesses that we would want to encourage in the UK. It is very hard to work out why we would want to do that. As I have said on air to today: tax havens do more harm to free markets than communism could ever achieve.

Finally, let me make a last point. I believe that we only continue with a pro-tax haven policy in this country because of the pressure brought to bear on the government by the City of London. Since the time of Magna Carta, at least, the City of London authorities have brought enormous pressure to bear upon the government to ensure that the interests of the banking and financial community are paramount in UK economic policy. At the same time though those same City authorities are so insecure

about their ability to compete on the world stage that they demand the existence of a network of tax havens that will transmit untaxed money to London, and return it in the same form. They are not willing to compete on a level playing field, because they are not sure that they are able to do so. But, because they have this unfair competitive advantage over other financial markets the result is that we have a massively overinflated financial services sector in the UK.

This results in the UK suffering what the Tax Justice Network calls the 'Finance Curse'. This is the equivalent of the 'Resource Curse', which is suffered by many countries that have substantial raw material resources, whether they be oil, gas or another commodity. The overinflated importance of that one sector leads to it crushing most other economic activity in the state, whilst its impact on trade arises because of the over inflated value of the country's currency, meaning that the UK's productive businesses cannot compete on the world stage because their products are overpriced as a result of the overinflated exchange rate caused by the industry that has created the curse, which in the case of the UK is finance.

The consequence is that there is no prospect of there being what George Osborne called a 'march of the makers' because they quite simply cannot compete on the world stage and yet it is that very process of rebalancing the economy that is essential if most people in this country are to have the careers, incomes, and opportunities that they both desire and deserve. As a result, the UK's tax haven network is in fact undermining our economic competitiveness (the City of London excepted). Those tax havens are literally dragging us down, and we all suffer a loss of income as a result.

The net effects of all this are enormous. I suspect that with a lot of effort the costs could be estimated but anyone with an imagination can see that if we both harm our income, and what we have to spend out of it by increasing the cost of housing whilst reducing the sums available to spend on essential services, we are bound to be significantly worse off as a consequence of UK tax haven activity.

In that case have no doubt that the tax haven world really impacts on your well-being.

As a result, who should be demanding that something be done to stop it now. [I will address that issue next.](#)