'Reading Treasure Islands I have realised that injustice is no perversion of the system; it is the system. Tony Blair came to power after assuring the City of his benign intentions. He then deregulated it and cut its taxes. Cameron didn’t have to assure it of anything: his party exists to turn its demands into public policy. Our ministers are not public servants. They work for the people who fund their parties, run the banks and own the newspapers, shielding them from their obligations to society, insulating them from democratic challenge.

Our political system protects and enriches a fantastically wealthy elite, much of whose money is, as a result of their interesting tax and transfer arrangements, in effect stolen from poorer countries, and poorer citizens of their own countries. Ours is a semi-criminal, money-laundering economy, legitimised by the pomp of the Lord Mayor’s show and multiple layers of defence in government. Politically irrelevant, economically invisible, the rest of us inhabit the margins of the system. Governments ensure that we are thrown enough scraps to keep us quiet, while the ultra-rich get on with the serious business of looting the global economy and crushing attempts to hold them to account.

And this government? It has learned the lesson that Thatcher never grasped: if you want to turn this country into another Mexico, where the ruling elite wallows in unimaginable, state-facilitated wealth, while the rest can go to hell, you don’t declare war on society, you don’t lambast single mothers or refuse to apologise for Bloody Sunday. You assuage, reassure, conciliate, emote. Then you shaft us.'

That was the reaction of the normally controlled George

1 http://www.guardian.co.uk/commentisfree/2011/feb/07/tax-city-heist-of-century
Monbiot in the *Guardian* on reading *Treasure Islands*. For my part I went to see Nicholas Shaxson present his book’s findings at the Centre for Investigative Journalism, City University, London in 2011. I found him to be a shy, modest man who, as a professional journalist, seems to have stumbled onto his theme by merely following the story. In his case the story was curious goings-on within the oil industry of West Africa. The ELF affair is written up in his previous book, *Poisoned Wells: The Dirty Politics of African Oil*, which had large multinationals, the political and intelligence elites of leading nations, corrupt leaders of developing nations and slush funds administered offshore as ‘a great brothel where nobody knows who is doing what’. It was, he said, only in 2005 that the threads properly started to come together.

The result is this book, describing the current extent of the offshore world and its consequences; and how the jigsaw came to be assembled. He leaves us on a positive note with calls to action and suggestions for reform. But in the flesh he couldn’t help but convey his depression. To read the book you need a strong stomach.

His claim is that ‘offshore connects the criminal underworld, the financial elite, the diplomatic and intelligence establishment and multinational companies.’ It is not to be underestimated as a fringe activity.

‘More than half of world trade passes through tax havens. Over half of all banking assets and a third of foreign direct investment by multinational companies are routed offshore. Some 85% of international banking and bond issuance takes place in the so-called Euromarkets, a stateless offshore zone. The IMF estimated in 2010 that the balance sheets of the small island financial centres added up to $18 trillion – a sum equivalent to a third of the world’s GDP......83 of the USA’s 100 biggest corporations had subsidiaries in tax havens. 99 of Europe’s 100 largest companies used offshore subsidiaries.’

He defines a tax haven as ‘a place that attracts business by offering politically stable facilities to help people or entities get
around the rules and regulations of jurisdictions elsewhere’.

‘The whole point is to offer escape routes from the
duties that come with living in and obtaining benefits
from society – tax, responsible financial regulation,
criminal laws, inheritance rules and so on. This is their
core line of business. It is what they do.’

He helps define the characteristics which make up a tax haven
and which gives the City of London its status.

1. Tax havens have very low or zero tax. Hence
   Britain has very loose ‘non-domiciled’ rules for foreigners
   wanting to park their assets in the UK free of tax.

2. Secrecy protects those who park their money.

3. The financial services industry is very large
   compared to the size of the local economy. In the UK the size
   of financial services is exaggerated to neuter and intimidate
   would-be critics.

4. Local politics is captured by financial services
   interests and meaningful opposition to the offshore industry
   has been eliminated; there is little or no risk that democratic
   politics will intervene and interrupt the making of money.
   NB contributions from financial services interests are said to
   finance 50% of the funds of UK political parties.

5. These places have become steeped in pervasive
   inverted morality, where turning a blind eye to crime and
   corruption has been accepted as best business practice, and
   alerting the forces of law and order to wrongdoing has
   become the punishable offence.

   In Shaxson’s words, ‘Rugged individualism has morphed
   into a disregard, even a contempt, for democracy and for
   society at large.’

   British tax havens work by being scattered all round the
   world’s time zones attracting and catching mobile international
   capital flowing to and from nearby jurisdictions. Much of this
   money is then funnelled through London. It allows the City to
   be involved in business that may be forbidden in Britain. The
   spider’s web is a cleansing network: by the time the money
   gets to London, often via intermediary jurisdictions, it has
become clean.

The two biggest tax havens are Manhattan and the City of London.

Shaxson provides the link to the recent financial crisis which, in official discourse, remains surprisingly quiet on the contribution of tax havens.

'The Offshore system helped financial corporations escape regulation; this helped them to grow explosively creating the “too-big-to-fail” status and gain the power to capture the political establishment in Washington and London.

.......They forced onshore jurisdictions to compete in a beggar-thy-neighbour race towards ever looser regulation....Huge illicit cross border flows added to global imbalances....offshore incentives encouraged companies to borrow far too much and helped to hide their borrowings.....as companies fragment it fed mutual distrust.

All the great losses through financial trickery – Enron, Madoff, LTCM, Lehman Brothers, AIG – were all thoroughly entrenched offshore. When nobody can find out what a company’s true financial position is until after the money has evaporated, bamboozling abounds.

Offshore did not cause the financial crisis. It created the enabling environment.’

It is thus worth buying the book for the pleasure of reading the charges against our elites who allowed this to happen; but each chapter is a self-contained gem which explains the processes and techniques by which this carefully constructed edifice came to be created.

He covers, for example, the Vestey brothers, pioneers of tax evasion across a multinational corporation, able to hide profits by transfer pricing and use of Trust funds. They were also pioneers in sneering condescension at the efforts of governments to stop them.

He covers the less than glorious rise of Switzerland as a haven for German wealth worried not by Nazi seizure (as the
Swiss propagandise) but, firstly, war reparations after the First World War and then as a haven for loot during the Second World War.

Further chapters consider the impact of Keynes on efforts to manage the consequences of WW1; the Crash of 1929; the 1930s recession; and post WW2 reconstruction, including the construction of the Bretton Woods Agreement that provided the basis for control of the world financial system up until 1971. This makes it clear that the US reacted to the Crash in 1929 by imposing strict regulation and controls of its financial system – far more so than in the UK. But the USA came out of World War 2 attracting ever greater inflows of capital, as the European elites, concerned about the prospects of Communists coming to power, looked to protect their assets (Shaxson claims that the Marshall Plan merely recycled some of the funds coming to the US from Europe); and its corporations started accumulating funds that it did not want to be taxed or controlled. The City of London came to the rescue by establishing the Eurodollar market completely outside of US and UK financial controls. (The creation by the Bank of England of the Euromarket was said to be prior to any discussion or debate with the Prime Minister, the Treasury, Cabinet, or Parliament.) Shaxson regards the Euromarket as far more significant than the remodelling of the City in ‘Big Bang’ in 1986. He quotes Cain and Hopkins:

‘As the imperial basis of its strength disappeared, the City survived by transforming itself into an “offshore island” servicing the business created by the industrial and commercial growth of much more dynamic partners.’

But the City’s success in developing these markets was quickly emulated by the USA which used the financial crises of 1971 to escape from the auspices of Bretton Woods. In retrospect the era 1945-71 was a period of unprecedented growth (4% per annum) and stability that has not been reproduced since. Yet there are few calls for a similar arrangement now.

Subsequent chapters describe how Britain built its overseas empire of tax havens over a ten year period during the 1960s. This was a ‘London-centred web of half-British territories scattered around the world that would catch financial business from nearby jurisdictions by offering lightly taxed, lightly regulated and secretive bolt holes for money.’

A chapter covers the growth of the US offshore empire, despite John F Kennedy’s attempts to stop this. The big issue is that the overseas earnings of the US multinationals (in 2009 estimated at $1 trillion) are held tax free, offshore, greatly advantaging those corporations. The author describes how attempts to control US money supply in 1979-81 were thwarted; and six months after Ronald Reagan took office the International Banking Facility was introduced in America, allowing US banks to pretend to be overseas banks. Thus the US moved to the UK model of banking.

In 1986 the Japanese followed, leading to their spectacular market crash as $400 billion surged into their markets, creating a crisis from which they have yet to emerge.

Thus during the 1980s America became the most alluring tax haven in the world and the state of Delaware could advertise itself as offering to foreigners ‘protection from politics’.

Shaxson considers that:

‘the London based Euromarket, then the wider offshore world, provided the platform for US banks to escape domestic constraints and to grow explosively again, setting the stage for the political capture of Washington by the financial services industry, and the emergence of too-big-to-fail giants, fed by the implicit subsidy of taxpayer guarantees and the explicit subsidies of offshore tax avoidance.’

Shaxson turns again to his past in considering the impact on developing nations and Africa in particular. He quotes sources estimating that developing countries lost up to $1 trillion in illicit financial outflows in 2006 alone. This is over 10 times any development aid provided. In his view the rise of Third World
lending in the 1970s and 1980s laid the foundations of a globalised haven network that now shelters the worlds most venal citizens. Henry and Bradley, in their *The Blood Bankers: Tales from the Global Underground Economy*, are quoted as calculating that at least half of the money borrowed by the largest debtor nations flowed out under the table within a year, and typically in weeks. In 2003 it was estimated that half of all Latin American wealth lay offshore.

Shaxson then brings the story up-to-date by considering the roots of the current crisis in more depth. He looks at the elimination of restraints on usury, the creation of limited liability partnerships to protect accountants and lawyers, and the use of legislatures-for-hire in driving through such measures in Jersey and Delaware. He considers that the limited liability provision took away the most powerful incentive for self-policing by the corporate professions of law and accountancy and helps explain the wave of corporate cheating that swept the USA and UK.

Concluding chapters consider the ideological supporters of the offshore empire who are able to co-ordinate opposition to government agencies who can see the damaging consequences of the offshore havens. In particular he shows how OECD initiatives on tax havens have been neutered and the ideology of tax as theft has gained ground. The net result is that the richest 400 Americans only paid 17.2% in tax. Capital saved has not resulted in the allocation to increased investment, as its supporters suggest, but merely to offshore bank accounts.

He explores the offshore world on the ground and reports back. It is not a pretty sight – with it being ‘riddled with crime’ and the ‘whole bloody system corrupt’. He takes a dim view of those in Jersey in particular.

‘America, the great democracy, is now in thrall to the world views of unaccountable, abusive and criminalized elites, in large part thanks to offshore finance. Having colonized the economic and political systems of the large

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...nation states where most of us live, offshore finance has gone a long way in capturing our attitudes too.’

In his final Chapter on the City of London Corporation he bestows on the City the title of the biggest offshore financial hub.

‘Time and again the US banking catastrophes of recent years can be traced to those companies’ London offices.....Having gone out of its way to welcome wealthy Arabs in the 1980s and Japanese and oil rich Africans in the 1990s the City has most recently courted Russian oligarchs. Some 300,000 Russians live in London.....In June 2009 US authorities fined Lloyds bank $350m for secretly channelling Iranian and Sudanese funds into the US.....60,000 non-doms offered tax exemptions are based in the UK, many in London.....Richard Branson freely admits his empire would be 50% smaller without being able to exploit offshore havens.’

The City has always been powerful and aided the powerful. It defied William the Conqueror and monarchs, and lobbied for the American colonies. But with power comes danger and Shaxson quotes Father William Taylor, who works in the City and understand its values: ‘We are in the grip of a programme for our collective happiness which is illusory. It is a phantom, and it will enslave us.’

Further asides which may whet the appetite of the assiduous Lobster readers are the references to the interventions of JFK in 1963 to prevent the growth of offshore. He had put down legislation to crack down on deferred taxation. ‘The corporate community went ape-shit.’ JFK had very large enemies indeed in 1963. The book also names the Mafia sponsor of Ronald Reagan and the Jersey solicitor of Margaret Thatcher’s family and BAE.

Most intriguingly of all he claims that he has self-censored a great deal for fear of retribution from the forces he attacks.

At the outset I said Shaxson leaves on a positive note and calls for action which governments and politicians alike could take up. For example land taxes, changes to accounting
rules and measures to increase transparency. There are no shortage of ideas and things to do to reverse the tide; but in person, at the Centre of Investigative Journalism, he had the air of a depressed man, knowing it may be too late to rebalance the UK economy and defeat the forces given freedom by Thatcher, Blair, Brown and successive governors of the Bank of England.

Despite a positive reception and widespread reviews the book has not fired up resistance. But it has become fashionable to decry the power of conspiracy and to regard the path of history as the unfolding of the action of great men and forces beyond our current understanding. This book puts the machinations of the powerful elite, backed up by naked class interests, back to the top of the explanatory tree. This is not to say that market forces did not play a part; but not as much as did the Governor of the Bank of England.

Read this book and follow this man – I think there is more to come.

Bartholomew Steer

Bartholomew Steer is an accountant and student of finance, history and politics.