

Tax havens exist to undermine democracy. They are a fun...

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Not long after I first began to work on tax haven reform more than twenty years ago I realised that the problem that these places created was much bigger than most people appreciated.

The focus of most tax authorities was on the scale of the tax losses that they might generate, but in terms of their political economic impact, their consequence was much bigger. John Christensen and I suggested, right from the beginning of the time that we worked together in 2003, that the real function of tax havens was to act as the launchpad for an assault on democracy.

The underlying logic of this claim has always been quite straightforward. Those who hate representative government subscribe to the simple logic that if only they can starve democracies of the revenue that they require to fulfil their mandates then they can undermine the whole social contract that is the foundation of the democratic promise created by the universal electoral suffrage that has only really been commonplace from the 1930s onwards. Tax havens are a way to deny them that revenue.

I [wrote the following piece on this issue in 2009](#), but nothing much has changed since, and so I will share it again. The need for vigilance with regard to this coordinated attack on democracy from the financial services industry, and most particularly from the big four firms of accountants who are the most important coordinators of this assault on our freedoms because of their commonplace presence as enablers in all the world's major tax havens, can never be ignored:

Tax havens undermine democracy. They do this through their promotion of a process called tax competition. As one of the proponents of tax competition, Richard Teather, a lecturer at Bournemouth University [has said](#):

Tax competition acts as a check on governments' ability to raise taxes; it ensures that

governments have more limited powers and thus provides incentives for governments to spend more wisely.

By preventing taxes becoming too high, tax competition boosts economic welfare, productive investment and employment. Low-tax jurisdictions also make global capital markets more efficient.

There are many more quotes of this sort put out by those who support tax havens. There are a number of assumptions implicit in such statements:

- * That it is appropriate for one government to deliberately set out to interfere in another government's ability to raise taxes.
- * That because a government does have a reduced capacity to raise taxation it is necessarily more efficient.
- * That taxation reduces economic welfare and well-being.
- * That flows of unregulated capital through tax havens without cost being incurred result in efficient financial markets.

Each of these has extremely dubious foundation. No group has protested more strongly that another state does not have the right to interfere in the setting of tax rates than the [tax haven](#) jurisdictions. By definition this undermines their argument that they can be used to influence tax rates in other nations.

If, as a matter of fact, low tax rates in tax havens are intended to reduce the capacity of other governments to tax then they are hopelessly inefficient at the task. Over the last decade or so average rates of government spending in [OECD](#) states have risen. Tax competition is a miserable failure on that score.

It is also widely known that the countries with the highest level of recognised well-being in the world are the Nordics states, where levels of taxation are high. At the same time, the countries with the lowest rates of overall taxation are to be found in Africa. It would be a brave person who argued that they have the highest levels of well-being.

As for the argument that the flows of hot [money](#) through tax havens in unregulated fashion have produced economic well-being - the current world financial crisis proves just how untrue this is, and that they contributed to that outcome.

And yet, each of these arguments ignores an even more fundamental issue. That is that tax rates, levels of spending and the allocation of reward within a society should be determined by the people of each state in free and democratic elections. If the people of a state wish to have a high rate of tax, and resulting high levels of public service, or even of income redistribution, then that is their choice. No one, especially a small group of financiers who have taken effective possession and control of the legislature of a small [jurisdiction](#) should be allowed to try to undermine that democratic process being undertaken elsewhere. Those who demand that these financiers have such power

through such locations are in effect saying that the democratic process is one to which they do not subscribe.

The message is simple: tax havens are being used to undermine democracy. They are a threat to a fundamental part of our way of life.