TAX HAVENS: Yesterday, today and tomorrow.

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SUMMARY:

Tax havens have existed since tax existed, for this they have always gone hand in hand. Evading tax has, since the times of greeks and romans, been a worry and will for individuals; recently companies have also fallen into this. Tax havens have been a refuge for wealth in times of uncertainty and have found in capitalism an ally to grow and expand. The aim is to review the birth, evolution and survival of tax havens; the characteristics that have allowed them to evolve and survive are worth mentioning and studying. Furthermore, it is of significant importance exploring the different entities supporting and backing tax havens.

KEY WORDS:

- Tax heaven
- Offshore banking
- Finance
- Lobbying
- Capital mobility
INTRODUCTION:

Taxation has always been something both individuals and institutions have been looking to avoid; for centuries in fact, tax havens have existed to ease and able this. However, this is not the only reason why they have existed, exist and will exist. During periods of high political and economic instability, money was moved and deposited in tax heavens for both economic and physical safety. Tax havens can be thought of countries, cities, islands or offshore regions where impositions are lower or even inexistent. Here belong Switzerland, Amsterdam, the Cayman Islands among others.

Tax havens can be defined as locations where individuals and corporations divert funds in order to achieve a sometimes legal sometimes illegal lessening of taxation. Their legislations, specifically financial and fiscal, are aimed at the main goal of attracting funds from foreign countries. Thus pure financial security is achieved through them. Well-managed entities appropriately attempt to minimize the taxes they pay while making sure they are in full compliance with applicable tax laws. This process—the legitimate lessening of income tax expense—is often referred to as tax avoidance, thus distinguishing it from tax evasion, which is illegal. (Mark Holtzblatt et al, 2015)

With relation to minimising taxation expenses, if they can be called so, offshore banking appeared as a tool of maximisation of profits in tax havens. It is of significant importance to mention, what this previous author clarifies in order to be able to understand the nature and essence of tax heavens. The term does not connote illegal activity, perse, although in the popular mind, this has been conflated somewhat with actions by companies or individuals that actually are illegal, such as not reporting income earned in such havens to their respective domestic taxing authorities, particularly if those jurisdictions impose taxes on worldwide income. (Holtzblatt, M et al, 2015)

In order to comprehend the global extension of tax havens we must divide this into geographic and economic. Price Waterhouse Co. lists the following countries as tax havens: American Samoa, Andorra, Anguilla, Antigua and Barbuda, Aruba, Ascension Island, Bahamas, Bahrain, Barbados, Belize, Bermuda, Bolivia, British Virgin Islands, Brunei, Cayman Islands, Channel Islands, Christmas Island, Cocos (Keeling), Cook
Islands, Costa Rica, Djibouti, Dominica, Falkland Islands or Malvinas, Fiji Islands, French Polynesia, Gambia, Gibraltar, Grenada, Guam, Guyana, Honduras, Hong Kong, Jamaica, Jordan, Kingdom of Tonga, Kiribati, Kuwait, Labuan, Lebanon, Liberia, Liechtenstein, Maldives Islands, Marshall Islands, Mauritius, Monaco, Monserrat, Nauru, Netherlands Antilles, Northern Mariana Islands, Niue Island, Norfolk Island, Pacific Islands, Palau Islands, Panama, Pitcairn Island, Porto Rico, Qatar, Qeshm Island, Saint Helena, Saint Kitts and Nevis, Saint Lucia, Saint Pierre and Miquelon, Samoa, San Marino, Seychelles, Solomon Islands, St Vicente and the Grenadines, Sultanate of Oman, Svalbard, Swaziland, Tokelau, Trinidad and Tobago, Tristan da Cunha, Turks and Caicos Islands, Tuvalu, United Arab Emirates, United States Virgin Islands, Vanuatu, Yemen Arab Republic. This list has been updated on December 30th 2016, totalling 79 tax havens. However, it needs to be said that there are other tax havens that are not listed here. For instance, Amsterdam is indeed a tax haven; intellectual property has a neutral taxation here. It would be strange to imagine a tax haven to exist within a country that isn’t one. Amsterdam is not the only example that belongs in this irony: Delaware is a tax haven within the US.

Economically, tax havens as a “sector” has grown exponentially. In absolute terms, the value of banks’ assets located in offshore centers has increased from about 95 billion U.S. dollars in December 1977 to 3,770 billion in September 2010”. (Shafik Hebous et al, 2014) From this it can undoubtedly be observed tax havens do indeed have a significant importance in banking. Related to this, it must be said that tax havens not only serve depositing services but also launder money obtained through illegal activities such as drug traffic, weapon traffic and prostitution. For this, tax havens serve both moral and immoral purposes and for that, they have such importance in the world of financial services.

This very present paper has the aim to explore, develop and understand the concept of tax heaven with the exact characteristics that define it; to later deepen on its past, present and future. The evolution of tax heavens is something that will be reviewed, paying special attention to its expansion, backing and furtherance by governements, the role played during wars and in global economy.
Nevertheless, there are questions that need to be answered in order to fully comprehend all of the above. They are the following:

- Where and when did tax heavens appear?
- Why did they appear?
- Why do they still exist and don’t disappear?
- Does a true political backing exist?

Furthermore, this topic is of momentous and timely topicality; the Panama papers, which led to scandalous news related to tax heavens. The mediatic impact this wrongdoing has caused, has aroused certain level of public interest on both neutral taxating countries and offshore banking. This review of the topic should gather enough answers to be able to understand better the ongoings of procedures like the one named above.

It is this very precise reason which has motivated me to choose this topic for my paper. Furthermore, my interest and will of possibly taking part in this sector has accentuated attraction for this field.

The paper has been structured in three sections, defined by time of occurance. First of all the past of tax heavens shall be reviewed, for such the origin and reason of their creation. This will probably give a close background that would be necessary to understand the today and tomorrow of tax heavens. Following, their present: an in-depth study of their expansion will precede the actual situation together with the explanation of their part in wars and world economy. Lastly, the future of tax heavens deserves to be contemplated, making special emphasis on political support and failed attempts of making them disappear.
ORIGIN OF TAX HAVENS:

If a tax heaven is described as an offshore point where money is kept to escape from taxation in search of security then, tax heavens can be placed as further back in time as ancient Greece, where citizens hid their wealth in the islands to avoid it being seized. Others believe it is not that old but only to be tracked back to the period of pirates where, as it still is today, these ‘tax heavens’ where located in the Caribbean.

Myths aside, true tax heavens as we know them today, where banking plays a very vital role and a modern financial security was starting to be sought, were starting to appear in the late 19th century and early 20th century. It happened to occur in different locations simultaneously, far away from each other but with a similar concept in development. Probably one of the first instances of a tax haven to have developed were the U.S. states of New Jersey and Delaware in the late 19th century….the concept began to develop during the 1880s. New Jersey was in dire need of funds. A corporate lawyer from New York, a certain Mr. Dill, persuaded New Jersey's Governor, Leon Abbet, to back his scheme of raising revenue by imposing a franchise tax on all corporations headquartered in New Jersey. (Ronen Palan et al, 2009) Moreover, a similar process was materialising in Europe, with a more focused intention: during the 1920s and 1930s, a few small countries led by Switzerland were beginning to make a name for themselves as tax havens. Liechtenstein, a small principality located between Switzerland and Austria, adopted the Swiss Franc as its currency in 1924, and at the same time enacted its own Civil Code. (Palan et al, 2009)

Following this, in order to be able to answer the question why did tax havens appear, we must first understand what they counter: tax. It is the emergence of tax, let it be corporate, income or any other form that led tax havens to be able to be formed. This is plainly the main reason they appeared. It would be therefore correct to state that, tax havens appeared to avoid tax. However, tax havens also appear to provide a financial security of assets during times of war or economical instability; this will be explained further later. However, tax havens also appeared in order for money laundering to be plausible. in America during the 1910s, the term "tax haven" was used to describe a money laundering practice in which bandits invested in "wash salons" or laundries with machines that allowed them to clean silver.(Ana Margarida Raposo et al,
2013). Money laundering has expanded into further activities, both legal and illegal, having found in tax havens the location and the methods to fruitfully achieve this.

**EVOLUTION OF TAX HAVENS:**

Having seen why tax havens appeared, it is easy to say that the expansion and growth of tax havens and emergence of new ones was and is inevitable. This expansion has been buoyed with both the growth of capitalism in the 20th century and the implementation of more and more taxation laws; individuals and corporations have sought therefore financial refuge. However, this is not entirely true. The increase in taxations was not the main cause of the expansion of tax havens but probably more because of a Bank of England ruling in 1957 and the emergence of the Euromarket, or the offshore financial market in the late 1950s (Ronen Palan, Richard Murphy, Christian Chavagneux et al, 2010). The activities of this Euromarket were not regulated by the Bank of England and since most of the transactions were taking place in London and no authorities were regulating this market, it became the main force behind an integrated and offshore economy.

The expansion follows: British banks began to expand their Euromarket activities in Jersey, Guernsey, and the Isle of Man in the early 1960s. By 1964, they were joined by the three big American banks - Citibank, Chase Manhattan, and the Bank of America. In 1966 the Cayman Islands enacted a set of laws, including the Banks and Trust Companies Regulation Law, the Trusts Law, and the Exchange Control Regulations Law, and also its 1960 Companies Law, adopting in all these cases the classical tax havens model (Palan, Murphy, Chavagneux et al, 2010). This demonstrates that the biggest development of tax havens took place in the second half of the 20th century. In fact, in the 1960s there were tax havens emerging in the Asia-Pacific region; Singapore, for instance took advantage of the rising in interest rates in the Euromarket to succeed in attracting banks to relocate. The middle East region also experimented the expansion and emergence of tax havens. In October 1975, Bahrain initiated a policy of licensing offshore banking units (OBU)s, followed soon by Dubai. The 1980s and 1990s witnessed a great proliferation of tax havens in other regions of the world such
as the Indian Ocean, Africa and now post-Soviet republics. (Roman Kuenzler et al, 2007).

If we refer to figures, table 1 shows us a comparison between the annual economic growth of tax havens compared to the rest of the world in the last quarter of the 20th century. With respect to Penn World Tables, the annual growth of all tax havens’ GDP and GNP doubled that of the world total. In order to be able to understand the weight of this, tax havens were doubling the world in economic growth all throughout the period 1982-1999. Naturally tax havens benefit from both legal and illegal customers, if they can be called so, but their growth is sustained by money obtained from both legal and illegal activities. This depicts the picture of why did tax havens expand in such a manner. World development indicators are far more conservative but still illustrate the magnitude of the difference in annual growth per capita.

Table 1

<table>
<thead>
<tr>
<th></th>
<th>Penn World Table</th>
<th>World Development Indicators</th>
<th>Penn World Table</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Total</td>
<td>1.4%</td>
<td>1.7%</td>
<td>1.4%</td>
</tr>
<tr>
<td>All Tax Havens</td>
<td>3.3%</td>
<td>2.6%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

Source: World Bank, World Development Indicators.

It is indeed quite straightforward, to comprehend why tax havens have grown in such a staggering fashion. Over time, the amounts of money and assets that have been relocated to tax havens has always been on the rise. During periods of economic growth, money has flooded tax havens in the form of corporate income and assets, this last one of the characteristic of being a more permanent relocation. An example of this would be the expansion of Amsterdam in the signing of intellectual property. For instance, the money diverted by Starbucks each year is on the rise. The method applied here is to register each product to be sold with a registered trade mark with its headquarters in Amsterdam. For every product that Starbucks sells, it therefore has to pay a royalty for the use of this intellectual property. Moreover, this royalty usually coincides with the profit margin Starbucks obtains by selling this product. As a result, Starbucks does not declare any income and all the money obtained from sales is
diverted to companies set in Amsterdam which in turn relocate these funds to other tax havens, completing the cycle.

Furthermore, the inevitable growth of the grossings of illegal activities have indirectly benefited tax havens. These do not discriminate when obtaining clients, if they can be called so; and since drug traffickers and other criminals use tax havens to launder their money a growth in the grossings of illegal activities is linked to a growth and expansion of tax havens. These are so effective, mafias do not consider many other methods for laundering their money. As strange as it might seem, even financial scammers use tax havens to divert, relocate and launder funds obtained; succeeding readily in not being caught or having to return the funds illegally obtained. Of the $140 million Meyers Pollock brokers allegedly pocketed, the US government has so far managed to freeze only $1.8 million. (Lauren Chambliss et al, 2000). It is easy to see therefore, why criminals turn into using tax havens as a method and as a location to convert their illegal earnings into legal funds and consequently be able to make free use of them without raising the awareness, or very little, of governments and taxating institutions.

In order to understand the process and the difficulty of laundering the money through tax havens these are the steps that need to be followed:

1. The cash placement takes place either by couriers or by the financial and banking system. Taking into account the space localization, the location where the money is to be placed is generally close to the place where the initial illegal activity that generated the "dirty money" was undertaken. In their pursue of a consistent client portfolio and a larger market share, the banks often act superficially, breaking their own internal regulations or those enforced by the central bank and involuntarily become a part in the "dirty money" laundering. On the other hand, the "captive" banks in the tax heavens are often aware of their own complicity.

2. Stratification implies the undertaking of a string of successive transactions and operations, apparently not inter-connected, having as a goal the cover up of the money provenance. In this way an aura of legitimacy is created for the illegally obtained funds.
These funds are transferred within such multi-layer structures from the legitimate economy to its "grey" areas.

3. Integration - the last step of the money laundering phenomenon. It implies the transit of the money through the "grey" area of the economy and its reappearance into the legitimate economy (usually into that of a respectable and stable state). The amounts are in this way "whitened" or "recycled" by using loans or donations or by paying for certain services or goods that have never been rendered or delivered. (Stefan Mihu et al, 2012)

Knowing how much money organised crime raises each year could lead to an insight of what the scale of these operations amount to. For instance, the Camorra earnings are just shy of 160 billion Euro every year, and growing. This is several times what the biggest companies in that same country make on a yearly basis. Extrapolating this to a global scale, the magnitude of the quantities that could be laundered in tax havens suffices to understand why the economic growth of tax havens easily doubles that of the rest of the countries in the world. In fact, tax havens would have been found to promote laundering activities amongst these organisations in order. This is morally disturbing since these organisations usually partake in criminal activities. Banks in tax havens behave neutrally towards their potential clients: they (normally) do not ask where the money comes from." This neutrality by banks eases the attraction of laundering towards those who need it. He adds: “Thus the problem is to a lesser extent the money laundering itself than it is the circumstances under which that activity evolves. (Peter Schwarz et al)

It is important to mention however, that not all of the laundering is done for criminal organisations such as drug traffickers. A substantial amount of the laundering goes towards individuals who have non-declared sources of income, but are not criminals. In recent times, it has been found out that one of the groups of people who are usually related to this are politicians. Not only, have they been found to have relocated assets in tax havens: British former Prime Minister David Cameron; but they have also been found to be laundering funds in different tax havens. Most recently, the Panama Papers scandal has seen many Spanish politicians amongst the list of people who have been found to have used Panama as a tax haven for financial services. It would
be obligatory to say, therewith, that this is not the common rule amongst Spanish politicians; scandals have resonated however, making them seem the common factor in today's politics.

The following table shows the characteristics that exist, and which countries fall into each category.

<table>
<thead>
<tr>
<th>Features</th>
<th>State</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The income and capital gains are not taxed. They are known as &quot;zero havens&quot; or &quot;pure havens&quot;.</td>
<td>The islands of Bermude, Bahamas, Bahrain, Nauru, Cayman, Turks, Caicos, SaintVincent, The Republic of Vanuatu and Monaco;</td>
</tr>
<tr>
<td>2. The tax rates have a low value as they are approved by the state or as a result of the application of the quota reductions, due to the implementation of tax agreements between different states concerning double taxation;</td>
<td>The British Virgin Islands, Liechtenstein, Switzerland, Neterlands Antilles, Man Islands, Guernesey and Jersey Islands, The Republic of Ireland;</td>
</tr>
<tr>
<td>3. The taxation of income or benefits is determined locally base. The taxpayers from these states are exempt from taxation of profits made by trading across borders;</td>
<td>Liberia, Costa Rica, The Philippines, Venezuela, Malaysia, Panama;</td>
</tr>
<tr>
<td>4. Countries with preferential treatment for offshore and holding companies;</td>
<td>Hungary, Austria, Netherlands, Luxemburg, Thailand, Singapore;</td>
</tr>
<tr>
<td>5. Offers tax exemptions for industries that have been made for the development of exports;</td>
<td>Ireland for the companies created before 1 January 1981, Madeira;</td>
</tr>
<tr>
<td>6. Provides financial benefits for international business companies, that are focused on investment or not, but instead are classified as offshore finance companies with certain privileges;</td>
<td>The Islands of Bahamas, Antigua, Bermude, The British Virgin Islands, Montserrat and Nevis Islands in the Caraibbean;</td>
</tr>
<tr>
<td>7. Provides specific tax advantages to other banking companies or other financial</td>
<td>Antigua, Island-British territory in the Caraibbean,</td>
</tr>
</tbody>
</table>
Throughout the years, tax havens have not encountered any real resistance or political adversity when carrying out their financial activities. In fact, some may have been positively influenced to enhance the development of these very activities. Nonetheless, after the occurrence of the global financial crisis in year 2008, governments and consequently politicians have changed their attitudes towards this subject. They have started to believe that tax havens imperil public finances and a country’s economic and political stability. In 2009, after a G20 summit, a new epoch of financial transparency was announced.

Despite these advances, the problem remains unresolved. Trillions of dollars continue to accumulate beyond the reach of government in tax havens, with the middle class left to fill the public coffers and make up for this shortfall. (Brigitte Alepin et al, 2012). Moreover, tax havens continue to exist and expand. In fact, with the development of technology, tax havens have also developed by providing services to the ever-growing software and technological sectors. Far from governments being active in making a stand against tax havens, their passive acts and attitudes have seen them expand on a yearly basis. Furthermore, some former tax havens have been taken off the “tax haven” list without having notoriously altering their financial culture and ways. For instance, Andorra is no longer a tax haven; its tax levels are still very placid if they are compared to those of its neighbours Spain and France. Strikingly however, Spain, France or even the EU do not partake in any political agenda to resolve the situation; its passive attitude thus backs Andorra to still be able to carry very similar financial services to those it practised when it was considered a tax haven.

It could therefore be, inevitable to believe that governments do indeed support and back the existence of tax havens. Referring again to former English prime minister: the prime minister meanwhile sidestepped a question about whether his family stood to benefit from offshore assets linked to his late father , stating only that he had no offshore trusts, funds or shares.Furthermore, The Guardian reported that Sheikh Khalifa bin Zayed Al Nahyan, president of the United Arab Emirates, owns dozens of central London properties worth more than Pounds 1.2bn through such offshore
companies. (George Parker et al, 2016). Seeing that very important politicians and members of royal families are involved in the activities of tax havens, it wouldn’t be very difficult to understand why tax havens do not disappear and have support from governments. It could be indeed extrapolated that there exists a true backing of tax havens and there isn’t a real will to make them disappear since very powerful men and women benefit from the existence of tax havens. Not to mention that a large number of corporations benefit from tax havens too; knowing them to be very influential in global politics. It would be obvious to think they could be behind the passiveness related to tackling the problem of tax havens. Since these corporations that are usually multinationals, benefit to such a high extent of the existence of tax havens, it is of their interest that they don’t disappear. Such companies see their income not be taxed and get to retain approximately all of it, seeing their revenue income be practically untouched. This phenomenon would probably not occur without the labour of tax havens. If we refer back to the example of Amsterdam, it would be right to say that it will be long before Amsterdam stops being a tax haven knowing that so many companies have their intellectual property enlisted there, and avoid paying taxes through the methods of the financial services here provided (Martin Paldam et al, 2013). It is therefore quite surprising to see how the EU does not have any true intention of reversing this situation; many public awareness has been raised by the scandals of Starbucks, Amazon and Google paying little or no tax in Europe. It would be as if it is an accepted situation that cannot be reversed since there is little effective politics that want to see this practice undone.

Tax havens have gained significance in the financial world since they first appeared, gaining special importance during periods of war. This has been linked to concern since they first started having notorious weight in global finance. Since 1961, when the memorandum cited above warned the Bank of England of the threat posed to public interest by financial wizards operating in the Caribbean, the scale and nature of the problem has become manifestly more harmful. Since 1961, when the memorandum cited above warned the Bank of England of the threat posed to public interest by financial wizards operating in the Caribbean, the scale and nature of the problem has become manifestly more harmful. The UK has a key responsibility for taking action against the tax havens, since such a large proportion of these places were formerly colonies cast adrift after the collapse of the British Empire (John Cristensen et al, 2011). The supposed memorandum warned about several activities tax havens were engaging on: also used for a wide variety of other criminal activities, including market
rigging, insider trading, making illicit political donations, embezzlement, fraud, and payment of bribes and commission kickbacks. It has become increasingly apparent that tax havens provide a supply side stimulus that encourages and enables grand scale corruption. (Cristensen et al., 2011) This could explain the fact that from the early years of tax havens, they were able to influence governments through corruption to favour their existence and enhance their growth. From this, it is easy to understand why they have grown all throughout the 20th century without encountering any resistance by politicians and/or governments.

The interwar period has been the ones where the expansion of tax havens has been most significant and important. The period between both world wars saw the greatest increase in tax by all countries that had taken part in World War I. This increase in tax was due to the need of reconstruction in all these countries. This war had decimated many countries, both demographically and thus economically; it had been the deadliest war to have occurred up until then. The costs of war and reconstruction brought about considerable tax increases in the former warring countries, which in turn increased the incentive to relocate assets in order to escape tax controls (Christophe Larquet et al., 2012). The opportunity of being able to attract the relocation of assets was very wisely seen by Swiss banks, that saw a notorious increase in the relocation of assets from other European countries. Several historical studies have identified the transformation of Swiss banks into a refuge for the flight of capital after WWI. Many individuals were attracted by this low tax incentive that allowed them to escape the increased taxation in their home countries. The 2 countries with more relocated capital were France and Germany, seeing the amounted total grow as WWII approached, (Larquet et al., 2012) In the second half of the 1930s, French capital alone would attain between 4 and 8 billion CHF—German capital would be situated at between 3 and 5 billion CHF at the beginning of the 1930s. From this it can be observed that tax havens did not have any kind of role during world war I but it was in fact after it that its relevance started to thrive. This was because this war marked an end to the liberalism that existed amongst all financial matters. In order to subsidise and bankroll the war and the postwar reconstructions. Referring back to France, the tax levels after the war had actually tripled those from prewar years: 4% to 12%. The tax burden was even bigger in the countries that lost the war: Germany. These to countries, were found to have based taxation not only on income but also wealth.
Table 3. Inflation or taxation?

<table>
<thead>
<tr>
<th></th>
<th>Belgium</th>
<th>France</th>
<th>Germany</th>
<th>Netherlands</th>
<th>Switzerland</th>
<th>UK</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>100</td>
<td>115</td>
<td>100</td>
<td>197</td>
<td>100</td>
<td>100</td>
<td>125</td>
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<tr>
<td>1920</td>
<td>473</td>
<td>68</td>
<td>1016</td>
<td>*</td>
<td>193</td>
<td>*</td>
<td>221</td>
</tr>
<tr>
<td>1921</td>
<td>418</td>
<td>63</td>
<td>318</td>
<td>158</td>
<td>1337</td>
<td>*</td>
<td>197</td>
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<tr>
<td>1922</td>
<td>391</td>
<td>66</td>
<td>306</td>
<td>116</td>
<td>15013</td>
<td>*</td>
<td>197</td>
</tr>
<tr>
<td>1923</td>
<td>445</td>
<td>118</td>
<td>342</td>
<td>*</td>
<td>*</td>
<td>145</td>
<td>145</td>
</tr>
<tr>
<td>1924</td>
<td>518</td>
<td>117</td>
<td>390</td>
<td>154</td>
<td>128</td>
<td>145</td>
<td>164</td>
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<tr>
<td>1925</td>
<td>536</td>
<td>136</td>
<td>414</td>
<td>147</td>
<td>140</td>
<td>145</td>
<td>168</td>
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<tr>
<td>1926</td>
<td>645</td>
<td>128</td>
<td>540</td>
<td>*</td>
<td>141</td>
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<td>160</td>
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<tr>
<td>1927</td>
<td>818</td>
<td>155</td>
<td>563</td>
<td>174</td>
<td>148</td>
<td>141</td>
<td>163</td>
</tr>
<tr>
<td>1928</td>
<td>855</td>
<td>158</td>
<td>564</td>
<td>191</td>
<td>152</td>
<td>141</td>
<td>159</td>
</tr>
</tbody>
</table>

1: Evolution of the consumer price index in relation to its level in 1913 (1913=100)

2: Evolution of the general tax burden (tax revenues of the central government and local bodies) divided by the GDP, in comparison to its level in Switzerland (=100).

*= data unavailable.

Table 3 shows the evolution throughout the postwar years of the consumer price index with respect to 1913 together with the evolution over the same period of the tax burden compared to that of Switzerland. It can clearly be seen why the Swiss banks could captivate and become attractive to foreign individuals willing to relocate their assets to avoid being taxed. It would be interesting to note, considering the period of hyperinflation that existed in the early 1920s in Germany, many wealthy Germans avoided the impoverishment of their wealth by transferring funds to Swiss banks and convert all marks into Swiss francs. Following, table registers the growth throughout the postwar years. For this, the role of tax havens was far more important after world war I than throughout it. It is worth mentioning that only European tax havens are being taken into consideration when referring to world war I, in fact, only the Swiss banks were observed to partake in the financial services provided to avoid tax. Switzerland was successful in this, since foreigners found there neutrality and conservatism that guaranteed the investment conditions that existed preceding the armed conflict. Here fall the absence of exchange control, paucity of state interventionism and an orthodox monetary policy.
Table 4. Holding companies in Switzerland

<table>
<thead>
<tr>
<th></th>
<th>Total number of holdings</th>
<th>Nominal capital of the holdings (millions CHF)</th>
<th>Number of &quot;small&quot; holdings</th>
<th>Nominal capital of the &quot;small holdings&quot; (millions CHF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1921</td>
<td>158</td>
<td>1284</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1922</td>
<td>184</td>
<td>1250</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1923</td>
<td>243</td>
<td>1247</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1924</td>
<td>281</td>
<td>1083</td>
<td></td>
<td></td>
</tr>
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<td>1925</td>
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As predictable as the breakout of world war II was, the volume of assets relocated in Switzerland in the eve of this new armed conflict had reached its maximum. It is in fact interesting to review what the role of tax havens was during WWII, what the common practices were and what the overall situation was.

None differently to what the common practice had been up to 1939, Swiss banks were providing a location for money and assets safe from taxation. Moreover, bank secrecy was starting to be introduced in this period and it was this very characteristic that allowed many Jewish people to flee from Germany and not be captured by the nazis. (Larquet et al, 2012). The nazis tried without any success forcing Swiss bankers to provide them information about Jews that had fled using Swiss banks as a mean to either hide their assets or to pay for the expenses of escaping from the holocaust. As crude as it may sound, tax havens could have saved the lives of many Jews thanks to the secrecy that existed in Swiss banks. The nazis did however manage to overcome, not regularly however, this secrecy and were able to demise Jews from their assets. Swiss banks did nonetheless keep in secret most of the assets there relocated. As a
matter of fact, millions of dollars would have remained unclaimed by jews who had died in the course of WWII.

Tax havens during the second world war have been found to be, a source of finance for countries. It would be believed that Switzerland could have indeed financed the nazis. Swiss banks would have profited from this; Germany was recovering from a deep socio-economic crisis, leaving them to have asked Swiss banks for money. Naturally so, the interest paid back by the Germans, would have been profitable enough for this to have become a common practice. This dark historic chapter provides an curious glimpse into the advantages and disadvantages of tax havens: financial secrecy can provide a vital safeguard. It should be said though, that the above reviewed practices are only speculations that have not been deeply contrasted due to the opacity and lack of information on the subject.

Since several tax havens are amongst the most important financial centres in the world, their role within the global economy is somewhat significant. Considering how many transactions are being done every year through tax havens it would be worthy to review how important tax havens are and what their weight not only in the financial world but also in the global economy is.

A study published in March 2010 by Global Financial Integrity, a Washingtonbased international organization that works to curtail illicit financial flows, estimates the total amount deposited by nonresidents in offshore financial centres and tax havens at about US$10 trillion (for the sake of comparison, annual worldwide GDP in 2010 was $74 trillion). The study also states that these deposits are growing by an average of 9 per cent a year, substantially more than the rate of increase of worldwide wealth in the last decade”(Alepin, B et al, 2012)

Having such monetary power would definitely grant significant weight financially speaking. Tax havens therefore are able to lobby; coalitions are usually formed to be able to maintain their status and their fiscal laws.
If we review what their pure role is, it could be said that they bring both negative and positive aspects into the equation. If we start first considering the disadvantages for the economy caused by the existence of tax havens we must take into account the uneven distribution of wealth. Tax havens deprive countries of large sums of funds in form of tax and therefore dispossess them from the means of reinvesting the richness created by the country. If we take the example of several African countries that do not taxate the establishment of industry for the first 10 year period, are seeing all the richness that is being created there dissipate. These countries are unable to benefit in a long term basis from the development brought in by multinational corporations. It has been estimated that 8% of the private financial wealth (about $5.8 trillion) of wealthy individuals is being stashed away in tax havens, leading to an annual tax loss of €130 billion”. (Silke Otsch et al, 2015) (Zucman et al, 2013) This relocated and non-surfaced funds do not take part into global economic development since they are no input into the surfaced legal economy. For this, as tax havens are contributing towards their own development and economic growth, they are hindering that of the rest of the countries that are not tax havens. The state loses revenue of approximately 2% GDP in the United States and 2% to 2.5% in the EU due to corporate tax avoidance (Palan et al., 2010). If we consider that US’ GDP was 18036.65 billion USD last year; this would mean the US is lost just over 360 billion USD in revenue that would have gone to tax havens. If we put this into perspective, depriving an economy from 360 billion USD will negatively affect it, no matter what country is taken into consideration. Moreover, it is usually the biggest corporations that provide most of the richness and forward push to economies that relocate their income and assets in tax havens. From this point of view, tax havens could be seen as parasitic entities, dollar funnels that absorb richness and wealth retaining it providing economic growth for only tax avoiders and tax havens themselves.

On the other hand, it is also believed that tax havens do play a positive roll in the global economy. For instance, it is believed that “lower tax rates are more conducive to work and entrepreneurship than higher tax rates” (Daniel Mitchell et al, 2016). It is usually extrapolated that corporations can reinvest greater amounts of money if their tax expenditure is lower, and therefore it would be true that companies would expand even further if they paid less taxes. Furthermore, reducing the tax bias against capital formation will improve growth by increasing saving and investment (Mitchell et al 2016) which could mean that companies would employ more workers and in turn decrease unemployment levels. Additionally, tax havens allow capital to be more mobile.
Because of their acknowledged tax legislations, capital mobility is increased allowing investments to be made on a greater international basis. It would be logical that, through tax havens, even though wealth and investments would be more personally restricted they would be geographically more diverse. 1992 economics Nobel Prize winner Gary Becker stated that “competition among nations tends to produce a race to the top rather than to the bottom by limiting the ability of powerful and voracious groups and politicians in each nation to impose their will at the expense of the interests of the vast majority of their populations” (Gary Becker et al, 2009). It is in fact true that, since tax havens have been weakened, governments have increased taxes in their own countries, those that are not tax havens. This lack of fiscal competition that is being sought would cause a major rise in taxes. Macroeconomically, a rise in taxes would signify a reduction in consumption together with other variables that sustain an economy. It is thought that tax havens play a vital role in the global economy, by keeping tax levels relatively low in other non tax haven countries, avoiding global rise in taxes and further collapses of the economy.

**WHY DO THEY STILL EXIST AND DON’T DISAPPEAR:**

Since the late 20th century, the OECD and many other institutions and governments have endlessly tried to eradicate the existence of tax havens. Despite their incessant efforts, tax havens have still been able to continue with their practices or simply they have not disappeared. In May 2009, the Committee on Fiscal Affairs decided to remove all three remaining jurisdictions (Andorra, the Principality of Liechtenstein and the Principality of Monaco) from the list of uncooperative tax havens in the light of their commitments to implement the OECD standards of transparency and effective exchange of information and the timetable they set for the implementation. As a result, no jurisdiction is currently listed as an unco-operative tax haven by the Committee on Fiscal Affairs (OECD et al). As of today, Andorra is no longer considered a tax haven yet it still is one of the financial tax centres of Europe. It is truly mesmerising how little effect these global policies have on attempting to achieve the erradication of tax havens.
In 1998 a series of sanctions were suggested by the OECD to combat the so-called uncoopereative tax havens. The idea of these was to disallow them from giving out credit, deductions, exemptions or other allowances that would permit individuals or corporations to benefit from their tax laws. These commitments proved ineffective at reducing harmful tax practices. In retrospect, this is not particularly surprising. Because of inadequate governmental enforcement efforts, most of these suggested sanctions relied upon the tax havenseeking individual to voluntarily inform the appropriate government agency. If that person is indeed attempting to evade taxes, it is highly improbable that he would voluntarily notify the proper authorities of his transactions with the uncooperative country. Thus, if these states were in fact being used to evade taxes, many of the OECD's penalties arguably would do nothing. For this reason, a majority of tax havens quickly pledged to help stop tax evasion in an attempt to silence global outcry and criticism without really having to change. The OECD's cooperation pledges did not require tax havens to take any immediate or decisive action. Instead, these pledges required only symbolic statements on behalf of the tax havens (Timothy Addison et al, 2009). It can be seen that not only it was difficult to combat tax havens, but the efforts in doing so were not well directed and uneffective.

It would be worth mentioning that tax havens are more influent and powerful, both politically and economically, than what it is known by the public. Despite recent tax scandals and announcements by powerful governments and international bodies such as the G20 at fighting tax evasion, practices of tax evasion and avoidance persist. Tax havens are doing better than ever before. A considerable amount of global funds—approximately 30% of foreign direct investment (Palan, Murphy, & Chavagneux, et al, 2010)—pass through tax havens. Government's biggest concern with tax havens is banking secrecy which has been fought over for serveral years now. Tax havens have, mostly, been able to keep banking secrecy a vital asset of theirs. However, tax havens persist because of technical difficulties in imposing the taxation of internationally operating actors in the context of historically grown tax systems. As the scope of international regulation is restricted, political measures lag behind and countries delay or block the process because of self-interest (Silke Ötsch et al, 2015)

Another reason why tax havens still exist and don’t disappear is because of lobbying. Lobbying is could be defined as the actions of attempting to influence business and government leaders to create legislation or conduct an activity that will help a particular
organization. The money in lobbying is provided by interest groups that hire outside paid lobbyists, direct their own paid staffs to engage in lobbying, or pay for communications to either government actors or the public in a bid to influence government actions (Yale Law et al, 2008). It has been found that several politicians have been lobbying in favour of tax havens, many of them while being on a payroll. Former Tory Chief Whip signed document to 'make representations' on behalf of Cayman Islands * Details of Pounds 12,000-a-month role emerge after denials of wrongdoing to standards watchdog EXCLUSIVE 'It is intolerable he is acting as legislator and lobbying on behalf of this country (Melanie Newman, Oliver Wright et al, 2014). Lobbying provides a very structural and effective defense against those policies which try to undermine tax havens; most passed laws are usually unproductive since they don’t find support in governments for this very reason: lobbyists. Moreover, as mentioned before, some politicians that are in power have been found to be related to tax havens either by being on their payroll or by being their clients: having assets or funds relocated or stored in these offshore banks. Some have also been found to participate in investment funds located in these offshore banking entities. Now considering how much opposition entities such as the OECD has to fight against in order to eradicate tax havens, it is understandable why tax havens still exist and will probably still exist in the future.

In addition, coalitions seem to have appeared between tax havens to defend their position. Research has found that the term to describe this could be “offshorerisation”. That notion means the permanent systemic pressure of privileged groups to create a bifurcation of law, to improve the framework conditions of the juridical system, to favor specific interests (Palan, Nesvetailova et al, 2014). Because of the uneven distribution of funds, which is directly correlated with biased expertise, knowledge and ability to influence, not only lobbies but service firms, politicians, experts and journalists are able to defend very particular interests. A coalition of service providers and foreign and national users of the legislation emerges. It is supported by politicians with closed links to these groups, or others, probably believing in trickle down effects or competition of sites. (Ötsch, Di Pauli et al, 2013)
CONCLUSION:

This paper has reviewed the history of tax havens, their evolution and how resistant they are against the efforts of erradicating them. The existence of tax havens was inevitable with the emergence of tax. From a very early era, individuals have always soughted ways to avoid tax and have their wealth remain untouched. With the growth and development of tax there was nothing to expect other than the growth and development of tax havens. From the review of this paper, logically, it could be concluded that tax and tax havens have a very positive direct correlation. One goes in hand with the other: through periods of high tax growth such as the interwar period has been when tax havens have grown and expanded the most. Again, with the emergence of corporate tax, more and more tax havens started to appear and offered very different financial services to the ones that existed until then. Unevitably, the creation of tax created tax havens. Considering the situation from a business point of view, tax created very lucrative business opportunities; tax havens took advantage of it.

From this review it can be concluded that the first notorious growth of tax havens was during the interwar period, a period of high social and economic uncertainty. It would be very interesting to point out that during this period only the rich or very rich were making use of tax havens. If we compare that period to this recent period, the only difference is that more people are now making use of tax havens. Of course during the years between world war I and world war II, tax havens did not occupy such a global range as they do now, however, their intentions were the same: find a refuge for wealth and assets against the rising taxes imposed by governments to fund the postwar reconstruction. Tax havens have proliferated notoriously during periods of uncertainty and instability. Nonetheless, they have also flourished during periods of economic expansion. For this they have become the influential entities that they are today.

Tax havens have not only been directly correlated to tax, but also, to finance. As the financial sector has developed and expanded, so have tax havens. As the financial sector has become more and more global, tax havens have been able to take part in this development allowing them to expand and evolve with this. In fact, tax havens have become during the second half of the 20th century as a vital actor of international financial trade and foreign international investment. It is worth mentioning that the
The expansion of tax havens has also been enhanced by the creation of new financial services offered by financial and banking institutions. For instance, the enlisting of intellectual property in Amsterdam, which has neutral taxation, has allowed Amsterdam itself to become a tax haven. Another example would be those of having 0% corporate tax such as the Cayman Islands. It is inevitable and it will be inevitably that, with the emergence of more modern and newer financial services, tax havens will not only continue to operate but will also keep growing and developing. Tax havens have been found to be a tool that keeps capitalism alive. Allowing international, almost instantaneous, transfers and investments, tax havens will probably keep existing as long as capitalism exists.

However, it has not only been capitalism and economic growth that has sustained their existence. Tax havens have been, are and will be protected by lobbyist. These influence governments to not only protect tax havens but to carry out a passive attitude to intentions of making them disappear. Moreover, tax havens form coalitions that can exert quite important pressure in order to protect their situation. The persistence of tax havens is also achieved because of the aid politicians, corporations and powerful individuals can give. It has been found that many of these people and institutions benefit extensively from the existence and services provided by tax havens; it is in their own interest for tax havens to not disappear.

Having done a very thorough review of the world of tax havens, I believe that tax havens are morally detrimental. They clearly favour a very small proportion of the world population whilst the other has to pay for the consequences. As seen, terrorism, dictatorship and organised crime would not proliferate as much. I would recommend for a further study to deepen even further in the relationship between organised crime and tax havens. With respect to the information reviewed in this paper, I believe that as long as the current financial and fiscal global situation does not change, there is very little chance tax havens will disappear.
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