Austerity exposes the global threat from tax havens

By Jeffrey Sachs

All eyes are turning to leaders to see whether they are beholden to the public’s needs, says Jeffrey Sachs

The curtain has been pulled aside on the once secret world of tax havens, and the scale of abuse is nearly beyond reckoning. Week after week, Americans and Europeans worn down by budget austerity have learnt about the secret accounts of their politicians, tax evasion by leading companies and hot money destabilising the world economy. The darker truth is that these havens are not gaps in the world’s financial system; they are the system.

How many politicians and political parties have secret accounts abroad? Inevitably, given the nature of the arrangements, we cannot say for certain – but the list of those that have come to light is long. US presidential candidate Mitt Romney was found to have huge wealth in the Cayman Islands, never adequately explained. In France, Jérôme Cahuzac has resigned in disgrace from his position as budget minister following the revelation that he held a secret account in Switzerland. He has since been charged with tax fraud. Spain’s ruling party has been making payments from secret Swiss accounts for years. One senior Greek politician has been sentenced to jail for falsifying financial declarations. Many more revelations will come, especially now that investigative journalists have their hands on the records of hundreds of thousands of offshore accounts.

Groups such as Apple, Google and Starbucks have been shown in recent months to have used outlandish accounting gimmicks to shelter their profits. These include Google’s claim, approved by the US Internal Revenue Service, that its intellectual capital resides in Bermuda. There are thousands more like them working with the tax authorities to keep their money out of reach. Banks such as HSBC and UBS have been caught in the money laundering that facilitates this process.

How much tax revenue is lost to the global havens? Here, too, we can only guess but the numbers are likely to be vast. Recent estimates by the Tax Justice Network suggest that deposits are in the range of $21tn.

The havens serve countless purposes, yet not one is for the social good. They support massive tax evasion. They underpin a global system of bribery to corrupt officials. They service the accounts of drug runners, arms traders and terrorist groups. They create veils of secrecy through shell companies, which allow tax evasion, land grabs and environmental destruction.

The prime movers of the world’s tax havens are the US, Switzerland and the UK. Indeed, many of the leading havens, including the British Virgin Islands, Cayman and Bermuda, are British Overseas Territories. The
secerting of trillions of dollars in the Caribbean has been undertaken with the support of America’s IRS, and with the approval of the US political class and Wall Street.

These playgrounds of the rich and powerful were largely hidden from the public’s view during the long financial boom. In the new world of austerity following the 2008 crash, however, they are increasingly seen as a cancer on the global financial system that must be excised.

The public’s animus was greatly accelerated by the Cyprus crisis. The island has for many years been a notorious secrecy-and-tax haven, especially for Russian money. Yet this was winked at rather than controlled. Then Cyprus blew up – a reminder of how an unregulated financial centre can quickly turn into a mortal threat to the world economy.

Many of the reforms that are required are obvious. All foreign bank accounts in any jurisdiction should be reported back to the national tax authorities of the account holders. Unreported incomes diverted to overseas accounts in the past should then be taxed at national rates with penalties for evasion. The thousands of hedge funds and corporations domiciled in the Caribbean for operations in the US and Europe should be required to redomicile in the US and Europe. Beneficial ownership should be disclosed on all foreign-owned companies.

Angela Merkel, the German chancellor, François Hollande, the French president, and David Cameron, the UK prime minister, have recently acknowledged the need for a serious clampdown, yet the real actions still lie ahead. Barack Obama, the US president, has spoken in the past about cracking down but has not said much recently. All eyes are now turning to US and European leaders in advance of the summits of the Group of Eight leading nations in June and the Group of 20 in September to see whether the politicians are beholden to the needs of the public or to heedless and destabilising private greed.

*The writer is director of the Earth Institute and author of the forthcoming book, ‘To Move the World: JFK’s Quest for Peace’*