

Tax havens exist in a kind of symbiosis

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[Inside Higher Education](#) published a review of my new book, '[Dirty Secret: how tax havens destro the economy](#)' this week. Its author, [Scott McLemee](#), was generous, particularly in noting this after running through all the more usually anticipatble arguments in the book:

Murphy also, surprisingly, regards tax havens as an affront to the power of the marketplace and their defeat as essential to saving capitalism from itself. I admit that this argument caught me off guard. Here is the author making it in brief.

If markets are to be efficient in the way that economists have described -- and as those who suggest they provide optimal solutions profess to believe they operate -- then there must be the highest-quality information available to all market participants so that they can act rationally, allocating resources to the person who is best able to use them to maximize return, and who exposes the provider of capital to the lowest risk in that process. Very obviously, tax havens undermine these principles. They are in fact designed to deny market participants the information they need to act rationally, allocate resources efficiently and minimize risk. ... If risk is increased, then the required rate of return within marketplaces also increases. This means that the number of projects that can be invested in is reduced, so that the amount of capital committed is diminished. As a consequence, productivity declines, and along with it growth, output, wages and profits

The suite of reforms Murphy proposes amount to a program of robust data collection by the European Union and other international actors combined with legislation that would, bit by bit, make access to secrecy jurisdictions more difficult and less profitable. The alternative is even more staggering levels of inequality than have already become the norm. Murphy's trust in the possibility for reform would be easier to credit if the shadow economy were some kind of lamprey that had attached itself to an otherwise healthy organism; then it could be removed. But his book is too persuasive in its depiction of tax havens as tightly connected to banks, accounting firms and other established institutions. They seem to exist in a kind of symbiosis -- which can't end well.

The book [*is available here*](#). *And no doubt in other outlets too.*