Offshore Finance and its Economic and Political Implications

by

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Introduction

Of all the economic developments of modern times, few have had as much of an impact as the growth of offshore activity. Though the practice has existed since Victorian times it is only in the last forty years that ‘offshore’ has become so embedded that it is now fair to say that it is one of the defining characteristics of today’s global economy. There are so many aspects of offshore that it is difficult to give a broad definition of the subject, but in nearly all circumstances the term refers to ‘areas of the global economy where states create territorial or judicial enclaves characterised by a reduction in regulation’ (O’Brien and Williams, 2004, pg123). These areas allow individuals, groups or companies from developed countries the opportunity to avoid whatever aspect of legislation that they perceive to be getting in their way. For some this is a tool to sidestep the restrictive regulations of their specific industry, while for others it is used for the simple purpose of pecuniary advancement. Whatever the reasons behind its development, offshore activity has had serious implications in every area it has affected; it has revolutionised broadcasting, undermined the tax regimes of the world’s economies and altered the way companies do business forever.

I decided to study the effects and implications of offshore activity for a number of reasons. The subject has interested me ever since the mortgage brokers I worked for during my gap year decided to move much of their operations to the island of Guernsey, despite the fact that all mortgages we arranged were for properties found within the UK. The sole purpose of this was to reduce the tax liability of the company’s operations and it fascinated me that the Financial Services Authority of the UK had no problem with the move. Another reason for my choice is the lack of attention that offshore has received from academia. Yes, there are several authors, most notably Ronen Palan (1999; 2003), who have focused much of their attention on the phenomenon, but on the whole the subject is under-researched. During the course of my degree I have spent much of my studies addressing the concepts of neo-liberalism and globalisation but throughout my time I am still to hear any of my lecturers use the term offshore in any meaningful context. Yet in my opinion it is one of the defining features of both neo-liberalism and globalisation. There can be no doubt that this needs to be addressed.

In this article I will be focus on one of the main aspects of offshore, that of finance, and I will explore how the phenomenon began, the effect it has upon the spaces in which it operates and the consequences that such practices have upon the major economies of the world. Finally, I will examine the implications that offshore finance holds for the state itself and ask whether or not this issue represents the death of the state as we know it. Though there are many offshore centres to be found around the world, for the purpose of this essay I have decided to concentrate much of my analysis on one of the world's premier offshore centres, the island of Guernsey. Apart from my own previous interest in the island, the main reason for this choice is that, like the other Channel Islands, Guernsey is a dependency of the British Crown. This relationship, along with the island's close proximity to the UK and mainland Europe, affords the Guernsey finance industry significant advantages in attracting English business to its shores. In focusing on Guernsey, I believe that not only will I be able to judge the effects that offshore activity has upon one country's development but will be better placed to analyse the effects that such activity has upon the UK, currently the world's fourth largest economy.

One of the key aspects of my research will be my three interview sources: Katie Blair, former trust manager for Credit Suisse Trust and native of Guernsey, IM, director of the mortgage brokers and John Christensen of the Tax Justice network. I hope that the insights that these people gave me into each of their subject fields will give my work a greater depth than I could have achieved through second-hand accounts alone.

In the course of the article I intend to argue that, while offshore finance has offered a quick route to economic development for many of the countries in which it is found, the overall effects of the phenomenon are corrosive, not only for the major economies it feeds off but eventually for the jurisdictions that it operates within as well. I will conclude from this that states that create these environments are rent-seekers in the Ricardian sense while maintaining that the governments of economies who suffer as a result of these actions were complicit in their creation. I hope to demonstrate that an economy based upon offshore finance is ultimately unstable and is unavoidably drawn into a competition with similar states as to who can reduce regulation to the lowest levels. I will argue that, along with the wider reductions in capital controls, offshore finance could lead to the death of the state. Finally, in my investigation I hope to show how offshore and its wider implications are a barrier against the implementation of progressive policies throughout the world.

The Origins, Types and Current Extent of Offshore Finance

For the purpose of trying to relay how the practice developed, I believe it is important that we distinguish between the different types of offshore finance as each have their own historical origins and distinctive characteristics (though it should also be noted at this point that they are not mutually exclusive, an area could be classified as more than one variety). I also believe that if we are to assess the effects of offshore then we need to have some understanding of its current extent. In this section I will describe the various forms of offshore finance, outlining their history and the features that set them apart from other varieties. I will then use the work of the Tax Justice Network (TJN) to gauge the significance of the figure that is currently held in offshore environments.

Probably the most well known type of offshore finance is the tax haven. These institutions have proliferated in the last 25 years and have attracted notoriety for the effects that they have had upon both the emerging and developed economies of the world. In its paper on the subject, the IMF highlights the vulnerabilities of developing economies that stem from the operations found within offshore financial centres and the increased financial instability caused by the use of offshore financial vehicles by institutions in onshore centres (IMF, 2000). The organisation also reported the role played by various offshore centres in the East Asian financial crisis (Errico and Musalem, 1999). The European Union has highlighted the potential dangers of tax havens, as we shall see shortly the EU Code of Conduct Group flagged the tax regimes of the Channel Islands has favouring foreigners to local residents and were deemed harmful. As each tax haven is subject to the specific rules of their local government it is difficult to define exactly what is meant by the term but in a general sense they are ‘countries that have enacted tax legislation especially designed to attract the formation of branches and subsidiaries of parent companies based in heavily-taxed industrial nations' (Starchild, 1993, pg 1).

Despite any possible differences most tax havens will share several characteristics. The most common of these are low levels of taxation, though the actual tax regime will depend entirely upon the country. Some, such as Guernsey, charge income tax at a level of 20% while many Caribbean states charge no income tax whatsoever, instead retrieving revenue from corporate licenses (Palan, 2003, pg40). Another very common feature of tax havens is the high levels of secrecy employed by the institutions handling the funds. In Switzerland, for example, only two people know the identity of any numbered account holder and are legally bound to confidentiality, even if the account holder is known to have broken another country's laws (see Blair interview evidence). It is also likely that the country would have little or no restrictions placed upon financial transactions and have an effective communications infrastructure, allowing people to transfer their money in and out of the country at ease. These features are usually best served when a tax haven is, like Guernsey, a dependent of, or at least with very close links to, one of the world's major economies. This gives the jurisdiction a degree of security and stability that investors look for and ensures that they will not suffer double taxation (Palan and Abbott, 1999, pg171-172).

The origins of tax havens can be found in the nineteenth century when the world's powers first began to construct what we now call the nation-state (Hobsbawm, 1975). At this time governments began taking responsibility for matters, such as public health, that in the past they had paid little or no attention to. This resulted in much higher operating costs and required higher personal and corporate taxation, a situation that was not welcomed by the business community. To offset this many firms took advantage of the improvements made in communications and transport and began to invest heavily in their operations abroad, in the belief that they would be able to escape the taxation they faced at home. However, this was undermined by rulings made by the British courts, such as *Calcutta Jute Mills v. Nicholson*, that any operation that had its base within Britain was liable to British tax. The only way for firms to escape taxation, ruled the courts, was for them to remove their presence from the UK altogether (Picciotto, 1992). So firms took heed of this advice and began to base all of their operations outside of Britain, culminating in the 1929 ruling of *Egyptian Delta Land and Investment Co. v. Todd* that decreed that apart from its registration in London, every other aspect of the firm was located in Cairo so the firm should not be liable to British tax (Schmitthoff, 1954, pg384). This basically meant that a firm could be British, and thus gain privileged access to British markets, without having to pay any tax to the country. As this ruling applied throughout the empire it meant that any colony or British territory could now attract businesses and individuals to their shores on the basis that they could escape tax at home. This was, and is, the foundation of many territories' or dependencies' status as tax havens.

One of the distinctions made in the literature (Picciotto, 1992; Palan, 2003) regarding the different varieties of offshore financial centres is whether its development was planned. Personally, I think this distinction is somewhat of a smokescreen as I find it difficult to believe that the massive advantages offshore activity delivers to its beneficiaries somehow 'fell into the lap' of the business community. However, it could be said that some were more planned than others. For instance, the City of London, perhaps the world's most well known 'offshore' financial centre and without doubt the largest, is given by Palan as an example of a 'spontaneous' offshore centre because 'its facilities emerged, allegedly, without official direction or even notice' (Palan, 2003, pg33).

The City's development as an offshore centre can be traced to the years following the Second World War when much of Europe reduced its capital controls and permitted a limited number of banks to begin trading in foreign currency. This market became known as the 'Euromarket' or 'Eurodollar market' on account of the 'American dollars on deposit in European (principally London) banks yet remaining outside the domestic monetary system and the stringent control of national monetary authorities' (Gilpin, 1987, pg314). According to Burn, in 1955 UK local authorities could no longer raise funds for reconstruction through the Public Loans Board. Instead they turned to the bank's dollars, which were then exchanged for sterling in order to continue the work. However, the Euromarket itself only came into existence once the UK government restricted its currency from being used in non-sterling area trade and reduced the maximum period for other sterling credits. These restrictions forced capitalists to find an alternative source of finance, so instead of converting the dollars into sterling they simply traded the dollars (Burn, 1999).

This created a market for currency that was beyond the regulation of any monetary authority, not just the US Treasury, but because they were taking place within the borders of the UK they were protected from intervention from any other state. Whatever description is given to London's offshore banking facilities there can be little doubt that the growth of the Euromarket was 'actively encouraged by British financial authorities' (Helleiner, 1994, pg84), as without many of the banks and businesses surely would've reoriented their operations to their New York branches. So this alleged spontaneity is a questionable supposition. However, it cannot be denied that from the relaxation of exchange controls in 1957 to Thatcher's abolishment of all foreign exchange controls in 1979 (Palan and Abbott, 1999, pg171), the City has been at the forefront of the offshore financial markets.

International Banking Facilities (IBFs) were the response of several governments to the Euromarkets in order that their countries could compete with the 'spontaneous' centres that emerged in the late 1950s and the tax havens that have proliferated ever since. They are the most regulated variety of offshore financial centres in that the local authority must license anyone who wishes to trade within the centre. The first of these was based in Singapore, set up in 1968 in response for the need of foreign currency to fuel the widening Indo-China war, but since 1981, when the first New York IBF was established, they have spread across the whole of the United States and now number some 540. The other most notable IBF is the Japanese Offshore Market (JOM) that was formed in Tokyo in 1982, but there are numerous other IBFs around the world (Palan, 2003, pg33).

Guernsey first developed as an offshore financial centre in the mid-1960s, yet those developments would not have been possible if it were not for the island's unique history. In order to gain a better conception of what exists today I feel that it is important that we spend a little time outlining the development of Guernsey. The island had been part of the Duchy of

Normandy, extending over the Channel Islands and part of the mainland of France, before the conquest of England in 1066 when Duke William II of Normandy became King William I of England. However, in 1204, when King John of England lost Continental Normandy, Guernsey became, and has remained, a dependency of the British Crown. Because of this status, the island has evolved a separate legislature, known as the States of Guernsey, and has no representation in the British Parliament. The States has the right to legislate its own domestic matters, including taxation, where there has been a flat rate of income tax, at 20 per cent, since the 1960s. Whilst the UK maintains responsibility for the island's foreign affairs, it acts only with the consent of the Guernsey authorities, which moreover frequently legislate independently to implement international agreements. As a result of this, the island is not a part of the EU and thus does not have to abide by any of the Union's legislation regarding taxation, yet the island faces no tariffs on any of its products entering the EU.

This special relationship with the UK, accompanied by the ability to form its own domestic legislation, specifically its tax regime, has afforded Guernsey the ability to attract business in a way that is unavailable to most countries. A firm can relocate its operations from the UK to the island and maintain all of the benefits of being in the UK whilst reducing its tax liabilities significantly. The result is that many UK firms have opened up offices in Guernsey in order to exploit such advantages, including my previous employers. The company was set up in 1972 as a mortgage brokerage in the town of Northwich. Though it operates at a national level it is not a large firm, with around 12 permanent employees along with several sales representatives based around the country. In 2002 the MD decided to open a branch of the company in St Peter Port on Guernsey, despite the fact that the mortgages and secured loans they arranged were solely for UK properties. Initially the office was secondary to the mainland branch, yet over time more of the operations were moved to Guernsey to the point that sometime in 2004 it became the company's registered office with the FSA.

IM, a CF1 Director of the company, agreed to carry out a brief interview regarding the reasons behind the move. He stated that, apart from the MD's personal interest in the island, 'the main reason for opening on Guernsey is the tax advantages it affords the company. The tax regime is simple to understand and it means a massive reduction in operating costs' (see interview evidence). But it was not just in terms of corporate taxation that the firm was attracted to the island. Although the firm now works on the basis of referral (using information obtained by third parties to target individuals with bad credit history), when the move took place the firm spent a considerable amount of money on adverts in the national newspapers. 'Initially there were considerable advantages in terms of the cost of advertising as Guernsey charges no VAT. Considering that at that time we were spending over £40K a week on advertising that meant a saving of £7000 on a weekly basis' (ibid). This gives a stark insight as to the reasons for Guernsey's success as an offshore centre – UK firms can relocate there without any disruption to their business whilst significantly reducing their tax liability.

Due to the degree of secrecy involved with offshore finance, the current level of assets being held in offshore locations is incredibly difficult to measure. It is commonplace amongst the finance industry to play down the phenomenon but, according to some sources, 'as much as half of the world's stock of money either resides in, or is passing through, tax havens' (Kochen, 1991, pg73). In order to address this gap in information, the Tax Justice Network commissioned Tax Research Limited to attempt to discover the extent of the world's capital located in these jurisdictions. The figures it has provided are derived from information provided by a variety of organisations, but it should be stated that the numbers are estimates, as concrete figures would be impossible to obtain without the full co-operation of those involved. One figure is derived from Merrill Lynch/Cap Gemini's 1998 'World Wealth Report', which estimates that one third of the wealth held by high net-worth individuals (individuals with liquid financial assets of one million dollars or more) lay in offshore locations. In its latest report of 2002/3 this wealth was estimated to be some $27.2 trillion, of which $8.5 trillion was offshore, but as they predict that this figure is increasing at $600 billion a year it would bring holdings to $9.7 trillion in March of 2005 when Tax Research Limited published its paper 'Tax Me If You Can'.

Another figure given by the TJN is from the Bank for International Settlements (BIS), they estimate that in June 2004 US$2.7 trillion was deposited in offshore accounts out of $14.4 trillion global bank deposits (TJN, 2005). This means that one fifth of all cash deposits at the time were held offshore. As this figure only represents cash deposits a calculation is required to incorporate other financial assets such as stocks, shares and bonds. The TJN cite global consultancy firm McKinsey & Company's research that suggests the ratio of cash to total financial assets ranged from 3.3 to 3.85 over the past four years, so to calculate total offshore holdings the average ratio of 3.5 is used to provide a figure $9.45 trillion (ibid). However, this does not take into account more tangible assets such as real estate or intangible assets such as royalties and license fees, so Tax Research Limited employed a modest estimate of $2 trillion, leaving an overall total for the amount of assets being held offshore between $11 and $12 trillion (ibid). Considering the staggering price of real estate today, it is fair to say that this is a very conservative estimate. The level of financial investment specific to Guernsey will be looked at in more detail in the next section.

In order to derive the overall cost to governments in terms of potential taxation, Tax Research Limited first needed to calculate the amount that the assets being held offshore would earn. According to its report, financial investors expect a return between 7 and 8% annually. So, for the purposes of calculating an appropriate figure, it used a rate of 7.5%, leaving a return of $860 billion from the $11.5 trillion invested (TJN, 2005). The paper gives Forbes magazine's estimate that the average rate of tax for high net-worth individuals at 37.5% (ibid). However, as many assets will have been invested in a manner that involves taxes being withheld from payments made then such a high figure would be inappropriate. So in accordance with the estimates made by Cap Gemini cited in the report (TJN, 2005), a reduction in the rate of about 7.5% would be suitable, leaving a rate of 30%. If this is applied to the estimated figures of total offshore holdings for all high net-worth individuals then the total lost to governments on an annual basis is a phenomenal $255 billion. Staggering as this figure alone may be, it does not even include the losses that could be earned from corporate profit-laundering nor the results of tax competition that has arisen from the growth of offshore finance.

In this section I believe I have satisfied my intention to show that offshore finance is not heterogeneous but in fact has many different varieties. The differences between these varieties range from the subtle to the stark and though their importance cannot be played down it should be stated that, ultimately, their effects (to be explored in later sections) are very similar. I also believe that the figure offered regarding the extent of offshore finance reveals the subjects significance to the world economy and enhances the importance of research surrounding the issue. In the next section I will begin to assess how offshore finance affects the spaces in which it operates.

Effects of Offshore on the Jurisdictions in which it Operates

Some states, most notably the Caribbean Islands, have used offshore as a development strategy, remodelling their economies to suit the needs of the multinational companies and wealthy individuals attracted to offshore investment. Others, such as Luxembourg, have drawn upon their own unique history 'outside' of the usual state system to attract the same investors. In this section I will examine the effects that offshore activity has upon both the developed and emerging economies it operates within. For the former I will again be using Guernsey as the focus of my analysis and for the latter I will focus on the Latin American nation of Costa Rica. First I will look more closely at the distinction between 'traditional' OFCs and more recent additions to the community, before I focus on a direct comparison between the key economic indicators of both jurisdictions. Costa Rica is suitable for such an analysis for several reasons: first of all, though prosperous, the country is still a developing nation. In 2002 its GDP per capita was $8,840 (UNDR, 2002), this is much higher than many developing countries, certainly compared to many sub-Saharan nations, but significantly lower than most OECD countries like Norway or Ireland ($36,600 and £36,360 respectively), leaving Costa Rica 59th of the 175 ranked. It is not an insulated economy, with exports making up 46% of GDP (www.fdimagazine.com), with its main trading partner being the United States, and is also classified by Diamond and Diamond (1998) as being one of Latin America's several tax havens. I will argue that whilst offshore finance has brought prosperity to the economy, much has been limited to the country's elite and that the wider community has seen little of any benefit. The same will be said of Guernsey but much of my argument will focus upon the destabilising effects that the financial services industry has had upon the economy of the island.

Apart from each centre's level of development, there are other notable distinctions between 'traditional' OFCs such as Switzerland and Singapore, and the new breed of offshore locations found in the Caribbean. Established locations like Hong Kong are legitimate financial centres, where the finance industry is one of, if not the major employer in the area. Though each centre may be known for its expertise in one specific industry, investors can draw upon any number of financial professionals to aid their financial management. Guernsey, for example, is recognised as one of the world's premier centres of captive insurance but can draw on specialists within the field of banking, fiduciary and investment services. The island has numerous accountants, lawyers and other experienced professionals on hand to dispense with any service that a modern firm may require (Guide to Guernsey Finance 2005/06)[1]. On the other hand, many of the new tax havens have little of the numerical presence that is associated with Guernsey and the large-scale financial centres (Hampton, 1996). The best example of this 'ghost presence', is in the Cayman Islands where, despite officially being the second highest provider of captive insurance in the world (Peagam, 1989), the number of lawyers specialising in financial matters is nominal and the offices of the world's major banks are usually restricted to rooms with a couple of computers and a fax machine dispensing orders from headquarters in London or New York (Palan and Abbott, 1999, pg171).

Today there is a widely held consensus that the main engine of development is economic growth. Therefore it would be logical to begin by assessing the fortunes of Costa Rica's growth rate in terms of GDP. For the ten years from 1983 to 1993 Costa Rica's growth averaged 4.6% and although this dropped to 4.3% for the next ten-year period, the growth rate in recent years has been

[1] Due to the short distance from the mainland, the number of such professionals will be significantly bolstered with workers on licence from the UK or Europe.

as high as 5.6% leaving GDP at US$17.5 billion in 2003 (www.wto.org). Growth is expected to drop over the next few years but is still predicted to be above the very respectable 3.8%. However, according to the WTO's report into economic growth in Costa Rica, disposable income grew at an average of 0.5% over the period 1995-2000, a poor figure considering the large increases in GDP. The report states that the main explanation for this is the 'profit remittances associated with free zone activities' (WTO, 2001), meaning that massive amounts of the money being generated through Costa Rica's tax haven status is simply repatriated to the companies' and individuals' countries of origin. This casts serious doubt that offshore activity can bring prosperity to the local population.

Figures relating to the state of Guernsey's economy are equally as impressive of those we find in Costa Rica. In fact, it could be argued that they are even more so when they are compared to other European countries located nearby. According to the CIA's *Factbook* (2005) Guernsey enjoyed a real GDP growth rate of 3% in 2004, considerably higher than those of the Netherlands, Germany and France, whose rates were 1.2, 1.7 and 2.1% respectively. In my opinion the discrepancy between these figures can, to a certain extent, be explained by looking at the composition of each country's labour force. Each of the EU nations contains large industrial sectors (24.5, 31 and 24.5% of workforce respectively), which is the sector that is most likely to be affected by the downturn in the global economy over the last three years. On the other hand, Guernsey only employs 10% of its workforce in industry whilst a huge 87% work in the service sector. As we shall see later on, the large increases in monetary investment in Guernsey over the last five years will also have had a significant effect on growth rates. Whatever the reasoning behind the figure, however, this growth rate is impressive. Probably the most impressive aspect of Guernsey's economy is its GDP per capita, which the *Factbook* puts at just marginally below $40,000, leaving Guernsey as the fifth highest-ranking jurisdiction of the 223 measured (CIA, 2005).

If offshore is to bring long-term prosperity to the economies that it operates within, then, in theory, it should open the doors of success to other local industries. A good indicator of this is the level of investment found within the jurisdictions. For a developing country such as Costa Rica, the most likely form of investment will come in the form of Foreign Direct Investment (FDI), so it is this factor that we will examine. Costa Rica has seen a massive increase in FDI over the last 20 years, rising from $50 million in 1980 to a high of $662 million in 2002. This suggests that there has been a big increase in the amount of firms' operating projects in Costa Rica, something that is reflected in the growth in the receipts of workers' remittances (the transferral of immigrants' assets to their new economy) from $12 million in 1990 to $321 million in 2003 (UNCTAD, 2004). This represents not only an increase in the assets held in the country but also a possible increase in the number of skilled foreign experts within the Costa Rican economy. The *Financial Times*' 'FDI' magazine (January 5th 2005) states that from January to September 2004, there were a total of 19 projects funded through FDI, making up some 11.2% of GDP. This is further evidence of the importance of FDI to developing economies such as Costa Rica.

These figures suggest that foreign investment is flowing into Costa Rica and that economic growth is being generated in its wake. However, the figures do not answer many important questions regarding FDI. Firstly, who is making the investment and on what basis? In the past, many firms have moved operations to offshore centres for the same reason that they have moved their capital - because of the low levels of regulation. There is a strong possibility that firms may wish to take advantage of some of Costa Rica's least progressive legislation. For an example we need look no further than the employment rigidity index (an average of three smaller indices covering hiring, firing and regulations on working hours, which in turn cover working time requirements, minimum wage laws, and minimum conditions of employment) of the World Bank's *Doing Business 2004*. In the report Costa Rica scored 35 out of 100 (higher values reflect more rigid regulations) reflecting low levels of regulation within the labour market. This is even more apparent when compared to the regional average of 44. Yet it is the difficulty of firing index that gives the most interesting rating: zero, suggesting that Costa Rica is amongst the easiest of places to fire an employee. The average cost of firing an employee in Costa Rica is also comparatively low at 38 weeks wages', almost 40 weeks less than the regional average and even lower than the cost in OECD countries (World Bank, 2004). It could be argued that this represents evidence of flexible labour markets, a key feature of a successful free market, but this would alarm many, including myself. The consequences of removing any semblance of job security are far reaching and the impact of redundancy in the developing world can be huge when the lack of social security is taken into consideration. In my view, this is one of the most notable features of Costa Rica's current course of development.

In terms of financial investment, Guernsey has undergone something of a boom in recent years. For example, in 2003 the value of Guernsey open-ended funds alone reached £22.2 billion (www.gfsc.gg), an incredible increase of 39.8% over the year while in 2004 the Finance Commission of Guernsey authorised the creation of 34 new open-ended investment vehicles. By 2005, the total amount of funds under management in Guernsey had risen to a barely believable £84.1 billion (ibid). However, the vast majority of these funds serve little or no purpose throughout the wider economy of Guernsey and it must be made clear that these sums can in no way be deemed FDI. For evidence of this one need only look at the state of Guernsey's traditional domestic industries. Scan any list of activities within the island and you will find a list of exports including tomatoes, cows and cut flowers. Yet if one is to visit the island you would find quite a different story, I asked Ms Blair about the situation: 'They've completely gone. My oldest sister has worked in horticulture for her whole life and began working in other people's greenhouses before going on to own a large amount of land herself, with several greenhouses. She was very successful and made quite a lot of money but in the last ten years it has become absolutely dreadful' (see Blair interview evidence). This is just one account of the state of domestic industries within Guernsey but taking this and the current composition of the island's workforce into consideration, it is fair to say that domestic industry is far from thriving.

It could be argued that this is an indication of outdated industries and that the capital formerly employed in such ventures should be invested elsewhere, but in Guernsey this is not possible. 'The worse thing is that she is unable to sell the land as on Guernsey all properties have a designated use and you're not allowed to change it. If you drive around Guernsey you will see a large number of dilapidated greenhouses covered with weeds, as the only way around the restrictions is to allow the buildings to fall into ruin so that they can be knocked down' (see Blair interview evidence). This is an example of what John Christensen describes as the 'cuckoo-in-the-nest' situation, where a fast growing, dynamic industry is introduced into an area where existing industries have completely different profit structures and results in the diminishing of domestic industries in terms of staff, space and investment. Christensen explained further 'this cultivates the environment in which crowding out takes place. If you take a hotel manager, he may be able to earn up to £40,000 a year working long, anti-social hours with high levels of commitment but if he were to work as a clerk in an offshore finance house he could well earn the same amount as a starting salary, working 9 to 5 with little responsibility, so why would he work in the hotel?' (see Christensen interview evidence).

On Guernsey this is exemplified by the deregulation of the finance industry whilst other industries such as tourism, construction and horticulture face restrictions on many aspects of their work. And the problem could get worse in the near future: in October 2005 the Fiscal and Economic Policy Steering Group of the States of Guernsey commissioned a debate amongst the Institute of Directors in response to many of the island's competitors employing a rate of zero corporation tax. Their conclusion was that Guernsey should abandon its flat tax and employ a 'zero-ten' or 'zero-twenty' tax regime, meaning that certain industries, namely the finance industry, should pay zero tax while all other industries and individuals should receive a reduction of 10% or even no reduction whatsoever. Whilst I have no doubt that this would give a huge boost to Guernsey's finance industry, the reduction would promote further imbalance in terms of wage differentials and lead to businesses outside of the financial services being unable to afford the cost of operating on the island. This would undoubtedly be detrimental to Guernsey's other domestic industries.

Now we turn to the key indicators of development. According to the UN's *Statistical Yearbook* (2004) for the region, Costa Rica spends 4.4% of its GDP on education, below many developing countries, like Jamaica, but above those of other tax havens, such as St Kitts and Nevis. On average, adults have had six years of schooling (UNESCO), which leaves Costa Rica ranked 54th of 105. It has now been made compulsory to stay in school for ten years, leaving participation at a primary level at 91.1% with spending per student at 14.9% of GDP per capita. However, much of the population is still failing to go on to secondary education; with an enrolment rate of just 49.22%, Costa Rica is ranked 82nd in the world (www.nationmaster.com). This is a poor indictment of the current path of development of Costa Rica. Whatever financial benefits deregulation and offshore finance has brought to the island, if we are assessing the impact such phenomena have had on development then such figures regarding education are damning to say the least. One of key features of a developed nation is the educational standard of its wider population, and despite improvements in literacy (96% - 77th in the world according to the CIA *World Factbook* 2005) spending remains higher in the tertiary sector than in the secondary and primary sectors combined (55.7% of GDP per capita per student – www.untj.org). This suggests that the education of the country's elite is of a higher priority than that of the wider population.

Guernsey's education sector is quite similar to those British counties that blocked the changes made through the 1976 Education Act, which was the legislation that abolished grammar schools or amalgamated them with local comprehensives. This has resulted in the island being divided into specific catchment areas, with pupils given places at the primary that serves the area they live in before taking an 11-plus style examination (www.gov.gg). Pupils assessed as being of high academic ability attend either the Grammar School or one of the three grant-assisted Colleges as special placeholders. Pupils not granted a place at Grammar School attend their local secondary school or attend one of the colleges as a fee-paying student (ibid). Considering the high income per capita on the island it comes as no surprise that many parents pay for their children to be educated at some of the UK's more prestigious private schools.

Costa Rica's health sector is undoubtedly successful, especially in relation to other developing countries. It has one of the highest life-expectancies in the developing world, with the cross gender average being 76.43 years, less than one year lower than the United States, and the 20th lowest infant mortality rate in the world. Spending per person, in US dollars, is only $257 per person, considerably lower than regional rivals such as St Kitts and Nevis ($408) and Barbados ($601) (www.nationmaster.com). However, in view of the countries other health indicators this is rather irrelevant. Nearly the entire population has access to sanitation and clean water too. The figures are obviously not comparable to OECD countries like the UK, but in comparison to many developing countries this is very impressive. Though it must be said that there is little to link any of these findings to the growth of offshore finance on the island, this is evidence to disprove my claim that the current path of development has had a negative impact on the key development indicators.

The system of healthcare on Guernsey is markedly different than the mainland UK (www.gov.gg). The cost of all primary care, such as visits to GP's surgeries, is the responsibility of the patient. Second level care, such as radiology and pathology, is funded by a compulsory health care insurance payable by the working population (ibid). Healthcare on Guernsey has been the subject of a great deal of attention recently as it has been targeted by the States as one of the areas in which the budget should be cut in order to fill the £48million gap left by the impending abolishment of corporation tax in 2008. Along with capital works, healthcare is facing one of the largest cuts, expected to be in the region of £3.75million annually, and health minister Peter Roffey has already admitted that charges will be made or increased on certain services and that numbers of hospital beds may have to be reduced (www.bbc.co.uk). I believe this to be another example of how the promotion of the finance industry can have adverse effects on the wider community, as such cuts will only affect those unable to afford the cost of private healthcare. How can it be that in order to remain 'competitive' with rival tax havens that one of the world's richest jurisdictions can slash the budget of services for those poorest in their society? I believe this to be an anachronistic and perverse situation.

Finally, if we are to assess the impact that offshore finance has had upon the two places then I believe is essential that we look at the distribution of income in both Costa Rica and Guernsey. The easiest way of doing this is to look at the gini-coefficient, the measure of income inequality ranging from 0 (perfect equality) to 1 (perfect inequality). According to the UN's *Human Development Report*, Costa Rica scores 0.465. This figure is significantly higher than OECD countries such as the UK (0.36) and Finland (0.269) and other developing countries within the region, such as Uruguay (0.446). This is further evidence to support my claim that the path of development for Costa Rica is one that brings success for the firms using its offshore apparatus and its wealthy elite, whilst the majority of the country's inhabitants receive little or no benefit. This is reinforced by the fact that the wealthiest 20% in the country earn 51% of income while the poorest 20% earn only 4.2% (UNHDR, n 2004). Inequality is not a barrier to growth but, in my opinion, development should address this problem rather than increasing it. Unfortunately there is no research available that provides the gini-coefficient of Guernsey, or for any of the other Channel Islands for that matter. This is a significant problem for my analysis and is not one that I can currently address.

In this section I sought to discover the effects that offshore finance has upon the different environments that it operates within. I believe that the evidence I have provided goes some way to supporting my initial claims regarding the insidious effects of the practice. With regards to Costa Rica, I believe the evidence offered shows how a successful financial services industry provides no guarantee of benefits being dispersed beyond any developing country's elite. For the case of Guernsey, I think that the testimonies given by my interview subjects gives considerable weight to my belief that the promotion of offshore activities has serious destabilising effects upon their wider economy.

Effects of Offshore on Developed Economies

The main reason behind the lack of action against offshore on the part of the world's major governments is because of the benefits that many of them receive as a result of its existence. For many countries, and the UK in particular, offshore is tolerated/encouraged on the belief that the capital that resides in these locations flows into our economies through investment and, irrespective of what is lost in tax revenues, without this investment, our economies would falter. In this section I will investigate this supposition by analysing the effects of such capital within the British economy and evaluating whether such flows justify the existence of offshore financial centres and Guernsey in particular. I intend to show that, although it is true that capital from such centres plays an important role within our economy, it is not without great cost and that the nature of such investment raises many ethical questions. Finally, I will conclude that far from justifying the existence of OFCs, such evidence suggests they are the modern day successors to the rent-seeking landlords of Ricardo's time.

Due to their size and the nature of their wider economy, funds placed in tax havens will rarely be invested into projects located within the jurisdiction and more often than not will be put to more effective use in major economies located nearby. It is not surprising that a great deal of the capital that is placed in the Channel Islands will be re-directed to the UK as, due to the islands' status as crown dependencies, investments made from Guernsey or Jersey into the UK are done so on a tax-free basis. This is one of the reasons why successive UK governments have encouraged their dependencies and former colonies to develop offshore facilities as 'they view these centres as the best way of directing tax-free capital into the economy' (see Christensen interview evidence). Due to the secrecy involved at the heart of all offshore activity, it is very difficult to quantify how much money flows into the UK as a result of its relationship with the Channel Islands but Swiss banks alone direct approximately £130 billion a year to the City of London through their operations on Jersey (Palan, 2003, pg137). So it would be foolish to deny the vast amounts of money that flow to the UK through offshore facilities. However, the effects of such arrangements are not necessarily positive and at this point I will analyse the economic effects of investment derived through offshore jurisdictions.

The first question that must be asked is how this money is invested. In previous sections I discussed the concept of FDI and spoke of the possible pitfalls of this type of investment in developing countries and many of the same principles apply when FDI is directed at advanced economies. I am of the opinion that FDI is a great tool of development and one of the best ways of generating wealth and employment in the areas in which it is located, but I am also aware that its success depends upon many different factors. For example, if investment is made into an underdeveloped sector of the economy then it will have very positive effects: it may create employment, diversify the economic base of the country, improve the balance of payments, diffuse knowledge to domestic entrepreneurs, etc. If, on the other hand, the investment is made into a developed area of the economy it may cause several problems. A great deal of capital that flows from local tax havens into the UK is likely to go into developed areas of the economy, as this is often where the highest financial windfalls are to be achieved. Mr Christensen points out ‘It is far from guaranteed that this investment will have a positive impact upon the domestic economy; it could fuel property price booms – in recent times property prices in London have been growing up to a rate of 20% a year, for a potential investor that is an incredible rate of return’ (see Christensen interview evidence). But this also puts tremendous pressure upon the housing market in London, where key workers and first-time buyers are unable to enter the market.

In many markets foreign investment may enhance competition but this may result in smaller domestic firms being forced out of the market, unable to compete on a price or brand basis with the large multinational companies usually behind FDI. Funds associated with offshore finance are quite different to standard FDI but are not without their own consequences. Investments made from jurisdictions like the Channel Islands are made on a tax-free basis, giving them a significant cost advantage over domestic firms. As a result, this foreign capital may do some of the things that the government hoped but they will do so at great cost. ‘It is highly unlikely to create employment and, if it is, then it is very often as a result of a distorted playing field. In other words you have inward investment competing with UK businesses on tax-free basis’ (see Christensen interview evidence). In my opinion it is wrong that the UK Government should create a situation where British firms compete with, or are replaced by, foreign firms who contribute little or nothing to the treasury in the belief that this provides greater investment. But what is even more perverse is that this action motivates UK firms to use the same offshore facilities to give them equal footing in future. This is an incredibly destructive situation.

However, it is not just the targets of these investors that cause problems, but the nature of the investments themselves. Unlike conventional FDI, much of the investments made from OFCs into the British economy will be portfolio flows rather than capital investment into new or existing ventures, leaving no significant improvement in the country’s capital stock. ‘Instead they inflate already overheated markets - both equity and real estate - and in doing so cause harm to the underlying fundamentals’ (see Christensen interview evidence). I believe that the importance placed by the British government upon investments made from offshore locations reflects the current dominance of ‘casino capitalism’ (Strange, 1986). This is a situation where instead of investing to improve the performance of a company, investors capitalise on the increased volatility of markets by directing short-term flows towards companies in the hope of quick returns. Instead of offering a glimpse into successes and failures of British businesses the equity market ‘really reflects, inter alia, London's attractiveness to mobile 'hot money' rather than being a genuine reflection on the underlying value and growth prospects of the businesses in question’ (see Christensen interview evidence). This belief, that these capital flows offer nothing in terms of improving the performance of British industry is supported by the fact that ‘very few new companies are being floated on the London markets and in many instances companies have been growing through merger and acquisition activity rather than through organic development’ (ibid).

One of the reasons why offshore has been so successful in attracting business is the level of secrecy that it can offer in comparison to 'onshore' institutions. This secrecy affords the investor anonymity but also masks the origins of the specific funds in question. Therefore it must be asked, why would investors wish to hide this? The answer is, of course, that the money has come from a source that is not entirely ethical and could damage the reputation of the individual and the offshore location itself. More often than not, the funds will be derived from tax evasion (be that external or domestic), but in some cases it could be from more dramatic illegal activity such as drug trafficking or the international sex trade (Hampton, 1996, pg111). As a British citizen, I find it incredibly worrying that our government has allowed a situation to occur in which not only do we lose billions of pounds in tax revenues but that as a result we have become dependent on investment from tax havens 'irrespective of the fact that the money flowing through these centres could be derived from tax evasion, third-world corruption or any other illegal activity' (see Christensen interview evidence). Moves should be taken to ensure transparency, irrespective of the short-term impact that this may have upon the British economy, in order that we do not benefit from investments made from such sources.

Another principal concern, from a more economic perspective, is the damage that this culture of tax competition may have upon the Ricardian system of comparative advantage. In his *Principles of Political Economy and Taxation*, Ricardo explains how free trade is advantageous to all parties as it allows each to specialise in the industries in which they are most productive. To illustrate this, Ricardo offers his famous example of the production of wine in Portugal and cloth in England: 'though she (Portugal) could make the cloth with the labour of 90 men, she would import it from a country where it required the labour of 100…because it would be advantageous to her rather to employ her capital in the production of wine, for which she would obtain more cloth from England' (Ricardo cited in Sraffa, 1951, pg133). Essentially this means that production of a good should take place in the country that has the lowest opportunity cost in producing it. The problem is that offshore has created an environment in which 'tax is viewed as a technical issue, not as an ethical one…that views tax as a cost that can be managed and reduced' and this has led to a distortion in the market that has resulted in 'investment flowing not to the area in which it would be most productive but to the place it will be most profitable from a taxation perspective' (see Christensen interview evidence). So far much of my criticism of offshore finance has come from an ethical position that is concerned by the effects that the practice may have upon development and progressive policies within developed countries. This current evidence, however, suggests that offshore is detrimental to the workings of the capitalist economy, and this should be of great concern to those in government who have been passive towards or encouraged the growth of offshore.

Leading on from my discussion of comparative advantage, I feel that it is necessary to talk about another concept of Ricardian economics, that of rent-seeking. For Ricardo, 'rent-seekers' was a description of the land-owning classes whom he believed received great reward at the expense of the burgeoning capitalist class. Unlike the workers who laboured for their wage or the capitalists who received profit for their organisation and entrepreneurial skills, the landlords contributed nothing but provide the land on which these endeavours took place. Then they squeezed the profits of the capitalists through rent and the exorbitant cost of grain enshrined in the Corn Laws (Heilbroner, 2000). This for Ricardo was a destructive situation and, for me, there is a distinct comparison to be made between the actions of the 19th century aristocracy and the rent-seeking behaviour of today's modern tax havens. Like the landlords, tax havens rarely take any part in the productive process and their role as investors may also be questioned. As we saw earlier in the section, the capital that flows from tax havens is unlikely to be directed at improving the performance of the firms it is invested in and as such, is unlikely to have a positive effect on the wider economy.

This idea can be developed if we take a closer look at similar rent-seeking behaviour in the modern economy. In their article on the slowdown of productivity in the US, Murphy, Shleifer and Vishny (1991) speak of how talented people are attracted to rent-seeking behaviour as the rewards for such actions are far greater than those involved in wealth creation. They support this argument with evidence showing that economies with a higher number of engineering graduates grow faster than those with a higher number of law graduates. This has three effects upon the economy; first, the rent-seeking sector grows and absorbs resources, second, the 'tax' imposed by the rent-seekers upon productive sector reduces the incentives for them to produce and, finally, 'if the most talented people become rent-seekers, the ability of entrepreneurs is lower, and therefore the rate of technological progress and of growth is likely to be lower' (Murphy *et al*, 1991, pg506). This may not refer directly to the practice of offshore finance but I believe the similarities are significant. Like 'the lawyers and government officials' described in the article, tax havens absorb the talents of mainstream economies, as they are able to offer higher returns than those who operate within domestic economies, such as the example given by Mr Christensen in the previous section. The 'tax' they impose on the productive sector is the estimated $255 billion in taxes that is lost each year in tax revenues to offshore environments (TJN, 2005), and just as in the article the stock of entrepreneurs and innovators is reduced as people seek to exploit the advantages afforded by rent-seeking behaviour.

In this section I sought to disprove the belief that the benefits delivered by OFCs justify their detrimental effects and I believe the evidence I have provided has gone some way to doing this. Not only do the world's governments lose huge amounts of tax revenue to OFCs but also the money that flows back has been shown to have destabilising effects upon domestic economies. Finally, I believe that my comparison of tax havens to Ricardo's rent-seekers is a fair one. Wealth is generated, not by speculation or money laundering, but by the production of goods and the provision of everyday services. Real wealth is not created in the offices of captive insurance companies in Guernsey but in the factories of Guandong and the workshops of Goa. And the profits of these endeavours should not be hidden away or administered by a trust manager in a location that had no connection with its creation but used (and taxed) within the jurisdiction in which it was generated. I firmly believe that if Ricardo were alive today he would agree that tax havens benefit from endeavours that have nothing to do with them; it is irrelevant that capital flows from tax havens because such finance originates from elsewhere. Without doubt, tax havens are the modern day successors to the rent-seeking landlords of yesteryear. My research so far has focused on the way in which offshore finance has altered different aspects of economies but at this point I wish to turn to its implications for the state.

The Implications of Offshore Finance for the State

In recent years there has been significant debate surrounding the position and the future role of the state, with some academics suggesting that we exist in a virtually borderless world in which the state is essentially anachronistic (Ohmae, 1990), whilst others maintain that little within the state system has changed over the last 30 years (Chase-Dunn, 1994). Within this debate a second question arises regarding the nature of the state itself. In the past, the state has been closely tied to the idea of nationhood but in today's globalised economy the ties between these concepts have become increasingly strained. In this section I will explore the origins of the 'nation-state' (as opposed to the state itself) and question how recent economic developments have affected the relationship between nations and the state. I will then examine the role of the state itself within the modern economy and ask how this has changed in recent years. Using Palan's work on commercialised sovereignty I intend to show how the developments in finance have severely weakened the ties between the nation and state. However, I will argue that the state itself still plays a vital, if different, role within the economy, focussing on the arguments surrounding the 'competition state'.

Despite what nationalists may believe, the idea of 'nationhood' is not an ancient one. The concept of nation first derived from attempts by absolutist rulers from the fifteenth to seventeenth centuries to homogenise their kingdoms in order to prevent faction, feuding and allow them to centralise power (O'Brien & Williams, 2004, pg57). Around the same time, the first embryonic forms of capitalism (markets, money and contractual relationships) had started to emerge, and in order to thrive they required a 'specific space that was *continuous, homogenous, symmetrical, reversible and open*' (Poulantzas, 1978, pg100). What this essentially means is that without a set space with defined laws and practices it would have been impossible to enforce contracts or for any other aspect of capitalism to operate effectively. The idea of the nation became entwined with the need for a juridical space in which commerce could take place under the guidance of one authority – at that time, the absolutist monarchs. So the people contained within the territory became the nation and the state became its governor: an organisation that was supposed to respond to the 'needs' of the people who inhabited the specific territorial space. It followed from this that the nation, through its state, had the right to determine the way in which the space was governed in terms of laws, its relations with its neighbours and its criteria for membership, meaning that the state was not only territorial but sovereign too. Initially attributed to the monarch through the concept of the 'divine right of kings', sovereignty also became embedded in the development of the nation and, as the government of the state was slowly democratised and its running handed to the will of the people, so was the sovereignty of the territory.

Popular sovereignty is 'the right or power not of any individual or sum of individuals but of the whole conceived as an organic unity with a real personality of its own' (Emerson, 1928, pg11). This is at the heart of the notion of a nation-state. By consecrating the idea that power ultimately lies with the people of a nation I believe that it is determined that the state is the servant of the nation and its actions should only be motivated by concerns for the protection and improvement of its people. And in devolving this power, the nation trusts that the government of the state will not abuse this sovereignty, however, I believe that the emergence of offshore has led to the denigration of sovereignty.

Sovereignty, or the ability of states to determine their own affairs is the principal reason why offshore states exist – they are able to decide all aspects of their government without interference from other states, even if these laws impinge upon those of a neighbour. Sovereignty is used by the offshore states to tailor an environment that will not only enable them to attract foreign firms but also the wealthiest citizens of larger countries through a tax regime that affords far more lenient terms than they would receive at home. Some go even further than this, with states offering foreigners better terms than domestic citizens in the belief that more revenue could be gained from them. For evidence of this, one can look no further than the EU directive regarding Guernsey's tax regime, which was deemed incompatible with the competition code for favouring foreigners. So the tax haven uses its right to determine its own laws in order to achieve the rentier income of the high net-worth individual, essentially selling the sovereignty of the nation to the highest bidders. The state is no longer only serving the 'nation' but a 'host of virtual citizens, with whom it establishes relationships of a commercial and utilitarian nature' (Palan, 2003, pg158). There can be little doubt that this seriously affects the relationship between the people and its government, as it strips away any notion of ties to a nation as the initial relationship on which nationhood has been based upon no longer exists. The actions of these states suggest that ties based on shared culture, heritage or even space are no longer relevant and that the only possible motivation behind tying oneself to a 'nation' is because the state of that nation offers you pecuniary advantages.

Challenges to popular sovereignty do not stop at the courting of high net-worth individuals. There are strong arguments to suggest that the continuous 'hollowing out' of the state is also an affront to the idea that the state's only motivation should be the improvement of the lives of its citizens. We shall come to the idea of competitiveness very shortly, but policies geared to make economies more competitive are frequently found to serve the interests of the business community at the expense of the welfare of the population. A great example of such a situation is found in Brazil: in an effort to improve the economic position of the country the government reduced government spending and liberalised much of the economy. Though this served to reduce inflation dramatically it did not improve the position of millions of Brazilians as social welfare programmes were cut and over 2.2 million workers lost their jobs (Todaro, 2003, pg28). It is because of behaviour like this that critics within academic literature suggest that state managers have internalised the interests of capitalists and use the state as an instrument on their behalf (Miliband, 1969). I do not suggest that such actions equal the end of nationalism but this ‘commercialised sovereignty’, as Ronen Palan describes it, is not compatible with the idea of a nation-state. By weakening or removing the concept of popular sovereignty, we eradicate the mutual relationship between people and government that formed the very heart of the system.

Prior to the neo-liberal revolution of the 1970s, governments were directly responsible for many aspects of the economy and were expected to fulfil specific economic goals such as full employment. Since then, the whole structure of the economy has changed dramatically and with it so has the role of the state within the economy. The government can no longer directly influence such variables but it is still responsible for the framework within which employers operate and the management of such a framework is now the key responsibility of the state within the economy. This framework not only refers to the institutions that enable firms to compete fairly within domestic markets but to the argument that ‘states are now engaged increasingly in a different competitive game: they are competing for world market shares as the surest means to greater wealth and greater economic security’ (Strange, 1987, p.564). This position has been described as the ‘competition state’ and it reflects the growing tendency amongst states to view economic affairs from an international perspective and the ‘increasing use of new forms of economic intervention intended to ‘marketise’ the state itself’ (Cerny, 1990, p241).

At the heart of Strange’s and Cerny’s works are four assumptions that give rise to the key elements of the ‘competition state’. The first of these is that growth is the primary economic concern of the state and that the best way of ensuring strong economic growth is maintaining a competitive environment in relation to economic rivals. This national competitiveness entails many elements but its principal features include many of the aspects that one would associate with OFCs (low taxation, deregulation, liberalisation and a high degree of integration into world markets). In addition, it also tends to entail high levels of expenditure on education and infrastructure, an example of how ‘domestic policy concerns…as well as fiscal and monetary policies are increasingly understood and defined in the context of comparative international competitiveness' (Palan and Abbott, 1999, pg36).

These supply-side policies are indicative of the second assumption that the state is profoundly concerned with the ownership and type of production facilities. Ever since the policy's perceived failure during the stagflation crisis of the mid-1970s, governments have distrusted Keynesian demand management and have increasingly addressed supply-side issues. This is exemplified by regular efforts by governments worldwide to get firms to operate in specific areas by using tax breaks or special regional incentives to develop technology centres or commerce parks like the one currently being developed in the Furthergate and Greenbank area of Blackburn (www.blackburn.gov.uk).

The third assumption states that technology, primarily the internet and other improvements in communications, has changed the way that firms do business forever and as a result, how it is no longer possible to differentiate national and international policies. The implications of such developments are numerous but amongst the most important is the growing potential for capital flight and the perceived need of governments to maintain competitiveness with regards to other economies (O'Brien and Williams, 2004, pg194). All of this reflects the growing influence of international institutions like the WTO and OECD in the governing of global commerce and the decreasing importance of bilateral agreements in setting the 'rules of the game'. This is tied to the first point and the fourth assumption that encouraging economic actors to invest is the source of growth, so 'the aim of modern industrial policies is therefore to improve and enhance the state's natural endowments in order to win inward investment' (Palan and Abbott, 1999, pg38).

All of these points serve as a direct retort to those, such as Kenichi Ohmae (1990), who believe that the state has begun to 'wither away'. Yes, it is fair to say that the role of the state has been changed significantly since the 1970s but it has been argued that far from withering away 'governments…continue to play a crucial, and perhaps paradoxically, an increasing role' (Stopford and

Strange, 1991, pg7) in which they are the driving force behind attracting business and investment from elsewhere. And as capitalism becomes more and more complex, the traditional roles of the state also become more important. One such role that takes on a greater importance with the passing of time is the enforcement of contracts, as these are 'the distinguishing feature of the modern capitalist economy' (Dow, 1999, pg33). With the initial development of capitalism in medieval Europe, without homogenous authority and the strict enforcement of property rights there is no way in which modern capitalism could thrive. So, even though the internationalisation of finance and emergence of offshore may have encouraged the demise of the nation-state, they most certainly do not signal the end of the state itself.

One could argue that the 'developmental state' thesis (Amsden, 1989: Wade, 1990) is the developing world's theoretical cousin of the developed world's 'competition state'. The theory proposes that the biggest success stories in development have come in countries where there is a strong state that is not afraid to intervene in the economy. The newly industrialised countries (NICs) of South Korea, Taiwan, Hong Kong and Singapore all adapted an export-orientated policy of industrialisation sooner than many developing countries. The main reason behind this was the foresight of their respective governments, who promoted exports through funding of research and development and tax breaks to companies who specialised in technological production. There has been the extensive use of other policy instruments, with South Korea's Government engaging careful planning of several sectors of the economy (Todaro, 2003, p390). This goes directly against neo-liberal theory, contradicting its belief that economies prosper when the amount of state intervention is at its absolute minimum. The evidence provided by the NICc (even taking into account the 1997 Asian financial crisis) suggests that 'government intervention is vital in promoting economic development.' (O'Brien and Williams, 2004, p265). I believe that this is equally applicable to the developed world.

In this section I sought to explore the implications that offshore finance held for the state. In my introduction I stated my supposition that the emergence of offshore finance, and the more general developments of globalisation, would entail the end of the state as we know it. This was inaccurate. However, during the course of this investigation I found much evidence to suggest that the developments associated with offshore finance have led to the commercialisation of sovereignty and thus have severely damaged the ties between the state and the idea of nationhood. The role of the state itself has also changed significantly, from its post-war, Keynesian interventionist role to one concerned primarily with the competitiveness of the economy in relation to its rivals. The 'competition state' holds many consequences from an economic and political perspective and these shall be explored in the next section.

Political Implications of Offshore and the Effects of Tax Competition

As we have seen, offshore finance has had a huge effect upon the economies of the world. Its emergence has had a direct impact on matters like tax revenues but in some cases its indirect effects have been even more far reaching. In previous sections we have examined issues such as the 'competition state' and how the role of the state has changed over time, I will now look at how these practices have affected politics within the developed world, offering the example of the rise of New Labour within the UK. I will also break down the issues surrounding the 'competition state' and focus specifically on the effects of tax competition in the world's major economies and amongst tax havens. Using Przeworski and Wallerstein's work on structural dependence, I intend to show how the direct and indirect effect of offshore narrows the political playing field to such an extent that it almost dictates policy and that it is no longer possible for governments to separate domestic and international policies. I also hope to prove not only how harmful tax competition can be to our societies but how the culture of tax avoidance/evasion is detrimental to the development of businesses too.

There can be little or no doubt that the emergence of offshore and the wider internationalisation of finance have brought about significant changes within politics. The removal of capital controls means that governments must be very aware of the amount of regulation within their own economy. If they are seen to be too restrictive then foreign firms are unlikely to be attracted and domestic firms may take advantage of the relaxation of controls by moving production and/or capital to another country with fewer controls. This perceived 'exit threat' on the part of business is seen to have had a strong disciplining effect upon the actions of government, wary of how important business activities are to the well-being of the economy. In this way, governments have spent a considerable amount of their time on schemes to enhance the competitiveness in comparison to their economic rivals (i.e., the 'competition state') in order to maintain and improve the industrial and commercial base of the economy. These schemes, on the most part, have revolved around reducing perceived barriers to effective business, but will also aim at reducing the burden of taxation upon companies. Although these cuts are unlikely to be aimed at capital expenditure on infrastructure or education, as these are important supply-side issues, there is a strong possibility that they could be at the expense of policies aimed at improving social welfare, such as we saw earlier in Brazil (Todaro, 2003, pg28). This, along with the threat of capital flight, has in effect narrowed the political playing field, as it is no longer economically viable for any government to implement redistributive policies for the fear that firms and individuals would remove their capital from the country.

Przeworski and Wallerstein explore this situation in their article 'Structural Dependence of the State on Capital' (1988). In this the authors discuss the possible reasons why successive social democratic parties have failed to gain electoral success or have abandoned the majority of their principles in order to gain election. At the heart of the thesis is the acknowledgement made by numerous Marxist theorists (Luxemburg, 1989; Pashukanis, 1980; Miliband 1969; Block, 1977) that under capitalism, governments must respect the owners' of productive capital. Without the continued success and subsequent investment of firms, it is impossible for any government to complete their objectives. The implications of this situation is that when governments behave in a way that displeases them, the business community is in a strong bargaining position to force amendments in policy. If in the run up to an election a political party announced its intent to implement redistributive polices or to regulate some aspect of industry, then the leaders of the business community may declare how such policies will damage growth prospects or force industry to relocate. This will not only cause concern amongst other businesses but also create a public perception that the political party in question is not fit to handle the economy. It follows that the only option for social democratic parties is to ‘make offers to external, autonomous bodies responsible for decisions: either these offers are not accepted, thus making the attempts at direction in vain, or the offers are so attractive in order to be accepted that the political directions for its part loses its autonomy because it has to internalise the aims of the system to be directed’ (Offe, 1975, pg234). It is my opinion that the increased fluidity of capital, brought about by the emergence of offshore, has exacerbated this situation.

There is no better illustration of this point than the rise of New Labour. In 1994, after four successive terms of Conservative government, Labour’s new leader Tony Blair perceived that the economic policies of his predecessors had resulted in the electorate deeming his party as unelectable. But, perhaps more importantly, this perception was also held by the City, shown by the survey first published in the *Financial Times’* that 88% of executives preferred Conservative macroeconomic policy (cited in Wickham-Jones, 1995). His first major task as leader was to change the public perception that the Labour Party was unable to manage a modern capitalist economy. He did this by challenging and removing the party’s commitment to nationalise ‘the means of production, distribution, and exchange’ (www.thecitizen.org.uk) enshrined as Clause IV of its constitution.

From this point the party was elected as New Labour in 1997 and in spite of the removal of Clause IV, which had received the support of the wider party, many expected the new government to introduce policies aimed at the redistribution of wealth and the reduction of inequality. But this was not the case. Since its landslide election, Labour has reduced benefits to single parents and the disabled, maintained the top rate of income tax at 40% and strengthened the role of the private sector in prisons, schools and the NHS through the use of public/private partnerships, all policies that one would associate with Margaret Thatcher's governments rather than Harold Wilson's. Apart from Tony Blair's personal philosophy, the reasons for this are simple: the moment that they announced any plans to increase taxation or any other policy that could be deemed 'socialist', support for New Labour from the right-wing press would vanish overnight and the economy could face massive capital flight. In essence, the state's structural dependence on capital and 'the ascendant paradigm of free-market liberalism has thus come to demarcate the boundaries of what is economically and politically possible for both parties' (Hay, 1997, pg241).

The integration of global markets has meant that the impact of policies are no longer felt only in their country of origin, such that the 'actions of one government necessarily impinge upon the welfare of other societies' (Gilpin, 1987, p367). This means that there is now very little difference between national and international policies (Palan and Abbot, 1996). For example, if a country is enjoying a boom period and its government wishes to take the heat out of the economy by increasing interest rates, the integration of markets means that anyone wishing to borrow capital can go to another country with lower rates before investing it in the boom economy. This homogenisation of international economic policy further integrates the markets by reducing the differences between each economy.

The emergence of offshore has had a large impact upon the tax regimes in operation throughout the onshore world. Wary of being seen to be uncompetitive, many governments, including the New Labour administration, have kept a strict upper limit on income tax. This fear and its results are more commonly known as tax competition and has been the subject of a great deal of attention from the EU recently. The accession countries have, on the most part, lower headline rates of income and corporation tax and many of the 'high' tax economies are fearful that firms will take advantage of this fact and move eastward as all the while the net-contributors, primarily Germany, continue to pay for infrastructure improvements within the accession countries. It is not difficult to see the parallels between the strategies of the

Eastern European governments and those of the world’s tax havens, using the fact that Western governments have larger financial commitments and undercutting them on the basis of the pecuniary benefits that they can offer.

Since the proliferation of tax havens in the 1960s, their numbers have swollen from a handful of European states to over 70 in 1998 (Diamond & Diamond, 1998). As a result, there has been much competition between the locations, all vying for the capital that is flowing out of mainstream economies. Though there is a degree of competition based upon operational factors such as location or speciality (such as Guernsey’s focus upon captive insurance), the main battle is focused upon deregulation and low taxation and there are no signs to suggest that this will disappear. As we saw earlier, both Jersey and Guernsey have committed themselves to the reform of their tax systems to incorporate a ‘zero-ten’ regime in order, in the words of the Guernsey’s advisors KPMG, ‘to remain competitive with other similar low tax jurisdictions and that under the criteria applied by the EU Code of Conduct Group this is likely only to be possible if the general rate of tax payable by companies is zero’ (Guernsey’s Future Taxation Strategy, 2005). This is further evidence of the instability of tax havens: that the method they use to attract capital away from the world’s major economies is now being used by other tax havens to attract the same capital. The only possible outcome is ‘a perverse competition in regulatory laxity and gravitation by some institutions to the least regulated centres’ (Johns, 1983, pg6).

Though some have argued that tax competition is a good thing and that the threat of being undercut by rivals acts as a restraint upon governments prone to ‘tax and spend’ policies (Mitchell, 2002). But for others, such as John Christensen of the Tax Justice Network, the effects of tax competition are more insidious: ‘over the last 20 years I have come to the conclusion that there is no such thing as beneficial tax competition; it is harmful in all of its contexts’ (see Christensen interview evidence). The reasons for this are simple. By effectively ruling out direct taxation as a method of raising finance not only is one severely restricting the policy options of democratically elected governments but also putting greater pressure on other sources of income.

This is an important issue for all economies but for developing countries it is even greater. As capital flight is a major threat, the existence of tax competition has severely weakened the ability of developing countries' governments to raise capital from domestic sources, putting greater pressure upon aid and debt. So the government is given a choice: stand firm in the face of such pressure and try to raise funds through direct taxation whilst watching the country's elite funnel their capital through a myriad of tax havens, or give in to the pressures of tax competition by restricting direct taxation and finance government expenditure through high-interest debt and any crumbs thrown their way by aid donors. An example of this came in the 1980s when a number of anti-imperialist regimes were elected in Latin America promising to improve the lives of the people but were instead decimated by capital flight, with some estimating that as much as 40-50% of Latin American debt was channelled into local tax havens (Naylor, 1987).

The effects of tax competition are not only felt at a macro level: although indirect the effect upon businesses can be just as damaging. The emergence of offshore has presented firms with the opportunity to engage in tax avoidance schemes with such success that critics, such as Mr Christensen, have suggested that it has begun to adversely affect their performance. We know that the core responsibility of the management of any company is to increase the share value of the company for the benefit of its shareholders. In the past this would involve improving the performance of the company through efficiency drives, investment in productive capital or research and development of new products. Now however, instead of this firms can employ aggressive tax avoidance strategies, improve perceived profitability and enhance share value.

Although this could be profitable on a short-term basis there can be no doubt that such policies are detrimental to the long-term viability of the company. As Christensen explains, 'the term itself is misleading; a much more appropriate description would be 'tax incentivisation' and that is just another form of subsidy, and a subsidy that is perverse in its outcomes' (see Christensen interview evidence). What he means is that, by focussing on the issue of tax avoidance, firms cease to pay as much attention to more important factors such as productivity or product development. As before we see a distortion of Ricardian economics with capital flowing to unproductive concerns, although this time it is not flowing to unproductive areas but unproductive agents in the form of the accountancy firms who tailor these tax strategies. And there can be no guarantee that these attempts to evade tax will be successful. In fact, when these schemes are exposed it often results in great embarrassment to the company and may even result in a loss of share value as GlaxoSmithKline and Tommy Hilfiger discovered; when it was announced that each were being investigated by the US authorities they lost 2% and 24% (both www.guardian.co.uk) of share value respectively. Would not the companies be in a much better position if they had used the money they paid their accountants with in order instead to invest in their long-term future?

In this final section of my article I believe I have gone some way to showing that the emergence of offshore has had a significant effects on the decisions of political actors. Although I accept that the state has always been structurally dependent on capital, I believe that the ease that with firms may now move capital has made governments even more eager to please the owners' of productive capital. Further to this, the removal of capital controls and the proliferation of tax havens has led to the growth of tax competition between both 'mainstream' states and tax havens themselves, resulting in specific boundaries to the actions of all governments. I believe these developments to be to the detriment of progressive politics worldwide.

Conclusion

In the introduction to my paper I stated that I believed that, irrespective of the initial benefits it offers to its host country, offshore finance was an unstable development strategy. Throughout my investigation I have found little to change my opinion and I believe the evidence I have provided goes some way to showing that my initial assumption was well founded. In the short-term, offshore is an efficient way of bringing capital into developing countries. But I firmly believe that such a strategy will be of little benefit to those not involved with the finance sector and will eventually disrupt the development of the wider economy, illustrated by the ‘cuckoo-in-the nest’ theory provided by Mr Christensen.

In section three of my article I argued that OFCs acted as rent-seekers and that this activity had corrosive effects upon the world’s major economies. The work that I have completed surrounding the impact of investment from offshore locations and the figures regarding lost tax revenues, as provided by the Tax Justice Network, supported these arguments. I also believe that during the course of the article I have gone some way to showing how offshore finance blocks progressive politics through the threat of capital flight and how tax competition prevents governments from raising the finance for such schemes using direct taxation. However, I was wrong in my initial hypothesis that the emergence of offshore finance signified the ‘end’ of the state. After my research I came to the conclusion that, although offshore and the wider internationalisation of finance had brought about the end of popular sovereignty and thus the idea of the ‘nation-state’, the state itself still has a vital role within the economy.

In terms of my research, I think several improvements could have been made with regards to my study of Guernsey. At the start of my investigation I wrote numerous letters to people involved with the finance industry on the island but unfortunately I drew a blank from each. Although this is indicative of the secrecy shrouding operations on the island, I feel that if I had cast a wider net across the island I may have been able to find at least one person currently employed within the industry that was willing to help. This would have given me a greater insight as to the current state of Guernsey as an offshore centre. I also feel that the absence of information regarding the distribution of income on the island was detrimental to my work comparing Guernsey with Costa Rica, although considering that no such study has been made public it would have been very difficult for me to improve on this.

In conclusion, I must state that my own opinions regarding offshore finance have, if anything, hardened during the course of my investigation. With respect to Guernsey, I believe the evidence I have provided indicates that the island has become completely dependent upon the finance sector and, as a result, it is looking at an uncertain future if the 'bubble' bursts. The changes that the States are making are indicative of this. As Mr Christensen pointed out, they are replacing one regime that does not comply with EU competition laws with another that does the exact same thing. Though I accept that offshore has brought a quick route to development for many locations, including many of Britain's former colonies, and that these centres act as conduits of inward investment into the British economy, I believe its negative implications far outweigh any benefit Britain receives from them. If we return to the figures relating to overall loss in tax revenues, we have a figure of $255 billion on an annual basis. The UN Millennium Project report said that a tripling of the global aid budget to $195 billion would be enough to halve world poverty within a decade and prevent millions of unnecessary deaths in poor countries (Tax Justice Network, 2005). For me, these two figures are enough to signal the importance of tackling offshore finance and the tax evasion it enables.

In his *Principles of Political Economy* (1848)*,* John Stuart Mill described his attitude towards the rent-seeking behaviour of the land owning class and, as with Ricardo, I believe there are similarities between our subjects. 'Suppose that there is a kind of income which constantly tends to increase, without any exertion or sacrifice on the part of the owners, constituting a class in the community whom the natural course of things progressively enriches consistently with complete passiveness on their own part. In such a case it would be no violation of the principles on which private property is grounded if the state should appropriate this increase of wealth, or part of it, as it arises. This would not properly be taking anything from anybody; it would merely be applying an accession of wealth, created by circumstances, to the benefit of society, instead of allowing it to become an unearned appendage to the riches of a particular class. The ordinary progress of a society which increases in wealth, is at all times tending to augment the incomes of landlords…they grow richer, as it were in their sleep, without working, risking or economising' (Book V, ch 2, pg5). No matter how the actions of OFCs are conveyed to the population as beneficial, ultimately their behaviour is destructive and unjustified and I believe that it is within the moral remit of the world's governments to intervene.

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Appendix I

Interview with Katie Blair

Me: If you could first tell me a little bit about who you used to work for and your position?

Katie: Yes, my last job in Guernsey was for 4 years was with Credit Suisse Trust. I was a senior trust officer and I was basically involved with what could be called a product department, though Dr Watson wouldn't agree that there was any such thing as a product. We were administering basic trusts, mainly with an underlying company that was created in the Bahamas under Bahamian law, but the trust was a Guernsey structure. Basically, most of our clients viewed the trusts as elaborate banking instruments that enabled them to 'ferret' their money away. They were not Swiss nationals but most were clients of Credit Suisse private banking, though others held accounts with our Luxemburg, Singapore and Guernsey branches - Credit Suisse has private banking facilities on Guernsey, though this was very much separate from Credit Suisse Trust.

Me: What were the main activities of Credit Suisse on the island of Guernsey?

Katie: Credit Suisse operated private banking, trust administration and asset management services. Obviously they were all under the same group but they were managed very separately.

Me: What type of clients did you mainly deal with?

Katie: In my department we had international clients who all banked with Credit Suisse Private Banking. We would only accept private banking clients as opposed to banking clients because Credit Suisse is pretty much like Barclays in that it is a 'High Street' bank but the private banks are only in the big cities in Switzerland, so our client base were those customers (none of whom were Swiss; they were Italian, French, German and loads of South Americans, all over the world really). In my department it was all individuals but I could not say for the private banking department on Guernsey, as there is little integration between us. We could be their clients occasionally and hold accounts with them but we had no access to their customers, as we were separate.

Me: What was the companies overall presence on the island?

Katie: It is the biggest employer on Guernsey, or certainly was when I was there. Because everybody could see Credit Suisse as a whole when in fact there were three different companies or three different sections to the company: asset management, banking and trust administration.

The trust company had about 90 to 100 people, asset management had about 150 people and private banking had around the same.

Me: How does this compare to the size of say, the London, Zurich or the Cayman Islands office?

Katie: Again we separate between the three sections but the Trust section was a branch of the head office in Zurich and we did not have a presence on the Cayman Islands but in the Bahamas, the reason for that being Credit Suisse's main rival, UBS, set up in Jersey and the Cayman Islands so Credit Suisse set up in Guernsey and the Bahamas – it was always about capturing a jurisdiction as they were rivals in Switzerland so they wanted to avoid a rival in their offshore environment.

Me: On what basis was Guernsey 'sold'?

Katie: Because of the trust laws. Initially Swiss customers liked the fact that there was no disclosure, however this was in the process of changing over the course of my five years and is no longer the case.

Me: So how much of an issue was secrecy?

Katie: Huge; the company was stressing client confidentiality and that as long as they were not in trouble. If there were any proceedings in their home jurisdiction and we had a court order we would disclose and that was the difference from Switzerland in that they wouldn't disclose, though that is changing, I believe, in 2010.

Me: So is it fair to say that in comparison to Zurich, the level of secrecy in Guernsey is quite low?

Katie: Yes, things are moving towards transparency. Basically, the source of funds is the settlor but he no longer has right to them, he has handed it over to the trustee who is then the legal owner and acts on behalf of the beneficiaries. It's a method of inheritance planning and avoiding secession taxation anywhere in the world. So if your putting money in trust it is very difficult to find out where the money came from and it is down to the trust company themselves to find its origins. It is a legal obligation for a trustee to know who their client is and the source of their funds, not only because of the risk of the funds being derived from crime but also for funds being the result of tax evasion. If a Guernsey businessman is taking on a new client he must know all of this and he under a duty of care to do this now.

Me: And in Zurich this wasn't the case?

Katie: Not regarding tax evasion, only for criminal purposes.

Me: So, for example, a client's funds did turn out to be from an illegal source, the company is obliged to report it?

Katie: Whoever discovered it would be and if they did not they face, I believe, seven years in jail and a severe fine. Once someone has discovered any wrongdoing they are not allowed to inform the client that they know and are certainly not allowed to tell them that they have filed a report. There is a hierarchy to it – the individual informs their reporting officer, who investigates and decides whether further action needs to be taken and then reports to the financial crime unit who could involve Interpol. At each level the report is assessed and possibly passed on to the next stage. If you fail to report something then you are negligent and liable personally. This is the same procedure as England, Guernsey adopted the English money-laundering laws.

Me: How would you differentiate the 'packages' that were sold to each client?

Katie: Mainly on the basis of fees. When I first started with the company, my department had two structures but that was later reduced to just one. Clients of Credit Suisse Banks in Switzerland could see our leaflets and could then purchase the trust. This meant that they could begin secession planning, write a letter of wishes as to how they wished for the funds to be distributed on their death or whether they would like the trust to continue. However, it was a proper trust it was just administered in a most basic way as to keep the fees to a minimum. All the other departments offered full structures, basically anything that the client, I should say settlor, wanted to do. They could invest in property and have that as part of the trust with their funds or anything but in my department it was much more simple – no boats, no property, just financial investments and bank accounts and that was all we administered on behalf of them in order that we may increase the trust funds. That was it.

Me: Why do you think people chose to do business in Guernsey? Was it more to with the companies who were based in the jurisdiction or was it more to do with the legal framework of the island?

Katie: A mixture of both really; first of all were situated in English waters and have good links with London by air, obviously being at GMT and speaking English is of big advantage, especially with our English clients. The tax-regime and legislation are easily understood, it appears to be following English law when in fact it is Norman. Well the Norman roots are there but the most modern laws follow the English model – basically we take the English law and adapt it to our own needs. Apart from that; professional people, great training, good schools…

Me: Would you place greater importance upon operational factors over any others?

Katie: Yes, apart from what I've already said everything one could need to do business is right there and of a high standard of professionalism. There is already a pool of high quality staff and if needs be one could recruit from the mainland.

Me: So if you were to be given the choice between operating in Guernsey or Zurich you would choose Guernsey on the basis of all these operational factors and its geography?

Katie: For the purpose of trust administration then yes. If it were for the purpose of banking then it would depend on what factor I considered most important. If I was looking for secrecy then I would choose Switzerland as they don't ask such probing questions, well they do but they are unlikely to act on it. If it was just for trust administration I would choose Guernsey as the lawyers and trust practitioners understand the trust concept and understand what it is. In Switzerland, from my experience of working there, the structures, in many cases, are run like 'sham' trusts, where the settlor, who is supposed to extract himself from the whole thing and let the trustee have complete control over the funds, does not and basically the trustees act as puppets and do exactly as they're told, which is against the whole concept and so the trust doesn't really exist. While in Guernsey they take every effort to avoid that as we don't take instructions, only requests and we make decisions on behalf of the trustee based on those requests made during the planning of the trust. You know you're going to get confidentiality if you are a law abiding citizen, if your not in trouble then we will not release any information but if you are then we will. But then I doubt we would accept the business of a 'dodgy geezer' anyway, we may have done five or six years ago but definitely not now.

Me: Taking all these operational factors into account, why would a businessman choose Guernsey over Jersey?

Katie: Oh I don't know, that is difficult to say. Jersey has almost the same law and tax legislation apart from a few minor details and carries out the same procedures regarding money laundering, tax evasion and establishing the true identity of the beneficiaries and the settler. As far as I know there is little difference between the two. Our main competitors on Jersey, UBS, were carrying out all the same tasks as we were but we were undercutting them in price and that is it, everything else we did they did too. I think there was a stand-off at one point between Guernsey, Jersey and the Isle of Man where all agreed to sign up for one of the Financial Task Force requirements but they didn't. It was quite silly really.

Me: How important is the Guernsey Financial Services Commission in maintaining the island as a healthy financial centre?

Katie: I would say they are heavily present and have a good relationship with businesses and they strive to get everybody licensed, apart from mortgage providers and insurers who are licensed by the Financial Services Act on the mainland, though they still have to meet certain criteria they still have an excellent relationship with most of the large organisations. When the new legislation came out it seemed as though it would squeeze out some of the smaller organisations as they could not afford to put a compliance team in place, like a money-laundering officer or an in-house legal advisor, but there was no problem for larger firms who could afford to have thorough audits and could ensure that all their staff were up to date with any new regulation. When I was in Guernsey I had to have an interactive money-laundering test every six months while I've been in my new job here for some 18 months and I have only had one such test. Between 1998 and 2000 the GFSC presence was certainly felt and initially many firms were not happy about this but the commission had to do something to improve the reputation of the centre after it was 'blacklisted' around the same time. It is fair to say that the shock of being blacklisted prompted a much more rigorous regulation of finance on the island.

Me: As someone who grew up on the island, how has Guernsey changed?

Katie: It used to be lovely…in many ways it hasn't changed, the people, I suppose, have changed for the worse because of the finance industry. In the 80's it became very 'yuppyish', all champagne and fast cars, which is very sad, as that is not what I think the island is about. In terms of development, the island is almost unrecognisable to what it was when I was young. I don't know how well you know the island but where all the new buildings are in and around St Peter's Port used to be warehouses or even fields. It has smartened up; you can certainly tell that the island is wealthy as there are a great deal of restaurants and bars but in a way it has lost a lot of its identity.

Me: Going on from there, before the arrival of the finance industry Guernsey was famous for it's horticultural produce, such as tomatoes, how has the island's development as an offshore centre affected these domestic industries?

Katie: They've completely gone. My oldest sister has worked in horticulture for her whole life and began working in other people's greenhouses before going on to own a large amount of land her self, with several greenhouses containing mainly flowers. She was very successful and made quite a lot of money but in the last 10 years it has become absolutely dreadful and the worse thing is that she is unable to sell the land as on Guernsey all properties have a designated use and you're not allowed to change it. If you drive around Guernsey you will see a large number of dilapidated greenhouses covered with weeds as the only way around the restrictions is to allow the buildings to fall into ruin so that they can be knocked down and then, possibly, the land can then be sold. The island's Development Commission, the body in charge of building and the use of land, wishes to retain a green belt, and rightly so, and even if the greenhouses are not pretty they are not offices or flats.

Me: Staying with your sister's business for a moment, how difficult is it for her to find hired help today?

Katie: For a long time it was Madeirans. Well when I started school if you did not do well you would end up working in a shop or in a greenhouse but by the time I left school the finance industry had really taken off and it was almost obligatory that school leavers would work for either on of the clearing banks or, if they were lucky, one of the private banks. So agencies would bring over a large number of Portuguese, mainly women, who were allowed to stay in boarding houses on the island for 99 days, leaving the kids with the husbands back home, in order to pick all the tomatoes and flowers, make a bit of money and then take it back to Madeira before returning again a month later. But as the Madeiran economy picked up, presumably because of the high wages that they were paid on the Channel Islands and all the horticultural tips they received there, no one wanted to return to Guernsey. Now my sister gets her 'girls' from Latvia, Estonia and even Russians.

Me: So will your sister simply have to find workers further and further a field or does this represent the death of the industry?

Katie: Oh it is the death of the industry as no one of my age is interested in growing so when her generation gives up there will be no one to take over. My family were tenant farmers so it would have been the norm for someone to takeover the tenancy but not anymore, it can't really compete with the glamour or pay of the finance industry.

Me: Is finance now the only option for gainful employment on the island?

Katie: Well there are still the trades to choose from, most of my male friends are carpenters or mechanics or engineers and you will always have the infrastructure; retail, sports and leisure, services but if you want serious money and the perks that come with it then you have to be involved with finance.

Me: How do islanders generally feel about the finance industry?

Katie: Well they worry, constantly, that the bubble will burst. I remember when I came back from university and I was temping everyone said 'oh don't go into finance, go to England and teach or something because this is going to burst' but it hasn't and 10 years later it is still going strong. I think that has a lot to do with how they have become a lot stricter with regards to whom they deal with.

Me: Going back to Credit Suisse, what kind of role did they play within the community?

Katie: Well as a company they sponsored the 'Tree of Joy' every year, which was a fund for under-privileged kids, and within the company there was a fair bit of fund-raising but that was more to do with the directors, as they were all from Guernsey, Credit Suisse themselves didn't do much. I don't think other companies did much either, sponsorship of sporting events, golfing days and that kind of thing, certainly not anything substantial but as there is not a great deal of visible poverty on the island (though it certainly does exist), it wasn't really called for. There are, after all, between only 35 and 42 unemployed people on the island.

Me: In the light of the large number of new tax havens who employ a zero-tax regimes and the increasing pressure from the business community for Guernsey to respond with tax reductions of their own, is there not a sense amongst the population that businesses should pay their fair share for the upkeep of the island?

Katie: Well I was not aware that there was such pressure but certainly yes, I think that most people on the island would agree that the level of taxation upon business should not be reduced and that they should contribute a significant amount to the running of the island. I think such moves would be quite unpopular.

Appendix II

Interview with IM

Me: First of all could you please state your name and your position with Weaver Finance.

IM: My name is IM and I am a controller of X as deemed fit by the Financial Services Authority. I carry out a director function of the firm.

Me: What is the nature of the firm?

IM: We are a mortgage brokers, we arrange secured loans and mortgages on behalf of a lender.

Me: What are your main roles?

IM: My daily function within the firm is to manage the inbound and field sales teams. One of my key tasks it to administer the company's regulatory procedures and compliance.

Me: What is your company's presence on the island of Guernsey?

IM: Our Guernsey office is our main registered office with the FSA, we have 5 members of staff working for us on the island mainly working in the administration side of things; book keeping, that kind of thing, as all payments we receive are administered there. All of our sales reps are also employed by the Guernsey office, yet obviously they operate on the mainland.

Me: Are your employees from the island or did you recruit from the UK?

IM: All of our staff on the in our Guernsey Office are from the island. Anybody with domicile outside of Guernsey must apply for a work permit and even if approved last up to 12 months only. Nevertheless, the island has an excellent pool of staff from which to draw.

Me: What were the company's main reasons for moving to Guernsey?

IM: I think it goes without saying that the main reason for opening on Guernsey is the tax advantages it affords the company. The tax regime is simple to understand and it means a massive reduction in operating costs. Initially there were considerable advantages in terms of the cost of advertising as Guernsey charges no VAT on it. Considering that at that time we were spending over £40K a week on advertising that meant a saving of £7000 on a weekly basis.
Another reason for opening up a new branch was that we believed it was important for the company to have an alternative method of doing business. We thought it would be of great advantage to have different channels to choose from, for us and our clients.

In the long-term, if more of our operations were to move to Guernsey, there would be even greater advantages in terms of taxation, personal income tax and secession planning for example.

Me: So you could foresee a situation where you no longer had a presence on the mainland?

IM: No there would always be some presence on the mainland as that is where our business takes place but it is feasible that more of our operations could be moved to Guernsey.

Me: And what is the cost of running this alternative?

IM: Rental on the office in Guernsey is about 50% higher than in Cheshire on a square footage basis although other costs including staff are comparable.

Me: Do you encounter significant advantages in terms of less regulation in your Guernsey operations?

IM: Not really as we still have to meet all of the regulations laid down by the FSA. In fact, the area of the business that we are looking to move into (commercial mortgages and bridging loans) are not regulated by the FSA at all so moving to Guernsey would not represent any significant advantage from that perspective. It is mostly down to the tax advantages.

Me: So the FSA does not regulate those aspects of the industry?

IM: Basically, the FSA presently only regulates 1st charge mortgages where the client obtaining the mortgage or their family resides in the property and the area in which they dwell exceeds 40% of the total security area. So buy-to-let, 2nd charge loans and non domestic (i.e commercial offices, industrial units etc) are not regulated

Me: Could you foresee a time when you would wish to leave Guernsey?

IM: Hard to say, but now, at least, our future at Guernsey's seems to be continual one

Appendix III

Interview With John Christensen

Me: If you could start by giving me your name and a little bit of your background in the field.

John: My name is John Christensen and I am a development economist. I was trained in the City before moving onto work with Oxfam in India, focussing mainly upon microeconomic issues such as the opening and development of local markets. During this time I became more and more concerned with the effects that capital flight was having upon state revenues to the point that in the mid-80's I was severely critical of those who advocated that countries should finance their development through debt and through aid, all of which led to a degree of dependency that I was not comfortable with. So my interest in the field goes back to the very early 1980's, when I tried to convince Oxfam to focus upon issues of capital flight and taxation issues, which they did not.

I left them and briefly worked for the Overseas Development Administration before returning to my native island of Jersey which I discovered had become a tax haven. Initially I worked in the finance sector for a trust administration company and I loathed every aspect of what I witnessed as most of it was illegal or unethical (or both), before working as an economic advisor to the government of Jersey for 11 years. During that time I became concerned about several things: the impact that the financial services industry was having upon the wider economy of the island, I saw clear evidence of the 'crowding out' of the island's indigenous industries. I saw that the dynamic growth of financial services was leading to a very marked social division between those involved with or profiting from its growth and the rest of the Island's population, who were suffering from the high levels of inflation, property price inflation and this led to a marked increase in the incidents of poverty. Not many people think of the Channel Islands as having pockets of poverty but during my tenure I was responsible for the oversight of reports into public expenditure and general health and throughout the period we witnessed a dramatic increase in poverty, due mainly to this process of crowding out.

I became concerned with the international impact that tax havens, actively encouraging capital flight, corruption, tax evasion, had upon developing countries, and as a development economist I saw that this was one of the main barriers to their effective growth.

As a result of these concerns I left my position in 1998 and after a series of conferences, several academics, accountants and economists formed the Tax Justice Network. I am now a director and international secretariat of the organisation.

Me: During your time advising the government of Jersey, were you given much insight as to their overall aims for the island?

John: The official position was to develop a broad economic base of which the finance industry would be one of the principal sectors, the others being horticulture/agriculture, tourism and manufacturing, with taxation upon high net-worth individuals making up a large part of the islands finances. That was the official story and I remained very committed to policies that promoted and developed agriculture and horticulture (my first degree was in agricultural economics) but also to those policies that I believe enabled dynamic tourism and manufacturing sectors. However, the reality was that the speed with which licenses were given to new banks and financial service institutions inevitably led to the rapid crowding out of all other industries. We call this a ‘cuckoo in the nest’ situation, where an incredibly dynamic, fast growing industry, and offshore finance is possibly the world’s fastest growing industry, is introduced into an area where the profit structure of domestic industries are diametrically opposed to it’s own. This cultivates the environment in which crowding out takes place. If you take a hotel manager, he may be able to earn up to £40,000 a year working long, anti-social hours with high levels of commitment but if he were to work as a clerk in an offshore finance house he could well earn the same amount as a starting salary, working 9 to 5 with little responsibility, so why would he work in the hotel? This is an example of crowding out and the speed with which it can occur is unbelievable, I believe it is indicative of the reasons why an offshore financial industry is incompatible with the stated aims of the Jersey government for a broad and diversified economic base.

Me: What marks the Channel Islands apart from other offshore locations like the Cayman Islands?

John: Not a lot really; the Cayman Islands are much, much bigger in terms of the number of companies who operate through there. The Caymans and the Channel Islands both attract a mix of corporate and private

wealth, this marks them apart from Geneva, which focuses almost entirely upon private banking for high net-worth individuals.
Jersey tries to promote itself as an international finance centre but it is an OFC, for it to be classified as an IFC some of the capital would have to come from local sources, not just from outside. It also tries to promote itself on the strength of its regulatory base but during the eleven years that I was there I became increasingly sceptical of this strength. For two years I was secretary to the working party looking at the regulation of Jersey and in that time I had a lot of insight into the culture of regulation on the island and this could best be described as the three monkeys: hear no evil, see no evil and speak no evil. The people that I knew personally from within the financial services sector would instantly try to bury anything dodgy that they discovered because they were told from up high that anything negative would reflect badly upon the island and could harm it's reputation for regulatory stringency so the reflex action was always to bury it.
There was also something much more insidious going on, and I was very critical of this; many of the banks and financial institutions appointed local politicians, people of no importance off the island but with serious clout within it, to their boards as directors. What this meant is that any problem that emerged during operations on Jersey could be controlled or buried by these local bigwigs. This worked very well until 1996 when a scandal emerged involving UBS that I leaked to the Wall St Journal. To cut a long story short, they had set up a churning operation with a member of the treasury team and a foreign exchange dealer, who had been granted a residency permit by a totally corrupt Jersey official named Pierre Horsfall who was also on the UBS (CI) board, so that even if they did not make a profit churning the foreign currency they still took a fee and they ended up making about £27 million. Now this is not a huge amount in relation to the amount that flows into Jersey all year round but for the investors involved, this sum was considerable. Now as offshore currency exchanges are a particularly shady area, most investors would back down but as most were American this was not the case and they complained. When Horsfall tried to bury it I leaked it all to the Journal and they led with it on the front page, ending with one stroke the fallacy of Jersey's reputation for regulatory stringency. I had to as it compromised my position as the application for the foreign exchange dealer's residency and license had gone through my office and if I had been aware of the scam from the start it never would have gone any further, but it was taken out of my hands by Horsfall and by leaking it I exposed that the corruption went all the way to the top. Even my boss Colin Powell was implicated as he knew about it and turned a blind eye.

Me: What marks tax havens with crown-dependency status apart from each other?

John: Apart from their size and scale, very little. Of the 70 recognised tax havens, 35 are connected to the UK in some way, what differentiates the crown-dependencies from other tax havens is that because of their location, many people and investors believe them to be a part of the UK, almost as adjacent to the City of London. When this perception is added to the fact that the crown-dependencies have political, fiscal and regulatory autonomy it creates a scenario where an investor can receive all the benefits of operating in the City (same language, time zone etc), with all the benefits of a standard tax haven (low taxation, secrecy, regulatory laxity etc). When the Labour Party came to power in 1997, Jack Straw commissioned a report into the competitiveness of British tax havens they stated that the Channel Islands regulatory standard to be excellent but then set out 167 points of how the regime could be improved!

Me: So in reality, apart from the advantages in location and the perception of belonging to the UK, there is little that differentiates the Channel Islands from other tax havens around the world?

John: No, they all survive on the same basis. I think it is safe to say that in recent years there have been some minimal improvements in regulation in the region since the scandal was leaked to the Journal and when Guernsey was blacklisted in the late 90's, but I don't think the regimes have been enhanced to the standards one would expect in international finance centres. If they were to incorporate themselves into the mainstream of international finance and were to engage in programmes of information exchanges involved with most international treaties then they would lose their only comparative advantage and that is secrecy. Without this, the area would lose its finance industry overnight.

Me: Does that mean you would place secrecy above all other factors in explaining the areas success?

John: In my opinion, yes.

Me: We have already spoken of the effects of crowding out on the island, in what other ways does the growth of the finance industry affect Jersey?

John: Well crowding-out tends to have a microeconomic effect rather than macroeconomic. An example specific to macroeconomics is a situation known as the Dutch disease, in which the discovery and exploitation of natural resources de-industrialises a nation's economy. In the given scenario, the value of the country's currency rises (making manufactured goods less competitive), imports increase, non-resource exports decrease leaving many sectors ruined and the economy totally reliant upon the new industry.
Now, in jurisdictions such as the Channel Islands, where the currency is pegged to sterling, this is not the case. What happened instead was rampant increases in the cost of living and in property prices. I was in charge of the RPI and the PPI and I witnessed an increase of over 100% during my time there, over the last twenty years the increases have been simply staggering. The result of this is that young people

wishing to work in agriculture, tourism or manufacturing simply cannot afford to buy property on the island and perhaps more importantly it means that existing farmers find it more profitable to lease their land for accommodation than for normal purposes.

Me: Are there not restrictions upon the designated use of property like there is in Guernsey?

John: Nominally there is but the pressures faced by the farmers and the existing housing market are so great that the authorities again turn a blind eye.

Me: What is the state of indigenous industries then?

John: Well manufacturing doesn't exist on the island anymore, the last manufacturing company closed its doors in 1998 so we don't have specs savers or anything like that.
The vast majority of guest houses have closed, at its peak in the late 1970's there were over 25,000 beds while now there are as little as 14,000. There has been a significant shift from actual tourists visiting the island and using the hotels and restaurants to local businessmen and temporary workers supporting these establishments through catering contracts.

Me: Is it fair to say that other industries found in Jersey now rely upon the finance sector?

John: Well the other industries were given a choice; leave the island, like manufacturing did in the late 90's, or become a subsidiary of the finance sector. The tourism sector is now completely and utterly dependent upon the financial service industry, as is construction as nearly all new developments upon the island are commissioned by or are as a result of the large finance houses. This now even accounts for the trades; the vast majority of a plumber or carpenter's work revolves around the finance industry, be that the companies themselves or their employees.

Me: Do you think that this renders offshore, as a development strategy, inherently unstable?

John: Without a shadow of a doubt yes. If any of these spaces, not just the Channel Islands, were to lose their comparative advantage of secrecy or the harmful aspects of their tax regimes then the consequences for their economy would not be confined to the financial sectors. Tourism, construction, anything connected to the industry would collapse. A great example is the airports found in the Channel Islands, if you remove the demand for everyday travel to these places that is associated with the financial services then their operation is no longer cost effective and most of them, if not all, would close quite quickly.

Me: Do you think that the move for a ‘zero-ten’ or ‘zero-twenty’ tax regime was prompted by the island’s finance sector?

John: Yes I believe they were both implicitly and explicitly behind it. I would describe these changes as an act of desperation on the behalf of the Jersey government, and the other crown-dependencies for that matter, as they are fully aware that tax havens are doomed in the long-run. This is a short term policy that has been put in place in order to try and delay the inevitable and the reason they have to delay the inevitable is that there are no alternative strategies available, especially in the Channel Islands, and I can tell you they are pretty desperate. I can tell you something else, the zero-ten, which is a response to the EU’s finance council directive that aspects of these island’s tax regimes were incompatible with the competition code, has already been deemed to also contravene the code. In the past non-local firms were given preferential treatment, i.e. tax exemption, to their local counterparts. So you have a situation where international conglomerates are taxed at a rate of between 0.5 and 2% and local firms are taxed at the headline rate of 20% and, of course, the EU ruled that this was unfair. This gave the governments of Jersey and Guernsey a stark choice, either tax all firms at 20%, which of course would end their existence as an offshore centre or tax haven overnight, or review their existing tax structure and reduce tax on all companies to zero. This is an impossible position for the governments to be in as they rely so heavily upon tax revenues from companies, in Jerseys case over 50%, so they plumped for the ‘zero-twenty’ regime to prolong the inevitable in full knowledge of the fact that the new system cannot work. We have commissioned a study, and I am now aware that the Attorney General of Jersey agrees with our findings, that shows that the States of both islands will be replacing a system entrenched with one kind of ring-fencing with another with many different types of ring-fencing.

Me: The States of Guernsey recently commissioned KPMG to summarise the pros and cons of each alternative, in light of the company’s involvement with tax avoidance/evasion schemes do you believe this is a problem?

John: I have nothing against KPMG as a company, in fact one of my colleagues Richard Murphy was trained by them, but like many of the accounting firms I do have one fundamental problem with their operations; they view tax as a technical issue, not an ethical one. It is at the heart of the social contract and when companies approach tax as something to avoid it causes major problems throughout society.

Me: Do you think that pressure, be that from the media or international organisations, is more effective in ‘reigning in’ tax havens than previous attempts to use legislation to control their operations?

John: In my 17years experience as a civil servant I realised that a great deal of legislation is purely window dressing. The Channel Islands, or the UK government for that matter, can point to the legislation they have and claim that they comply with the EU, the IMF and the World Bank but legislation and practice are different things. For it to be effective then legislation needs to be applied and to be applied rigorously and that is where public pressure comes in. Adverse publicity, especially on an international scale, can have a tremendous effect upon these areas because most are so concerned with their reputation.

Me: In your eyes, what kind of relationship do the Channel Islands have with the City of London and how has their growth affected the level of activity within the City?

John: The financial centres of the Channel Islands are the offspring of the City of London. The islands themselves had only a small part in the initiation of their development, they were reacting to the wishes of the merchant banks of the City who wanted to move offshore. The Channel Islands were chosen because of their unique status as dependencies of the British Crown, the close proximity to London by plane and they found the environment, particularly local politicians, to be very agreeable, but the main driving force was certainly the City, not the islands themselves.

The main reason behind the British governments initial and, under the current Labour administration, continued compliance with the Channel Islands and other British tax havens is that they view these centres as the best way of directing tax-free capital into the economy, irrespective of the fact that the money flowing through these centres could be derived from tax evasion, third-world corruption or any other illegal activity. If is also far from guaranteed that this investment will have a positive impact upon the domestic economy; it could fuel property price booms – in recent times property prices in London have been growing up to a rate of 20% a year, for a potential investor that is an incredible rate of return. It may fuel a boom in security and pension prices, we have seen that.

The point I am making is that the inward flows are largely portfolio flows rather than capital investment into new ventures, and as such they do not add significantly to the country's capital stock. Instead they inflate already overheated markets - both equity and real estate - and in doing so cause harm to the underlying fundamentals. Both the IMF and the OECD have expressed views that the residential property market is overheated and thereby causing damage to the economy. This overheating is exacerbated by a number of factors, including the attractions that Britain offers to dirty money, much flowing from Eastern Europe, Asia and Africa.

I know a number of economists (including fellow members of the parliamentary Left Economic Advisers Panel) who take the view that the current equity market really reflects, inter alia, London's attractiveness to mobile 'hot money' rather than being a genuine reflection on the underlying value and growth prospects of the businesses in question. Very few new companies are being floated on the London markets and in many instances companies have been growing through M&A activity rather than through organic development of a larger market or greater market share.

The question that seriously needs to be asked is what kind of footprint is this additional investment going to make upon the UK economy – its not going to increase tax revenues, it is highly unlikely to create employment and if it is then it is very often as a result of a distorted playing field. In other words you have inward investment competing with UK businesses on tax-free basis, you have to ask whether this is a sensible development strategy and of course the answer is no as you are undermining your domestic industrial base.

This takes you right into the heart of the argument about tax competition and over the last 20 years I have come to the conclusion that there is no such thing as beneficial tax competition, it is harmful in all of its contexts. In fact I think the term itself is misleading, a much more appropriate description would be 'tax incentivisation' and that is just another form of subsidy, and a subsidy that is perverse in its outcomes. As an agricultural economist working for Oxfam we would decry the perverse effects of the Common Agricultural Policy but we were laughed out of the place, now even the British PM agrees with the position, but the effects of these subsidies are just as devastating, its just more widespread and more hidden.

Me: Do you think the emergence of offshore has changed the way firms do business? Would you agree that part of the role of offshore is that it has made tax avoidance/evasion socially acceptable within the business world?

John: You have hit the nail right on the head there. There has been a huge shift in the way in which tax is viewed, tax has always been regarded as a burden – no one likes paying taxes, but I'm not too keen on paying my grocery bill for that matter but I still have an obligation to pay it – but in strictly economic terms, tax is not a cost, it is a distribution of profits. What offshore has done is created a culture that views tax as a cost that can be managed and reduced. This is why I see offshore as the main driving force behind what most people call globalisation, offshore created the opportunity, not just for multinationals but for most companies, to engage in aggressive tax avoidance, as most multinationals have been doing this through internal transfer pricing anyway, but now small or medium sized firms can carry out the same thing through a process called 're-invoicing', using dummy companies set up in offshore locations. Accountants push the idea of viewing tax as a cost because this allows them to make a lot of money through tailoring tax bills for these companies. We challenge this because the moment you allow such schemes, you begin to distort perfect competition and worse than that, you distort the whole basis of Ricardian economics as investment will flow not to the area in which it would be most productive but to the place it will be most profitable from a taxation perspective.

One of the reasons why I believe our campaign is so successful is because we are not addressing these issues from some alternative perspective; we are citing the same neo-liberal theory that they claim to espouse. These activities are distorting the workings of the market in the worst possible way but yet they still claim at all times that offshore is an embodiment of a free and fair market.

Me: Do you think that contemporary financial policy brought about offshore or that offshore dictates financial policy?

John: Good question! I think it is a combination of both. In the 1970's the UK government, in desperation at its declining manufacturing sector and fall from its position as one of the world's major trading nations, looked to the financial services to sustain its economy and saw that it could bring about a massive comparative advantage through developing its dependencies and former colonies as tax havens.
The US government, before the second world war, saw offshore financial arrangements as the best way of strengthening their economic base abroad. They realised that through financing investment in such a way, US firms would have a significant cost advantage over their competitors.
Now, however, I think it would be fair to say that offshore states have taken on a 'life of their own'. The mechanisms that enable their existence are frequently used by the business lobby as leverage to achieve their own demands.

Me: Do you think that, if there was a will to do so, governments could take action and weaken the position of offshore states?

John: It would be very difficult for any country, including the US, to do anything about it unilaterally. Any successful action against offshore would have to be multilateral, otherwise one state could easily undercut others and the problem would still exist. One of the main deficiencies of the Bretton Woods settlement was that it did not create the institutional framework in which such co-operation could take place. The new institutional framework, which has only just been created, is so small that no one has even heard of it. The OECD has done some very good work on this involving information exchange in order to discourage tax avoidance, evasion and capital flight, exactly the same issues that concerned Keynes and White during the negotiations. However, the American Banking Association lobbied heavily against this and used the war loans as a bargaining chip to prevent Keynes' ideas regarding these issues from ever becoming part of the settlement.
What we are lobbying for is for these institutions to be given greater prominence and for greater international co-operation over these matters to ensure that the capital moved by individuals and firms to be under closer scrutiny. This is obviously a long-term goal.