

Tax havens really do mess up our economy

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I was asked to answer some questions on tax havens yesterday. They'll be used as part of the publicity for the Portuguese edition of my book [Dirty Secrets: how tax havens destroy the economy](#). Because, however, they are just as relevant here in the UK I thought I would share them here.

Q: There's a lot of confusion between the terms offshore (as a tax heaven) and secrecy jurisdiction. What is, in your opinion, the difference and what is the best term for the public to understand?

The language of offshore is pretty confusing — and as the person who was responsible for popularising the term secrecy jurisdiction I accept my share of the blame.

Let me get offshore out of the way first of all. Offshore does not in any way refer to small islands, palm lined beaches or anything else as esoteric as that. What it simply means is 'not here'. The term was developed in London in the 1950s to define transactions that were recorded there between two organisations that were not in the UK. Of course, the UK is an island. So, offshore happened to make sense in its context. But the same term can apply just as easily to a transaction recorded in Liechtenstein between two organisations that themselves are not there. And Liechtenstein is landlocked, of course. So it just means 'not here'.

I wish the term tax haven was as easy to define. In fact, I can't define it and no one ever has, successfully. The problem is that what people call tax havens come in so many varieties. So, the BVI sells vast numbers of secretive companies and the Netherlands provides an opportunity for multinational companies to move their profits around tax free. Mauritius is a gateway to India and Africa because it treats capital gains so favourably. And I could go on and on. But the problem for those writing on the subject is that none of these things make sense of any definition, and not all even relate to tax.

So [I defined the term secrecy jurisdiction](#) because what I realised when creating the first Tax Justice Network Financial Secrecy Index was that what all these places are

selling are products that the users are embarrassed to admit they are using. Whether they are tax avoiding or evading, or hiding a business from competitors, or assets from a spouse, they don't want people to know. And this is the feature that all the places commonly called tax havens really have in common. To be precise then a secrecy jurisdictions create laws for the benefit of people who live somewhere else (or 'elsewhere' as I usually put it) and creates a veil of secrecy to make sure that they can't be identified to be doing so. More than sixty countries meet that definition.

Q. In your analysis, the problem regarding tax authorities not collecting tax owing relies on the lack of resources (human and technology), lack of legislation or both?

Why don't tax authorities try to collect all the tax that is apparently owing to their country? This is a question I am often asked because it seems to many people that this must be the case. Official figures confirm it. For example, the UK's tax authority has said it's missed collecting more than £30 billion a year for the last decade. I estimate that the loss may be much bigger, at more than £100 billion a year. So why is that?

There are a number of reasons. The first is that across the world at least half of the political spectrum really does not like tax and argues that the less of it, and the government it funds, there is the better it will be for the economy and even humankind. It's a matter of opinion as to whether they are right (and I don't think that they are) but if you want the most important explanation as to why tax is not collected then this is it.

Well, it's that and the fact that the rich and powerful, including the companies that they control, are very good at persuading politicians of all parties that tax is a bad thing. The result is that the political will to collect tax was missing for a long time, and still is in many cases. The result has been a lack of resources for tax authorities, and weak law. And let's not forget that at one time the UK deliberately set up secrecy jurisdictions, many of which still survive under its protection.

What has changed? Three things. First, civil society opposed this idea and said tax abuse was imposing a real cost, especially on developing countries. The Tax Justice Network began this but now also every development agency has joined in, largely because the facts support the case.

Second, there was the Global Financial Crisis and suddenly countries needed more tax revenues.

And third, the media got behind the issue, which changed the perception of it. Now tax abuse is not smart anymore.

Q. Populism gain advantage because of low GDP growth and high deficits which have translated to worst living conditions for populations. Do tax heavens have a responsibility in this matter and what could be the answer for this problem?

Since 2008 there has been a worldwide shortage of tax. Austerity, hardship, youth unemployment, poor healthcare and so much else has followed. Many politicians have blamed tax havens for all this. And to an extent they are right. Of course tax havens cause a loss of tax revenues to governments. That is indisputable. But do they cause all the loss? That is simply wrong. They do not. I doubt that more than ten per cent of the loss in the UK can, for example, be blamed on tax havens. The domestic 'cash in hand' economy very definitely costs a great deal more. But that does not mean that tax havens aren't important. The fact is that they are an assault on other country's tax systems. And the fact is that they tend to be used by the largest companies and the wealthiest people and by doing so these users make it clear that tax abuse is socially acceptable, and this no doubt encourages domestic tax evasion. It is more than that though. The fact that the wealthy and large companies pay less than they should means three things.

The first is that the wealthy get wealthier faster than the rest of us who pay tax, and so the wealth divide in society gets even bigger.

Second, the large and cheating companies that use tax havens get an unfair competitive advantage over their tax paying competitors, which means honesty no longer pays.

Third, the money tied up in tax havens tends to be invested very cautiously and so we get less risk taking and so slower growth, less new employment, and so fewer taxes and continued austerity.

Tax havens really do cost us all a fortune, but for many more than the initially obvious reasons.

Q. A lot of people say that a solution could only be achieved in a global action towards offshore. Do you share this kind of approach or you think that countries or organizations like the EU or the UN could make this situation way better?

There is absolute no reason why a global solution is needed to this problem, which is good news as it is almost certain that no such solution is available. The EU has probably been the most successful opponent of tax havens, starting with its savings directive in 2005. The OECD has been next, especially since 2008. Its initiatives against multinational companies appear to be having a real impact. But individual countries with their own laws that, for example, challenge the abuse sold by their domestic tax advisers have also had real success. So the reality is that a combination of measures from international organisations and domestic law are having a real impact on tax havens. If measures against tax advisers were even more powerful then the local initiative might be even more successful. Cutting off the supply of tax haven services is vital.

Q. What would a world without offshore be like?

What would the world be like without tax havens? I could go on for a long time so let me mention the most important things.

First, there would be more tax paid. Or alternatively, the tax bill might be more evenly spread and so each of us might pay less. Most people would be happy with either the improved services, or lower tax, or a bit of both.

Second, more of the world's money would be back in productive use. If invested wisely that would fuel growth. That would increase the demand for labour. Young people would get a chance. Wages would rise. And incidentally more tax would be paid, again. We would all be better off.

And third, there would be fair competition. The vast army of accountants and lawyers who now fuel tax abuse would have to instead help business to make honest profits. And there would be no hiding place for those profits, which would businesses would survive and grow only if they met their customer's needs, and not because of their ability to cheat. We would have fair and open markets again, which all who believe in markets should welcome.

This would be a very different world. And I believe that it is achievable. That is why I wrote my book.