

**Instruments of Detachment, Instruments of Control:
The Rise of the Modern Tax Haven in the International Economy**

by

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ABSTRACT

From the late 19th century, tax havens became important instruments in the functioning of the international economy. In the 20th century, tax havens would be joined by offshore finance centres, and both would play a key, but largely hidden role, in how corporate and private wealth was accumulated, owned and controlled.

This paper examines the development of tax havens and offshore finance centres over four distinct phases in the history of the international economy: the long road to the Great War; the inter-war period 1918 to 1939; the post-war period 1945 to 1979; and the contemporary global political economy. A consistent feature of tax havens and offshore centres observed across each period is the extent to which wealth that is hidden by private and corporate owners, preserves and defends such wealth from the control of governments, providing a mechanism that gives wealth the freedom to accumulate on its own terms.

The paper concludes that tax havens and offshore finance centres have become powerful and, to a certain extent, ungovernable instruments in the rise of global capital and multinational corporations. As a result, they have contributed to a range of global problems, including financial market instability, financial secrecy, anti-competitive trusts and monopolies, corporate corruption, the globalisation of organised crime, and the diminution of political and regulatory nation-state authority, particularly in regard to tax and social protection.

*Consider the darkness and the great cold
In this vale which resounds with mystery.*
- Brecht, THE THREEPENNY OPERA

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Introduction: A Wholly Secret Relation

Hidden deep in the *Grundrisse*, in The Chapter on Money, Marx writes that ‘...among private individuals, accumulation takes place for the purpose of bringing wealth into safety from the caprices of the external world in a tangible form in which it can be *buried* etc., in short, in which it enters into a wholly *secret* relation to the individual’.¹ The modern tax haven is examined here as one of those tangible forms in which wealth, and the individual’s relationship to wealth, is buried. It is when bourgeois society ‘falls back into barbaric conditions’,² in times of war, crises and instability, that its wealthy literally bury their riches, notes Marx. As such, what follows as a history of the modern tax haven is at the same time an index of bourgeois financial anxiety over the past century.

But there is a wider stimulus to the anxiety examined here that is expressed in the tax haven: that of the antagonism between the economic freedom of private capital and the political authority of the nation-state. Indeed, from the late 19th century, tax havens increasingly preserved wealth from the ‘caprices’ of the state. This only exacerbated mutual antagonisms in the 20th century.

Marx notes further in The Chapter on Money that the mere accumulation of money is ‘not yet accumulation of capital’.³ For that, ‘the re-entry of what has been accumulated into circulation would itself have to be posited as the moment and the means of accumulation’.⁴ The modern tax haven – and the more recent but related offshore financial centre – are, it will be argued, instruments which execute the re-entry of buried wealth into circulation and which also embody ‘the moment and the means’ of capital accumulation. Tax havens and offshore business centres today are no mere static depositories of buried wealth but dynamic agents of accumulation directly in circulation and integral to financial markets, multinational corporations and global investment.

We are left with the ‘wholly secret relation’ between hidden wealth and the individual. This relationship does not dissipate as money hoarding becomes capital accumulation, but rather bonds tightly, giving a specific social-psychological dimension to the modern tax haven. Here we are concerned with

¹ Karl Marx, *Grundrisse* (New York, Vintage, 1973), p.230. Italics in original.

² Ibid.

³ Ibid. p.233.

⁴ Ibid.

the modern tax haven as an aspect of liberal, commercial political culture, and asking how that culture, as seen through the historical prism of the tax haven, has changed since the pre-WWI era up until the present day.

There is a famous aphorism of Malraux: ‘A man is not what he hides but what he does’.⁵ We might say, with reference to the development of the tax haven in modern capitalism, and perhaps with reference to capitalism in general, that ‘A capitalist is what he hides *and* what he does’. For private wealth, its hiding, at least in the tax haven, is a form of freedom: freedom to transform wealth into capital accumulation; and freedom from the controls exercised on private capital by the nation-state.

Thus, we find in the tax haven and their modern descendants both positive and negative aspects of freedom. As agents of positive economic freedom, tax havens have, in their own right, become powerful instruments in the rise of global capital and corporations.⁶ At the same time, they act as defensive and protective instruments by which capital preserves itself in the face of state control and regulation. On both counts, this dissertation will argue, offshore tax havens have contributed importantly to re-defining the political and economic contours of the world, functions they continue to fulfill today.

The analysis that follows is structured around four distinct phases in the development of the international economy: the long road to the Great War; the interwar period 1918 to 1939; the post-war period 1945 to 1979; and the contemporary period. For each period a consistent set of contextual questions has been addressed, namely: the relationship between states within the international political economy; the relationship between states and their domestic economies; and the development, in tandem, of state and market institutions. Overall, the aim has been to establish a systematic picture of the role of tax havens in the wider history of the international economy.

The Long Road to War

The abolition of the Corn Laws in Britain in 1846, and a British trade agreement with France in 1860, set Europe alight with economic liberalisation. From the middle of the 19th century to the early 1870s, capitalism powered on, expanding its grip over Europe, intense booms followed by sharp downturns that turned back to growth almost immediately. Private capital flowed into bonds, government debt, and foreign direct investment.⁷

⁵ Quoted in The Financial Times, date unknown. The quotation appears in an article about former French prime minister Lionel Jospin, who quotes Malraux.

⁶ Mark Hampton and Jason Abbott, ‘Offshore Finance in the Global Economy’, in M. Hampton and J. Abbott (eds.), Offshore Finance Centres and Tax Havens: the rise of global capital, (London, Macmillan, 1999), pp. 13-16.

⁷ International Monetary Fund, ‘Globalisation in historical perspective’, World Economic Outlook (Washington, May 1997), p.112.

Industrial capitalism was ignited by a few little sparks that soon multiplied into thousands of companies as economies expanded. The company institutionalised capital, set it in its place, and directed it towards whatever commercial venture was decided upon. Britain led the way in freeing the company from the state and allowing it independent access to markets and capital. In a series of Companies Acts in the 1840s and 1850s the fully independent joint-stock company was born.⁸

Robert Lowe, liberal reformer, who as vice president of the Board of Trade was responsible for freeing up companies from state control, called companies ‘These little republics’.⁹ Lowe’s creation, the joint stock company, was modelled on the ideal of the free, unhindered individual. When introducing the 1856 Companies Bill, Lowe told parliament that it was ‘the right of individuals to use their own property and make such contracts as they please’.¹⁰ For Lowe, the joint-stock company was a form in which such propertied individuals could associate as shareholders in a commercial enterprise that collectively embodied individual right, hence the epithet ‘little republics’. Lowe’s idea matched individual right closely with economic liberty in a single unit, turning the firm into an economic powerhouse of individual freedom. Shareholders could associate by pooling an unlimited amount of wealth into a business; at the same time, limited liability legally protected shareholders from personal bankruptcy and ruin. The joint-stock company gave private capital a distinct, autonomous identity, both practical and legal, which corresponded to the ideal moral and political autonomy of the individual as conceived in classical liberal thought.

Robert Lowe’s perceptions on the joint-stock company were ambitious in the economic task he wanted the company form to assume. However, the social class that he imagined companies owned and controlled by was limited to the bourgeois middle class, whose own morality was called upon to regulate company affairs. Even where ownership and control extended outside the middle class to the lower middle or working class, middle class morality was still called upon to regulate private enterprise. It was not the state’s business to intervene in commerce, either by imposing barriers to foreign trade, or in regulating the domestic economy.

This matter was tackled by Lowe in political debate about whether the joint stock company should have to audit and publish accounts. The case for disclosure was that investors should know who and what they were getting involved with; the financial health of the company; and the identity and respective interests of its shareholders. The case against was argued by Lowe on the grounds of *caveat emptor*, that the prospecting investor should exercise ‘mercantile caution’ in deciding whether to buy into a company or not. It was up to the individual investor to take responsibility for the decision himself, and not a matter that the

⁸ John Micklethwait and Adrian Wooldridge, *The Company: a short history of a revolutionary idea* (London, Weidenfeld & Nicolson, 2003), pp. 56-8.

⁹ Quoted in *Ibid.* p.60.

¹⁰ Quoted in Josephine Maltby, ‘UK joint stock companies legislation 1844-1900: accounting publicity and mercantile caution’, *Accounting History*, vol.3, no.1 (May 1998), p. 10.

state should get involved with.¹¹ Relying merely on legally required company disclosure would corrupt individual responsibility, particularly as any information made public could well be misleading. Defending the liberal provisions of the 1856 Companies Act, Lowe told Parliament that ‘to interfere with and abridge men’s liberty, and to undertake to do for them what they can do for themselves, is really lulling their vigilance to sleep, and depriving them of that safeguard which Providence intended for them, and helping fraudulent men to mislead and delude them’.¹²

Lowe won the day and there was no provision for accounting disclosure in the Act. Thereafter, companies were controlled and owned under a veil of secrecy, their dealings only known to a close circle of bourgeois, who, by virtue of being thoroughly respectable people, it was assumed, would exercise due discretion and wise judgement in the interests of the company and its shareholders, the latter of course largely made of individuals of like background and morals.

The world outside, though, was not quite as harmonious and enlightened as the secret interior of the ‘little republics’ was supposed to be. The joint-stock company, in spite of, or perhaps due to its moral restraint in the exclusive hands of bourgeois discipline, slipped exquisitely into its unique economic role as a vehicle for the private accumulation of capital, and this at a time when the market was alive with the opportunity for profit. As such, the supposed ‘natural’ limits on the ownership base of companies (i.e. small scale, bourgeois concerns) were exploded by the industrial advances that these companies were largely responsible for, particularly in their exploitation of new industrial technologies. In one company promotion after another, shares in railways and other ventures were chased after by a widening social base of small investors in the hope of large and quick returns. As a result, the distance between shareholders – the nominal owners of a company – and the directors and managers who controlled the concern on a day to day basis, increased;¹³ ownership became divorced from management; and the trust and attachment that had been the bedrock of companies in an earlier era, dissolved, or was at least put under pressure by the unprecedented scale and complexity of commercial organisations.¹⁴

In this new environment, corporate fraud flourished. This became evident immediately with the railway ‘mania’ and would continue with fraud in foreign ventures, banking and finance companies, and in many fraudulent company promotions. There is no doubt that the freedom of companies to operate in complete secrecy enabled deception, fraud and corruption to be carried on with impunity. However, a great deal of fraud was motivated by the pressure to

¹¹ George Robb, White-collar Crime in Modern England: financial fraud and business morality, 1845-1929 (Cambridge, Cambridge University Press, 2002), p. 26.

¹² Quoted in Ibid.

¹³ Ibid. p.24.

¹⁴ Ibid.

succeed commercially in a social climate that did not accept failure, even though business bankruptcy was very common.¹⁵

It was not until the beginning of the 20th century that the state, by then as much expanded in scale as the industrial company, felt empowered to regulate business in Britain, and opened up the secret interior of the modern firm to its first measure of public scrutiny, with the requirement to publish accounts and identify shareholders.¹⁶ For those who had been accustomed to looking after themselves, the counter-veiling power of the state came as something as a shock to what had been traditionally regarded as a private realm free from government intervention.

This too was to be the experience of the company in the United States, though the type of enterprise that developed there was quite different from Britain. Whereas corporate capital in Britain was primarily directed overseas as direct investment in continental Europe and the colonies, in America, capital had been concentrated inwardly to build large, nation-wide markets practically from scratch, over which stood the dominating presence of a handful of corporations that brought, like the Ford Motor Company, “mass production and mass distribution under the roof of a single organisation”.¹⁷ By WWI, American corporations had made America the world’s most industrious country, producing twice as much as Germany, and far displacing Britain, now trailing behind in ‘relative decline’.¹⁸

The speed with which capital covered America was rapid, and the force with which it rooted itself into the ground through the local affiliates of national corporations was intense, far in advance of any public entity that exercised control over business. The corporation was thus relatively free to expand in scale and operate as it wished, and the only competitive advantage that remained after market capacity was exhausted was the control of markets themselves. Thus it is not surprising that American firms and their ‘robber baron’ owners in the Gilded Age consolidated industrial ownership to reduce markets to the private fiefdoms of the combined trust. By the early years of the 20th century, most of America’s industrial base was owned by fifty or so trusts, including US Steel, Standard Oil, American Cotton, National Biscuit, American Tobacco, General Electric, AT&T and United Fruit,¹⁹ many companies which continue in some form today.

The trust was the pre-eminent instrument by which the ownership of assets could be detached from their control. It was no different in principle from the English common law trust, which removed ownership from the purview of the outside world and held it in secret, yet nevertheless allowed the entrusted asset to be

¹⁵ Ibid. p.27.

¹⁶ Maltby, ‘UK joint stock companies legislation’, p. 22.

¹⁷ Micklethwait and Wooldridge, *The Company*, p. 69.

¹⁸ Brink Lindsey, *Against the Dead Hand: the uncertain struggle for global capitalism* (New York, John Wiley, 2002), p. 35.

¹⁹ Micklethwait and Wooldridge, *The Company*, p. 71.

exploited for capital accumulation. But in late 19th century America, the trust was adapted to the corporate objective of pooling ownership and controlling markets:

For the robber barons, [trusts] were a way of getting around primitive antitrust laws prohibiting companies from owning shares in each other. Shareholders in a number of competing companies gave their voting shares to a central trust company in return for tradeable trust certificates bearing the right to receive income but not to vote. This gave the central body the ability to determine common prices for the entire group.²⁰

In 1882, the Standard Oil alliance – a federation of forty companies individually registered as legal entities in various states – turned into the Standard Oil Trust, with a central HQ in New York City. A decade later the trust was renounced following a court ruling that Standard Oil of Ohio had violated the terms of the state charter by handing over control to out of state trustees. The trust arrangement as a whole was declared an anti-competitive monopoly.²¹

By this time, however, forward looking states had begun to liberalise their company formation laws in order to induce the robber barons to reincorporate their companies with them. In what was perhaps the first prototype legislation for the offshore corporation, New Jersey allowed for the setting up of holding companies in its jurisdiction from 1889, replicating the combined trust arrangement in an umbrella company that owned a controlling proportion of the voting shares of subsidiaries. New Jersey had other benefits too: it was tax competitive for corporations against tax rates in other states.²² As the century turned, Standard Oil established a holding company in New Jersey, controlling 40 subsidiaries. Many other trusts followed suit to turn themselves into holding companies in the comparatively liberal jurisdiction of New Jersey. By 1901 the majority of America's largest firms were incorporated there. Meanwhile, Virginia, New York and, most successfully, Delaware,²³ had joined the competition to attract American companies whose vast industrial scale removed any intrinsic connection with any one state.

America's large corporations secured their dominance over America not only through sheer economic might but through the bribery of politicians, judges and juries. In a legal system that relied on small-scale private litigation, no plaintiff against the robber barons was a match for their 'political influence, superior lawyers, and ready access to large legal war chests'.²⁴ This would change to some extent in the Progressive Era from the 1890s when it became clear that older

²⁰ Ibid. p. 71.

²¹ The details of Standard Oil's trust arrangements and its subsequent relocation to New Jersey are from Ibid. pp. 69-73.

²² Jeffrey Robinson, *The Sink: how the real world works – terror, crime and dirty money* (London, Constable & Robinson, 2003), p.13.

²³ Micklethwait and Wooldridge, *The Company*, p. 73.

²⁴ Edward Glaeser and Andrei Shleifer, 'The Rise of the Regulatory State', *Journal of Economic Literature*, vol.41 no.2 (2003), p. 406.

forms of the social control of business had been outpaced by the sheer size of big business. Growing public resentment against the robber barons led to the creation of regulatory agencies at state and federal level to formulate and police competition law and anti-trust policy.²⁵ Such counter measures did not stop big business from forming holding companies in New Jersey and elsewhere, though they did contribute to an increasing political recognition that government was required to regulate big business.

There is no doubt that states in the last quarter of the 19th century developed 'national' responses to economic integration and the industrialisation of Europe and the US. States began to react to the specific social and political consequences of large scale industrial capitalism, which, with its own internal rules and patterns of behaviour, increasingly detached people from traditional forms of life. Meanwhile, the uncertainties of capital free to roam the world posed a threat to the established order of nations. In response, states closed borders to the outside world, halted economic integration, and concentrated their attention on managing populations whose political and economic horizons had become increasingly demanding and dangerously unsettling in the industrial era. Whereas individual right had been the watchword of the class that had unleashed private capital into the world, government now asserted its 'national' right to contain the political and social risks brought about by the mass experience of capitalism. The liberal bourgeois would often become the scapegoat of the modern nation-state's social and political travails, and be sent packing, looking for secret spaces to survive.

After 1873, prices and profits fell and industrial economies entered a twenty year long period of depression. Amidst all the economic uncertainty and social insecurity of Europe, there arose a newly organised socialist movement to capture capital's international ambitions for itself. For Europe's leaders, the threat of working class revolution was a tangible reality.

Nowhere was the threat of socialism more serious than in Germany, where the Social Democratic Party set the standard for the cause of international socialism. Bismarck moved to clampdown on the SDP with the anti-socialist law of 1878, which, while it prohibited the SPD from freely organising, created socialist martyrs and enhanced the party's popular appeal.²⁶ Bismarck learned a lesson from the British ruling class, who in extending the franchise earlier than anywhere else in Europe had successfully diffused working class political radicalism and directed it towards trade union led reforms in the interests of a national consensus.²⁷ However, Bismarck thought up a novel twist to the English solution: the already existing 'nationalist strain',²⁸ in German socialism could be appealed to, not by blatantly dismissing the internationalist aspirations of socialists, but by

²⁵ Ibid. p.1.

²⁶ James Joll, The Second International, 1889-1914 (London, 1974), p. 11.

²⁷ Donald Sassoon, One Hundred Years of Socialism: the west European left in the twentieth century (London, 1997), p. 30.

²⁸ Joll, The Second International, p. 15.

dismissing the internationalism of the liberal bourgeoisie as the common danger to Germany. As in England, the working class would be the ally of the aristocracy. In Germany, though, both classes would unite against the liberal middle classes.²⁹ This strategy stood behind Bismarck's support of universal male suffrage:

At the moment of decision the masses will stand on the side of kingship, regardless of whether the latter happens to follow a liberal or a conservative tendency...In a country with monarchical traditions and loyal sentiments the general suffrage, by eliminating the influences of the liberal bourgeois class, will also lead to monarchical elections.³⁰

Bismarck's nationalist rhetoric echoed voices elsewhere in Europe. In Austria, for example, populist sentiment was turned against 'international capital' by increasingly nationalistic and anti-semitic politicians. "These financial cliques and money powers...poison and corrupt public life", railed Karl Lueger, leader of Austria's new far right party in a campaign to prevent an English construction firm securing the contract for Vienna's proposed city transport scheme.³¹

The strategy to forestall socialism by 'nationalising' politics was accompanied by similar developments at the state level and with the economy. With the former, Germany centralised and broadened the state apparatus through the introduction of pensions, social health insurance and mass education. With the latter, the German economy was in effect nationalised through trade protection. In 1879, Bismarck severed links with the National Liberal Party and abandoned the existing policy of free trade in favour of tariff increases on industrial and agricultural products.³² As capital and labour were nationalised in Germany, so too was socialism, into a sprawling bureaucracy co-opted into the state.³³

Other countries followed Germany's protectionist stance, with the United States introducing restrictions on international trade far in excess of its industrial competitors (IMF).³⁴ As the Great Depression continued into the 1880s, Germany's industrial bourgeoisie moved closer to the state, forming the *Industriestaat* (industrial state), and whereas cartels in the US had flourished in the absence of government intervention in domestic markets, the German state took a leading role in controlling markets and companies.³⁵ As the 19th century closed, the German and US economies pulled away, finally overtaking Britain, pushing the global economy onto an upward growth trend after two decades of depression. It looked like the new top-down command and control system of the industrial state was the way of progress.

²⁹ Lindsey, *Against the Dead Hand*, p. 33.

³⁰ Quoted in *Ibid.* p. 33.

³¹ Carl E. Schorske, *Fin-de-Siecle Vienna: politics and culture* (New York, Vintage, 1981), p. 138.

³² Lindsey, *Against the Dead Hand*, p.33.

³³ Sassoon, *One Hundred Years of Socialism*, p. 29.

³⁴ IMF, 'Globalisation in Historical Perspective'.

³⁵ Micklethwait & Wooldridge, *The Company*, pp. 92-6.

Capital, though, was not extinguished, yet. In the decade before WWI, as the industrial nation-states closed borders to trade, investment and migrant labour, and increased their internal demand for public revenues to pay for social welfare programmes, capital worked its way through the emerging gaps between states to find secure footholds. In a sense, the modern industrial state set like concrete around global capital, and to defend against the new rigidity, European and American companies incorporated their overseas subsidiary interests as free-standing, independent companies in the countries where they were based. In this way, tariffs and other trade barriers could be side-stepped.³⁶

Corporate taxation increasingly became an issue for international companies. In Britain, after the Boer War, direct income tax rose as the country spent heavily in the arms race leading to WWI. Faced with growing tax demands, British companies tried to find ways to protect their profits. One company, De Beers, argued in court against the Inland Revenue in 1906 that it was not liable for tax on its worldwide business revenues because all its diamond production took place overseas in South Africa.³⁷ The judge in the case concluded that De Beers was liable on the grounds that its operations were ‘controlled, managed, and directed’ by De Beers in London. The rule had in fact been in force since the mid-1870s, but a liberal, more laissez faire commercial system had then been in place. After the De Beers ruling, some British companies reincorporated overseas to avoid or minimise tax.³⁸

Of the great powers, Britain held to free-trade principles to the last, but it was no less enthralled by the German model of the corporate state as was the rest of the industrialised world. Between 1908 and 1911, the New Liberal government of Herbert Asquith introduced a minimum wage, pensions, progressive taxation and health insurance. *The Times* of London called this ‘The Silent Revolution’, the wholesale intrusion of the state into individual liberty.³⁹

The fate of the liberal bourgeois, of international capital, free trade and commerce would be sealed by aggressive nationalism and mounting calls for war. In the final years before 1914, Europe took industry directly under its wing through tariffs, subsidies and government diktat. International tension mounted, and liberalism – ‘the creed of the European bourgeoisie’⁴⁰ – did not know which way to turn as it was pushed about by populist bullies. All it could do was detach itself

³⁶ Ibid. p. 157.

³⁷ S. Picciotto, ‘Offshore: the state as legal fiction’, in M. Hampton and J. Abbott (eds.), *Offshore Finance Centres and Tax Havens: the rise of global capital*, (London, Macmillan, 1999), p. 49.

³⁸ Picciotto gives two examples in Ibid. n. 73: a company formed in London in 1904 to develop land in Egypt transferred its place of control in 1907 to Cairo under a new board of Egyptian residents; the English Sewing Cotton, a company formed in 1911 to control a majority owned affiliate in the US, later changed the arrangement so it was managed from the US.

³⁹ Richard Crockett, *Thinking the Unthinkable: think-tanks and the economic counter-revolution, 1931-1983* (London, Fontana, 1995), p. 13.

⁴⁰ Victor Kiernan, ‘Shepherds of Capitalism’, *New Left Review*, no. 183 (1990), p. 82.

from the public sphere, recede into the background, and secure by stealth its assets and interests as advantageously as possible, preserving them for the future.

Only with absolute state control – in other words, total war – could the European powers prove that they still had the power to dictate their own destinies. Such was the hope of the proud industrial nations as they marched their young men into battle. ‘Never was mental unification pushed further’, a German doctor, Gustav Lebon wrote in despair on the eve of Germany’s entry into war in 1914, ‘the individual soul was progressively destroyed to make of it a collective soul’.⁴¹

Preservation

The political and economic aftermath of WWI was perilous for the middle classes. Financial protection needed to be found as national currencies depreciated, inflation soared, and banks collapsed. Similarly, there was trouble outside on the streets where working class movements across Europe demonstrated in support of socialism and the construction of a new world order to finally replace anxious and exhausted liberal and monarchical regimes out of step with the demands of the masses.

What remained of bourgeois wealth was sent packing across national borders for safety. Switzerland’s banks were the main repository for the flight of European capital. Roving agents from the Banque Commerciale de Basle, for instance, competed with agents from other Swiss banks for business from petrified French bourgeois, looking for a safe haven for cash, bonds, and shares.⁴² German wealth fleeing the hyperinflation of the 1920s sought security in Swiss bank accounts with their ready access to foreign exchange.⁴³ Before long, financial insecurity and the instant demand for capital preservation were met by a more calculated supply of wealth survival instruments. In 1924, Liechtenstein, a semi-autonomous principality set in an Alpine valley between Austria and Switzerland, introduced a new kind of trust that allowed an individual to turn himself into an anonymous legal entity, with complete tax and banking secrecy. As inflation soared in Germany and exchange controls were introduced by the Weimar government, the Liechtenstein trust was covertly taken up by anxious German bourgeois facing ruin.⁴⁴

British wealth had been equally desperate to preserve its independence. The problem in Britain was less the prospect of immediate social revolution and economic turbulence, than of a state that had completely changed its attitude to private wealth. In an environment where laissez faire principles had governed economic and financial behaviour right up to 1914, the transformation of Britain

⁴¹ Paul Virilio, *The Aesthetic of Disappearance* (New York, Semiotext(e), 1991), p. 44.

⁴² T R Fehrenbach, *The Gnomes of Zurich* (London, Leslie Frewin, 1966), p. 48.

⁴³ Ibid. p. 54.

⁴⁴ Nicholas Faith, *Safety in Numbers: the mysterious world of Swiss banking* (New York, Viking, 1982), p. 77.

into a state on a war footing, with all the state authority that implied, was profound as it was threatening to those used to doing what they wanted to with their wealth.

Among the first in Britain to act on their anxieties were the Vestey brothers, Edmund and William. The Vestey business was the model of late Victorian enterprise: a family run, British company, with hugely profitable overseas investments. Their trade was simple but revolutionary: putting foreign produced meat on the dinner tables of the British public through the pioneering use of cold storage depots and refrigeration on ships.⁴⁵

In 1915, the Vestey brothers left Britain to take up residence in Argentina, as part of a scheme to avoid UK taxation on their world wide business profits. After the war, the brothers wrote to Lloyd George, the prime minister, saying they would prefer to live in Britain and would move back if they were assured that they would only pay the same rate of tax as the American Beef Trust, a US cartel whose tax position undercut the Vestey's'.⁴⁶ Lloyd George gave no such assurances and the brothers chose to remain abroad to avoid taxation. In evidence to a Royal Commission on Income Tax, William Vestey made the brothers' position quite clear to the authorities: 'If I kill a beast in the Argentine and sell the product of that beast in Spain, this country can get no tax on that business. You may do what you like, but you cannot have it'.⁴⁷

The Vestey's' next move was to organise a scheme through which their avoidance of tax could be instituted and administered in law. The route chosen was the establishment of a family trust in Paris. The brothers returned to London and leased all their residential property, agricultural lands and depots in various countries to a British company, Union Cold Storage. The rents on these assets were then made payable to the Paris trustees and so bypassed UK taxation. The trust income, in theory, was to be for the benefit of Vestey family members other than the brothers - but the trust deed gave William and Edmund the power to direct the trustees in the investment of the trust fund in whatsoever way the brothers thought fit.⁴⁸ The arrangement pioneered ways in which assets spread globally could be pooled together and owned in one place to avoid tax; and, at the same time, preserved significant control over the assets to enable the business to continue as a single commercial enterprise.

What we see is similar to the trusts turned holding companies in the US, but on an international scale: the concentration of wealth of diverse geographical origin into a private, separate financial sphere legally hovering over the specific jurisdiction of the geopolitical state, with a good measure of control still exercised over the

⁴⁵ Phillip Knightley, 'The Big Chill', The Times, 16 November 1991. See also Knightley, The Vestey Affair (London, Macdonald, 1981).

⁴⁶ Sol Picciotto, International Business Taxation (London, Weidenfeld and Nicolson, 1992), p. 97.

⁴⁷ Quoted in Knightley, 'The Big Chill'.

⁴⁸ Picciotto, International Business Taxation, p. 97.

exploitation of assets held within national borders. Two levels of property are being generated: first, dispersed physical assets held on the ground in multiple jurisdictions; second, the agglomerated ownership of financial wealth accumulated (gross of tax) from the totality of physical assets, yet separate and detached from them, having an independent, autonomous legal-financial existence, in a realm that Picciotto, in contradistinction to the traditional understanding of the state, calls a legal fiction.⁴⁹

By no means were the Vestey's corporate and private tax avoidance schemes the exception. On a smaller scale, private wealth discovered ways to re-form accumulated capital and assets into new corporate structures designed to take advantage of the differences in national tax regimes and financial regulation between states unilaterally controlling their economies. Into the breach went the modern corporate form, a transnational Trojan horse that had already been smuggled into states decades earlier, and through which now the much more recent and pronounced deviations in national commercial and fiscal law could be traded off against each other to the advantage of capital.

In some cases, profitable deviations could be found within states themselves, such as those between the Channel Islands and mainland Britain. In the 1920s, companies incorporated in Jersey and Guernsey were used by mainland residents as private investment vehicles to avoid tax. Assets transferred to the Channel Island companies, for which local nominee shareholders and directors were supplied, could accumulate capital and profits to be repatriated to their investors tax free through loan repayment schemes.⁵⁰ In other cases, the deviation between laws was exploited between states in very different parts of the world. For instance, a Norwegian wailing company, Erling Naess, incorporated in Britain in 1928, discovered that by registering ships in Panama and by relocating the residence of the British company to Paris, shipping profits could be shielded from tax entirely and dividends could be paid to British shareholders free of withholding tax.⁵¹

In the straightened economic environment of the 1920s, tax avoidance was one significant and obvious way by which business could remain competitive. The other key to survival was sheer strength and dominance in the market. In this respect, European firms in the 1920s learned from the US the benefits of large scale integrated business operations to produce cost efficiencies.⁵² Britain's post-WWI merger boom was crowned by the formation of the chemical giant ICI which brought four British firms together in 1926, and the merger, a year before, of Britain's Lever with Dutch rival Margarine Unie, to create the diversified products group Unilever. Both ICI and Unilever used American methods to take on their main American competitors, respectively Du Pont and Procter &

⁴⁹ Picciotto, 'Offshore: the state as legal fiction', pp. 43-67.

⁵⁰ Picciotto, International Business Taxation, p. 98.

⁵¹ Picciotto, 'Offshore: the state as legal fiction', p. 54.

⁵² Lindsey, Against the Dead Hand, p. 53.

Gamble,⁵³ and each of the European companies pioneered the use of offshore captive insurance companies to underwrite risk for the whole merged group,⁵⁴ increasing internal tax efficiencies.

Britain's ICI merger was a hasty response to IG Farben, a German cartel formed in 1925 which brought together under one roof the country's main chemical industries. Cartels had existed in Germany before the 1914, but the war cut producers off from export markets and post-war economic chaos struck at growth. Only after the economy picked up somewhat in the mid-1920s did German industry begin to revive.⁵⁵ Cartels took advantage of the recovery to consolidate growth by restricting market competition and controlling production. In this way, IG Farben soon came to dominate the entire chemical industry in Germany and in turn would become a powerful force internationally.

The foreign holding company was at the core of IG Farben's financial structure. It allowed for concentration of ownership and financial detachment from productive assets for tax purposes, while all the while maintaining full control over the local exploitation of assets in a giant cartel comprised not only of German industrial groups but international subsidiary-cartels of foreign owned businesses too. The structure can be seen closely in IG Farben's creation of two linked holding companies in 1929.⁵⁶ The first, General Aniline and Film, incorporated in Delaware, housed all IG Farben's US interests. The second, IG Chemie, in Switzerland, was set up to progressively secure, covertly, absolute ownership of General Aniline. The overriding purpose of the holding company chain was to offset tax liabilities accruing on a massive product rights deal (allegedly to stifle international competition in chemical derivatives) which saw IG Farben acquire a 2% stake in Standard Oil worth \$35 million.

Apart from the tax avoidance incentive, the holding companies also allowed IG Farben to raise capital in the US and Swiss equity markets, capital which the cartel either then controlled through preferential stock, or bought up on the open market using a series of nominee holding companies in Switzerland and Holland by which the power of outside investors in IG Farben's interests was reduced. Holding companies, nominee directors and shareholders, and tax avoidance structures were all central to the financial paraphernalia of IG Farben, instruments that formed the basis of any corporation operating through a tax haven at the time.

By the end of the 1920s, the international holding company was openly marketed by states looking to capitalise on the increasing cartelization of industry across national borders. Switzerland, Holland, and Sweden were followed in 1929 by

⁵³ Micklethwait & Wooldrige, *The Company*, p. 93.

⁵⁴ Mark P Hampton, *The Offshore Interface: tax havens in the global economy* (London, Macmillan, 1996), p. 17.

⁵⁵ Charles Feinstein, Peter Temin, Gianni Toniolo, *The European Economy Between the Wars* (Oxford, Oxford University Press, 1997), p. 30.

⁵⁶ Faith, *Safety in Numbers*, pp. 150-3. All subsequent details of IG Farben's holding companies are from Faith.

Luxembourg, which offered plenty of tax concessions to holding companies registered in the tiny European state-let: zero income tax, company tax, withholding tax, wealth tax, capital gains and municipal tax. An embryonic tax haven system was emerging in countries that called themselves ‘neutral’, supposedly politically detached from an increasingly belligerent world, yet economically attached to wealth and assets fleeing that world looking for refuge. The market for holding companies was the shadow side of the anti-competitive cartels and market monopolies that they enabled.

America, despite the trust busting of the Progressive era, acquired a fresh taste for big business concentration in the 1920s. This time there was no resistance from government, not least from Herbert Hoover who was elected president in 1928 with the promise of a ‘cartelised business commonwealth’ for Americans.⁵⁷ This position was no different from Europe with its monopolies; business everywhere had to find a way of consolidating gains and securing advantage in a world of dried up markets and shrinking international trade. As in Europe, the result in America was an increasing concentration of corporate wealth. It was estimated in Berle and Means’ ‘The Modern Corporation and Private Property’, published in 1932, that America’s top two hundred firms accounted for half of the total assets of American business, with AT&T alone controlling more assets than the twenty poorest states.⁵⁸

The counterpart to industrial monopolies and their holding companies was a private oligarchy that successfully accumulated and preserved wealth offshore in tax havens. Rich Americans discovered they could limit taxation on their foreign investment income if, for instance, foreign assets were transferred to companies formed outside the US.⁵⁹ Nearby Bahamas beckoned as a willing tax haven for Americans with the means in the 1920s. Panama was another location, further a field, but with a developed financial infrastructure (Citibank had had a presence in Panama City since 1904), holding company legislation, and a ship register that US ship owners found useful to avoid Prohibition laws on liquor trade.⁶⁰ With bank secrecy available from 1917,⁶¹ Panama developed a reputation as an efficient hiding place for US wealth to remain undisturbed yet productive.

When financial crises hit America in 1929, and the deep and prolonged depression that followed caused output and employment to completely collapse in the 1930s, private and corporate wealth had already achieved a certain amount of financial protection through tax avoidance and sheer concentration of ownership. The onset of depression, and a hike in tax rates, caused wealth to flee ever more resolutely from the ruins of the American economy and it was not until the

⁵⁷ Lindsey, *Against the Dead Hand*, p. 82.

⁵⁸ Micklethwait & Wooldridge, *The Company*, p. 112.

⁵⁹ Picciotto, *International Business Taxation*, p. 107.

⁶⁰ Picciotto, ‘Offshore: the state as legal fiction’, p. 54.

⁶¹ United Nations, *Financial Havens, Banking Secrecy and Money Laundering* (New York, UN, 1998), p. 28.

Roosevelt administration that America's secret treasure troves were exposed to public scrutiny. In 1933, the American public learnt that all twenty partners of J.P.Morgan & Company had paid no taxes for the previous two years.⁶² The newspapers screamed 'tax evasion', but in fact the bank's partners had found legal loopholes in the tax system and had taken advantage of them. They had not broken the law.

Over the remainder of the decade, Congress tightened up tax avoidance, with legislation in 1934 and 1937 designed to restrict the use of foreign personal holding companies. At the same time, personal tax rates rose markedly – with a maximum individual rate of 79% in 1936 – while new taxes on capital stock and dividend receipts were introduced.⁶³ Though holding company tax dodging had become a crime, it did not stop the flow of capital offshore to evade taxes, which, now being considerably higher, provided further impetus to remove wealth from the country. A joint-congressional committee on tax evasion and avoidance set up at the request of Roosevelt in 1936 showed the continuing growth in holding companies by Americans in Panama, Newfoundland, and most significantly, the Bahamas, where 64 companies were set up to evade tax between 1935 and 1936.⁶⁴

In the desperate economic climate of the 1930s, financial protection, in its guarding of individual and corporate wealth against the outside authority of the state, reached new levels of technical and legal sophistication. Switzerland was at the heart of this development, for it elevated and promoted bank secrecy as a matter of its own national economic survival. In doing so, Switzerland was only following what the rest of Europe was doing at a time of political and economic deterioration: preserving itself in the face of crisis by raising barriers. Some countries imposed barriers to trade by introducing tariffs and duties. Switzerland formed its barrier by introducing secrecy as a national economic measure to compete with the financial institutions of other nations.

For centuries, the relationship between banker and client had been judged to be as private as that between a lawyer or doctor and their clients, customs that had originated in ancient Greece.⁶⁵ By the Enlightenment, financial privacy and confidentiality had become explicit legal adjuncts to political freedom in Europe. 18th century Prussian society was by no means the pinnacle of individual liberty, yet the confidential relationship between banker and client was even there recognised as inviolable, somewhat helped, no doubt, by the comparatively liberal Frederick the Great, under whom banking confidentiality was legally enforced in 1765:

We forbid, on pain of royal displeasure, anyone from investigating the banking assets of anyone else. Nor shall bank employees disclose

⁶² Charles Lewis & Bill Allison, The Cheating of America (New York, Harper Collins, 2001), p. 8.

⁶³ Lewis & Allison, The Cheating of America, p. 9.

⁶⁴ Picciotto, 'Offshore: the state as legal fiction', p. 100.

⁶⁵ Ingo Walter, Secret Money (London, Unwin, 1987), p. 23.

such information to third parties, whether verbally or in writing, on pain of dismissal and criminal prosecution. They must, on accepting employment, solemnly swear that any transactions that come to their attention in the course of their work will be considered the greatest secret that will be carried with them into the grave.⁶⁶

Switzerland's traditions of financial secrecy predated the 18th century, and were established when Huguenots fled religious persecution in France after Louis XIV revoked the Edict of Nantes in 1685. The Huguenots found a safe haven in Geneva, Calvin's 'Protestant Rome', and not long after set up the city's first private banks. These institutions became a refuge for capital flight thereafter, most notably wealth fleeing the French Revolution.

Safeguarding frightened money was one thing, the other was resisting attempts by outside powers to aggressively repatriate or gather information about assets that moved to Switzerland. This Switzerland achieved through the consistent application of financial discretion with regard to flight capital from any source. Furthermore, states that might otherwise like to see illegal flight capital repatriated from Switzerland were able to tap into the Confederation themselves for capital loans. The advantage of Switzerland as a dependable source of state finance was seen as a fair exchange for the destabilising effects of capital flight; an arrangement that overall secured the liquidity of the loan market. There was always money to be needed by states, to finance wars or colonial expansion, and of course, it was equally useful for Europe's leaders to have somewhere to hide wealth if events turned against them, as they so often did. However, the realist conventions that underpinned Swiss financial neutrality did not endure in the turbulence of the inter-war period.

The liberal political and economic conditions in Europe that sustained not just Swiss, but all banking, and had permitted the free circulation of money in and out of countries, utterly broke down in the 1930s. The world was in financial turmoil.⁶⁷ The international gold standard – revived in the 1920s to some success – fell apart and the world economy fragmented into hostile blocs, the few years of renewed co-operation over. As economies drew apart, national currencies were pitted against each other in competitive shows of strength. The result was an international banking crisis fuelled by intense speculation on volatile currencies. Assets and investments moved around the world looking for havens in the face of depreciation and domestic inflation. To protect themselves against instabilities and depression, states resorted to controlling capital by introducing exchange controls. Still capital fled, and so back came even more controls, increased taxes, capital levies and other restrictions. In short, capital was becoming less mobile and more controlled, hedged in behind national boundaries. The laissez faire ideals of free trade, international capital, and stable currencies were stamped out

⁶⁶ Quoted in Ibid.

⁶⁷ The account of the international financial and monetary crisis is from Feinstein et al, The European Economy between the Wars, pp. 167-8.

one by one. It was against this background that Switzerland introduced its Banking Law of 1934, with the violation of bank secrecy made a criminal offence.

The specific trigger for Switzerland's secrecy law was the raid by the French authorities on the Paris branch of the Basler Handelsbank in 1932.⁶⁸ At the time, France was in the midst of economic and political turmoil. Its adherence to the gold standard demanded stringent deflationary policies, which, with increasing unemployment, caused intense social unrest. Government spending cuts and new taxes to defend an economy in free-fall led to perpetual political instability, with one government after another falling from power. All the while, in response, capital fled France, with billions of dollars haemoreging to the US and the UK, and millions to Switzerland.⁶⁹

France was determined to close down the escape routes of its currency, and the leaking of confidential information from an inside source at the Basler Handelsbank in Paris about its private French clients was just what the French government of the moment needed to orchestrate a political climate opposed to capital flight and tax evasion.⁷⁰ After a successful raid on the bank, the identities of its French clients were made public and generally denounced as specimens of social disobedience and economic treason.⁷¹ For the Swiss, whose banks were already under severe pressure in the depression, the affair was a disaster.

With the Banking Act of 1934, Switzerland intervened in its prime industrial asset – banking – to take control of bank secrecy and make it a criminal act to disclose bank information, and so preserve for itself flight capital that needed ever more protection in the escalating crises of the international economy. Thus it successfully captured the market for bank secrecy at a time of great demand. It was a canny move: Switzerland had effectively nationalised a convention at the heart of individual freedom – financial privacy - and turned it into a product to sell on the market. Privacy could now be bought as secrecy, a valuable commodity in an age where privacy in some quarters was tantamount to political counterrevolution. Secrecy was at least some means by which to assert individual freedom. But it was unavoidable that as a means to preserve embattled freedom, secrecy would regress to mechanisms of deception, befouling the very freedom it was supposed to protect. Switzerland, as the leading supplier of secret financial protection from the 1930s, would demonstrate the depths of this regression in its banking industry's almost complete entwining with the Nazis.

German companies had discovered another use besides tax avoidance for Swiss holding companies during WWI: the concealment of German ownership.⁷² After

⁶⁸ The account of the raid, its background and aftermath, is from Faith, Safety in Numbers, pp.64 - 81.

⁶⁹ Feinstein et al, The European Economy between the Wars, p. 168.

⁷⁰ Faith, Safety in Numbers, p. 65.

⁷¹ Ibid. p. 66.

⁷² Ibid. p. 149.

US entry into the first War, German owned companies in America faced having their assets seized. Disguising German ownership behind a Swiss holding company was therefore a convenient way of protecting foreign assets. Exactly the same mechanisms were used by German cartels after 1933 to protect ownership of domestic and foreign commercial interests, and as war approached at the end of the decade, there was a large scale flight of corporate as well as private family wealth from Germany to Switzerland.⁷³ Most German industrialists may not have been fervent Nazi supporters⁷⁴ but this had little to do with their preservation of assets in Switzerland. Likewise, while the Nazis compelled the obedience of German business managers, the regime provided 'commercial' opportunities that were freely taken up by firms, including the use of slave labour.⁷⁵

IG Farben willingly made use of such opportunities, using slave labour from Auschwitz in its chemical factories. It also had the most sophisticated financial structures of any German company in Switzerland, with a close circle of IG Farben insiders preserving their interests in league with an equally inside circle of Swiss private bankers. These arrangements were designed by Hermann Schmitz, IG Farben's financial architect and an outspoken Nazi supporter.⁷⁶ It is no surprise that Nazi funds for its overseas agents were transferred through Swiss banks at the same time as the Nazis attempted to uncover and steal Jewish money that was fleeing Germany for the supposed security of Switzerland.⁷⁷

'By 1939' writes T R Fehrenbach, 'Switzerland had itself become one giant cartel of international interests of every kind'.⁷⁸ Here were the world's 'patent empires, licensing pools, mutual funds, supranational holding companies, insurance firms'. Here was IBM, with a US controlled subsidiary in Nazi-occupied Poland transferring income to the US via secret accounts in Geneva.⁷⁹ Here was Meyer Lansky, whose criminal enterprises imitated the integrated business model of American corporations, then copied their financial networks, using Swiss banks from the early 1930s to launder criminal proceeds.⁸⁰ And here too were Nazis, right at the heart of Switzerland's banking and finance elite.

Switzerland, Bahamas, Liechtenstein, Delaware: all had become the shadow side of a world without trade, where capital and finance were immobile, and where hostile blocs of states competed and raised barriers against each other in preparation for war. The emerging offshore tax haven system was a world of 179 international cartels looking to reduce competition for monopoly profits;⁸¹ of

⁷³ Fehrenbach, *The Gnomes of Zurich*, p. 242.

⁷⁴ Faith, *Safety in Numbers*, p. 151.

⁷⁵ Feinstein et al, *The European Economy between the Wars*, p. 175.

⁷⁶ Faith, *Safety in Numbers*, pp.149-55.

⁷⁷ *Ibid.* p. 83.

⁷⁸ Fehrenbach, *The Gnomes of Zurich*, p. 242.

⁷⁹ *The Guardian*, 29 March 2002.

⁸⁰ Faith, *Safety in Numbers*, pp.218-9.

⁸¹ A.G. Kenwood and A.L. Lougheed, *The Growth of the International Economy 1820-2000* (London, Routledge, 1999), pp. 208-9.

international private wealth which could accumulate in secret; of organised crime on the cusp of going international. There they all were, sheltering in the holding companies, trusts, and secret bank accounts of Zurich, Panama City and Nassau, a new internationalism of financial capital, crime, and the war-ready militarised state. Forces that would one day become global in scale were secured offshore to position themselves against all opposition in the post-war world to come.

Expansion

After 1945, the spirit of internationalism in trade, goods and capital returned within an explicitly political nation-state context. The Bretton Woods conference of 1944 established the framework of an international monetary system in which currency exchange rates between the main industrial states were to be controlled through nation-state co-operation. Multilateral financial institutions, such as the International Monetary Fund and the World Bank, were inaugurated as emblems of new hope in world economic relations. GATT, the general agreement on tariffs and trade, re-introduced the principle of free trade back into the industrialised West. The financial backer of the new, gold-backed, international monetary system was the United States, which controlled the world's gold supply after 1945. In consequence, 'the dollar became the pre-eminent currency in the world economy'.⁸²

For all the internationalism seemingly on offer, the individual nation state and its own political authority were still at the centre of world affairs. John Maynard Keynes, one of the chief architects of the new system, envisaged the arrangements as a necessary reconciliation between a single international monetary system on one side, and an alliance of states collectively and mutually intervening in the international economy on the other. The overriding objective of such an arrangement was to prevent a return to the financial crises and instabilities that had wrought such destruction in the 1930s. To that end, Bretton Woods put government 'squarely in the center of regulating international money'.⁸³ Keynes saw obvious economic benefits of globalisation in terms of international trade and investment for national economic growth, but this was overwhelmingly tempered by a political realism that the economic realm, however internationalised, needed at least to appear to be not detached from the nation-state, and, as far as possible, should actually be grounded onshore under the control of governments:

There may be some financial calculation which shows it be advantageous that my savings should be invested in whatever quarter of the habitable globe shows the greatest marginal efficiency of capital or the highest rate of interest. But experience is accumulating that remoteness between ownership and operation is an evil in the relations among men, likely or certain in the long run to set up strains and enmities which will bring to naught the financial calculation. I sympathise, therefore, with those who would minimise, rather than

⁸² Howard Wachtel, 'The Global Funny Money Game', *The Nation*, vol.245 no.22 (1987), p.784.

⁸³ *Ibid.*

maximise, economic entanglement among nations. Ideas, knowledge, science, hospitality, travel – these are things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible, and above all let finance be primarily national.⁸⁴

Where Bretton Woods' internationalism did appear to have real economic consequences was in the expansion of US trade into Europe after the war. This would lead to a shift in the function of tax havens that was critical in their development. On behalf of US corporations, tax havens would become less survival mechanisms of defence and wealth protection, and more active, aggressive adjuncts to America's international trade ambitions.

With the European Recovery Program, better known as the Marshall Plan, passed by Congress in 1948, the provision of US financial aid to boost the economies of Western Europe was geared to the objective of 'opening up new avenues for US capital to expand'.⁸⁵ One key objective was getting US corporations into the heart of Europe. Once there, on the ground with subsidiaries, factories and manufacturing lines, tax havens became essential internal financial components of US corporations. As the profits of subsidiaries incorporated abroad were taxable only when remitted home to the US, American corporations discovered that they could defer tax by retaining earnings. Consequently, the tax haven became a vital tool by which corporations could keep profits 'in play' inside the company without 'landing' them onshore in the US to be taxed.⁸⁶ Handled properly, tax havens could be used to perpetually shift profits around the corporation, stringing out tax deferral indefinitely and keeping capital productive.

Besides using tax havens to accumulate retained earnings of foreign subsidiaries, firms could set up intermediary companies in tax havens that supplied their foreign subsidiaries with finance and other goods and services. These 'costs' to subsidiaries, which were not genuine arms length market transactions, would further reduce subsidiary profits, thereby minimising tax on income remitted home. Even tax on gross profits sent home to pay a parent company's dividend could be reduced by US credits on foreign taxes already paid.⁸⁷

As FDI grew in the 1950s, already existing tax havens, such as the Bahamas and Panama, turned into conduits for revitalised Western trade and investment. At the same time, tiny state-lets, often islands, which generally had been or were colonial dependencies of the Western powers, came on stream as tax havens and were locked into the international economy by corporations that valued the various jurisdictions' legal systems (often English common law based and convenient for commercial and financial transacting), dependable currencies, and tax treaties

⁸⁴ Quoted in Nick Beams, [The Significance and Implications of Globalisation: a Marxist assessment](#), (lecture to the International Summer School, 4 January 1998, www.wsws.org/exhibits/global/nblect.htm), p. 33.

⁸⁵ Beams, [The Significance and Implications of Globalisation](#), p. 32.

⁸⁶ Picciotto, 'Offshore: the state as legal fiction', p. 51.

⁸⁷ Ibid. p. 53.

with Western industrial states where the same corporations often had operations on the ground. Moreover, the techniques of financial secrecy and asset protection, such as corporate trusts, holding companies, bank secrecy, nominee directors, and 'bearer' shares that had grown up around the inter-war tax haven were equally valued by corporate and private investors.⁸⁸

One new tax haven to emerge in the post-war period was the Netherland Antilles in the Caribbean. The French owned oilfield and electronics company Schlumberger – headquartered in New York with a stock exchange listing there, and subsidiaries across 50 countries – was incorporated in Curacao by its founders in the 1950s. Curacao incorporation yielded two important advantages to the multinational: avoidance of estate duty for the company's owners and virtual avoidance of corporation tax on dividends. While Schlumberger's overseas subsidiaries were liable to local taxes and their dividends subject to withholding tax, the Curacao parent paid no more than 3% tax on its profits and was subject to no withholding tax when dividends were passed to non-Curacao residents.⁸⁹ By the mid-1960s, the Netherland Antilles had become a holding company base for a range of US and European multinationals, including Shell, Siemens, Esso, Gulf & Western, Pan American Overseas Capital and Sears Roebuck.⁹⁰

Older havens, like the Bahamas, lost none of their shine for corporations expanding internationally. The 1960s saw the presence of US Steel, with several shipping subsidiaries incorporated on the island, and Bahamas holding companies for New England Petroleum Corporation, Standard Oil of California, Revlon and many other US corporations. Syntex Corporation, a US firm with 50% of the US market for birth control pills, split itself up internationally along lines similar to Schlumberger though in an even more complex and seemingly disintegrated way. Syntex was incorporated in Panama, had its HQ in Mexico City, and was quoted on Wall Street. Its \$7.5m chemical plant was however located in the Bahamas, where it was free from all direct taxation, and provided Syntex with access to British Commonwealth markets at preferential tax rates. In a final coup of tax accounting, Syntex's US tax bill was reduced by writing off a large slice of its US profits against research and development costs, the fruits of which were used in Freeport Bahamas to earn profits free of US tax.⁹¹

The tax haven system of defence, preservation and detachment developed and adopted by private capital in an earlier era of extreme trade protection, provided, when it came to business operating in the relatively more opened up economy after 1945, a ready to hand means for taking the world back on. And the way the world was being taken back on, with corporate foreign direct investment and overseas production, made that detached, offshore separation a permanent and

⁸⁸ Ibid.

⁸⁹ Caroline Doggart, Tax Havens and Their Uses (London, Economist Intelligence Unit, 1972), p. 7.

⁹⁰ Ibid. p. 12.

⁹¹ Ibid. p. 14.

regular feature of international business. The defensive mindset of the tax haven was now built in, ingrained, and impressed into the fibre of the multinational corporation. This was less tax havens as the exception in the time of emergency and war, than tax havens as the rule for international business efficiency and rationalisation.

The huge expansion in US trade post-1945 led to increasing and unsustainable pressures on the system of state-managed international capital. The fundamental problem was the strength of the dollar and that so much of the currency was outside the US. This was down to the success of American business in expanding and investing overseas, and this eventually pushed a US post-war trade surplus into a deficit in the 1960s. By the end of that decade, however, the growth of dollar balances in Europe exceeded demand for US products.⁹² This spelled trouble for the US – and the system of fixed (though adjustable) exchange rates that critically underpinned the international monetary arrangements of Bretton Woods.

One key pillar of Bretton Woods – the commitment to free currency convertibility for trade – had been a remarkable success for US corporate trade. On the other hand, this success undermined another key pillar of Bretton Woods: the US dollar as the world's gold-backed reserve currency. For with the dollar fleeing the US and appreciating in value of its own accord, Washington was losing effective control over the very currency that was supposed to underpin the entire edifice of fixed exchange rates. US corporate success had subtracted from maintaining control of the dollar and ultimately the ability to manage the international monetary system.

Paradoxically, it was the US's attempts to take control of its currency that led to the dollar finding more and more a life of its own, as free capital, detached from and outside US government control. Controls to limit the outflow of US investment dollars, to reverse the negative trade balance of payments, in turn led to the emergence of international markets for capital. What became termed 'offshore' dollars – dollar deposits made outside the US – led to the development of offshore financial centres that dealt and traded 'expatriate' US dollars where, as in Europe, there was a surplus. Just as corporations broadened internally and secured their financial advantage through a network of tax havens, capital structured itself into the world and released itself from state control through financial centres that adapted to the trade for international capital and set up markets for offshore dollars (and later other major currencies) that had slipped the leash of state control. In the process, the offshore financial centre was born. Both developments – at the level of the corporation, and in banking – worked together as part of the same general 'offshore' movement of the world economy.

Many tax havens – such as the Bahamas, Panama, and the Cayman Islands – adapted themselves swiftly to the new 'offshore' Euromarkets. The move

⁹² Beams, The Significance and Implications of Globalisation, p. 35.

offshore was led by US banks and corporations that were restricted by Federal authorities from access to international capital in the US.⁹³ Faced with restrictions at home, US companies set up branches and intermediaries in tax havens near the US – primarily in the Caribbean – to borrow and lend dollars outside government control.

The irony though was that the largest, most concentrated – and first – offshore financial centre was not a traditional tax haven at all, but was onshore, in England, and located in the City of London from the early 1960s. By 1965 the City of London had attracted 10% of US overseas bank branches and 45% of their deposits.⁹⁴ Just over a decade later, London's domination of the international Eurocurrency markets was complete. By the end of the 1970s, the City's Eurodollar gross assets were valued at US\$1,600 bn, a sum larger than the combined reserves of the entire OECD group of industrial nations.⁹⁵ Here was international capital asserting itself right in the heart of the state as an autonomous, offshore phenomenon. The balance of power between state and international capital would decisively turn in the direction of capital, and in time, completely alter the global economic universe.

The Bretton Woods system eventually crumbled under the pressure of capital set loose offshore, with currencies increasingly subject to speculative attack and states unable to control either the world economy collectively or their own economies individually. 'Currencies now became rivals adding a dimension of instability to the world trading system'.⁹⁶ With the dollar under speculative pressure in 1971, Nixon's Washington turned to the market itself as an economic ally, unilaterally forcing a dollar devaluation by taking the currency off its fixed exchange peg with other currencies and finally divorcing the dollar's link with gold.⁹⁷ After several years of failed efforts to repair the breach in Bretton Woods, governments of the major currencies resorted to floating exchange rates, ceding their post-war authority over capital. With capital in effect deregulated, speculators moved in.

The ensuing financial market frenzy was the coming of age for the tax haven. Remote, disparate islands constellated as a system around the main financial centres of Europe, America, and Asia to which they were now closely linked through telecommunications and air travel. 'A new invisible secondary trading system, global in scope, was thereby forged; a new tier of circuitary and conduitary provided to facilitate the global velocity of international funds and to

⁹³ R.A. Johns and Christopher Le Marchant, Finance Centres: British Isles' Offshore Development since 1979 (London, Pinter, 1993), pp. 15-6.

⁹⁴ Picciotto, International Business Taxation, p. 122.

⁹⁵ Nigel Harris, Of Bread and Guns (Harmondsworth, Penguin, 1983), p. 115

⁹⁶ *Ibid.* p. 42.

⁹⁷ Susan Strange, Casino Capitalism (Oxford, Blackwell, 1986), p. 7.

cater for the growing and changing needs of multinational business, whether private, corporate or institutional'.⁹⁸

With speculation on international capital rampant, instability in the financial then commodity markets followed.⁹⁹ The boom ended soon after. Inflation took off and was exacerbated by huge increases in the price of oil late in 1973. A year later the world was in recession. For the rest of the decade, the factors that caused the collapse of the re-established international system with its policy of embedded liberalism - nation states managing their economies within a liberal international framework – played themselves out in a most bizarre fashion. The attempt by states to overcome the widening gap between their authority and the new freedom of capital produced distorted hybrids and contradictory policies everywhere.

One such distortion was the multi-national company in its relationship to the state. As the 1970s hit recession, states used public funds to protect the profit rates of industry and protect their so called 'national champions' in the face of general economic stagnation.¹⁰⁰ This meant nationalisation and increasing government intervention in industries, in particular telecommunications, public transport and municipal services.¹⁰¹ However, the main lever used by governments to engineer up profit rates was corporate taxation: 'either reducing taxation, rendering official taxation merely nominal, or tolerating the legal activities of companies evading taxation'.¹⁰² An American study by Congressman Charles Vanick in 1978 noted that seventeen of America's largest corporations paid zero tax, and forty one paid under 10% of their world income in tax. A study in Britain showed similar developments, with the largest companies paying no or very little tax. In both the US and the UK, the overall tax yield on corporations declined considerably over the course of the 1970s.¹⁰³

While corporations were being aided by the state to withstand the pressures of recession through state intervention and tax breaks, corporations were, at the same time, and perhaps as a consequence, transnationalising their interests through breakneck integration of the world market and internationalisation of production.¹⁰⁴ No doubt generous government tax breaks assisted this global corporate expansion. But it seemed again that in a period where states turned towards industrial protection, as they had done before WWI and between the wars, international corporations were extremely deft in exploiting the politically saturated economic environment to their advantage, and jumped borders more energetically than ever to place themselves on the ground to bypass trade barriers.

⁹⁸ Johns and Le Marchant, *Finance Centres*, p. 15.

⁹⁹ Strange, *Casino Capitalism*, p. 89.

¹⁰⁰ Harris, *Of Bread and Guns*, p. 105.

¹⁰¹ R. Lewis, 'Denationalisation', in R. Boyson (ed.), *1985: an escape from Orwell's 1984* (London, Churchill Press, 1975), p. 23.

¹⁰² Harris, *Of Bread and Guns*, p. 105.

¹⁰³ *Ibid.*

¹⁰⁴ Beams, *The Significance and Implications of Globalisation*, p. 33.

This resulted in the contortion of states backing 'their' industries in the national interest while the much vaunted and pampered 'national champions' repaid no such loyalties when it came to securing international competitive advantage. For instance, as Harris notes: 'The British Government funded a supposedly 'American' corporation in 1975 to the tune of £162 million, only to have Chrysler's European assets purchased by a supposedly 'French' corporation, Peugeot. Volvo, a supposedly Swedish company, negotiated for a large part of its assets to be purchased by Norway. Renault, a company owned by the French Government, reappeared across the Atlantic as heir to a private corporation, American Motors'.¹⁰⁵ While lip serving the political rhetoric of industrial protection and in return aided handsomely by 'corporate welfare'¹⁰⁶ doled out to corporations by states eager to keep inward investment, corporations radically internationalised their activities, seeking political protection and corporate welfare wherever in the world it could be found.

Offshore tax havens were the unseen but critical agents of this activity, and fulfilled the dual-function of wealth protection and expansion for corporate interests, allowing them to operate profitably on an international field. The US Treasury's 1981 Gordon Report into the use of tax havens by American companies showed that the number of corporations in tax havens was highly disproportionate in relation both to the population and to the economic activities of tax haven jurisdictions. It was estimated that there were an average of 55.1 corporations for every 100,000 of the population in tax havens, as compared to 1.2 companies per 100,000 population in other countries.¹⁰⁷ The Gordon report also showed that direct investment flows through, and assets held in, tax havens were a significant element of all US corporate investment and asset activity. For instance, between 1968 and 1976, US companies increased from 12 to 55 per cent the value of their assets held in tax havens. By 1976, tax havens held nearly 20% of the entire US corporate asset base.¹⁰⁸

Just how contradictory the 'offshore' revolution was for traditional national politics was brought memorably to public attention in 1971. When it was revealed that Lord Duncan-Sandys, the chairman of the London-based multinational Lonrho, was receiving an extra \$100,000 a year in salary tax free through the Cayman Islands, the British Prime Minister, Edward Heath, apparently so appalled by such goings-on lambasted tax havens as 'the unpleasant and unacceptable face of capitalism'.¹⁰⁹ This leads to a second contortion of the period. If the acceptable face of capitalism was in doling out corporate welfare to national champions who would, in theory, if not in practice, battle on behalf of the state and return it to productivity, it was equally acceptable, so it was argued, to

¹⁰⁵ Harris, *Of Bread and Guns*, p. 106.

¹⁰⁶ For an account of corporate welfare see Ralph Nader, *Cutting Corporate Welfare* (New York, Seven Stories Press, 2000).

¹⁰⁷ Picciotto, *International Business Taxation*, p. 140.

¹⁰⁸ Johns and Le Marchant, *Finance Centres*, p. 16.

¹⁰⁹ Anthony Sampson, *The Money Lenders* (London, Hodder and Stoughton, 1981), p. 226.

offset the losses in corporate taxation against rises in personal taxation. Such rises were the historic trend amongst all OECD countries in the 1970s.¹¹⁰ In the UK, by the end of the 1970s, the top rate of tax on earned income was 83% with a 98% rate on investment income, the highest rates in Europe.¹¹¹

The premise here was ostensibly the same as that which underpinned the protection and support of national industry, though the tax means to the desired end could not have been more different. Tax rises were about the protection and preservation of the Western industrial world's 'golden age' - the policies of redistribution and social protection that had brought inequality reduction within and between the wealthy and rich nations of the West.¹¹² Since the 1960s, large scale increases in public spending had occurred in all industrial countries, especially in Europe. Tanzi notes that 'country after country increased public spending...in an attempt to reduce various risks. The risks of becoming illiterate, ill, old or unemployed received particular attention and various public programs were developed or strengthened to deal with them'.¹¹³

Yet, even if it could be proved 'that this large increase in spending actually contributed correspondingly to an increase in social welfare'¹¹⁴, a possibility that Tanzi doubts, the rise in personal taxation would not prove to be a politically acceptable solution for preserving the post-war welfare state consensus. This project was further, perhaps fatally, undermined by private wealth that followed the offshore tax avoidance and evasion routes of the multinational companies, and through the increased use of unregulated offshore mutual funds, financial strategies both of which not only preserved wealth from taxation and thereby a loss in government revenue, but increased the speculative pressures on national currencies through institutional gambling on the more mobile elements of international capital. This behaviour, in turn, piled even more pressure on states to weather the global economic storm.

With private capital ever more given the means by tax havens to flee the constraints of national tax regimes, and the international economy itself, in its mobility, metaphorically offshore, though in substance too, with nearly 15% of global financial activities by 1979 having an offshore tax haven component,¹¹⁵ the contortions of monopoly state capitalism pushed the contradictory foundations on which it stood forcefully apart. For all the political effort spent preserving the nation state against the instabilities and risks of financial speculation, capital

¹¹⁰ Caroline Doggart, Tax Havens and their Uses (London, Economist Intelligence Unit, 2002), p. 4.

¹¹¹ Barry Bracewell, Tax Avoidance and Evasion: the individual and society (London, Panopticon Press, 1979), p. 111.

¹¹² World Bank, Globalisation, Growth, and Poverty: building an inclusive world economy (Washington/New York, World Bank/Oxford University Press, 2002), p. 30.

¹¹³ Vito Tanzi, 'Globalization and the Future of Social Protection', Working Paper of the IMF, WP/00/12 (2000), p. 8.

¹¹⁴ *Ibid.* p. 19.

¹¹⁵ Harris, Of Bread and Guns, p. 116.

nevertheless in the 1970s built for itself an independent, self-sufficient realm, increasingly complex to control and contain.

At the secret heart of the contradiction, catalysing the antagonism between capital and the state, was the tax haven, an instrument of capital's global renaissance, and a means by which the onshore world of states could be steadily reproduced along offshore lines: detaching nation-state based wealth from where it was fixed, and extending and moving it to wherever it could get a hold on profits.

Offshore Capitalism

'The time is long overdue when the balance between the individual and the state has to be readjusted in favour of the individual'. Margaret Thatcher, 1979

'The United States believes the greatest contribution we can make to world prosperity is the continued advocacy of the magic of the market place'. Ronald Reagan, 1980

The new right political and economic revolutions that swept through Britain and the US in the late 1970s and early 1980s were the moments that capital, in its offshore exile, would step back into society to remake the state in its own image and reclaim its dominance over the economic mainstream.

Likewise, the intellectual return of liberalism, with the neo-liberal philosophy of political and economic freedom, had through its central exponent, Friedrich Hayek, returned full circle to recover the liberal creed of Europe prior to its forced demise after WWI. Hayek preserved the oppressed claims of liberal economic thought, and kept to its belief that markets were spontaneous, complex organisms that evolved naturally without the need for government interference and intervention. These ideas now became influential.¹¹⁶

Hayek had long opposed the consensus in the West for the interventionist, centralised state. His populist polemic, *The Road to Serfdom* (1944), argued that for socialism to be properly effective it would end up being totalitarian, and therefore no different from either the Nazi regime or Soviet state communism. What was above all hard to swallow in Hayek for the Keynesians, and so summarily dismissed, was Hayek's assertion that it was generally the best intentioned people who wanted to put the principles of planning, collectivism and state control into practice with socialism.¹¹⁷

In the words of Milton Friedman, the master economic technocrat who was to acquire Hayek's taste for political controversy, these well-intentioned men were

¹¹⁶ Cockett, *Thinking the Unthinkable*, p. 140-50.

¹¹⁷ BBC, *The Chicago School* documentary broadcast written and presented by Michael Ignatieff (BBC Radio 3, 2 July 1997). Part 3 of a 5 part series, 'The Illuminati', on intellectuals and ideas in the 20th century. Produced by William Brittain-Catlin.

the first to ‘rue the day of the consequences of their socialism for liberty’.¹¹⁸ Friedman’s own, and this time successful, breakthrough in undermining the Keynesian orthodoxy of generating full employment through government spending, came as high inflation coupled with high unemployment in the 1970s left industrial economies stagnant. It looked like the usual Keynesian remedies were failing, and badly.

Friedman and his monetarist colleagues had long contested Keynes’ assertion that the supply of money in the economy did not matter. For this the monetarists were dismissed as cranks – until with stagflation it appeared that Friedman’s prediction that full employment by monetary expansion did accelerate inflation and did not reduce unemployment, painfully correct observations made in the ruins of the economic world in the 1970s: double digit inflation, runaway prices, and rising unemployment.¹¹⁹

While governments continued intervening in the economy in the belief that the usual measures would steer them away from political and economic catastrophe, neo-liberalism assumed a particularly aggressive stance, no where more so than in the opposition to the increasing burden of personal taxation. Pamphlets published towards the end of the 1970s by the Institute of Economic Affairs (Hayek’s own English home from home) and the Society for Individual Freedom, whose members were ‘concerned at the ever-increasing encroachment by the state on personal liberty’, gave a sense of the ideological fervour of the times. *Freedom Under Siege: Capital Taxation and Political Conformity* railed that ‘taxes on capital are taxes on capitalism, and the spirit and substance of the capitalist system will not survive the present battery of taxes’;¹²⁰ *Tax Avoidance and Evasion: the Individual and Society* proclaimed that ‘all tax avoidance is moral because no more extensive obligation is intelligible. There is a general moral obligation not to evade taxes even if they are unjust and uneconomic. But this moral obligation is qualified if the taxpayer is in rebellion against general government policy’.¹²¹

Such rebellion was popular and real, not merely the tub-thumping of a bunch of resentful right wing fanatics, and was duly expressed at the polls in Britain and in the United States. From here on there would be a move to deregulation to increase the efficiency of the market and with it the privatisation of state controlled industries. In Britain the key elements of the new right revolution were the move towards wealth creation, the abandonment of post-war egalitarianism, cuts in direct taxation, the selling off of state industries, and legislation to limit the power of the trade unions.¹²² In finance, the City of London, within a few years

¹¹⁸ Milton Friedman, *Capitalism & Freedom* (Chicago, University of Chicago, 2002), p. 12.

¹¹⁹ ‘The Chicago School’, BBC Radio 3 broadcast.

¹²⁰ Barry Bracewell, *Freedom under Siege: Capital Taxation and Political Conformity* (London, Society for Individual Freedom, no date).

¹²¹ Bracewell, *Tax Avoidance and Evasion*, p. 11.

¹²² Richard Roberts and David Kynaston, *City State: how the markets came to rule our world* (London, Profile, 2001), pp. 20-22.

of Margaret Thatcher's election, would embrace complete financial deregulation with the Big Bang of 1986.

Policy adjustments freeing up investment, stemming from the deregulation of capital and securities markets, were a prerequisite for capital's return to the international fray as an active participant in the world economy.¹²³ The political opening of the gate to capital would in time re-activate a general repairing of the internationalist fabric, with increasing global economic interdependence and integration in terms of trade, manufacturing, production, investment and labour. Accompanying technological advance in transport and communications would spur these globalising processes on, as would the decision by large developing countries to open up to foreign trade and investment.¹²⁴ This was back to the future as some commentators like to put it, back to the first era of globalisation before it came to an abrupt end with the onset of war in 1914.¹²⁵ It was pointed out that the proportion of world production traded on global markets was not much higher in the late 1990s than it was pre-1914, and that commerce was comparably significant in 1910, when ratios of trade to GDP hit record highs in several of the advanced economies. Furthermore, there was a similar opening up of domestic capital markets to foreign investment and little economically significant trade protection.¹²⁶

But there are substantial and critical differences with the first phase of globalisation. For a start, while capital is comparatively as free, migration is much more controlled by states than it was in the early 20th century. Two other factors make for an absolute difference with pre-1914 globalisation. First, the emergence of a global financial market, where 'the exponential expansion in international capital flows has meant that world capital markets are no longer a series of interconnected national markets but increasingly a single global entity'.¹²⁷ Second, the predominance of multinational companies and their taste for particular types of foreign direct investment (FDI). Before 1914, 'international' companies would typically have had a few overseas investments in, for example, mining and transport.¹²⁸ Today the trend is for multinational corporations whose FDI is less towards greenfield investments abroad than on investment to purchase international mergers and acquisitions of other corporations, particularly in service industries.¹²⁹

¹²³ Manuel Castells, 'Information Technology and Global Capitalism', in Will Hutton and Anthony Giddens (eds.), Global Capitalism (New York, New York Press, 2000), p. 53.

¹²⁴ World Bank, Globalization, Growth, and Poverty, p. 4.

¹²⁵ Martin Wolf, 'Will the Nation-State Survive Globalization?', Foreign Affairs, (January/February 2001), p. 178.

¹²⁶ *Ibid.*

¹²⁷ Beams, The Significance and Implications of Globalization, p. 43.

¹²⁸ Wolf, Will The Nation-State Survive Globalization?, p. 178.

¹²⁹ Wim Dierckxsens, The Limits of Capitalism: an approach to globalization with neo-liberalism (London, Zed, 2000), p. 67. See also A.G. Kenwood and A.L. Lougheed, The Growth of the International Economy, p. 254.

Both the factors which give the critical contemporary dimension to economic globalisation – the global financial market and the global corporation – owe their origin and development directly and indirectly to offshore tax haven phenomena. For the expansion of global corporations, particularly the American behemoths from the 1950s, the crucial entwining with offshore tax havens was seen above. The structuring of these corporations into operationally and financially integrated organisations could not have been realised without the direct involvement of tax havens. Subsequently, there has been no reverse in the significance of tax havens to US companies. A recent study indicates that tax havens now account for 26% of the assets and 31% of the profits of American multinationals.¹³⁰

Offshore tax havens are used by multinationals as prime intermediaries to tap into capital markets to raise credit for FDI. Walmart, the world's largest retail corporation, has several offshore financial vehicles incorporated in the Cayman Islands to regularly raise millions of dollars of finance to fund its global operations. Multinationals use tax havens for a range of other core activities: speculating in foreign exchange markets to hedge against currency exchange risks inherent in international trade; and for capturing and controlling retained earnings, tax free, for profit reinvestment in financial and physical assets overseas, a major form of FDI.¹³¹

The tax haven is not only an instrument of investment in foreign countries, but also an instrument of detachment, a direct mechanism by which corporations can retain a flexible or 'pragmatic' commitment to the countries they invest in. This becomes particularly problematic where individual multinationals enjoy a monopoly or concentrated investment position within one country. If, for example, a multinational controls a large part of a nation's export base but wishes, for some reason, to conclude a quick exit, it can, through the use of intermediary offshore affiliates, facilitate the speedy relocation of export orders from one local market to another elsewhere in the world.¹³² The tax haven, outside any particular location of production, acts as a ready to hand switch for the multinational, the press of which transfers the financial control of production to another market almost immediately. The 'quick switch' can bring instant devastation to the country left behind. Likewise, an offshore intermediary becomes a means to swiftly remove liquid assets out of a country experiencing balance of payment difficulties, a move that often has the effect of compounding such problems, causing monetary instability for the country concerned.¹³³

As for monopolies, offshore corporate vehicles are means for corporations to covertly secure, through the hiding of beneficial interests, concentration of

¹³⁰ Oxfam, 'Tax Havens: releasing the hidden billions for poverty eradication', *Oxfam Policy Papers*, 6/00 (www.oxfam.org.uk/policy/papers/taxhvn/tax.htm, 2000).

¹³¹ Martin Khor, *Rethinking Globalization: critical issues and policy choices* (London, Zed, 2001), p. 93.

¹³² A.G. Kenwood and A.L. Lougheed, *The Growth of the international economy 1820-2000*, p. 255.

¹³³ Khor, *Rethinking Globalization*, p. 91-3.

ownership that would otherwise be illegal. In the generally monopoly-weakening environment of economic globalisation¹³⁴ such underhand methods can have their uses. Offshore vehicles facilitate a way for multinationals to evade regulatory or anti-trust controls, and are directly used as secret financial intermediaries for corporate bribery and corruption in state privatisations, particularly those in developing countries and emerging markets, such as when the French oil company Elf Aquitaine allegedly bribed the Gabon president El Hadj Omar Bongo for concessions using Swiss bank accounts opened in the name of offshore corporations.¹³⁵ A recent estimate of the bribes paid by Western companies to gain influence and contracts puts the figure at US\$80bn a year, with offshore secrecy vehicles, such as the International Business Company, used most frequently as the funnels used for illicit payments.¹³⁶

The global offshore corporation should be set against the context of the global financial market, the second prime identifier of contemporary globalisation. It too can be described as thoroughly offshore in character. Indeed, the opening up of domestic economies since 1980, and their linking up in a growing international financial system, removed any distance or separation that remained between domestic markets and the international Euromarkets that came on stream in the 1960s and dominated world finance in the 1970s. The distinction arguably evaporated (with some exceptions) following the collapse of the Soviet bloc, whose incorporation into the international financial system flattened the latter out and totalised its reach. This process, taken as a whole, might usefully be described as turning what had been onshore capitalism, offshore.

Not by any means did the integration of states into a single financial system mean that industrial nations somehow turned into de facto tax havens. Rather, from the 1970s, offshore financial centres antagonised onshore economic structures to the extent that the latter had to respond to the new disciplines and structures of international capital. The onshore turned offshore process is summed up by Doggart: 'Banking authorities around the world attempted in the late 1960s and 1970s, to regulate the new international capital market...but they failed. There have always been some offshore centres which had few regulatory scruples and which therefore attracted the international financiers. Eventually instead of continuing their unequal struggle, the supervisors decided to repeal their own regulations and bring the financial markets back home'.¹³⁷

¹³⁴ World Bank, Globalization, Growth, and Poverty, p. 16.

¹³⁵ OECD, Behind the Corporate Veil: using corporate entities for illicit purposes (Paris, OECD, 2001), p. 35.

¹³⁶ OECD, Behind the Corporate Veil, p. 21.

¹³⁷ Quoted in M. Hampton and J. Abbot (eds.), Offshore Finance Centres and Tax Havens, p. 15. The same point, in connection with the rise of globalization, is made in OECD, Improving Access to Bank Information for Tax Purposes (Paris, OECD, 2000), p.22: 'One of the elements that has fuelled globalization in the last decade has been the liberalization of financial markets...This liberalization was in part a response to the threat to financial markets posed by offshore financial centres'.

A good illustration of this process is the case of the Netherland Antilles. Building on its success in attracting international companies in the 1950s, the tax haven rode the wave of the Euromarkets in the 1970s. Major US banks and corporations, desperately seeking access to capital, took advantage of the islands' tax treaties and formed shell finance companies in Curacao to issue Eurobonds.¹³⁸ The shell company would then lend the bond proceeds to its parent and receive interest free of US withholding tax. At the same time, the US parent would claim a tax credit in the US to offset the low tax paid in Curacao by the shell company. The offshore advantage was clear: overall buying costs of capital were reduced and investors in bonds earned a higher effective yield. Hundreds of shell companies were established in Curacao in the 1970s. In an economic world where industrial nations were flailing around trying to control capital outflows and re-inflate economies, tens of billions of dollars of capital were being freely raised in offshore havens like the Netherlands Antilles, further compounding the rising influence of international capital on states.

The direct and immediate onshore response to the offshore finance centres were the International Business Facilities centres, or IBFs, established first in New York in 1980, then elsewhere in the US, and later in Tokyo, Dublin and Bangkok. The purpose of IBFs was not only to open up and turn domestic banking centres into locations to attract external capital and finance, through, for instance, liberalised banking regulation and favourable tax treatment, but to take on the offshore centres and compete for their business directly. By 1988, IBFs in the US had total external liabilities of more than \$300bn – significantly higher than those of the Cayman Islands and double that of the Bahamas,¹³⁹ which until 1983 was the third largest international banking centre after Britain and the US.¹⁴⁰

The consequence, though, of onshore moves to liberalise, deregulate and take on the offshore centres was much less to create a new on-offshore bifurcation in financial markets, than to draw domestic and external markets inextricably together and entwine them into one seamless system.¹⁴¹ Given that onshore IBFs systematically used offshore banks to earn clients higher Eurodollar rates, onshore-offshore convergence was perhaps unavoidable. Convergence was also assisted by technology that made money an increasingly electronic and transferable medium.

Yet, in a global financial system today that is flatter and more horizontal, and which largely integrates the differences between domestic capital and external offshore capital, enough significant difference remains in the margins of deregulation and liberalisation between financial jurisdictions to make offshore financial centres relevant. This is the space that these catalysts of a liberalised

¹³⁸ The account of the Netherland Antilles' shell companies is from Norman Peagram, 'Treasure Islands', *Euromoney*, (May 1989), pp. 73-5.

¹³⁹ Peagram, 'Treasure Islands', p. 11.

¹⁴⁰ *Ibid.* p. 9.

¹⁴¹ R. Roberts and D. Kynaston, *City State*, p. 114.

international economy inhabit, as much the radical species they have always been and by no means extinct in the seeming homogeneity of global capitalism.

The political issues *de jour* are less onshore versus offshore capitalism, more, what are the limits of offshore – of deregulation and liberalisation – in the global economy. And these questions are asked because they are necessitated by the offshore system which continues to cut away at and exploit the marginal differences between national tax regimes, financial regulation, access to capital, market supervision, and financial secrecy. These differences may be marginal, but as we know from the immense gains that can be made on hedge funds by gambling high volumes of capital on the tiniest deviation in price between two sets of bonds or stock, such margins count for a great deal.¹⁴²

So much so, that in the case of offshore tax havens, it is estimated that the equivalent of one-third of total GDP is now held in such jurisdictions, wealth that is mostly ‘undisclosed and untaxed’ or otherwise ‘undertaxed’.¹⁴³ Half of the international capital invested in the world’s stock exchanges passes through a tax haven.¹⁴⁴ 80% of international banking transactions take place in offshore denominated markets,¹⁴⁵ and just four major offshore centres, the Bahamas, the Cayman Islands, Hong Kong and Singapore, jointly account for 10% of the global stock of cross-border bank loans.¹⁴⁶

Conclusion: The Revenge of Capital

The offshore system is to the international economy what the little hunchback was to the mechanical Turk, the 18th century automaton that fooled everyone it could play a winning game of chess: the secret hidden inside that wins every move. In his Theses on the Philosophy of History, with its opening image of the chess playing Turk,¹⁴⁷ Walter Benjamin designated the automated puppet ‘historical materialism’. Let us switch this to liberal capitalism. The hunchback, the expert chess player who sat inside the contraption, pulling the puppet’s hands by means of strings, Benjamin called theology, ‘which today, as we know, is wizened and has to keep out of sight’.¹⁴⁸ In turn, we might call the offshore tax haven system capitalism’s own secret theological device.

¹⁴² This example is made with reference to Long Term Capital Management, a highly leveraged Cayman Islands domiciled hedge fund that made huge profits for its investors before collapsing in 1998. See Paul Blustein, The Chastening: inside the crisis that rocked the global financial system and humbled the IMF (New York, Public Affairs, 2001), pp.305-36.

¹⁴³ Oxfam, ‘Tax Havens’.

¹⁴⁴ Cayman News net, 14 January 2004.

¹⁴⁵ Ronen Palan, ‘Offshore and structural enablement of Sovereignty’, in M. Hampton and J. Abbott (eds.), Offshore Finance Centres and Tax Havens, p. 26.

¹⁴⁶ Doggart, Tax havens and their uses (2002), p. 77.

¹⁴⁷ Walter Benjamin, ‘Theses on the Philosophy of History’, in H. Arendt (ed.), Illuminations (New York, Schocken, 1969), p. 253.

¹⁴⁸ *Ibid.*

The offshore system wins every move for private and corporate wealth. The opposition is outwitted, resisted and tricked. Speed, freedom, and the techniques of deception and illusion are deployed to arbitrage every marginal difference of law, regulation, and asset value that stands still, with any conflict of interest concealed. IMF research shows that for every one percentage point increase in industrialised countries' corporate tax rates, capital inflows to offshore centres jump by 5% in general and by 19% for Caribbean centres.¹⁴⁹

Offshore tax havens act 'as agent provocateurs for the promotion and expansion of boundless financial services'.¹⁵⁰ As a result, corporate and private interests are radically transnationalised. Individuals incorporate themselves as freelance global financial enterprises and search for new loopholes to exploit for profits. A new class of international investor finds its financial home detached from the ground of states whose legal systems are used to protect the very wealth and private property that tax avoidance and evasion has secured.

Corporate tax revenues shrink and are increasingly offset into rises in individual taxation; the regulative authority of the state is undermined; social protection weakened. The inherent detachment and secrecy of offshore financial structures seep into social and private life; the internet with its 'gambling, pornography, telecommunications and on-line merchandising'¹⁵¹ detaches consciousness into 'offshore', private realms and self-sovereign islands of consumption. The media image of tropical paradise is worshipped in reality game shows and credit card promotions, the exclusive holy domain of a detached freedom competed for by fatigued lives spent under the saturnine glow of an absolutely financialised world.

The offshore platform is not complete without the interests of organised crime, who have similarly transnationalised through the world's offshore networks. Since the 1960s, tax and banking havens have become an autonomous realm of criminal and fraudulent activity. IMF statistics indicate that the amount of money laundered world wide is between two to five per cent of the world gross domestic product, about US\$600bn to US\$1.5 trillion on an annual basis.¹⁵² 'The offshore world', says Oxfam, 'provides a safe haven for the proceeds of political corruption, illicit arms dealing, illegal diamond trafficking, and the global drugs trade'.¹⁵³ In the secret offshore realm, crime found the instruments for its wild justice alongside capital and rejoiced in its new found freedom.

Capitalism's offshore secret realm, in the twists and turns of its corporate and criminal agents, sends shock waves of instability through the global financial system. The automaton is no predictable machine for it behaves in a random,

¹⁴⁹ See IMF Country Report No 01/3 Table 5 in Doggart, Tax havens and their uses (2002), p. 2.

¹⁵⁰ R. Johns and C. Le Marchant, Finance Centres, p. 1.

¹⁵¹ R. Palan, 'Offshore and structural enablement of Sovereignty', p. 16.

¹⁵² OECD, Behind the Corporate Veil, p. 21.

¹⁵³ Oxfam, 'Tax Havens'.

wild fashion.¹⁵⁴ The run of financial crises and economic meltdowns in the 1990s across Latin America, Asia and Russia were all catalysed by liabilities and assets hidden offshore which triggered economic collapse, and the ruin of millions of livelihoods in poor countries.¹⁵⁵ One might term this, following Thurow, a declaration of class war from above:¹⁵⁶ the offshore elite – preserved and protected – facing the unprotected in the world outside, the objects of detached speculation, ravaged by crime and corruption, the proceeds of both held offshore, a base for the absolute ownership and control of wealth.

To what theology do we owe these developments? To one where the triumphant bourgeois of the 19th century became trapped and hindered by the state in the following century, and thereafter prayed for its redemption. ‘What should such fellows as I do crawling between earth and heaven?’ Hamlet asked. To break out of his melancholy, Hamlet took revenge against the illegitimate authority he saw steal away his freedom. In their tragic exile offshore, to preserve that liberal spirit, revenge is what the bourgeois dreamed of, to hit back against the state and the illiberal forces that had banished capital’s freedom. Capital would one day take back its rightful place, they hoped, and grasp again the freedom which had been denied it. With capital returned, they prayed, the whole world would be transformed. The sacrifice it had had to make in its detachment from society would have to be made by the world as capital covered it over again, this time that much thicker. There would have to be total discipline to the market, redemption through hard labour, and the punishment of poverty if there was failure. The bourgeois would release a pent up and suppressed theology on the world as an act of faith, the basis for total transformation of the world. In this act would freedom be found again: ‘Only in such a princely life as this is melancholy redeemed’.¹⁵⁷

In the offshore tax haven, and its history within the international economy, we find the fossilised remains of the freedom that the bourgeois liberal had longed for in isolation after freedom was lost. Offshore structures are the actual economic instruments in which that longing is fought for in practical terms, to realise profit and competitive advantage. But they express, and bring about as allegories, a freedom against itself, a ruined, fallen freedom, that is impressed with its own sense of despair and social desolation. These offshore practices carry too much the force of the revenge that the bourgeois felt was its right to bare down on the world for the wrong done to it. This is the force of illiberal right that keeps the world under the offshore spell, the exaggeration of freedom in its hunger for absolute control, lest even the merest loss of autonomy is threatened.

There can never be any reconciliation with the world on these terms. For the bourgeois, the outside world can only be survived and handled if it is kept further

¹⁵⁴ Castells, ‘Information Technology and Global Capitalism’, pp. 56-9.

¹⁵⁵ Jonathan Winer, ‘The Coming Wave of Transparency Reform’, *Vital Speeches*, vol. 66, no. 7 (15 January 2000), p. 207.

¹⁵⁶ Lester Thurow, *The Future of Capitalism* (New York, Vergara, 1996), p. 180.

¹⁵⁷ Walter Benjamin, *The Origin of German Tragic Drama* (London, Verso, 1990), p. 158.

away at a distance, as an object at bay. This is the conditioning of the secret realm, the moral heart of the offshore tax haven system where the bourgeois longs for the lost object of its freedom but becomes absorbed in its own loss and turns inward to devices of deception. So, pain, suffering and resentment are turned against a world whose own fault it is that the bourgeois suffers so.¹⁵⁸

After its fall, the bourgeois wanted to transform nations after its own image once again as it had done at its zenith, to compel them to introduce 'what it calls civilisation into their midst, that is, to become bourgeois themselves'.¹⁵⁹ Yet this time it mistook the image of itself as something free, when really its freedom had been fatally compromised in its struggle with state authority. Whether the bourgeois was momentarily blinded when it saw its repressed reflection, or was just too proud in its own sense of right to see what stared it in the face, we shall not know.

¹⁵⁸ The theory behind the idea of the 'lost object of freedom' is a reworking of Sigmund Freud, 'Mourning and Melancholia', *On Metapsychology* (London, Penguin, 1991), pp.245-68. Other essays in the same volume have proved equally invaluable: 'Instincts and their Vicissitudes', 'Repression', and 'Splitting of the Ego in the process of Defence'.

¹⁵⁹ Karl Marx & Friedrich Engels, *The Communist Manifesto* (Harmondsworth, Penguin, 1977), p. 84.

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