

# Funding the Future

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The following comes from the [Middle Class Political economist blog](#) in the USA, and is shared with permission:

*Brian Beutler at Talking Points Memo has a story purporting to tell us the "real deal" on Mitt Romney's investments in secret Cayman Island corporations. Surprising, given the [ABC News](#) (which originally broke the story) and [Wall Street Journal](#) articles he links to, Beutler nowhere mentions that these accounts are secret, in accordance with Cayman Islands bank secrecy provisions, [which are some of the toughest in the world](#).*

*Worse still, Beutler gives the impression that there is nothing unusual about Romney's use of these accounts. He writes:*

*The offshore funds story is about a strategy investors use not to defer income and reduce their tax burden, but to attract foreign investors who want to avoid U.S. taxation.*

*"One of the reasons to have a Cayman Islands entity is so that foreign investors will not get hit with U.S. income, and that's consistent with our general tax policy," says Victor Fleischer, a tax professor at the University of Colorado Law School. This can give American investors who offshore a competitive advantage over those who don't, and can cost the Treasury revenue, but it's on the level.*

*I contacted Richard Murphy, head of [Tax Research UK](#) and an internationally known expert on tax havens. He called this argument "ludicrous."*

*Remember, there is nothing of significance in Cayman, and no money of any significance is made in Cayman. Nor is there indigenous wealth. So all money coming into the US from Cayman came from somewhere else. Now where is the most likely source? I'll wager it's the USA. So money flees illicitly out of the US to Cayman so it can come back in a supposedly tax free structure - that's called "round tripping." Not all is that way - some will come from South America and very little from Europe - wrong time zone - but the sole reason for Cayman secrecy is mainly to hide the round tripping and that's the most venal tax sin. So to argue that you're luring money in requires you to lure money out of somewhere first - and there's the weakness in the argument*

*presented - precisely because that dimension of the story is ignored in all the reports on this issue.*

*In other words, following this logic, if Romney (and Bain) secretly put millions of dollars into the Cayman Islands to attract funds into the U.S., as he has claimed, he's ignoring or not saying where he thinks those funds came from, and that's the weakness in his position. It's at least possible that those funds were round tripping as Murphy suggests, and in that case the so-called foreign investment is in fact just U.S.-based investment repackaged to look like foreign investment with all the tax advantages that attach to that.*

*The round-tripping phenomenon is well-known in China, where Chinese investors put money into a Hong Kong or other location, and then send the money right back to China so it can claim subsidies not available to domestic Chinese companies. It's entirely possible that U.S. citizens have done the same using the Cayman Islands, and Romney does not appear to be addressing that issue.*

*Amazingly, the Romney camp claims that the [Caymans are not a tax haven](#). Beutler's article misses the entire round-tripping aspect and focuses too much on legality. While at present there is no indication that he broke any laws, Romney's actions highlight that there is one tax system for the 1%, and a different one for the rest of us. As David Cay Johnston put it, the real scandal in U.S. tax law is what is "[Perfectly Legal](#)."*