Havens that have become a tax on the world's poor

A new group aims to expose how billions of pounds which should be funding development is being hidden offshore

Duncan Campbell
Tuesday September 21, 2004
The Guardian

Billions of pounds, enough to pay for the entire primary health and education needs of the world's developing countries, are being siphoned off through offshore companies and tax havens, according to a body formed to expose the offenders.

Aid organisations are alarmed that money which should be used for building the infrastructure of the poorest countries is being hidden in havens by corrupt politicians and multinationals exploiting tax loopholes. Offshore companies are being formed at the rate of about 150,000 a year. While in the 70s there were just 25 tax havens, there are at least 63 now, about half of them British protectorates or former colonies. Tax avoidance in Britain alone is estimated at between £25bn and £85bn.

This month the Tax Justice Network, which was formed last year by tax experts and economists worried about the trend, launched an international secretariat in London. It will work with the UN and other international bodies to reverse the practice of hiding money from governments worldwide.

John Christensen, coordinator of the secretariat, said: "Many developing countries are now dominated by elites that are involved in tax havens. Things have actually got worse in the last few years." As new havens are formed, existing ones offer better deals.

Mr Christensen, a former economic adviser to the Jersey government who has also worked at the then Department of Overseas Development and with Oxfam, said many of the havens were now "locked in a desperate competition. They like to suggest that they oil the wheels of global capital but there is no case for that. What has happened is that tax havens transfer the burden of tax away from capital and towards labour and the consumer."

He also believes that the attraction of making money by putting it in offshore havens damaged British industry because money which could have been invested in Britain had been removed from the country.

Kofi Annan, the UN secretary general, has also expressed concern that money which should be spent on developing countries is being moved offshore.

A UN spokesman confirmed yesterday that Mr Annan saw the issue as a priority. "The secretary general has indicated repeatedly that he believes money should be spent on development rather than going offshore," he said.

The secretariat believes the UN has a vital role to play in tracking the money. "The remedies have to be global and the UN is the only body able to do it," said Mr Christensen. "The WTO [World Trade Organisation] has failed."

Tax havens have also attracted the attention of John Kerry, the US Democratic party's presidential candidate, who has indicated that if elected he will pursue the companies that hide their profits abroad. In April, the US general accounting office said 61% of US corporations paid no federal income tax in the late 90s. Tax havens contain only 1.2% of the world's population and 3% of the world's GDP, but 26% of assets and 31% of the profits of US multinationals are held there.

Global phenomena

Almost every part of the world now has access to havens. Europeans can use the old-established ones such as Jersey and Liechtenstein or the newer ones, like Cyprus and Malta; the Asian Pacific has the Pacific islands and Singapore; India and southern Africa have the Seychelles and Mauritius; and North America has the Caribbean islands and Central America.

While a number of havens, such as the Cayman islands and Bermuda, have improved regulations, the effect of this has been, in the view of Mr Christensen, to legitimise them. "Merely chasing out the worst havens and setting international standards for the better ones does little to address the real problems," he said.

The list of political figures who have availed themselves of the system includes Haiti's "Baby Doc" Duvalier, Zaire's President Mobutu, Sani Abacha, the former president of Nigeria, and Raul Salinas, the brother of the former Mexican president. Mr Abacha, during his period as president, had a standing order to transfer $15m (£8.4m at current exchange rates) a day of stolen funds to his Swiss bank account. Much of this money has been lost forever to the countries concerned although some has been traced; the current president of Nigeria recently visited Jersey to thank the authorities there for tracking down the millions that Mr Abacha had hidden.

In this section

Fertility clinic planned for lesbian couples

Naked pictures force closure of gallery

Equitable directors snub report

PCs: the latest waste mountain

Shadow cast over boom in online betting

OS maps out the future

Footballers to be told charges they face

Test could cut exam stress for 7-year-olds

[Art masterpieces raise £61m at auction]
[Joyriding the waves - two rescued after taking a yacht]
[Dyke attacks 'depressing' BBC successors]
[Tenors for a tenner: Royal Opera throws open its doors]
[Serial killer fears in London]
[Dean suspended over 'control freakery']
[Scientists size up designer drugs]
[Illegal meat racketeers exposed in TV documentary]
[Investors urge drug firms to do more for world's poor]
[Millionaire businessman shot dead]
[Sportswear is back]
[British catwalk embraces glamour of the high street]
[In brief]
[New right to roam hailed across the fells]
[Local concerns grow over 2012 Olympics bid]
[Blair launches tilting trains]
[Guilty pleas could cut murder sentences by a third]

In 1999, the Economist estimated that African leaders had $20bn in Swiss bank accounts alone, twice the amount that sub-Saharan Africa spends on servicing debts.

Among the latest countries offering such services is Somalia, which Mr Christensen describes as "an example of what can happen when the cancer is not cut out". He believes that the main function of the financial markets in Somalia will be money laundering.

Tax avoidance also breeds other unethical habits: when Enron was investigated in 2001, it emerged it had 881 offshore subsidiaries, 692 incorporated in the Cayman islands. The change has been assisted by technological change in communication and the liberalisation of the marketplace.

Many major charities are also concerned about the situation. "The implications of tax avoidance on development are manifold," said Tim Peat, economic justice campaigner at War on Want. "While transnational corporations endeavour to hold on to cash by shoring it up in tax havens, millions are lost that could have been used in the fight against poverty.

"Every time we investigate corruption in the oil industry, we find that looted public money has been laundered through offshore tax havens," said Gavin Hayman of Global Witness, the international resource watchdog group.

"Billions of dollars pass from public to private hands this way with no comeback. The collateral damage to the licit international system and to international development is truly enormous and the only people who benefit are those who have something bad to hide. Tax havens are the seedy backstreet bars of the financial world, where corporations and multi-millionaires huddle in shadowy corners to pursue their business out of sight of respectable citizens."

Instability

The latest Oxfam report on tax havens, on which Mr Christensen worked, suggested the amount secreted in tax havens was equivalent to six times the estimated annual cost of universal primary education and almost three times the cost of universal primary health.

He said that offshore centres undermined economies in three ways: the capacity of countries to raise tax revenue was limited, thus restricting a poor country's ability to finance investments in health and education; secondly, the offshore system provided a safe haven for money laundering, illicit arms dealing and diamond trafficking; thirdly, the offshore system contributed to financial instability which led to the crises in the Indonesian and Thai economies in 90s.

His colleague Sony Kapoor, the secretariat's economic adviser, agreed: "Tax evasion and tax avoidance on a large scale is inhibiting development in poor countries and eroding the existing welfare state in the rich states."

A variety of international organisations are now attempting to address the problem in differing ways. They include the Organisation for Economic Cooperation and Development, the EU, the UN drugs control programme and the Financial Action Task Force, which was set up by the G7 countries. Charities and churches across Europe, particularly in France, are also becoming more involved.

Richard Murphy, of Tax Research, which works closely with the new organisation, said it was important that the wealthier countries were seen not to be dictating terms to poorer countries.

"You cannot dictate to nation states their level of taxes," he said, "but you can require that they only tax what is theirs to tax."

The notion of tax havens goes back to just after the Napoleonic wars when demobbed officers moved to Jersey, but it was not until the 1960s that the high rates of British taxation acted as a motivation for people to move their money abroad.

Allowing British protectorates or former colonies to set themselves up as tax havens was also an attractive proposition for Britain in that it allowed those places to become self-sufficient. Now the whole process has accelerated to the extent that billions of pounds are being removed from the very countries that need them most.