

TREASURE ISLANDS

Tax Havens and the Men
Who Stole the World

Nicholas Shaxson

Bergen, Oct 17, 2011



Why the Rich are Staying Rich

The role of tax havens

- What is a tax haven?
- Why they matter

Part 1:

What is a tax haven?

What is a tax haven?

- **Misnomer:** not just tax. Escape: from
 - Criminal laws
 - Financial regulation
 - Transparency (tax haven = “secrecy jurisdiction”)
 - Responsibilities of society
1. About **Escape**.
 2. About **Elsewhere** (hence the term ‘offshore.’)

Elsewhere, offshore

- Cayman's loopholes: designed not for locals to use, but for foreigners. Elsewhere.
- Offshore lawmakers: always separated from those (elsewhere) affected by the laws.
- There is never proper democratic consultation.

Offshore: almost by definition, a smoke-filled room.

Insider business model. This is what they do.

Tax havens: how big?

- Half of world cross border trade is via tax havens
- Wealthy individuals: up to 20 *trillion* offshore
- GFI Illicit financial flows: \$1.3 *trn* from developing countries in 2008 alone

Where are tax havens?

Biggest:

Financial Secrecy Index (2009)
(Components: secrecy + size)

1. United States
2. Luxembourg
3. Switzerland
4. Cayman
- 5. United Kingdom (special case)***
6. Ireland

Big rich OECD countries

**By other measures, UK is the most important. See below*

Where are tax havens? Biggest:

Financial Secrecy Index (2011)

1. Switzerland
2. Cayman
3. Luxembourg
4. Hong Kong
5. United States





























































Different methodology from 2009,

FSI 2: the British connection

3 Crown Dependencies

7 Overseas Territories

21 Members of the British Commonwealth

Andorra 	Costa Rica 	Liechtenstein 	Madeira (Portugal) 
Anguilla 	Cyprus 	Luxembourg 	Samoa 
Antigua & Barbuda 	Dominica 	Macao 	Seychelles 
Aruba 	Gibraltar 	Labuan 	Singapore 
Austria 	Grenada 	Maldives 	St Kitts & Nevis 
Bahamas 	Guernsey 	Malta 	St Lucia 
Bahrain 	Hong Kong 	Marshall Islands 	St Vincent & Grenadine 
Barbados 	Hungary 	Mauritius 	Switzerland 
Belgium 	Ireland 	Monaco 	Turks & Caicos Islands 
Belize 	Isle of Man 	Montserrat 	Dubai (UAE) 
Bermuda 	Israel 	Nauru 	City of London (UK) 
British Virgin Isles 	Jersey 	Netherlands 	Uruguay 
Brunei 	Latvia 	Nether Antilles 	US Virgin Islands 
Cayman Islands 	Lebanon 	Panama 	Delaware (USA) 
Cook Islands 	Liberia 	Philippines 	Vanuatu 

This is from the 2009 FSI. The 2011 FSI shows a similar picture

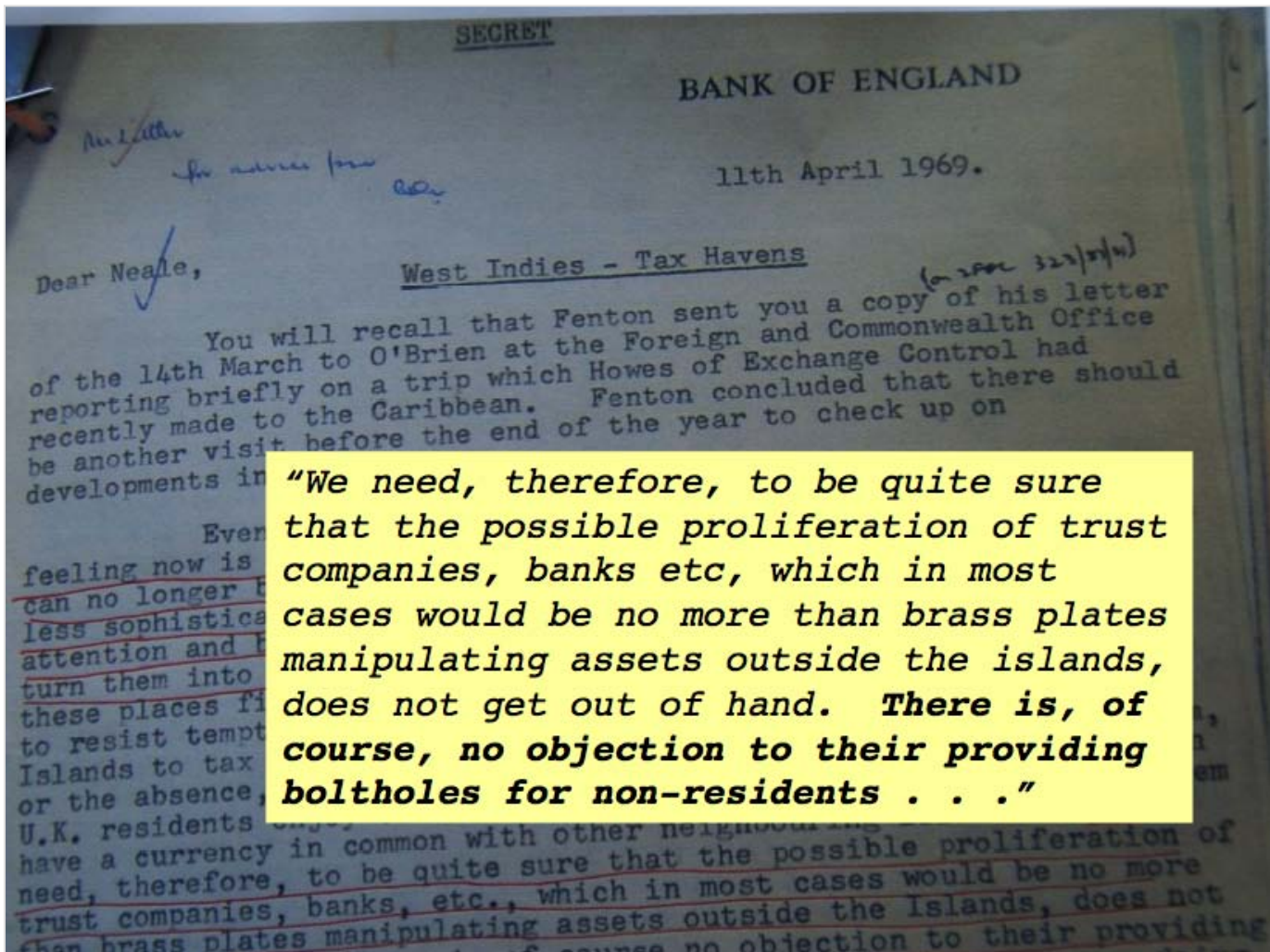
FSI 2009 2: the British connection

This isn't just the Tax Justice Network's assessment.

Mark Field, Conservative MP

"Half of the top 30 offshore financial centers are British dependencies or territories."

Bank of England, 11th April 1969



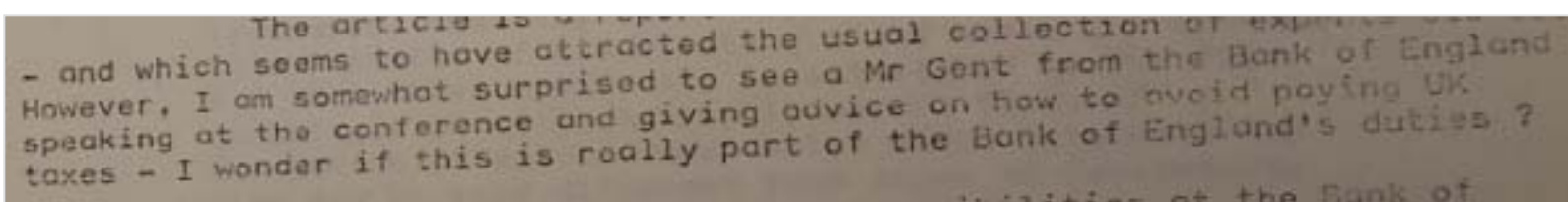
Taxanalysts, 2007 on the 3 Crown Dependencies

Jersey, Guernsey and the Isle of Man

- Hosted US\$1 trillion of potentially tax-evading assets.
- At 7% annual return, tax rate 40 %
- Tax evaded could be \$30 bn per year
- 3X Britain's aid budget

Tony Benn's report on Jersey, 1975

Constituent's letter dated May 30, 1975



The article is a report on the usual collection of expenses...
- and which seems to have attracted the usual collection of expenses...
However, I am somewhat surprised to see a Mr Gent from the Bank of England
speaking at the conference and giving advice on how to avoid paying UK
taxes - I wonder if this is really part of the Bank of England's duties?

"I am somewhat surprised to see a Mr Gent from the Bank of England seeking at the conference and giving advice on how to avoid paying UK taxes - I wonder if this is really part of the Bank of England's duties?"

Finance: City of London

- Tax havens: **feeders for the City of London.**
A web of havens around the world hoovers up assets, and the business of handling those assets, and feeds them up to the City.
- **City's Lord Mayor lobbies** worldwide for financial liberalisation: means more business floating round to be caught in City Web.

Nick Anstee, Lord Mayor of London 2009-10

" [Jersey and the City of London] must continue to put forward a united voice when responding to proposals from government and regulators – hard, fast and early."

Centre for Research on Socio Cultural Change (CRESC), 2011

- 1981-2008 model: rely on City of London, partly alleviate de-industrialisation.
- CRESC: "After 2008, the financial crisis and the ensuing politics of austerity will **traumatically terminate a redistributive social settlement** which disproportionately benefited ex-industrial regions of the North and West."

Part 2:

Why all this matters

1. Tax

Direct effect:

1. Tax evasion
2. Tax avoidance

Indirect effect:

1. "Don't tax us or we'll go to Switzerland / Geneva / Cayman." Affects tax rates.

Overall effect: **compression of tax system**. Lower taxes on mobile capital (the wealthiest), poorer sections must pay. Greater inequality.

2. Finance

- Escape from financial regulation
- City of London: Wall Street's big escape route
- "Don't regulate us too much or we'll go to London / Geneva / Singapore!"
- Tax Havens: silent battering rams of financial deregulation

Finance: the mid 1950s

Widespread capital controls.

High taxes

Few tax haven activities

Very high, broad-based growth

Keynes: freedom for finance means
bondage for democrats

1950s Finance: tethered banks

Oliver Franks, Chairman of Lloyds:

“It was like dragging a sleeping elephant to its feet with your own two hands . . . the banks were anaesthetised – it was a kind of dream life.”

Bankers fumed impotently at the politicians.

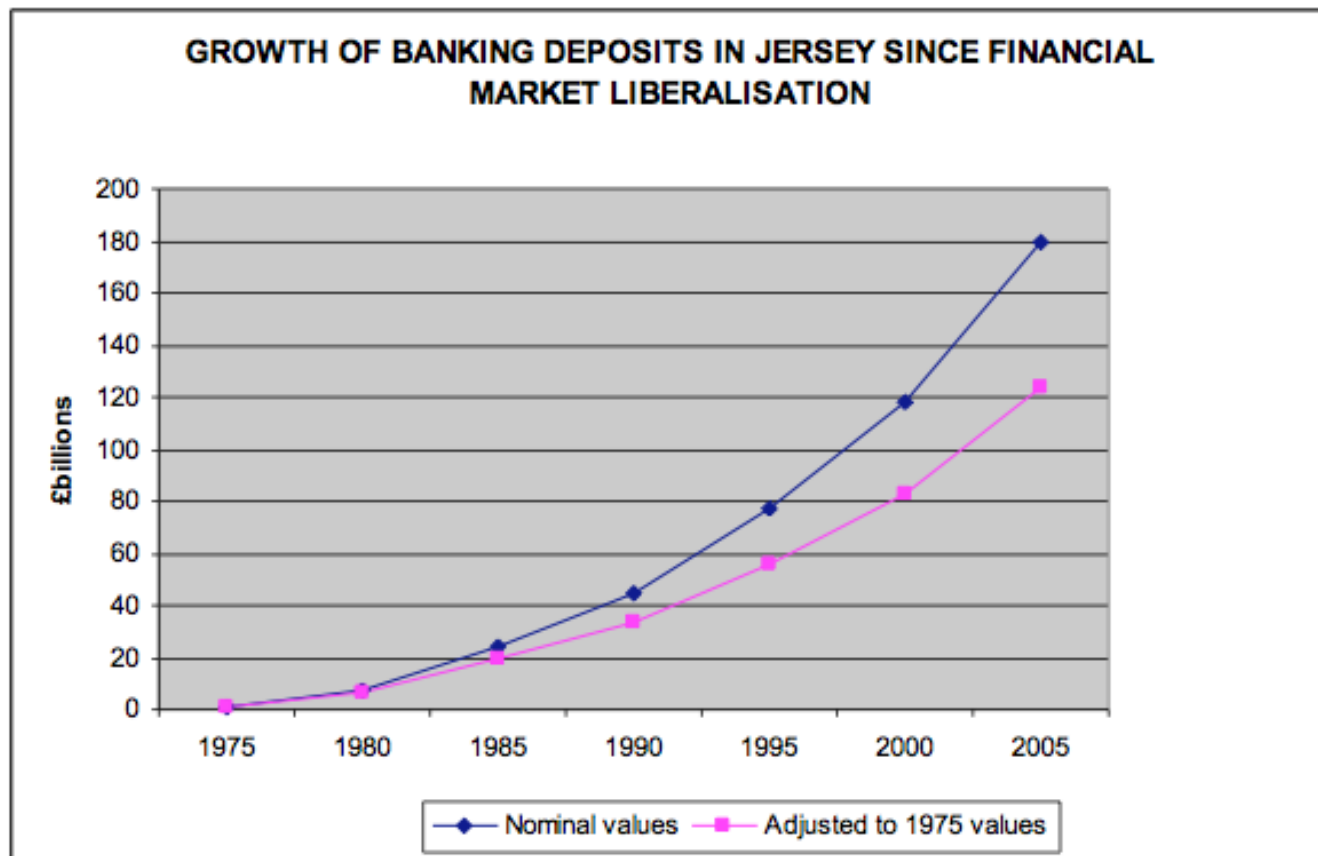
Imagine that today

Finance: globalisation

- Tax havens: **at the heart** of the financial globalisation project
- Undermined democratic regulation, 'opened the box' for Big Finance.
- Forced financial deregulation, whether we liked it or not

Growth of banking deposits in Jersey

Growth of Banking Deposits in Jersey Since Financial Market Liberalization



Source: Jersey Finance data analysed by John Christensen, Tax Justice Network

3. Developing countries

- **Illicit flows** from developing to developed countries: GFI's \$1.3 trn in 2008
- For 33 African countries 1970-2008*
 - Stock of capital flight: \$944 billion
 - Debts: \$177bn
 - ***Africa a net creditor to the world: \$767 billion***
- **Problem:** the assets belong to a narrow elite: the debts belong to the African public

* Léonce Ndikumana, Research director, African Development Bank

Tax vs. Aid

- South Africa's Finance Minister:
"Aggressive tax avoidance is a serious cancer"
- Tax, not aid, is the **most sustainable** form of finance for development.
- Tax builds accountability. Aid can build dependence.

4. Crime (of course)

- Impunity for wealthy criminals
- **Eva Joly:** *“The magistrates are like sheriffs in the spaghetti westerns who watch the bandits celebrate on the other side of the Rio Grande... They taunt us—and there is nothing we can do.”*

Can affect tax haven populations too: Finance Curse

- Very similar to Natural "Resource Curse"

Jersey: the Finance Curse

- Higher inequality, poverty
- Much more corrupt (than UK)
- Dutch Disease: alternative sectors (tourism, agriculture) killed off. Monoculture
- Volatility
- Best human capital, resources, sucked out of rest of economy to finance
- Authoritarian government
- Conflicted society
- Tax: no taxation without representation

G20, April 2009:
“the era of banking secrecy is over”

- Not true
- The OECD blacklist and crackdown:

Almost a whitewash.

(Financial Times, April 4, 2011 [Time To Blacklist the Tax Haven Whitewash.](#))

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Thank you

