

If we are to have the economy we want we must get rid o...

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I had a good day in Vienna yesterday. A very obviously interested audience suffered me speaking to them about tax justice in English: I had to confess to them that the only exam I have ever failed was German. They did not get provided with translation. Embarrassingly then I was provided with translation to ensure I could partake. I am grateful.

I am grateful too for the questions I was asked, which were wide-ranging. Some were technical. The accounting base for the EU's common consolidated corporate tax base got an airing, which I am not sure I have ever been asked about in the UK. So too were capital controls and whether they might be a much higher priority than any control on the flow of labour. An economically literate audience were testing whether I would have the courage to support what economic theory clearly suggests to be a real issue of concern. For the record, I did: as I have said here recently, for the UK to suggest free movement of labour is a problem when it has no apparent concern about the free movement of capital is a straightforward recipe for increased inequality.

Perhaps the most interesting of many questions and comments was though about whether I and others partaking in discussion were optimistic that tax justice could be delivered. [Mark Pieth](#) was: he noted how far we had already progressed, and when making my keynote presentation I had made to same point. If you'd asked me in 2010 whether I could imagine us securing the advances we have now made I would have been surprised. But I sounded a note of caution as well. I said I was quite sure we would make further progress but only on one condition, and that was that we have to suffer another global recession first.

Two factors persuade me of this. The first is that the global economy does tend to dip into recession every seven to eight years or so, on average. Some such recessions are, of course, more serious than others, but we don't have what are widely recognised to be economic cycles without good reason: they happen. And right now the next recession is overdue. There had been much reference in discussion to the follies of Trump and Brexit: this was a largely social democrat audience given that the event was

organised by that party, who are currently part of the ruling Austrian coalition government. I suggested that the impact of these two events might in themselves be enough to create that recession but if not then something else would: a downturn is inevitable at some time soon. And, I suggested, when that recession comes along tax justice would be waiting to provide the answers to the questions that politicians will then raise.

We have, of course, already done this once. In 2008 the world's politicians blamed tax havens for what happened. They could because the groundwork on the abuse that tax havens caused had been laid by a diligent few who had been recounting this over previous years. Grateful politicians, looking for an excuse, grabbed what we had done, happily placed the blame on such places for the ills that we then encountered and set out to try to restore the pre—2007 global economic system. They failed. They did so because they had not realised that what we were not suggesting that tax havens were peripheral to the global financial collapse but were at its core. And that system has now failed for good. This was the thesis of my 2010 co-authored book that remains, in this respect, as relevant then and now, and of my new book, which is out next week.

So, I said, this time politicians will realise that we need real reform. A bit of information exchange will not do. When even the FT thinks that globalisation is dead, and that populist politics reflects that fact, then much more fundamental reform is required. And that was the theme of the second part of my answer. As the research I am now engaged in shows, regulatory reform happens in waves. The pattern is that there is a crisis, followed by a flurry of furious activity in response, after which reform is created and then supposedly embedded in the system, only for it to be found that whatever has been attempted has been insufficient to root out the cause of the problem and the next crisis then precipitates the start of another cycle of reform. I suggested that we're now at the end of one such cycle and are waiting for a recession to start the next.

I do believe that a crisis will deliver that real reform. Then, and unfortunately only then, will politicians accept that the economy to which they have clung for more than thirty years has been little more than a pointless exercise in creating paper based wealth, far too little of which was related to any underlying economic reality. As the real gains made post-war have receded this has become ever more painfully apparent and, as I suggested, much of that paper wealth may disappear in the recession to come.

That may be painful. It may also be necessary: we will see. But what will transpire either way is a new mixed economy where the focus is on real investment, sustainable value and people achieving their potential. That is what tax justice has always been about in my opinion. My book *The Courageous State* was about that. I genuinely believe this new economy is possible. I also think that the pathway to achieving it will be as bumpy as the turbulence the aircraft I am typing this in on Monday evening is suffering as we head for Stansted and home.

Today (Tuesday) I take a variation on this message to a very different audience as I

address a conference on the future of small island offshore financial centres. As my slides ([on this blog](#)) show, I will not be delivering them a message of hope. They may not be as keen as my audience in Vienna were on hearing my message, and quite a lot of those Austrians were uncomfortable about the predicted rough passage that may be required to deliver the economy we need and deserve. Appeasing audiences has, however, never been my aim. I tell it how it is. For us to have a better, sustainable and fairer economy, which is the pre-requisite of a new economic and political order, two things have to be consigned to history.

One is the fallacy of globalisation, supposedly based on entrepreneurial business when in fact it was based on rent seeking activity that has denied capital to those who need it to innovate to meet the needs of a growing and fast changing world population.

The other is the tax havens that have always existed to let those playing the game of globalisation get away with this pretence and deception. Tax haven's role has always been to destroy the meritorious activities that the market based parts of our mixed economies can deliver. Now is the time to celebrate a new social democracy coupled to a new social capitalism. We have to sweep away the impediments to progress to achieve this and tax havens are at the top of that list.