

Funding the Future

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I'm resting, but others are blogging. This is from Nick Shaxson at the [Tax Justice Network](#), with permission:

Could the wealth in tax havens help us pay for the Coronavirus response?

March 27, 2020 by [Nick Shaxson](#)



As economies crumble under coronavirus pandemic, powerful interests are hoping to get rich from huge government bailouts. A well-informed Washington D.C. insider [described](#) the latest U.S. bailout package, for instance, as a "corporate coup" to reshape the U.S. economy:

"it's really really bad, and much of the bad stuff is not being included in the sleazy marketing materials . . [it is] a Christmas wish-list of corporate lobbyists. The bill establishes a series of boring-sounding slush funds [with] alphabet-soup names . . that's where the real money is."

Economist Gabriel Zucman has described it as literally *a \$170 billion tax cut for real estate tycoons*.

*With President Trump **declaring** that “I’ll be the oversight” for the bailout, and potentially **receiving** a personal bonanza from it, this looks bad. And the pandemic **is giving** other authoritarians elsewhere opportunities to erode political freedoms further.*

But on the positive side, governments are having to throw out broken old orthodoxies and bring in progressive policies – such as versions of universal basic income, or nationalisations – that would have been unthinkable just a few weeks ago. Everyone is scrambling for money.

In this context, “Michael” in Ireland raised a pertinent question:

“Do you think that it is possible (technically) for governments to tap into the trillions which are hidden offshore?”

To which the answer is: yes, plenty of it. There’s some *\$8-35 trillion* or so sitting offshore, depending on how broadly this is measured, which can certainly be tapped with stronger political will. And we must never forget that while all countries are victims of offshore chicanery, lower-income countries are the worst hit, as dictators and oligarchs loot national treasuries and sew up their economies into private fiefdoms, then transfer their ill-gotten gains overseas and *stash it offshore*.

*There’s lots more scope for cracking down on this now than most experts think. Until the (last) global financial crisis, when we were **bleating in the wilderness** about the need to tackle tax havens and other abuses through **country by country reporting**, **automatic exchange of information**, public **registers of beneficial ownership information**, or **unitary taxation**, we were scoffed at, and told by Important People that our ideas were utopian, even crazy. Now these ideas are all widely, if imperfectly, **accepted**, by the OECD countries, the G20, and many national governments.*

*Now, in the COVID-19 era, old orthodoxies are crumbling fast, and popular demands for new, radical measures will grow explosively. Already **food security** for millions of people is threatened, and the worst is yet to come. There will be riots, and worse. We can now, with luck, achieve a lot.*

We just **wrote about** how national tax systems should be adjusted to cope with the Covid-19 pandemic: a large fiscal stimulus, with spending running far ahead of tax revenues – but no blank cheque. The poor and vulnerable should pay less and receive more, while **rich people and strong, highly profitable corporations should pay more – a lot** more.

So far, according to this OECD **list of Covid-19 measures, countries have been radical on the spending side, but not on tapping the wealthy or large**

profitable corporations. Corporate tax rates on “excess” profits of 50-75 percent? It’s the monopolists, hedge funds and financial engineers that are making excess profits - this proposal wouldn’t hurt fragile companies or ones with low profit margins.

This proposal is nowhere now - but let’s start the ball rolling. And we need a lot more than this.

But first, we must walk through a minefield or two.

The great dilemma

Imagine a large multinational has been aggressively shoveling profits offshore for years, lobbying for and getting tax cuts and state subsidies, buying back its own stock, paying its employees peanuts while delivering its bosses exorbitant compensation. If a company has spent the better part of the past decade enriching its owners and executives, should it get a bailout?

The scale of what’s been happening is shocking. The largest 500 U.S. multinationals, for instance, spent over \$1.5 trillion in 2018 and 2019 just buying back their own stock, to boost their share prices and their executive stock rewards. On top of that, they paid out nearly a trillion more in dividends. This has sucked colossal productive investment out of the real economy, and mostly into the pockets of the wealthiest 10 percent of Americans. They monopolised, extracting wealth from consumers, workers, and many others. Then, after gorging on a gigantic job-killing corporate tax cut in 2017 (“I don’t think we’re ever going to lose money again,” an airline boss gushed that year), US corporations alone continued to shift \$300 billion in profits offshore each year to dodge tax (and other rules of civilised society.) Luxury cruise lines have been registering offshore to escape taxes and regulations, then sailing on amid pandemic on their own ships. They took huge risks with borrowed money, juicing profits and bosses’ bonuses, and the risks now fall on society’s shoulders. And on, and on.

Do we bail these people out? Do we “foam the runway” for crime-soaked banks if they face collapse? Justice says ‘no.’ But if the consequences of letting these firms collapse is worse still, how do we proceed?

On balance, a company whose collapse will cause social catastrophe should likely be saved. But no blank cheque. Instead, there must be powerful conditions. Here are a few: some of which must continue long after this shock has passed.

*** A HARD crackdown on tax havens**, and more resources for tax authorities. More on this below.

*** Implement huge** — maybe 50-75 percent annual — **“excess profit taxes”** as our **last blog on this argued, targeting only highly profitable firms, and sparing fragile firms. The tax haven crackdown will help stem leaks.**

- * **Tax wealth.** Hefty wealth taxes, land value taxes, capital gains taxes, and more, with only modest reliefs where appropriate and truly needed. This was in the air before Coronavirus: time to make good.
- * **Nationalise failing firms**, or take large stakes in them, where necessary. Buy their stock cheaply now, take control, clean house, and when market conditions normalise, sell many (but not all) of them back, at a profit. This **happened after the global financial crisis. Here's more.**
- * **Put unemployed people back to work in a climate-friendly Green New Deal.**
- * **Ban stock buybacks.** Not that long ago, they **were illegal in many countries, as market manipulation. Do it NOW. Also temporarily curb or ban dividends**, to preserve fragile corporations. Make them pay idled workers, pay taxes, shore up bank capital, or invest, instead.
- * **Ban all new mergers.** Creeping **monopolisation, along with the rise of tax havens, have been among the major contributors to falling productivity, rising inequality and rising populism in many countries.**
- * **Many sorts of other 'unthinkable' actions are now rapidly becoming palatable: capital controls** (especially to protect poorer countries;) selective **price controls** (to protect the poorest in society;) massive new **transparency and public oversight and accountability** of bailouts; **beefed-up criminal sanctions** for financial and tax haven miscreants; curbs on excess executive pay; and revisit the concept of **limited liability** letting bad actors take the cream and shift risks and costs onto others' shoulders.

These opportunities, and more, must now be grasped. More on this soon. But now, about those trillions sitting offshore . . .

How to squeeze the tax havens.

After the global financial crisis, world leaders came under pressure from angry populations to finally do something about tax havens. And they did, up to a point. The OECD, the club of rich countries that appointed itself as the standard-setter for these tasks, created the most important of several initiatives. These can be divided into two (somewhat overlapping) areas: corporate tax haven activity, which is costing world governments some \$5-600 billion a year, while that involving wealthy individuals, which may be costing \$200 billion just in lost income taxes: there are plenty of other costs too. If you include the role that tax havens have played in driving a global race to the bottom to cut tax rates, the sums lost are far greater.

And there has been progress in both areas. Each, now, in turn.

For **individual wealth**, they put in place the **Common Reporting Standard (CRS)**, a

set of rules by which countries shared information about each others' citizens financial assets, to pull back the veil of secrecy. It is leaky, of course, but widely accepted and far better than what went before: the OECD reckoned last year the moves had cut bank deposits by **25 percent or so. Our latest financial secrecy index published in February 2020 calculated that the global “pot” of financial secrecy had fallen by seven percent since the last index in 2018. That's an improvement, but there's far to go.**

Here are some radical ideas. We can't accept half measures any more.

Individual wealth

First, we must curtail secrecy further. The Financial Secrecy Index identifies many glaring holes. Here are a few big ones.

- * **Countries like Dubai run “fake residency” schemes**, so that a nation hosting a person's wealth collects the data on it, but then sends it to the fake jurisdiction instead of to where the person should pay tax or obey the law. The fake jurisdiction throws the data in the bin. **Here's how to tackle this.**
- * **The United States.** The CRS is a moderately successful global information-sharing scheme. The U.S. is happy to receive lots of data from other countries, but it shares little in return. So it **is a giant tax haven. How about the European Union blacklists the United States, or imposes withholding taxes on payments to the US, until it cleans up? (Here's more.)**
- * **We need better data, to find out what's working and what isn't.**

Some ideas go beyond the CRS.

- * **On some measures, the United Kingdom, along with its network of Overseas Territories (like Cayman or Bermuda) and Crown Dependencies (like Jersey or Guernsey) constitutes the biggest player in the global network of tax havens. Britain has imposed direct rule on its tax havens in recent history. Do it again, then close down their tax haven operations immediately. Compensate any losers — bearing in mind that the costs will be surprisingly small, given that most of the beneficiaries of Cayman's offshore racket are white male expatriates, highly educated elite lawyers accountants and bankers, who mustn't qualify.**
- * **Worldwide wealth taxes.** First, most tax systems levy income taxes. But most countries don't tax wealth — say someone with \$1 billion in assets paid a 1% annual wealth tax, that would raise \$10m a year. And what we mean by “worldwide” is this. Some countries require individuals to pay tax on all their income, wherever it is — a ‘worldwide’ tax — while others only require them to pay tax on locally-sourced income. For example, wealthy “**non-domiciled**” people in Britain enjoy this privilege. Abolish this corrupt, oligarchic rule. **Land Value Taxes** also penetrate offshore ownership. You

impose a tax on the land, and no matter whether it is owned by an offshore trust or directly by an individual, **someone** must pay the tax or the land (or part of it) is forfeit. Certain reliefs would be provided, to protect the most vulnerable and the public interest.

* **Public registries of beneficial ownership.** If someone owns a Cayman or Bermuda company which then owns bank accounts, real estate, or other assets, put that data on a searchable public record. Make sure it's the true "beneficial" owners, not someone serving as a front for the real owner.

* **Tackle offshore trusts.** These are tricky, slippery vehicles, by design. A wealthy grandfather theoretically give away assets into an offshore trust, while retaining some control over and benefits from that asset. The grandchildren will benefit **some day**, perhaps when they reach a certain age. But if granddad ("the settlor," in trust legalese) has given it away, it isn't theirs, and the grandchildren ("the beneficiaries") haven't received it, whose is it? Nobody's! How can you tax it? How can Granddad's creditors access his wealth? There are various ways. For tax and creditors' purposes, trusts' assets should be considered still to belong to the settlor (granddad), until beneficiaries become fully entitled to them.

ii) Lots of trusts are shams. They are called trusts. Often "irrevocable" trusts, for example, are still under the settlor's control, and can be revoked to allow the settlor to get them back. Deem the assets never to have been given away, and under the settlor's continued control.

iii) Put all **true** beneficial ownership details of a trust on a public registry. (That is, information about all the parties that have any rights to control or benefit from the trust.) Registration should also be required for trusts to have legal validity.

iv) For more (radical) ideas, see Andres Knobel's paper **Trusts: Weapons of Mass Injustice**.

Corporate wealth

On corporate wealth, the OECD has been trying to patch up a broken, century-old system that isn't fit for the modern age. Progress has been patchy, and glacial. But last year it finally admitted that the system cannot be patched up, and that new ideas are needed.

* One approach to tackling corporate tax avoidance is **Country By Country Reporting**, a transparency measure we **first proposed in 2003 (though it's an older idea.)** **Timid, partial versions are now being rolled out, across the world. Push now for full disclosure by all companies and make sure lower-income countries get the data they need.**

* **Unitary tax.** This, if properly implemented, could decisively reach into tax havens and allow countries to tax offshore wealth. Currently, countries treat each multinational as a loose collection of separate entities. A large multinational typically has hundreds and even thousands of subsidiaries and affiliates scattered across the world. Each country then taxes the profits of each affiliate in its jurisdiction. Guess what —

multinationals then shovel their profits into tax havens, where they pay no tax, and shift the costs into the high-tax countries, to cut their tax bills. Unitary tax starts from a different principle. You take the multinational's total global profits, then allocate it to each country where it does business, using a formula based on the sales, capital and employees in each place. Each country then taxes its share at whatever rate it likes. If the multinational had a one-person booking office in zero-tax Bermuda, it wouldn't matter: because only a minuscule portion of the global income would be allocated there to be taxed at zero percent. The system has many complexities, of course, but it's a far better starting point than the current international system. The OECD for years ferociously resisted our (and others') calls for unitary tax with formula allocation: last year the dam broke and it (and other world leaders) finally accepted it as a possible principle for international tax. Now the door's open, the time has come to push hard.

* **Worldwide tax.** Many tax systems operate on a 'territorial' principle, where they only tax the domestic income of the local affiliates of multinationals (they do this in the hope of tempting multinationals to set up low-tax holding companies there, doing business elsewhere without paying tax on them. This has typically brought few benefits to 'territorial' countries, except to accountants). The alternative is "worldwide" taxation, where countries tax the entire global income of the local affiliate. Most tax systems are a mix of both: the Trump administration in 2017 shifted the U.S. tax system from a worldwide system towards a territorial one, with **harmful effects. While we are waiting for unitary tax, countries must shift decisively towards worldwide taxation.**

These are all ways to protect our economies from tax havens, and to tap into offshore wealth. And if we combine these with highly progressive "excess profits" taxes on corporations and higher taxes for wealthy individuals, then hard-pressed nations can reap tens, even hundreds, of billions of dollars each year.

This blog focuses on tax havens and the Coronavirus crisis. We will follow it with others in the context of Coronavirus: one on the Climate, due on April 2, also on how the crisis intersects with the Finance Curse, with the role of women, and one highlighting the great failure of tax cuts on large corporations and individuals.