Published on *Adam Smith Institute* (http://www.adamsmith.org)

In defence of tax havens [1]

Written by **Tom Clougherty** [2] | Thursday 28 February 2008

A year ago, a leading article in *The Economist* remarked [3], "Tax havens are an unavoidable part of globalisation and, ultimately, a healthy one". Now tax havens are back in the public eye, with the news [4] that HM Revenue & Customs paid £100,000 for the (stolen) bank details of wealthy Britons with cash stashed in Liechtenstein. Leaving aside the questionable ethics of purchasing illegally obtained information, are HMRC right to go on the offensive against tax havens? After all, don't tax havens cost the Treasury vast sums of money, and force the rest of us to pay more?

Well, yes and no. Certainly, HMRC has a duty to prevent the illegal non-payment of UK taxes and it's probably true that substantial sums of money are indeed being squirreled away overseas. But I still agree with *The Economist's* sentiment that tax havens and the tax competition they engender is a good thing. And the reason is that competition drives governments towards better tax policy.

The reason that wealthy individuals are able to hide money in tax havens is the British tax law has become overly complex (to put it mildly) and correspondingly full of loopholes for the well-advised individual to take advantage of. Tax competition should therefore drive governments to simplify the tax system, making it fairer, more transparent and cheaper to administer as a result.

Tax competition also helps to keep tax rates low. In a globalized world economy, where companies, capital and high-income individuals are increasingly mobile governments can only raise taxes so much before it becomes obvious that they are losing out. Tax competition helps to keep government lean and encourage them to provide more value for money.

If you believe in high taxes and ever-growing government and public spending all this is, needless to say, rather horrifying and requires urgent international efforts to co-ordinate tax regimes. If, on the other hand, you believe in small government and low taxes, then it's time to give three cheers for tax havens!

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