Jersey Finance attacks TJN 2014 - TJN response

June 4, 2014

Introduction

Jersey Finance, the lead lobbying organisation for the British tax haven of Jersey, has sponsored two U.S. academics, Andrew Morriss and Richard Gordon, to produce and publicise a paper which attacks TJN and seeks to debunk a report entitled *The Price of Offshore Revisited* which was prepared for TJN in 2012 by James S. Henry of the Sag Harbor Group in the U.S. and which estimates that there is a roughly $21-32 trillion stock of wealth held offshore, worldwide. Jersey Finance is sponsoring an event in London on Thursday 5th June 2014 to showcase the academics' paper attacking TJN.

We would welcome any opportunity to debate this issue, and the event in London would have provided us with a wonderful opportunity to showcase and present our estimates. Unfortunately, we have not been invited to provide a balance of views or even to reply to the criticisms and allegations in the paper. This article seeks to provide some balance.

We have challenged Jersey Finance on repeated occasions (e.g. here or here) to public debates on these and on many other issues and they have rejected every one of our requests– even when we have organised debates in Jersey itself. Indeed, at a conference in Geneva in June 2012 Geoff Cook of Jersey Finance publicly stated that he was not willing to debate anything in public with John Christensen, director of the Tax Justice Network.

We would welcome the opportunity to work together with Jersey Finance to research in greater depth the volumes of offshore wealth held on or through that island, and to shed further light on the steady drip, drip of Jersey-based financial and corruption scandals which continue to emerge – such as here, here and – just in the last week or so – here.

The academics' paper is an extraordinary, sprawling piece of work containing a long list of challenges to TJN's estimates, alleging that we are seeking to overplay the size of the problem. **Yet it fails to acknowledge crucial elements: including that (a) the methodologies employed by Jim Henry are widely used by specialist researchers, and (b) that several different methodologies were used to triangulate the results, for cross-checking purposes.**

The academics quite falsely seek to describe TJN as having a "control first" mindset and frame their paper in the ideological language of anti-regulation, anti-tax libertarianism which is pervasive in the world of offshore tax havens. They do not acknowledge that the policy prescriptions that TJN promotes are predominantly transparency measures, e.g. automatic exchange of information, disclosure of ownership information, a country-by-country reporting standard, that build on the basic economic assumption that transparency is essential to the efficient operation of markets. These policy measures have been endorsed by the G8 countries, the G20 countries, and by the OECD.

The academics recruited to Jersey's cause criticise TJN for poor process. They claim they have tried to contact TJN and Jim Henry, via a research assistant, to discuss the report. Mr Henry has received literally hundreds of requests for interviews and advice from journalists and researchers since the *Price of Offshore Revisited* was published in July 2012. He is not aware of any enquiry from a research assistant at the University of Alabama. TJN's contact details – including the personal mobile number of our director, John Christensen – are published online, here. He is confident that he personally has not received these enquiries, and he has been assiduous in responding to every enquiry on this matter that has come his way.

A specific criticism related to the fact that all the underlying data sets for the *Price of Offshore Revisited* has not been made available online - which is the case. In 2012 Henry advised TJN that he was planning to use the datasets and his analysis, the copyright of which belongs to Sag Harbor Group, as the basis for an academic book, with all the relevant associated datasets published online. This has not yet happened, but Henry advises us (June 2014) that he is close to finalizing a book contract with a major academic publisher**. We would, however, note that he has presented his data and findings to scrutiny at several universities, including Columbia, Essex, McGill, Princeton and others, and has discussed his estimates with many academic researchers and journalists.**

The academics never gave TJN or Mr. Henry their paper, or a draft or sections of their paper, to discuss. As far as we are aware, they did not attend methodological workshops held to discuss the methods. Given that Jersey Finance has admitted to having "decided to support" the academics' work, and given that (as we have extensively documented) well-funded tax havens such as Jersey constantly need put on strenuous 'theatres of probity' involving denial of their tax haven status (see more here) - one has to question whether this

Alabama paper, which Jersey Finance describes as a "pretty rigorous academic exercise, funded in part by Jersey Finance" involves properly independent academic research.

In fact, **we feel that the claim that this paper is a rigorous academic exercise is as far removed from reality as is the routine claim from tax havens like Jersey that they are clean, compliant and transparent financial centres, and that there is no dirty money any more.**

Not only are the academics' claims and allegations generally quite wrong, but they have repeatedly distorted and misrepresented our analysis and our arguments.

See the Price of Offshore Revisited here, and the academics' paper here.

We are close to finalising additional material and sources backing our earlier estimates, in a separate document which we will make available to journalists and researchers on request, hopefully today. We will post these permanently on the reports section of our website.

A pro- tax haven agenda

We have many things to say in response to the many claims and allegations in the article. We respond to each complaint in turn. First, however, we make five key points in summary.

First, the authors include **Andrew Morriss,** who is Chairman of the Editorial Board of the Cayman Financial Review and has been funded by Cayman Finance for other projects. The paper attacking TJN is, in the words of Jersey Finance, "funded in part by Jersey Finance." Mr Morriss appears in other articles to hold rather libertarian, anti-tax and anti-regulation views, and has long been a cheerleader for tax havens. (e.g. see this.) However, we are not familiar with the work of his co-author, **Richard K. Gordon**. We are not aware that either has previously published research on estimates of wealth held offshore.

Second, we've seen these strong libertarian, anti-tax, anti-regulation world views that pervade the academics' paper - where tax havens are legitimate escape routes from oppressive big-spending governments - many times before. This world view supports what we call the 'freedom of the fox in the henhouse': freedom and 'efficiency' for a small, criminal-suffused offshore-diving élite, helping certain people take the cream from the societies where they live and work, leaving everyone else to shoulder the burdens they won't. (See some generic rebuttals here or here, for instance.) We've discussed these ideologies extensively elsewhere, so the remainder of our article here only addresses the specific criticisms of the *Price of Offshore Revisited*.

Third, most of the criticisms involve attacking the assumptions behind what Henry calls the 'maddening, irreducible uncertainties' involved in estimating often secret offshore wealth. The Jersey-financed academics do not suggest alternative or better assumptions: they merely say that it's uncertain. This could be construed as an effort to distract people away from these genuine issues. There are few certainties in economics and these criticisms could be levelled at all economic estimates. For decades, researchers have shied away from measuring offshore wealth stocks because they're scared of those things that are difficult to measure. Given the scale of the problems, it's time that bolder steps were taken. So: let the armchair critics come forth into the real world and produce honest estimates of their own, rather than sniping from the sidelines and / or denying that there is a problem.

Fourth, the tax haven-financed academics write a long list of complaints about the paper's methodologies. The longer the list of complaints, the worse this is all supposed to look. Yet the main reason for the list's length, beyond all the uncertainties involved in measuring secretive, poorly recorded or unrecorded transactions and data, is that Henry's report uses triangulation, employing three entirely different methodologies, as a means of cross-checking one estimate against the others. So the length of the attack list, in a very important sense, reflects a core strength of the report, not a weakness. Using three methods is equivalent to using three chains running parallel to each other (as opposed to the weaker method of using a single chain, or linking them end to end.)

Fifth, it is remarkable that the academics have failed to reference the number of official and independent studies which support the magnitudes of our estimates. By the mid 1990s the OECD was already estimating that there was $6 to $7 trillion held offshore. We know that the offshore economy has grown far faster than the onshore economy since then: see the enormous growth rate of Jersey's financial sector in Box 2 here, for instance. It is perfectly plausible just from this one OECD data point that offshore finance has grown to the order of magnitude our research suggested. Once again, we think our estimates are conservative.

The specific criticisms.

The specific criticisms levelled at TJN (shown in blue below) are organised into three main sections. As mentioned, we are close to finalising an additional document producing further sourcing. In this section, we lay out each criticism, then our response. Please contact us if you have any further questions.

Criticism 1.

A generic criticism of the tax justice movement, which is accused of ***a "Control First" mindset****. TJN et al., they claim, want 'to prevent the transfer of wealth from developing countries to financial institutions outside them and change laws to allow later governments to recover what they allege is previously looted wealth . . . The Control First prescription for corruption is a set of standards dictated by a small group of countries and NGOs to be imposed by fiat on other jurisdictions. Much of the costs will be borne by jurisdictions and institutions with little or no say in the development of the standards. This focus is a step backward from the needed examination of the drivers of corruption in particular circumstances.*

> **TJN Response***:* this is nonsense, from top to bottom. "TJN et al." have never generally argued against international capital mobility. Transferring wealth abroad should be a choice, but hiding the assets from legitimate democratic institutions, and wriggling out of legitimate tax and other obligations, should not be accepted. All available evidence suggests that offshoring private wealth and non-declaration of income and capital gains go hand in hand. The standard of information exchange that we have been advocating since 2003, known as automatic information exchange, is now explicitly recognised by G8 countries, G20 countries and the OECD as the international standard to be attained.

We also believe strongly in helping countries recover *'what they allege is previously looted wealth.'* It is not only offensive and discriminatory to argue that the correct response is merely to examine the drivers of corruption in developing countries – it is ridiculous. This clearly – obviously - isn't an "either/or" question. People have been trying to address the 'drivers of corruption' (the demand side) around the world for decades, and it is high time to examine the other side of the coin too: the supply side of corruption involving the hiding of international money flows (see more here). Tax evasion and avoidance and offshore criminality and corruption and abuse are global phenomena, promoted and facilitated by global banks, accounting firms, and law firms. There is a large body of evidence to show that developing countries are victims of tax avoidance by transnational companies – and much more. We refer anyone interested in the subject of how secrecy jurisdictions / tax havens encourage and facilitate corrupt practices to this peer-reviewed paper: http://link.springer.com/article/10.1007%2Fs10611-011-9347-9

Criticism 2.
"The Price of Offshore Revisited purports to use "a more open, transparent, collaborative model for doing such research so that the data sources, estimation methods, and core assumptions are all exposed to the sunlight of peer review, and ultimately to public scrutiny." To date ***no such materials have appeared*** *on its website beyond a PowerPoint presentation lacking crucial details. When we asked a research assistant to contact the author and the Tax Justice Network in 2012 and 2013 to obtain the details of the model and the data that was not reported in the report, he received no reply despite multiple emails and other messages. For an organization promoting an "open, transparent" approach, the Tax Justice Network proved remarkably opaque and closed about its methodology."*

TJN Response*:* We take our commitment to transparency and openness seriously. In the aftermath of the publication of the Price of Offshore Revisited in July 2012 we received literally hundreds of enquiries from researchers and journalists across the world. We believe we replied to every enquiry, as best we could. We cannot recall any academic enquiry, either to ourselves or to Jim Henry of the Sag Harbor Group (the contracted consultant) that went unanswered. We are not aware of any attempt by a research assistant at the University of Alabama to contact us. Since our contact telephone numbers are listed online, it may be that the effort to contact us was minimal. We're happy to look at their specific claims of who was contacted, and on which dates.

As part of his research effort, Jim Henry consulted several experts in this field. He presented his methodological approach to a research workshop at Essex University in July 2012. His data sources, albeit in draft form, were independently verified by TJN before publication. In 2012 he advised TJN that he plans to use this research as the basis for a book: he informs us that he is currently finalising publishing rights with a leading U.S. academic publisher. Since 2012, he has presented his research at seminars and conferences at a number of universities, including City University (London), N.Y, Columbia, Copenhagen, John Hopkins, and Princeton. To our knowledge neither Mr Gordon or Mr Morriss attended any of these academic events, nor do they acknowledge that TJN has engaged in an extensive process of consulting with expert researchers on the estimates.

Criticism 3

The multiplier. [1] This is also an important number, since it forms a central component of one of the three main calculations used to create the estimates in the Price of Offshore, Revisited. Morriss and Gordon state: "*TJN takes bank deposits data from the BIS for offshore centres ($7.0 trillion) and uses a multiplier of 3.0. "Multiplying things by three certainly makes numbers bigger . . . There are many problems with this "multiply things by a number we made up" method of "estimation."*

TJN Response: To allege that we 'made up' this multiplier is quite a startling allegation – and entirely false. We stand firmly by our multiplier, which we consider conservative – and perhaps very conservative. Multipliers of 3.5 to 4.0 are used routinely in this context. (In earlier estimates produced in 2005 we used a multiplier of 3.5 for our earlier estimate of the Price of Offshore: that multiplier was sourced from the Boston Consulting Group.) Messrs Gordon and Morriss seem to not understand why a multiplier is used in this context. Here are some verifiable sources

Asset allocation trends CapGemini 2013 asset allocation, p16

http://www.capgemini.com/resources/world-wealth-report-2013

Global breakdown of HNWI financial assets, Q1 2013

10.1% alternative investments

15.7% fixed income

20.0 percent Real estate

26.1% equities

28.2% cash / deposits

(implying a multiplier of about 3.5)

Boston Consulting Group, 2012

http://www.bcg.de/documents/file106998.pdf

p16 – **23 percent in cash or deposits**, implying a multiplier of **4.3**

2011 – world wealth report

http://www.ml.com/media/114235.pdf p16

HNWI Allocations in 2010

5% Alternative investments

14% cash / deposits

19% real estate

29% Fixed Income

38% equities.

(implying a multiplier of around 7.0)

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[1] Here's how the multiplier works. The BIS provides estimates for 'nonbank liabilities' which reflect cross-border deposits made by reporting banks for 44 jurisdictions. E.g. Table 1F: liabilities to non-banks here. However, note that these are merely bank deposits. Most portfolios have a component that is cash deposits (which is what the BIS is measuring) but they also contain equities, bonds and other asset classes. Boston Consulting, Merrill Lynch / Cap Gemini and others provide estimates for the share of cash to other assets in average portfolios of wealthy individuals. So if, for example, the average portfolio holds 25 percent in cash, then the multiplier we would use is four: we would then take the amount of deposits that the BIS estimates and multiply that four to get an estimate of the size of total portfolios.

The Price of Offshore Revisited estimated (easily verifiable from Merrill Lynch/Cap Gemini reports) that the median value for 1998-2010 was 4.6, and for 2004-2005 it topped 4.9. And yet we stuck with an extremely conservative multiplier of 3.0.

What is more, a multiplier derived from the above quoted reports work on the basis of cash and deposits, whereas our estimates of the wealth to which the multiplier was applied covered deposits only[2]. This makes our estimates look even more conservative, since our base wealth estimates should really have taken into account the 'big bills' component of offshore cash. How big is the offshore cash component? Well, we don't know, but it is large[3]. (We will shortly be publishing more data on all this.)

In light of all this, we challenge the authors to defend their extraordinary assertion that the offshore multiplier should be *less than* 3.0.

Criticism 4.
"Inexplicably, The Price of Offshore Revisited fails to discuss or cite any of the rapidly growing literature on financial flows."

TJN Response: We have commented extensively on the literature in the report and elsewhere. We find it quite astonishing that these paid authors inexplicably fail to mention anywhere in their document Gabriel Zucman's widely referenced work The Missing Wealth of Nations, a leading academic study on these issues, first published in 2012. Zucman makes lower estimates than we do, because he takes a much narrower view than we do of what constitutes offshore (we are happy to discuss these differences in detail if anyone has queries on it.) What were Morriss and Gordon thinking by not citing Zucman once in their 93 page attack on the Tax Justice Network? Why ever did they fail to cite Oxfam's quite separate report in May 2013 estimating that there is $18.5 trillion stashed offshore? Did they miss it? Or how about Global Financial Integrity's estimates that nearly one trillion in illicit financial flows left developing countries alone, just in the year 2011? Why did the academics fail to mention the OECD's estimate in the mid 1990s (mentioned above) of $6-7

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[2] Imagine, for example, that 25 percent of the average portfolio is held in cash plus bank deposits – implying a multiplier of four. Now if we take the cash component out, then let's say you are left with a 20 percent share of bank deposits only: this would imply a higher multiplier of five. So all this makes our multiplier of 3.0 look even more conservative.

[3] See, for instance, see $300 billion of 500 Euro banknotes in circulation. As any citizen of Europe will tell you, 500 Euro notes are as rare on the streets as hens' teeth – and even 200 Euro notes are extremely rare. These are used very substantially by the world's criminals and assorted secrecy players. See the forthcoming article in the American Interest provisionally titled *Big Bills: How Western central bankers and treasury secretaries cater to illicit drug syndicates, money-launderers, racketeers, and kleptocrats*, which estimates that there is some $1.3 trillion this cash held across borders, including the 1,000 Swiss Franc notes, and even $100 bills. Note that the multiplier would be applied to these cash deposits, which were not incorporated into the Price of Offshore, Revisited.

trillion stashed offshore – which, given global the offshore sector's explosive growth since then, particularly in nominal terms, sugggests that *The Price of Offshore Revisited* is in exactly the right ballpark? Did Morriss and Gordon see fit to mention that our estimates suggest offshore financial assets are equivalent to some 10 percent of all financial assets – a wholly plausible supposition?

Are the Jersey-supported academics merely sloppy here - or do they have an agenda?

More generally, we have found in general that the few items in the academic literature that have attempted to look at aspects of offshore (Zucman excepted) have shied away from tackling issues that are seen as 'difficult' and could pose reputational risks. Indeed, we have taken international institutions to task for simply failing to take this exercise seriously (e.g. see the B.I.S. data here table 6A, pA29, which pretends, doubtless for fear of offending large offshore jurisdictions such as the U.K. and U.S., that only 22 jurisdictions are 'offshore' – leaving out such giants as Switzerland and Luxembourg, the U.S. and U.K.) And while we are on the subject – why is it that the Bank for International Settlements, the IMF and World Bank have been so shy of publishing their own estimates? (Read more about that here.) We have always produced estimates with the explicit aim of provoking others into producing their own.

We have extensively documented how secrecy jurisdictions are supported by some of the world's most powerful countries, many of which host large offshore centres themselves. This helps explain why international bodies have shied away from measuring the global phenomenon, or at least trying to pretend that it's a problem limited to a few small islands in the Caribbean: for an entertaining look at this, see here. We wanted to start with a fresh slate and avoid being encumbered by such misunderstandings. Having said that, our measurement methods are absolutely standard.

Criticism 5.

TJN assumes that the money from all of these activities ends up "idle in relatively-low-yield offshore investments" … Offshore investments thus earn "a modest 6-month CD rate" which has been "'grossed down' to reflect the costs of offshore management."

TJN Response: Our yield assumptions were made because TJN was (yet again) being as conservative as possible. Yet elsewhere in their paper, these academics have suggested that TJN has sought to overstate the numbers. Which is it?

Criticism 6.

"If the criminals are accepting low yields, the profits are accruing to the banks' shareholders and so are taxed as the banks' profits and/or through the shareholders when realized as dividends or capital gains."

TJN response: As above. This is irrelevant to our headline numbers.

Criticism 7.
TJN doesn't mention VAT frauds on exports, where the party claims a refund but the money doesn't move out. This would reduce TJN's estimates.

> **TJN Response:** indeed, but there are many abuses that work in both directions that aren't included either, such as transfer mispricing - as Morriss and Gordon themselves admit. VAT fraud involves trade mispricing, so it is quite logical not to take it into account.

Criticism 8.
TJN is selective in its consideration of transfer pricing issues, focusing on only examples that reinforce its position. But it's complicated: there is transfer pricing that shifts prices in opposite directions!

> **TJN Response***:* Transfer pricing abuses are excluded from the TJN estimates, and the academics even note this, saying "the report does not include [transfer pricing abuses] in its headline estimates!" Furthermore, we would welcome evidence from the academics demonstrating that transnational companies are actively using transfer pricing methods to shift taxable profits away from tax havens into the real countries where their genuine economic operations are!

Criticism 9.
"TJN also relies heavily on ***unsupported factual assertions****. . . . it claims that, "we also know for a fact that wealthy investors from these ["key" Latin American] source countries [such as Venezuela and Mexico] account for a significant share of US bank deposits owned by non-residents." How does TJN know this?*

> **TJN Response:** For one thing, this is commentary, and irrelevant to the headline numbers, and in any case the scale of this is one of those 'maddening, irreducible uncertainties.' But are Morriss and Gordon seriously suggesting that wealthy Latin Americans don't hold large amounts of offshore wealth in the U.S., in conditions of secrecy and low or zero taxation? Take a look at this letter from Florida bankers in 2011, for instance, which confirms the U.S.' role as a giant tax haven and states that
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> > "Because of the privacy laws of the United States, nonresident aliens are estimated to have deposited over $3 trillion in U.S. financial institutions . . (the United States has) refrained from taxing the interest earned by them or requiring their reporting)."

Criticism 10.
This literature raises issues that undermine TJN's focus on tax avoidance and instead demonstrate the impact of the quality of the legal environment in determining investment. If investors have rational reasons for avoiding investing in particular countries, this undermines TJN's assumption that such investments would increase in the absence of OFCs. It is at least plausible that such shifts might involve desires to move assets to jurisdictions with better quality legal institutions, more stable political environment, less corruption, and greater investment opportunities.

TJN Response: Again, this is merely commentary, and irrelevant for the headline figures. TJN has dealt with these kinds of arguments extensively elsewhere.

Criticism 11.

Hong Kong intermediates a great deal of China's external trade and serves as a key vehicle for international investment into China. This provides a better explanation for the flows of claims through Hong Kong. What TJN ignores is that Hong Kong is a multinational financial services center and entrepôt, which provides sophisticated business and financial services to companies as well as a legal system recognized as sophisticated on business issues. . . by ignoring the role that financial centers like Hong Kong play in the world economy, TJN grossly oversimplifies the functioning of world economy, which undercuts the credibility of its estimates.

TJN Response: Once again, this is irrelevant for the headline estimates. If it's cross-border and untaxed or hardly taxed, or held in conditions of secrecy then it's offshore wealth, regardless of the uses to which it's being put. (Read more about Hong Kong as an offshore centre here, and more about the arguments surrounding the role of tax havens and their uses and abuses here.)

Criticism 12.

TJN argues that round-tripping is a sign of bad behaviour. No: there are many reasons for round-tripping, e.g.

- *Investing in deep, well developed equity markets, then investing back home.*
- *Some round-tripping is a result of discriminatory policies that oppress ethnic minorities, as with the circular flow of Malaysian Chinese or Indian citizens' funds out and back into Malaysia, which cleanses their money of the ethnic quality that disadvantaged it under Malaysian law.*
- *Anticipating currency fluctuations*

TJN Response: Yet again, irrelevant for the headline numbers. But are they seriously claiming that there isn't a problem here? While the volume of round-tripping globally is not known, few would doubt that the scale of round-tripping of Indian capital via Mauritius, for example, or Chinese capital via the British Virgin Islands, causes major tax losses to the respective governments – not to mention generalised criminal behaviour, anti-competitive practices, market abuses and much more. Regarding their second point about 'oppression', read this.

Criticism 13

P73 The world's current account balance has swung about wildly, suggesting noise in the system, and measurement problems. "Since the movement of money is merely the shifting of claims, as we explained above, not taking into account other forms of claims presents only a portion of the total picture." TJN sets aside these complications.

- **TJN Response**: Indeed: this is one of those maddening, irreducible uncertainties, as discussed above. But Jim Henry has used standard methodology in arriving at his estimates. Do the academics have something useful to contribute to the debate here? Or is this merely an exercise in shooting arrows at TJN?

Criticism 14.
"These bankers have allegedly helped clients "move a significant share – more than half, in the case of Latin America and some Asian countries – of their liquid capital to offshore accounts under the cover of shell companies and trusts, beyond the reach of domestic tax authorities." It is hard to know how TJN can know the numerator (the fraction of Latin American and "some Asian" investors' assets), since the entire point of the OFC structures in TJN's framework is to conceal ownership of the assets, or the denominator (the total wealth of these investors). While there are some people hiding some assets somewhere, the estimate of "more than half" seems to be pulled from thin air.

> **TJN Response**: Those maddening, irreducible uncertainties – in this case irrelevant for the headline numbers. We refer Morriss and Gordon to the Boston Consulting Group's reports on global wealth, which provide exactly this numerator. Perhaps the academics would like to explain the French National Assembly's finding that on the so-called "Falciani whistleblower list" it was found that 99.8 percent (yes, 99.8) of bank accounts were undeclared.[4] And let's not forget the very ugly Jersey angle to that story.

Criticism 15.
The sum of $125.9bn from Hong Kong – implausible: China is very powerful and wouldn't allow this.

> **TJN Response:** Again, commentary that is irrelevant to the headline numbers. What is more, this is confusing 'China' with "Chinese élites" and "Chinese tax collectors." It's hardly news that Chinese élites have been using offshore structures extensively for decades. China Leaks, anyone? Offshore Leaks, anyone?

Criticism 16
TJN estimates that the top 50 global private banks (which are not listed in the report) held $12.06 trillion in "private cross-border financial wealth" in December 2010. This estimate is based on unspecified and unreported calculations from "company annual reports and 10Ks, investment analysts, interviews with private banking industry experts, industry watchers like Wealth Briefing News and Money Laundering Alert, and a survey of recent market research studies for the private banking industry. . . . a complete lack of transparency in these "calculations."

> **TJN response.** It is the case that the data for this particular element of the triangulation exercise is incomplete, and has not yet been published in sufficiently granular form. See the note above regarding Henry's statement of his plans for publication.
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> However, while the annualised growth rate may appear large, *that is what the data says!* For the sake of comparison, the Credit Suisse Global Wealth Report 2013 finds an average 6.0% annual growth rates in total world wealth over that period (Figure 1

[4] See p19 of the parliamentary report, where it says "La faiblesse du nombre de comptes déclarés (0,2 % des personnes physiques) ne laisse pas d'étonner, et montre, s'il était besoin, que le recours par des résidents fiscaux français à des comptes ouverts auprès d'établissements suisses répond quasi exclusivement à un objectif de fraude."

on p14). However, given that a) the concentration of that wealth has been rising at the top end, and b) the share of the world wealth that's been held in tax havens is rising, and c) it is also well established that the stock of wealth held offshore has been growing much faster than the growth rate of the global economy; d) the large banks have been gaining market share, and e) the EU Savings Tax Directive saw a big growth in offshore holdings after it came into effect in July 2005 (Zucman p1334) then the growth rate of AUM will be much larger than the 6.0% rate of growth of world wealth. Henry will be providing more data on this in his forthcoming book.

Criticism 17:

Sources and uses model: "over time and across dozens of countries, the errors should more or less cancel out." This is a powerful assumption, and without it, TJN's estimates are 'worthless'.

TJN Response: Henry rightly describes attempts at estimating stocks of wealth held offshore as "an exercise in night vision." That's the terrain we're working in. But there is, as far as we know, no reasonable way of assessing the balance of the different possible 'systematic biases' in this respect. This is the most neutral approach. Besides, this estimate is triangulated against two completely different ones. Once again, we would welcome an estimate from Messrs Gordon and Morriss, with supporting evidence.

Criticism 18

TJN considers adjustments to principal and interest in arrears to be "fictional finance" rather than "actual cash flow;" since including it in the calculations produced "nonsensical results" (an undefined term but which appears to mean results that did not accord with TJN's desired outcome), it is excluded. TJN counts debt forgiveness as a "use" of funds. Thus if a debt grows because of missed interest payments, TJN does not count this increased liability but if a debt shrinks because of forgiveness, this is counted. TJN does not discuss how this factors into its claim that there is an accumulating stock of assets in OFCs.

TJN Response: We are way down in the weeds here. For the record, fictional finance wasn't TJN's term, as the report mentions - and these are all perfectly standard techniques. Of course there are uncertainties. Would the academics like to produce their own estimates?

Criticism 19

If any of the assets TJN claims exist outside the recorded economy are invested in bonds issued by a developing country and held in an offshore account, those investments will lose value when a portion of the debt is cancelled. Since TJN simply sums its estimates of flows out each year, failing to adjust for this leaves an overstatement of the stock it estimates exists offshore.

TJN Response: Perhaps - but it's disappointing how little debt forgiveness has occurred around the world. As mentioned, we've left out oceans of countervailing matters on the other side of the equation. This also falls in the 'way down in the weeds' category.

Criticism 20

"Having created estimates of money flows, TJN augments its numbers using estimates of "how much these accumulated flows might be worth over time." This is a particularly vigorous shifting of the cards in the three card monte game, since TJN simply "assumes that a significant

portion – 50 to 75 percent, on average – of these tax-free earnings are not repatriated to source countries but are reinvested abroad."

> ***TJN Response****:* As mentioned above, Henry used very conservative assumptions in estimating the growth of wealth already held offshore, and this 50 to 75 percent figure is eminently reasonable, and figures of this order or more have been adopted by various other researchers.

END

There may be other criticisms we've missed, but we think we've caught the main ones.

As mentioned above, please contact us if you have further questions. Please visit our site for more information, and visit the Financial Secrecy Index to see full reports of individual jurisdictions such as Jersey's.