

The cracked argument for tax havens

The case for tax havens is fundamentally flawed – it's no wonder they are feeling threatened by people who pay their dues

By: Richard Murphy and Dan Hind – May 10, 2013

The case for tax havens is like an egg. There is a hard shell of technical-sounding claims, jargon and appeals to high principle. There is a white of intimidation presented as world-weary realism. And there is a yolk of perfect fiction.

Let's start from the inside and work outwards, with the idea that significant economic activity takes place in tax havens. It doesn't. Tax havens record transactions that take place in other economies, and do so in a way that is usually designed to frustrate the authorities in other countries from enforcing their laws and regulations. Tax havens like to pose as financial centres but they are in fact better understood as mechanisms for facilitating evasion and avoidance elsewhere.

The lobby for tax havens tries to convince us that because there's no universally accepted definition of what a tax haven is, no one can be accused of being one. But even in the absence of clear-cut definition, facts are still stubborn things. The Tax Justice Network has produced the Financial Secrecy Index that uses a raft of data from a variety of official sources to rank tax havens. Not only do tax havens exist, they can be compared and contrasted with considerable precision.

Lobbyists further tell us that tax havens safeguard basic human rights. Dan Mitchell of the Cato Institute declares that "there is even a moral case for tax havens. They play a critical role in protecting people who are subject to religious, ethnic, sexual, political or racial persecution". In fact, having your money stashed offshore does not protect you from persecution. Besides, since tax havens exist to protect property rights to the fullest extent possible, the impact on more fundamental rights is disastrous. Christian Aid estimates that \$160bn leaves Africa illicitly via tax havens each year. The right of the wealthy to guard themselves from hypothetical dangers must be weighed against the right of everyone else to secure the minimum necessary to sustain life.

When it seems appropriate lobbyists tell us that the tax havens have substantially reformed. Only last month Anthony Travers of the Cayman Island stock exchange assured the world that "the Overseas Territories already demonstrate full tax transparency". To put it at its mildest, this will come as news to tax authorities around the world, including HM Revenue and Customs.

And, finally, when all else has failed, they tell us that they will wreak havoc on anyone who tries to put an end to their schemes. If you regulate one haven, or group of havens, the rich will simply flee elsewhere. In fact, big business has no choice but to operate in markets where there are flesh-and-blood customers and actual economic activity. And the rich are not the omniscient cosmopolitans conjured up by the lobbyists. A tax-avoiding dentist in Milwaukee or a crooked lawyer in Surrey won't entrust their ill-gotten gains to a Panamanian company formation agent they've never met if Bermuda or Jersey

starts to look dicey. In fact, the world's governments have already taken a series of steps to restrict abusive behaviour by the havens. The US Facta now requires tax havens to maintain all the information needed for full automatic information exchange on all individuals and the schemes they operate, while the EU's new rules for banks have set a precedent for all companies that operate internationally. While there is much more that needs doing, there is no evidence that the threats are anything other than bluff.

Even a casual glance at the arguments that the offshore lobby use reveals the glaring inconsistencies between them. They want us to believe that these non-existent jurisdictions have thoroughly reformed and are both the helpless victims of bullying by large economies, and capable of bringing these same economies to a standstill at the first sign of effective regulation. It's no wonder that the havens are in trouble. The signs are that people who make their way in the onshore daylight world have had enough. They pay their taxes. They want the rich to do the same, and no amount of sophistry will change their minds.