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The Price of Offshore Revisited: Key Issues

Beyond the headline figures, this report for the Tax Justice Network (TJN) raises a great many urgent issues for global attention. Here we highlight just four.

1. 'Pirate' Banking

Of the top ten players in global private banking – the business of helping the world's richest people park their wealth offshore and conceal it from the authorities and escape the rule of law – **all ten**¹ received substantial injections of government loans and capital during 2008-2012.

In effect, ordinary taxpayers have been subsidising the world's largest banks to keep them afloat, even as they actively help wealthy clients slash taxes and commit a host of other crimes.

Many of the market leaders in this global 'pirate' banking industry have also been identified in many other forms of dubious activity, from Libor rigging, to irresponsible lending, to high-risk trading that led to the financial crisis, to outright money laundering for criminal gangs. This report shows that the world's largest banks have, if anything, been expanding their tax haven-related 'pirate banking' operations significantly in recent years.

Is there now such a thing as 'Too Big To Be Honest?'

¹ UBS, Credit Suisse, Goldman Sachs, Bank America, HSBC, Deutschebank, BNP Paribas, Wells Fargo, Morgan Stanley / SB, JP Morgan Chase

2. Inequality.

The TJN report *Inequality: You Don't Know the Half of It* (which accompanies *The Price of Offshore Revisited*) also exposes how all conventional measures sharply understate income and wealth inequality in every country and in every study².

The tens of trillions of 'missing' financial assets we identify in this report are on a larger scale than any estimate hitherto produced, and substantially not counted in any inequality study.

The impact on inequality implied by our new data is astonishing. We estimate that fewer than 100,000 people -- that is, 0.001% of the world's population, now control over 30% of the world's financial wealth.

Since the offshore industry experienced take-off in the late 1960s it has been growing relative to the rest of the world economy through 2010: this also leads us to expect that the *trend* of rising inequality has been understated too, probably in every study.

3. Who are the real debtors?

Our research reveals that a large number of countries, which are traditionally regarded as debtors, are in fact creditors to the rest of the world. For our focus group of 139 mostly low-middle income countries, traditional data shows they had aggregate external debts of \$4.1 trillion at the end of 2010. But once you take their foreign reserves and the offshore private holdings of their wealthiest citizens into account, the picture flips into reverse: these 139 countries have aggregate net debts of **minus US\$10.1-13.1 tn.**

In other words, these countries are net **creditors** to the world, and in a big way. The problem here is that their assets are held by a small number of wealthy individuals, while their debts are shouldered by their ordinary people through their governments.

² The reports can be found on our permanent web page, here http://www.taxjustice.net/cms/front_content.php?idcat=148

These countries are painted as having a debt problem. But the true picture is radically different: they have a hidden offshore wealth problem.

In terms of tackling poverty, it is hard to imagine a more pressing global issue to address.

4. Turning a blind eye to the missing data

The world's premier multilateral financial institutions have paid almost no attention to this 'black hole' in the global economy. It has been left to groups such as TJN to support the painstaking factual analysis underlying this report.

Yet institutions like the World Bank, the IMF, the US Federal Reserve, the Bank of England, and the Bank for International Settlements have ready access not only to the analytic resources, but also to much of the raw data needed to more precisely quantify the dimensions of this problem.

Why have they turned a blind eye?

A key priority for the G20 countries must be to require these global public institutions to devote more serious study to this topic, to make available more of the private data on offshore banking that they already have, and to gather more data.

Conclusions: what needs to be done?

The findings of this TJN report calls into question claims made by G20 leaders in 2009 in the immediate aftermath of the financial crisis when they declared that "*the era of banking secrecy is over.*" This report underscores the need for policy makers to take their first serious steps to stem the growth of the global tax haven industry.

There is a long laundry list of measures that need to be taken now. These include a rapid roll-out of automatic and multilateral information exchange systems among tax authorities, county-by-country corporate reporting, and the deployment of public registries

to record the ultimate warm-blooded human beneficiaries of companies, trusts, and foundations and their like.

Our new report also highlights that the line between ‘offshore’ and ‘onshore’ tax dodging is blurred by the rise of secrecy jurisdictions like Delaware and Nevada and the City of London, alongside traditional hubs like Switzerland, Liechtenstein, Singapore and the Bahamas. We must aggressively deal with secrecy jurisdictions on both sides of this line.

Finally, given the lead role played by leading banks, law firms, and accounting firms in ‘enabling’ all this dubious activity, authorities must develop far stronger compliance cultures and penalties for the pinstriped professionals and leading institutions who treat the facilitation of crime on a global scale as a legitimate source of profits.