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

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<th>3 Crown Dependencies</th>
<th>7 Overseas Territories</th>
<th>21 Members of the British Commonwealth</th>
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This is from the 2009 FSI. The 2011 FSI shows a similar picture.
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

"We need, therefore, to be quite sure that the possible proliferation of trust companies, banks etc, which in most cases would be no more than brass plates manipulating assets outside the islands, does not get out of hand. There is, of course, no objection to their providing boltholes for non-residents . . ."
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
"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
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 tm 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

* Léonce Ndikumana, Research director, African Development Bank

• **Problem:** the assets belong to a narrow elite: the debts belong to the African public
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.
Thank you