

Trouble in paradise

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The Guardian has a news report on Cayman's insolvency:

The white sands of Seven Mile Beach on Grand Cayman have long caressed the toes of the world's wealthiest financiers, who flock to this balmy spit to avoid the taxman's prying eyes.

But the world's biggest hedge-fund venue and fifth-biggest bank centre is now threatened, as the government of the [Cayman Islands](#) heads for bankruptcy âš„, unable to pay its own staff and facing the prospect of introducing taxes as income from the world's shrunken financial system collapses.

I have covered the story in [more detail here](#), but the reaction is interesting:

Chris Johnson, a British accountant who has lived there since 1968, is worried about his future for the first time in decades. "I would say I am pessimistic now. The island is in terrible trouble financially," he said.

The Cayman Islands, like most Caribbean island nations, is deeply divided socially and economically. On the one hand there are the ultra-wealthy — Microsoft's Paul Allen and golf champion Tiger Woods both moor their yachts there. On the other there are the native Caymanians, many of whom live in simple single-storey breeze block homes typical of the islands, with chickens and goats running about on scrub-like surrounding land. They are poor people who largely exist on the island to serve the wealthy in the hotels, private clubs and staffed households.

Cayman islanders say the previous government spent a huge amount of money upgrading the island's ancient infrastructure, betting it would be able to pay back a budget deficit of \$67.5m as its financial sector continued to grow. But the global financial crisis has created a huge black hole in its budget.

And, for good measure:

Richard Murphy, of the campaign group Tax Justice Network, said: "Cayman is proving

three things. The first is that tax havens are not sustainable: their business model is bankrupt. The second is that free-riding the tax system can't pay. The third is that international finance services that uses these places undermine the effective operations of states by denying them the resources they need to fulfil local electoral mandates."

As interesting is this:

One hedge-fund insider who lived in the Caymans said: "The heavy spending was well-intentioned because Caymans' infrastructure — schools, public health services, social services — are quite poor, given the assumed wealth of Grand Cayman. The devastating hurricane Ivan in 2004 didn't help. The problem was, the debt created to finance the capital expenditures was only affordable if the island's economy continued to grow rapidly. It was said many times that a US recession could lead to big problems."

People want and need the services only government can supply. Cayman has the wealth to pay for them. But will the rich allow it to happen? However it is looked at this is the politics of a divided world written on a very small stage. There is a conflict at play: the want of the rich to be ever rich versus the need of the poor to survive. Who will pay?

The British government, which has ultimate responsibility for the Caymans, will hope that the islands' problems do not wash up on its shores.

If it does then what is clear is this: Cayman's finance sector has to be dismantled. That will be the duty of the UK government, to us, and to Cayman and to the world. And the saving in tax to the UK will more than pay for the aid we'll have to give in exchange.