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Tax Havens or Financial Sinkholes?

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Tax havens have gotten a lot of press lately. In Britain, the [UK Uncut](#) movement has mounted demonstrations across the country against tax dodging by large corporations and wealthy individuals – making the connection between profits parked abroad and deficits and budget cuts at home.

Last month in the U.S., [The New York Times](#) revealed that GE, one of the nation's largest companies, earned 46% of its revenue in the U.S. over the last three years but booked less than one-fifth of its profits there, shifting most of its booked profits to low-tax countries. In 2010, taking advantage of loopholes in U.S. tax laws (for which the firm had lobbied Washington lawmakers), GE paid *negative* taxes: despite \$5.1 billion in declared pre-tax U.S. profits, the firm received a \$3.2 billion tax credit. This and other blatant examples of [corporate tax dodging](#) are inspiring the birth of [US Uncut](#), an American cousin of the British movement.

The term “tax haven” is a euphemism, however, for two reasons.

First, “haven” carries the connotation of a safe refuge from oppression. As Nicholas Shaxson writes in his new book, [Treasure Islands: Tax Havens and the Men Who Stole the World](#), tax havens “offer escape routes from the duties that come with living in and obtaining benefits from society.” They provide refuge not from oppression but from responsibility – the responsibility to contribute to the physical and institutional infrastructure of the economies in which the dodgers themselves make money.

Second, “tax” havens are not just about dodging tax. Money flows to these places not only to hide from the taxman, but also to hide from the law. As [secrecy jurisdictions](#), tax havens allow asset holders to hide their identities from authorities in their own countries, and often from authorities in the secrecy jurisdictions themselves. For a modest price, front men, dummy corporations, and multi-layered transactions provide anonymity.

Shielding the loot of corrupt politicians, crooked officials, and organized criminals from discovery and recovery, secrecy jurisdictions act as financial sinkholes – places where vast sums of money flow between the legitimate world economy and the illicit under-world economy.

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Tropical islands are the best-known secrecy jurisdictions. In a 2008 debate, presidential candidate Barack Obama cited a single building in [the Cayman Islands](#) that “supposedly houses 12,000 corporations,” making it “either the biggest building or the biggest tax scam on record.” That same year, a [U.S. Government Accountability Office report](#) revealed that Citigroup had 90 subsidiaries in the Cayman Islands alone.

But as Shaxson’s book makes clear, the U.S. and Britain are themselves big players in the secrecy game. Both countries welcome foreign money of dubious origins, with few if any questions asked.

The costs of financial sinkholes are borne by ordinary citizens throughout the world, not only by taxpayers in the industrialized countries but also by many of the world’s poorest people. In our forthcoming book, *Africa’s Odious Debts*, my colleague Léonce Ndikumana and I document the flight of \$735 billion (in constant 2008 dollars) from sub-Saharan Africa from 1970 to 2008. Most of this disappeared into financial sinkholes; recorded African deposits in Western banks amounted to less than 6% of this amount.

To put Africa’s capital hemorrhage into perspective, the total foreign debt of the same countries stood at \$177 billion at the end of 2008. In this sense Africa is a [net creditor](#) to the rest of the world: its external assets far exceed its external liabilities. A crucial difference, however, is that the assets are private and hidden, whereas the liabilities are public, owed by the people of Africa through their governments.

Much of the credit for growing public awareness of these issues goes to advocacy groups like the [Tax Justice Network](#), [Global Financial Integrity](#), and [Global Witness](#), who have exposed the shadowy underside of the international financial system. Governments are starting to take more notice, too. In 2009 a [Norwegian government task force](#) produced a comprehensive report on how tax havens undermine development in low-income countries. In the U.S., [Senator Carl Levin](#) (D-Mich.) is championing legislation to clamp down on offshore secrecy jurisdictions and to get the U.S. out of the money-hiding business.

When the countries of the world joined together to eradicate smallpox a generation ago, they achieved a historic victory for global public health. International cooperation to plug the world’s financial sinkholes could bring a comparable victory for global economic health. This is a cause that can unite ordinary Americans and Africans alike.