



## Marni Soupcoff: Forget battling mega-rich tax havens, focus on tax relief for the 99%

Marni Soupcoff Jul 23, 2012 – 3:04 PM ET | Last Updated: Jul 23, 2012 4:04 PM ET

On Sunday the Tax Justice Network, a left-wing activist group, released research showing that the world's wealthy have between \$21-trillion and \$32-trillion in hidden financial assets. The study estimates that all this money sitting in offshore accounts is costing world governments up to \$280-billion in lost tax revenues. The "huge, secretive offshore industry has truly become the dark side of globalization," the report summarizes.

All told, fewer than 100,000 people own about \$9.8-trillion of the wealth that's being held offshore. As *The Nation* summarizes it, the money in these tax havens belongs to "a tiny class of the mega-rich who have more in common with each other than those at the bottom of the income scale in their own societies." Yet while the report's author suggests that the findings have a silver lining in that "the world has just located a huge pile of financial wealth that might be called upon to contribute to the solution of our most pressing global problems" (presumably through tighter tax regulations), the results could be read another way.

It is possible that even if the world's governments had access to the \$280-billion in lost revenues, our most pressing global problems would remain exactly as they are now — pressing problems. All governments possess an amazing talent for making money evaporate without leaving so much as a trace of real-world progress behind, and corrupt governments all the more so. There is no particular reason to believe that international politicians would have used the missing funds for anything more liberating than their usual wasteful pet projects — or lining their own pockets. Which brings us to another possibility: that the recent growth in off-shore money is not so much an expression of scrooge-like greed as it is a reflection of a loss of confidence in government's ability to make responsible use of the funds it takes in. Most likely a bit of both.

A surprising number of policy wonks and scholars (which is to say more than none) argue that offshore investment can actually do the world some good. For example, Cato

Institute tax expert Dan Mitchell credits tax havens for creating the competition that led to developed countries lowering their own tax rates to more reasonable levels a few decades ago, starting with Reagan and Thatcher. This spurred saving and investment and, in turn, economic growth. Mitchell explains the pragmatic motivation: “Better to get some revenue with modest tax rates, lawmakers have concluded, than impose high tax rates and lose out.”

Likewise, in a 2005 National Bureau of Economic Research paper, James R. Hines (of the University of Michigan Law School), Mihir Desai and Fritz Foley (both of Harvard business school) found that offshore tax havens actually increase sales and investment in nearby non-haven countries. Businesses that operate offshore, reaping the profits and efficiencies that result from relief from their normal tax burden, suddenly have more cash with which to buy, spend, save and — yes — pay the government, in high-tax jurisdictions. And they use it accordingly.

We are upset by the Tax Justice Network results for less starkly pragmatic reasons, of course. Even if tax havens ultimately benefit the world economy, it hardly seems *fair* that the mega-rich, as *The Nation* sympathetically terms them, can successfully elude the taxman, while the rest of us are stuck forking over a substantial chunk of our comparatively puny paycheques to him. And this really is the part of the story that should spark outrage.

It isn't right that those without the resources to find financial asylums (or to hire investment gurus to find such asylums for them) have to leave it up to the government to decide how to “do good” with their own money. You know those global problems of which the study's author speaks? There's a good chance individuals, and the non-profits they trust, would do a much better job of tackling these issues than government. Yet the greater the relative amounts individuals are forced to pay in taxes, and the more difficulties the government trumpets itself responsible for, the less likely regular people are to invest privately in such causes.

I guess the question this comes down to is: do we trust people to make positive altruistic contributions to society if they are not forced to do so? We answer in the negative with our tax code, yet every day, there are indications that when people find a problem they view as important and not under the government's purview, they will cough up cash surprisingly readily. Remember the U.S. bus monitor whose bullying by a group of verbally vicious kids was posted to YouTube? An online campaign to raise \$5,000 to pay for a holiday for her generated \$703,873 in donations.

Action will probably be taken as a result of the Tax Justice Network's commissioned research. But it is unlikely to be the most constructive action. I am not saying we should

not make mega-rich people pay their taxes; but we would likely see greater and more immediate gains from relieving the regular rich and the tax-paying middle-class from some of their tax burden — the costs could be offset by broadening the tax base to include the middle-class who are currently avoiding taxes entirely through refundable tax credits gone wild — than we would from trying to blacklist tax havens. We might also reduce such tax evasion in the upper 1% by simply reducing their tax burden too, but there's not much appetite for that at the moment.

Tell you what, let's try both methods for solving the world's most pressing problems: giving the little people more freedom to do their own good, and trying to eliminate tax evasion among the super-mega-jumbo-rich. We can regroup ten years from now and see which has been more effective.