The Financial Times on Treasure Islands - and why share...

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The Financial Times has published a review of Nick Shaxson's book, Treasure Islands. it finds lots to praise, but I'll address its negatives, which are:

Shaxson touches on what some would dismiss as conspiracy theory, arguing that tax havens with links to the US, such as Panama, are "a pointer to the fact that offshore finance has quietly been at the heart of neo-conservative schemes to project US power around the globe for years. Few people have noticed."

It is not surprising that Shaxson has his own agenda in writing this book — he is also a long-term consultant to the Tax Justice Network, an anti-tax haven group. But the drawback to the sledgehammer approach is that the reader is left with unanswered questions. Why do multinationals shift their profits into low-tax havens and costs into high-tax countries? The only motives Shaxson gives are sinister.

But while he devotes a convincing chapter to rebutting the views of those who support tax havens, such as US economist Daniel J Mitchell, he makes little mention of shareholders in multinationals who benefit from extra profits. Whether a company's duty lies more with society than shareholders is an important debate — and arguing convincingly for the former could cement Shaxson's argument — but it is not one that this book enters into.

If the book anxwers all questions bar one it does pretty well, let's be honest. But let's deal with that one.

First, as Ha Joon Chang argues in '23 things they don't tell you about capitalism', of all the groups whose interests should be put last when considering the management of a company - after all they are, without doubt, the people with least loyalty to it in the case of a quoted enterprise. And if, as is absolutely critical to a quoted company the emphasis should be on long term value creation with stability of earnings vital to the payment of stable income streams to owners then tax haven activity is the absolute antithesis of what is required.

Tax haven activity encourages a focus on financial engineering that is the antithesis of focussing on customer service. And it encourages the misallocation of resources to sub optimal locations to ensure tax is saved rather than ensuring that returns from productive activity are optimised. And it encourages risk taking on artifice which may be challenged by tax authorities long after those putting the structure in place have left the corporation but when some shareholders may still be left, or those who have replaced them will face rick they were not warned of since tax haven activity is almost entirely hidden from view in the corporation.

The reality is that tax haven activity does not benefit shareholders. It does benefit executives: their bonuses are often triggered by free cash flow, and reducing current tax is the easiest way to achieve that. And that free cash is, of course, of use to them in their own plans for aggrandisement. But is any of that for shareholder benefit? No, it's not.

Shareholder benefit comes from making and supplying goods and services. And tax haven activity completely distracts from that in unsustainable short term fashion. It's the antithesis of value. The FT's reviewer has completely missed the point. But she's not alone.