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Trillions Stashed in Offshore Tax Havens

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A new Tax Justice Network (TJN) USA report reveals an estimated $21 – $32 trillion of hidden and stolen wealth stashed largely tax-free secretly.

Titled "The Price of Offshore Revisited," it explains what financial insiders know but won't discuss. Many of them have their own hidden wealth.

TJN describes a "subterranean" systemic "economic equivalent of an astrophysical black hole." The higher estimate above exceeds US GDP twofold.

It's mind-boggling. It's hard imagining a tiny percent of privileged elites control this much wealth secretly. It's worse knowing it's largely tax free. It's appalling that governments let them get away with it.

Wall Street and other major banks manage it. Their business is fraud and grand theft. Private banking operations yield huge profits. Keeping funds secreted tax free attracts rich clients. Private capital globally is attracted. It's welcome from anyone, "no questions asked."

Government policies protect them. Societal costs are huge. Tax justice is absent. Hotel magnate Leona Helmsley once said only little people pay taxes. TJN's report bears her out.

A vast "global offshore industry" is explained. It's largely tax-free. It's controlled by the world's richest, most powerful elites. Estimating amounts secreted takes tedious data mining.

Previous estimates relied more on rough judgments. TJN used several methods. They include available data sources, estimation methods, and core assumptions. They're open to peer review and public scrutiny.

Four key approaches were used:

(1) A "sources-and-uses" country-by-country model.

(2) An "accumulated offshore wealth" model.

(3) An "offshore investor portfolio" model.

(4) Best-guess estimates of offshore assets held by the world's top 50 private banks.

Familiar Wall Street, European, and other global financial institutions comprise them.

Current data gotten from global central banks, the World Bank, IMF, UN, and national accounts were used. Other evidence includes:

(1) “Transfer mispricing” data.

(2) Demand for cross-border liquid “mattress money” data.

(3) Current research data on the offshore private banking market’s size.

TJN believes its work comprises the “most rigorous and comprehensive” data ever produced. It challenges anyone to contest it.

In overall size through 2010, it estimates hidden global wealth at from $21 – $32 trillion. It’s invested “virtually tax-free” through a still-expanding black hole of more than 80 secret jurisdictions. It calls estimates conservative.

Developed countries don’t face debt problems. They’ve got huge offshore tax evasion ones. Repatriation would reduce debt substantially. Doing so would bring it well within tolerable levels.

Only financial wealth is included. Much else isn’t measured. It includes real estate, yachts, racehorses, gold, art, and other categories not easily quantified.

The offshore economy alone has an enormous negative impact on the domestic tax bases of affected countries. They’ve had significant private capital outflows for years, decades or longer.

TJN focused on 139 countries. They’re mainly “low-middle income” ones. The World Bank and IMF maintain data on them.

Since the 1970s, private bankers let rich elites accumulate trillions in hidden wealth. At the same time, these nations experienced structural adjustment harshness.

They became debt-entrapped. Some borrowed themselves into insolvency. They sold off public assets at fire sale prices. They impoverished their people. They colluded with big money interests at their expense.

Through 2010, they accumulated over $4 trillion in debt. Minus foreign reserves invested in First World securities, it’s $2.8 trillion. Including hidden wealth, they’re net lenders.

Key is that assets of these countries are held by wealthy elites. Ordinary people bear the burden of debts.

In the 1980s, an unnamed Fed official said:

“The problem is not that these countries don’t have any assets. The problem is they’re all in Miami” and other global cities. They’re home to private financial institutions.

Hidden offshore wealth correlates positively with loan amounts to indebted countries. Large amounts of borrowed capital were secreted lawlessly in global tax havens.

Local elites continue “vot(ing) with financial feet.” At the same time, their public sectors borrow heavily and ordinary people go begging.

Although First World countries borrow most, they and elites in them remain global financiers.

Wealth is concentrated in select private hands "in a handful of source countries." Many are regarded as debtors.

Through 2010, 50 top private banks managed over $12 trillion in cross-border assets from individual clients, trusts and foundations.

Smaller banks, investment firms, insurers, and non-bank intermediaries like hedge funds and independent money managers handle additional amounts up to an overall $32 trillion estimate.

TJN calls these enablers part of a global "tax injustice system." Complicit governments let them operate at the expense of their own people.

"Since the late 1970s, investigative journalists, tax authorities, drug enforcement officials, terrorist trackers, national security experts," and others became aware about vast amounts of money stashed in "offshore" tax havens.

Private banking "professional enablers" manage it. They make fortunes doing it. The term "offshore" refers less to physical locations than virtual ones anywhere. They're often "networks of legal and quasi-legal entities and arrangements." They operate in the interests of money managers.

Physical locations can be anywhere. Legal structures typically are assets owned by anonymous offshore companies in one jurisdiction. Trusts are in another. Trustees are in multiple places globally.

Clients are rich elites, companies, and criminals. They include real estate speculators, technology tycoons, oil sheiks, underworld millionaires, heads of state, despots, and drug lords, among others. Their common needs include:

(1) Anonymity and confidentiality.

(2) Minimizing or avoiding taxes.

(3) Skilled money management.

(4) Ability to access and manage their wealth anywhere.

(5) Secure places to reside, visit, or hide.

(6) Assured financial security no matter what's happening in the real world.

Skilled professionals provide these services globally. Money management happens in a virtual world. They live under one set of rules. Another exists for all others. It's gone on for decades. Global banks thrive on it. It's one of their most profitable operations.

Physical locations operate from Bermuda, the Cayman Islands, Nauru, St. Kitts, Antigua, Tortola, Switzerland, the Channel Islands, Monaco, Cyprus, Gibraltar, Liechtenstein, and elsewhere.

Over 3.5 million paper companies, thousands of shell banks and insurers, more than half the world's registered commercial ships above 100 tons, and tens of thousands of shell subsidiaries of giant global banks, accounting firms, and various other companies operate there.

Nonetheless, conventional havens are misleading. Despite their vast financial infrastructure, most super-rich elites want more security. They also need easy access to First World capital markets, competent attorneys and accountants, independent judiciaries, and laws protecting them.

Professional "enablers" provide all needed services. Managing vast wealth is complex. Many skills are required. They include financial, economic, legal, accounting, and insurance. Super-rich elites demand and get the best.

Haven locations offer more than tax avoidance. Almost anything goes on. It includes fraud, bribery, illegal gambling, money laundering, human and sex trafficking, arms dealing, toxic waste dumping, conflict diamonds and endangered species trafficking, bootlegged software, and endless other lawless practices.

It's impossible to estimate total lawful and illegal wealth from all sources. It's vastly more than estimates within the parameters of TJN's study. Credit Suisse tried.

Through mid-2011, it puts total financial and non-financial global wealth at $231 trillion. It's a best guess. It's tenfold TJN's top figure. It's mind-boggling. It's roughly 3.5 times global GDP. In 2011, it was about $65 trillion.

Imagine the good a small percent of global wealth could do for billions of disadvantaged people. Imagine its ability to stabilize and recapitalize troubled countries. Imagine a world where everyone shares its wealth. Imagine one worth living in.

Global wealth represents low-hanging fruit out of reach. Instead of everyone benefitting, few do at the expense of all others. Injustice that great begs for transformational change. From the bottom up is the only way possible. Shedding light on what's dark is a good way to start.

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His new book is titled "How Wall Street Fleeces America: Privatized Banking, Government Collusion and Class War"

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