INTRODUCTION

Acting against Tax Havens

Tax havens are at the heart of financial, budgetary, and democratic crises. Let's take a look: In the course of the last five years alone in Ireland and Cyprus—two offshore centers with hypertrophic financial systems—banks have gone almost bankrupt, plunging thousands of people into poverty. In the United States, Congress has revealed that one of the largest companies on the planet, Apple, avoided tens of billions in taxes by manipulating the location of its profits. In France, the budget minister had to resign because he had cheated on his taxes for twenty years through hidden accounts. In Spain, the former treasurer of the party in power went to jail after having revealed a hidden system of financing through accounts in Switzerland. Accepting the status quo seems irresponsible.

Each country has the right to choose its forms of taxation. But when Luxembourg offers tailored tax deals to multinational companies, when the British Virgin Islands enables money launderers to create anonymous companies for a penny, when Switzerland keeps the wealth of corrupt elites out of sight in its coffers, they all steal the revenue of foreign nations. And they all win—fees, domestic activity, sometimes great influence on the international stage—while the rest of us lose. In the end, the taxes that are evaded have to be compensated for by higher taxes on the law-abiding, often middle-class households in the United States, Europe, and developing countries. Nothing in the logic of free exchange justifies this theft.

What Is to Be Done?

For some, the battle against tax havens has been viewed as lost from the start. From London to Delaware, from Hong Kong to Zurich, offshore banking centers are essential cogs in the financial machine of capitalism, used by the rich and powerful throughout the world. We can't do anything about them, we're told: some countries will always impose less tax and fewer rules than their neighbors. Money will always find a safe haven: strike here, it will go over there. Capitalism without tax havens is a utopia, and a progressive taxation of income and fortunes is destined to fail, unless we choose the path of protectionism.

For others, the battle has almost been won. Thanks to the determination of governments and to multiple scandals and revelations, tax havens will soon die out. From the harsh words of large countries seeking new solutions ever since the financial crisis, they have all promised to abandon banking secrecy, and multinationals will finally be forced to open their books and pay what they owe. This is the triumph of virtue.

What is missing in this debate is data. Tax evasion by the wealthiest individuals and large corporations can be stopped, but only if we have statistics to measure it, to implement proportional penalties against the countries that facilitate it, and to monitor progress.

It is with this goal in mind that I wrote this book, an economic study of tax havens. I gathered the available sources on the international investments of countries, the balances of payments, the on- and off-balance sheet positions of banks, the wealth and income of nations, the accounts of multinational companies, and the archives of Swiss banks. Some of these statistics had never been used before, and this is the first time that all this information has been collected, confronted, and analyzed with a single objective: to expose the true activities of tax havens and their costs to foreign nations.

Let's say it from the outset: These statistics have many imperfections, and the results of my study are thus in no way definitive. Our system for measuring world financial activity has many weaknesses. But this is no reason not to use it. In spite of any limitations, the available data shed an irrefutable light on the activity of tax havens; and there is no foreseeable progress in ending tax evasion without a quantitative picture of the extent of this fraud. Only on the basis of such an evaluation, however imperfect, will it be possible to impose sanctions and follow any progress in the fight against the scourge of tax havens.

The main conclusion of my investigation is that, despite some progress in curtailing it in recent years, tax evasion is doing just fine. There has, in fact, never been as much wealth in tax havens as today. On a global scale, 8% of the financial wealth of households is held in tax havens. According to the latest available information, in the spring of 2015 foreign wealth held in Switzerland reached $2.3 trillion. Since April 2009, when countries of the G20 held a summit in London and decreed the "end of banking secrecy," the amount of money in Switzerland has increased by 18%. For all the world's tax havens combined, the increase is even higher, close to 25%. And we are only talking about individuals here.

Corporations also use tax havens. Corporate filings show that US companies are shifting profits to Bermuda, Luxembourg, and similar countries on a massive and growing scale. Fifty-five percent of all the foreign profits of US firms are now kept in such havens. Since multinationals usually try to operate within the letter—if not the spirit—of the law, this profit shifting is better described as "tax avoidance" rather than outright fraud. But its cost is enormous—$130 billion a year for US firms alone—and since equity ownership is very concentrated, it essentially benefits only the wealthiest among us.

An Action Plan

To effectively fight offshore tax avoidance and evasion, this book outlines a set of coherent and focused measures.

The first is to create a worldwide register of financial wealth, recording who owns which stocks and bonds. Financial registries already exist, but they are fragmentary and maintained by private companies such as the Depository Trust Company in the United States and the Luxembourg bank Clearstream. The goal would be simply to combine them, to enlarge the field of data, and to transfer ownership of the data to the public. Combined with an automatic exchange of information between the banks of all tax havens and foreign tax authorities, a financial register would deal a fatal blow to financial secrecy.

But how can all tax havens be compelled to cooperate? It is not enough to politely ask them to abandon the financial opacity that allows them to prosper. The second dimension of the plan of action I propose is to levy sanctions proportional to the costs that tax havens impose on other countries. Calls for transparency, new laws, or more bureaucrats are insufficient. Only combined international pressure can truly have an effect, by shifting the incentives of tax havens. One type of possible sanction is trade tariffs. The calculations presented in this book show that France, Germany, and Italy would be able to force Switzerland to disclose all the assets held there by their residents by jointly imposing customs duties of 30% on the goods that they import from Switzerland, because the costs for Switzerland would then be more than the income derived from its banks involved in tax evasion.

Third, we need to rethink the taxation of companies. The fixes recently proposed by the Organisation for Economic Co-operation and Development (OECD) are unlikely to enable much progress. Looking forward, the taxation of multinational firms should derive from their worldwide consolidated profits, and not, as is true today, from their country-by-country profits, because those are routinely manipulated by armies of accountants. A tax on consolidated profits would increase corporate tax revenue by about 20%; this would essentially benefit the large countries of Europe as well as the United States, where the kings of tax dodging—the Googles, Apples, and Amazons—produce and sell the most but often pay little in taxes.

The Symbolic Power of Finance

If we believe most of the commentators, the financial arrangements among tax havens rival one another in their complexity. In the face of such virtuosity, citizens are helpless, nation-states are powerless, even the experts are overpowered. So the general conclusion is that any approach to change is impossible.

In reality, the arrangements made by bankers and accountants, shown in the pages that follow, are often quite simple. Some have been functioning unchanged for close to a century. There have of course been innovations, sometimes esoteric. And we can't deny that there are still aspects of the functioning of tax havens that no one really understands. But, as this book will show, we know more than enough to be able to act against the fraud they perpetuate.

Economists share some of the responsibility for the sense of mystery that still surrounds tax havens. Academics have for too long shown little interest in the subject, with some notable exceptions. But progress has been made within the past ten years, and we may rightfully hope for important advances in the near future. The fact remains that most of the progress in understanding tax havens achieved up to now—remarkable progress in many respects—can be credited not to economists, but to a certain number of pioneering nongovernmental organizations, journalists, political scientists, historians, jurists, and sociologists.

The approach I adopt in this book differs from these earlier ones; it complements them and in no way claims to eclipse them. The originality of my approach is that it is based foremost on statistics. I do not look at individual cases. Though they are indispensable in raising awareness, even scandal, individual case studies are of little help in guiding action. You will not find either oligarchs or African dictators, venal bankers or great money-changers of the city of London here, except in the numbers. This work focuses on an analysis of data and their implications, while respecting their historical context, distinctiveness, and limits.[1]