Funding the Future

The Guardian gets it right on tax havens

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The Guardian editorial today is on with which I have ease in concurring:

Even if there were as many G20 misses as G20 hits, the grand get-together undeniably illustrated how far the financial crisis has shaken world leaders. That was especially evident with tax havens, where the stance of complacent inertia - so familiar that it had come to seem permanent - was finally shaken off in the rhetoric of the deal. Sadly, the chief solid proposal - that havens should share information on request - suggested that progress has not yet translated into anything more than tough talk.

Although written off as a sideshow by the right, the parasitical paradises in which the rich stuff their gold are at the heart of what has gone wrong. The Guardian's Tax Gap series this year established that a major motivation for metamorphosing old-fashioned mortgages into new-fangled securities was the desire to get money offshore. Bundled up in the complex debt parcels lurked the venom which has poisoned the banks. There are also broader connections with the state we are in. Havens were tolerated by an ideology which put private wealth ahead of public good. That ideology has come unstuck now that vast private interests have made vast demands on public assistance.

Eight years ago the US undermined the last attempt to tackle tax havens. In defiance of all economic logic, George Bush's advisers said tax competition was beneficial in just the same way as competition in general - deliberately conflating the real gains that arise when things are produced more efficiently with the subzero-sum game that results when exchequers pick each other's pockets. European leaders, and indeed Britain's then chancellor Gordon Brown, might not have liked Washington's views but they were too cowardly to take them on. Action was also frustrated by the fact that many big countries were swayed by those havens with which they enjoyed close connections.

The special pleading has not gone away, which is why Beijing - with interests in Hong Kong and Macau - initially resisted calls to publish a list of offending territories. That battle was won, albeit so late in the day that as we went to press the list was still to emerge. But the big disappointment is that havens will only have to expose their dealings in response to specific requests. Offshore webs are so complex that without more general openness foreign tax authorities will not know what questions to ask. It speaks volumes that while Jersey agreed to answer all American questions eight years ago, the US revenue has so far secured only five detailed answers from the island.

Offshore life should get less comfortable thanks to the mood the G20 creates. But - as in battling vampires - in taking on tax havens, what is really needed is a great blast of daylight.

Felicity Lawrence is also well worth reading.