

# Dirty money flows distort our economy and corrupt democracy

It's time to confront the tax-haven monster that panders to the rich, robs the poor, and corrodes public faith in our laws

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Many of us harbour a queasy feeling that something is wrong with the global economy, but we can't quite put our finger on it. Some think the problem is globalisation itself. I don't agree. But there is something wrong. The world's wealthiest citizens have created - and are extending - a secret, parallel, offshore economy where they can operate outside democratic structures. As George Bush put it: "Real rich people figure out how to dodge taxes." Next month, the leaders of the world's richest nations meet for the annual G8 summit in Germany. We must ask them difficult questions.

The offshore world developed stealthily, over decades. Like the fabled frog who drowsily fails to jump from the warming saucepan, we accept this scandal as a fact of life. In a small way, I contributed to it. In the mid-80s, I left a career as a development economist and returned home to Jersey, finding the island booming as a tax haven. As global markets liberalised, major banks, accountants and lawyers were setting up offices to cater for high net worth individuals (Hen-Wees). Within days, I had found a job with a major accounting and trust administration company. Later, I became an economic adviser to the States of Jersey.

Most clients wanted to dodge taxes. We processed instructions from London, Switzerland and New York for assets whose mysterious owners were veiled behind nominee directors and shareholders and unregistered offshore trusts. These arrangements typically involved three legal entities spread across different jurisdictions and included "flee clauses" to flit away at the first hint of investigation. One client, a stockbroker syndicate, ran an insider trading racket via Jersey

involving hundreds of millions of dollars. Others outwitted the taxman through trade mispricing scams, selling prefabricated buildings to Trinidad for \$1.20 each, or importing toilet rolls from China at \$4,122 a kilo.

Don't imagine that this involves just a few exotic individuals. By the mid-90s, the big private banking institutions had set themselves the goal of shifting most of their Hen-Wees (worth \$1m or more each) offshore within a decade. They had identified 8 million Hen-Wees then, so an absolute minimum of \$8 trillion was involved, though today the absolute minimum is nearer \$12 trillion. Over half of global trade is routed through tax havens.

Some colleagues bought into the delusion that these financial gymnastics constituted "best practice". Most didn't care about the broader impacts of their work. Once, en route to our usual Friday binge drinks, my supervisor said she didn't want to discuss these issues, and didn't "give a shit about Africa anyway". The tax industry plays up the difference between tax evasion (illegal) and tax avoidance (legal). Whatever the legality, both corrupt public faith in laws and institutions and both harm our economies.

Tax havens warp the foundations of market capitalism. David Ricardo's theory of comparative advantage says that production should gravitate towards geographically relevant areas: cheap manufactures come from China and France or Chile produce fine wines. But now we have thousands of companies operating from one building in the Cayman Islands, and a former Thai prime minister avoids paying tax on a \$1.9bn sale through a British Virgin Islands company called Ample Rich Investments. Small wonder that people lack confidence in the global economy.

Swiss bankers, worried that the Nazi gold scandal had affected their reputation, cooed that secrecy "is as vital as the air we breathe". But, in practice, this parallel economy is a hothouse for crime and corruption, facilitating capital flight from developing countries on a mind-boggling scale, a corollary of the City's boasts about attracting capital into the UK. The offshore economy distorts markets by providing tax loopholes to some businesses but not others. It corrupts democracy, helping elites to evade their responsibilities to the societies that nurtured them, and breaking fundamental relationships of accountability that are forged when rulers tax citizens. It does not create wealth but redistributes it from poor to rich. Worse, it destroys wealth and slows growth.

In April, the IMF identified the UK as an offshore financial centre. The City of London is a nerve centre for an array of tax havens around the world, actively courting capital from poorer economies. Yet tides of foreign money have sharply worsened inequality in Britain, whose child mortality is nearly the worst in the developed world. Do we want this unequal prosperity, built on tax breaks for rich people, subsidies for business, and dirty money from poor countries?

We face uncomfortable questions and tensions. Company directors feel under pressure to minimise taxes, but tax is a vital contribution to society, and it is offshore where this all goes wrong, and where our queasy feelings originate.

Britain must abandon its anachronistic domicile rules and end its underhand games to eviscerate the EU's savings tax directive. We should push to reform international accounting standards so that companies must report on a country-by-country basis, at a stroke potentially producing more benefits for the world than a hundred billion dollars in annual foreign aid. But to win the battle against the cancer of tax havens will require much greater commitment to international cooperation, founded on a push for greater transparency. Global debate on these issues is long overdue. New branches of economics are required, asking questions such as how certain aspects of global financial and trade liberalisation foster criminogenic, corrupting environments.

Astonishingly, neither the IMF nor the World Bank have seriously studied the scale or nature of global dirty money flows, which others estimate at up to \$1.6 trillion per year - half from poorer countries. For each dollar of aid into Africa, at least five flows out under the table. The time has come to confront the tax-haven monster.

• John Christensen is co-author of *A Game As Old As Empire: The Secret World of Economic Hit Men and the Web of Global Corruption*