

How do tax evasion and tax avoidance create economic an...

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I am speaking at a conference in the Austrian parliament in Vienna this morning. This is, broadly speaking, what I am going to say (and please note moderation may be slow as a result of this activity):

The fight for tax justice:

How do tax evasion and tax avoidance create economic and social inequality?

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Tax abuse

- * Tax avoidance is supposedly legal - it exploits loopholes in the law
- * Tax evasion is illegal - it involves straightforward lying to tax authorities
- * Both have the same purpose
- * To free-ride the state and other citizens whilst enjoying the collective goods that they create
- * That's why both are rightly called tax abuse

How tax abuse happens

- * Tax abuse happens in secret
- * No one wants to be found out to be cheating
- * Large companies hide tax avoidance in their accounts

- * Tax evaders hide their money
- * Both commonly use tax havens

What tax abuse does in companies

- * Encourages tax manipulation for short term gain
- * Encourages cash shifting to tax havens
- * Encourages investment in lobbying for lower tax rates, not investment in jobs, goods and services
- * Reinforces financial speculation as a source of earnings, not making things

What tax abuse does to individuals

- * Encourages them to move money to tax havens, and then it gets stuck there
- * Encourages the creation of trusts and foundations managed by very risk averse accountants and lawyers
- * Concentrates wealth in the hands of a few, even in families
- * Actually prevents inheritance : money stays out of use offshore for generations
- * Creates a culture of wealth preservation not risk taking

What tax abuse does to markets

- * Denies them the information they need to allocate capital efficiently
- * The opacity tax abuse needs increases risk for all market participants
- * Increased risk increases required rate of return for investments
- * That reduces the amount of funding for investment and so market activity

The result?

- * Wealth concentration increases
- * Risk taking reduces
- * The demand is for rents and secure returns so real investment reduces
- * Lower investment means fewer jobs and lower productivity and so lower wages
- * We lose GDP
- * We lose tax revenue

- * We lose business opportunity
- * We cease to generate real wealth from production
- * We live in perpetual economic slump
- * People feel progressively worse off
- * Whilst a tiny minority get ever richer by extracting rents from the rest of us

In summary

- * Capitalism is killing itself from within because of its dedication to tax abuse
- * That's costing us all our well-being and our chance to fulfil our potentials
- * Left alone our chance to share in the real wealth of this world