

TREASURE ISLANDS

Tax Havens and the Men

Who Stole the World

Nick Shaxson

Brighton, May 12, 2013



Brighton: today's talk

- 1 What is a tax haven?
- 2 How big?
- 3 Britain's "second empire"
- 4 Is the problem now being tackled?

Part 1:

What is a tax haven?

What is a tax haven?

- Misnomer: **not just about tax.**
- Also escape from
 - Disclosure rules: transparency
 - Financial regulations
 - Criminal laws
 - Corporate governance rules
 - Etc.
- What are the common themes here?

What is a tax haven? 2

- Two words: “**escape**”, and “**elsewhere**”.

Tax havens help people escape from rules, laws, taxes, of other jurisdictions elsewhere.

- “Elsewhere” - hence the term ‘offshore.’
- “Escape” – hence “haven”.
- **Outcome:** one set of rules for wealthy elites, and another set for the rest of us

Elsewhere, offshore

- Cayman loopholes: not for locals, but for Americans etc. Elsewhere.
- Offshore lawmakers: always separated from those (elsewhere) affected by the laws
- There is never proper democratic consultation.

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

Is it all illegal?

- Offshore business: a mix of
 1. Legal,
 2. Illegal
 3. “Grey” money of questionable legality
- All three are usually or always abusive,
 - e.g “legal” multinational tax avoidance.

Part 2:

How big is the problem?



One U.S. dollar:
15.5 cm long

Distance

- 1 metre \$ 6.50
- 1 km \$ 6,500
- 1,000 km \$ 6.5 million
- 1 million km \$6.5 billion
- 1 billion km \$ 6.5 trillion

How much money offshore?

- Estimates range from US\$7 - 32 trillion
- = 1 - 5 billion km of dollar bills
- Distance earth -sun: 150 million km
- = 0.15 billion km

So:

- *“Turn all the offshore money into dollar bills, lay them end to end, and they would stretch to the sun and back, many times”*



- How much can you fit in a briefcase?

If not briefcases, then how?

- **Banks!**
- Tax havens are about financial institutions
- In nearly every country studied, banks are the biggest users of tax havens
- “Pinstripe infrastructure” of lawyers, accountants etc

\$21-32 trillion: offshore is not an exotic sideshow to the global economy, but at its heart

If not in briefcases, then how? - 2

- Four main sets of players
 - **European** (Switzerland, Luxembourg, Liechtenstein etc.)
 - **United States:** federal and state-level secrecy
 - **Asian:** mainly Hong Kong, Singapore, (Dubai, Mauritius.) Smallish, but growing fast
 - **The British network**

Part 3:

Britain's "Second Empire?"

Bank of England, 11th April 1969

SECRET

BANK OF ENGLAND

11th April 1969.

Dear Neale,

West Indies - Tax Havens

You will recall that Fenton sent you a copy of his letter of the 14th March to O'Brien at the Foreign and Commonwealth Office reporting briefly on a trip which Howes of Exchange Control had recently made to the Caribbean. Fenton concluded that there should be another visit before the end of the year to check up on developments in

Ever
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attention and
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Islands to tax
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"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 . . ."

(in case 11/4/69)

The British network

- **Concentric rings**
- At centre: the City of London
- Inner ring; Crown Dependencies
 - Jersey, Guernsey Isle of Man
- Intermediate ring: Overseas Territories
 - E.g. Cayman, Bermuda, BVI
- Outer ring: assorted Commonwealth, ex-UK
 - Hong Kong, Bahamas, Mauritius

FSI 2009 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	

Thought experiment

- How many British citizens stash their secret money in Lagos?
- How many Nigerians stash their secret money in London?
- This tells you the direction of financial flows, and in whose interests secrecy is.

The British feeder web

- Money is captured by the different parts of the web
- E.g.
 - Caribbean focus on North and South America
 - Crown Dependencies focus on Europe, Africa
 - Etc.
- Money + business of handling money, fed to the City
- E.g. 3 Crown Dependencies provided net financing to UK banks of \$332.5 bn in Q2 2009

British feeder web 2

- Enables City to get involved in dirty business, but say ‘there is nothing we can do’
- Corporate players (banks) provide political cover for jurisdictions
- UK responsible for “ensuring the good governance of the Crown Dependencies and Overseas Territories.”

Britain's “second empire?”

- *“We have, to put it provocatively, a second British empire which is at the very core of global financial markets today.”*

Professor [Ronen Palan](#), City University

- Colonies: Britain left by the front door and came back in by a side window
- A substantially criminal empire

Part 4:

Current developments:

Is it being cleaned up?

Yes, up to a point

● **BUT:**

- Much less to this than meets the eye
- Given Britain's history we should be very, extremely, highly suspicious
- V V powerful forces pushing quietly back already

Forces driving today's changes?

- Positive:
 - “Offshore leaks” – a few months?
 - Austerity, inequality. People demanding rich should pay their share. Since 2008: a few years
 - Knowledge that offshore is BIG and DANGEROUS: permanent. The intellectual battle is pretty much won.
 - Pressure from the street
 - UK Uncut, Tax Justice Network, unions, development NGOs, businesses, etc etc

Forces resisting change

- Negative:
 - City of London loves it
 - “Competition” to attract the world’s hot money, by offering better secrecy, better tax loopholes.
 - Asian havens: Hong Kong, Singapore, Dubai, Mauritius. “competing”

Politicians' reactions to opposing forces?

- a) Do the right thing
- b) Be seen to be doing the right thing.
- For the UK / Osborne / Cameron: **which is it?**

Current push has two aspects

1. **Secrecy.** British tax havens, FATCA, etc. Some limited progress.
 2. **Multinational tax avoidance.** Starbucks, Vodafone etc. A disaster, a con. The opposite of progress.
- Two very different aspects of the tax haven problem.

George Osborne, yesterday (May 11, 2013)

- “I am committed to a competitive tax system that promotes growth, but I’m also determined that tax that is owed must be paid.”
- “Competitive” is the world’s worst weasel word.
See TJN – Mythbusters series:
“A competitive tax system is a better tax system”

(No it isn’t.)

A competitive tax system

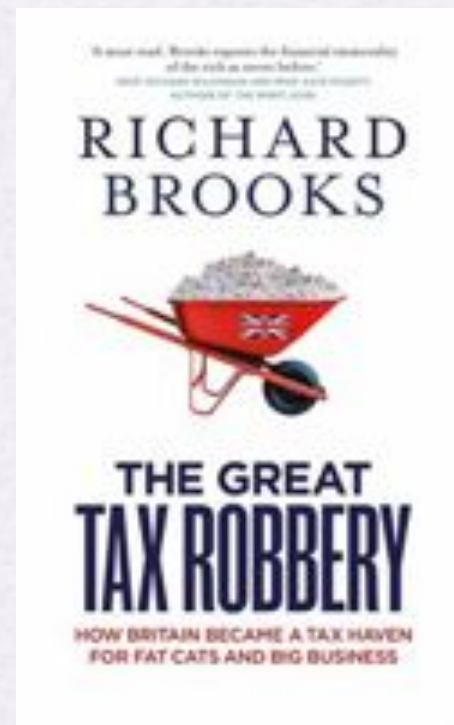
- “Competition” between countries on tax has **nothing whatsoever to do with** competition between companies in a market.
- This is about a **race to the bottom**
- There is **no link** between tax ‘competitiveness’ and growth.
- A “competitive” tax system will harm UK

The UK's Corporation Tax Hoax

- Slashing corporation taxes
- Patent box
- Relaxing foreign companies laws, exempting tax haven branches from tax
- *“You think the government is fighting tax avoidance? Think again. . . Osborne has taken the deception to a new level”*
- **Richard Brooks**, Guardian, March 17
- *“These are all moves which, in effect, turn the UK into a giant tax haven”*
- **Ben Chu**, The Independent, Jan 2013

Is the UK tackling multinational tax avoidance?

- “Osborne’s *bamboozled audience will never notice the abject surrender to tax havens*”



Secrecy

- Some improvements to get more info out of UK tax havens. BUT:
 - So far quite limited, geographically. **This may (partially) protect rich countries, leave poor ones wide open to abuse?**
 - Devilry in the detail.
 - So what are the details?

UK Treasury statement

May 2, 2013

Re Overseas Territories, Crown Dependencies

1. “Much greater levels of information about **bank accounts will be exchanged on a multilateral basis.** (World’s media: “hooray!”)
 - But Cayman, BVI are not about “bank accounts” but about secret companies, trusts etc.
2. “This also includes information on **certain accounts** held by entities, such as trusts.”
 - Which accounts? No explanation yet
3. “Action to ensure they are at the forefront of transparency on company ownership
 - What the hell does that mean? No explanation.

Summary

- We are in a period of rapid change.
- Opposing forces, outcomes very uncertain
- What will make the difference now?

Above all: pressure from the street.

- THANK YOU

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