

How the poorest keep the US and UK going

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A comment was posted [on one of my stories](#) from August in the last couple of days. It reveals so much I thought I'd reproduce it here. It says of comments I made on the cost of offshore, based in turn on the US Senate report of August this year:

I find your breathless conclusions fascinating. But a few points:

First, I see the "costs" to various Inland Revenues as stated by you and your colleagues fluctuating between \$70 and 300 billion.

However, 70% of US bank liabilities to Foreigners are processed through International Financial Centres (IFC). 80% of that money is invested in US securities; giving lie to your cost/benefit analysis.

US debt and deficits are financed through so-called 'offshore centres'. The amount actually invested by these means is nearly \$6 trillion.

If you have given you mind to the strategic balances - considering the basic rule that something replaces whatever is removed - what therefore is the political/economic forfeit of ruining the financial centres ?

Second, your description of 'offshore banking' betokens an ignorance of banking itself.

Transactions are initiated from "onshore". However, the onshore laws protect institutions from phishing. So, instead - it seems - you and your colleagues are content to force smaller nations to do, what law prevents you doing to larger institutions onshore.

A lesser madness is devoutly to be wished.

Now I have the advantage of knowing that the commentator is from the Turks & Caicos islands. He appears well informed. His error is to assume I (and the Tax Justice Network) are not.

First of all we're only too well aware that almost every offshore transactions is initiated from onshore. That's why we argue that they have no economic substance in the place where they're recorded. Which is why we think they should be taxed onshore and is why we think no enquiry relating to them can be a 'phishing expedition'. It's a reasonable assumption in this case that they are all misplaced for taxation purposes.

Second, we're only too well aware that the reason why offshore is tolerated by onshore is that the US, above all others, runs a Keynesian budget deficit to outdo anything the great economist would have imagined possible or recommended. And that this can only be funded from outside its shores. And that, regrettably, offshore is used for this funding. The UK is in a similar, if smaller, boat.

But let's be clear. Much of the funding does not come through offshore legitimately. If it was legitimate it would not need offshore, after all. Much of it is located there after being looted from poor economies. Look at these states that have balance of payments surpluses used to fund the US deficit:

Nigeria \$12,264m
Brazil \$11,738m
Algeria \$11,190m
Thailand \$7,980m
Egypt \$3,922m
Libya \$3,705m
Argentina \$3,353m

And on and on (source, Economist Pocket World in Figures 2007). This money is being stripped from those countries, located in tax havens, supporting the US and evading tax on the way. Who pays? The world's poorest people. That's who.

My TJN colleagues and I are in this game because of our concern for the poorest people in the world. That's why we are as critical of the role of Western governments in the world's financial architecture that abuses the rights of the poorest people as we are of the other participants.

And it's why we say Gordon Brown has yet to deliver for the poor. And it's time he did. Repealing the domicile rules would be a good starter in our case.