

Where they hide the cash

We help rich individuals and companies to spirit away vast sums from the developing world

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Five trillion dollars has been corruptly removed from the world's poorest countries and lodged permanently in the world's richest countries. That is the "conservative estimate" not of a leftwing anti-globalisation activist but of a leading American businessman and enthusiast for capitalism who has just completed a major study of how multinational corporations, wealthy individuals and unscrupulous governments are using the world's banking systems in ways that spread poverty.

When aid or debt relief are discussed, attention often focuses on corrupt leaders and governments in Africa and other parts of the developing world. But they are amateurs compared with the rich companies and individuals who use the world's tax havens and banking systems to hide sums of money that could address almost all of the continent's financial needs.

The United Nations has now recognised the seriousness of the situation and today the first meeting of a new committee of experts on international tax matters will be held in Geneva. What will emerge from it remains to be seen, but at least one of the world's great hidden scandals will have a brief airing.

Raymond Baker is a committed capitalist whose new book, *Capitalism's Achilles Heel*, has already made waves in the US. In Britain he has been working with the Tax Justice Network, a London-based organisation that seeks to expose the abuse of tax havens and loopholes.

Baker describes capitalism as "the greatest economic arrangement ever devised", but he believes that western governments and banks are failing catastrophically in their duty to police the system. "Falsified pricing, haven and secrecy structures and the illicit movement of trillions of dollars out of developing and transitional economies break the social contract ... that Adam Smith incorporated into the core of the free-market system," he writes.

Six out of 10 US corporations pay no tax, and the recent Enron scandal demonstrated how cynically major household names in the US exploit the system. Enron used around 800 different "Caribbean financial dumps" to hide its debts. Baker argues that the west could break the back of poverty worldwide if there was political will to tackle the abuse of the tax

and banking systems. Instead, western countries have been all too willing to turn a blind eye to the original sources of money.

"Laundered proceeds of drug trafficking, racketeering, corruption and terrorism tag along with other forms of dirty money to which the US and Europe extend a welcoming hand," concludes Baker, a businessman who operated in Nigeria for 35 years and is now attached to the Brookings Institution. Even since September 11, he says, the US has shown little inclination to clamp down on the illicit use of banking systems.

John Christensen of the Tax Justice Network, a former adviser to the Jersey government, says that more than 50% of the cash holdings of rich individuals in Latin America is now held offshore and that some 30% of the GDP of sub-Saharan African nations disappeared offshore in the second half of the 1990s. The situation in the Middle East and north Africa is even worse. Since the 1980s, banks have targeted the world's roughly 8 million "high net-worth individuals" and encouraged them to hide their funds offshore. As a result, around \$11.5 trillion of their assets are now in tax-free or protected havens.

Today's Geneva meeting is one of the first acknowledgements that greedy individuals and companies and compliant banking systems and governments are far more responsible than corrupt dictators for the state of the poorest countries. It should be welcomed - though we shouldn't hold our breath. The scandal has only begun to be addressed.

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