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SINGAPORE-ON-THE-THAMES?
1ST FEBRUARY 2018
John Christensen

tax justice network



A global network of researchers and practising professionals working with advocacy and campaigning activists to remedy financial market failures, promote just tax policies and tackle the harm caused by tax havens.

Launched in March 2003, the network spans over 80 countries on 6 continents.

www.taxjustice.net

"TJN has done more than any other organisation to put fiscal justice at the center of the policy agenda. Tax issues should not be left to those who want to escape taxes! Changes will come when more and more citizens of the world take ownership of these matters. TJN is a powerful force acting in this direction."

Thomas Piketty



FINANCIAL TIMES

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EU seeks powers to stop post-Brexit bonfire of regulation

UK could face tax blacklists and sanctions to prevent it undercutting continent's economy




Philip Barker and John Brumfield in Brussels | 15 FEBRUARY 2018

The EU is threatening sanctions to stop Britain undercutting the continent's economy after Brexit, including "tax blacklists" and penalties against state-subsidised companies, according to a leaked strategy paper.

The measures, outlined in a presentation to EU27 member states last week, show the bloc wants unprecedented safeguards after the UK leaves to preserve a "level playing field" and counter the "clear risks" of Britain slashing taxes or relaxing regulation.

Brussels describes the UK economy as too big and too close to treat like a normal trade partner and wants to define new ways to enforce restrictions on

POLITICO



UK Secretary of State for Foreign and Commonwealth Affairs Philip Hammond | Jan Prachaw-Gallo/Imago

BRITAIN'S SINGAPORE THREAT

Europe has been warned to play nice or else.

By TOM MCGAUGHEE AND FRANCISCO GUERRERA | 15 FEB 4:50 PM CET | Updated 15 FEB 6:25 PM CET

Is Philip Hammond bluffing?


It's a British Brexit. Theresa May's Brexit speech has the EU... (text partially obscured)

FINANCIAL TIMES

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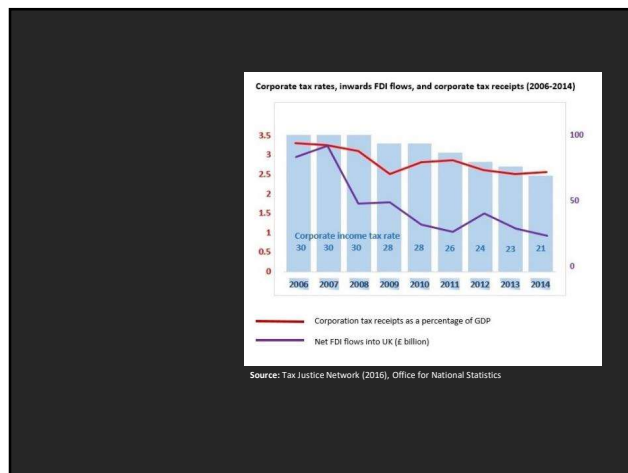
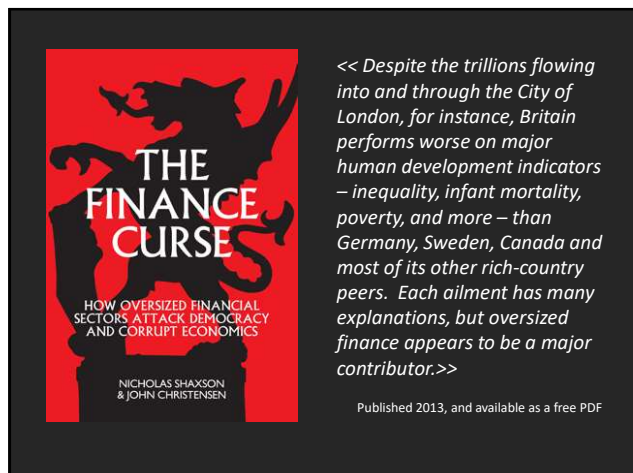
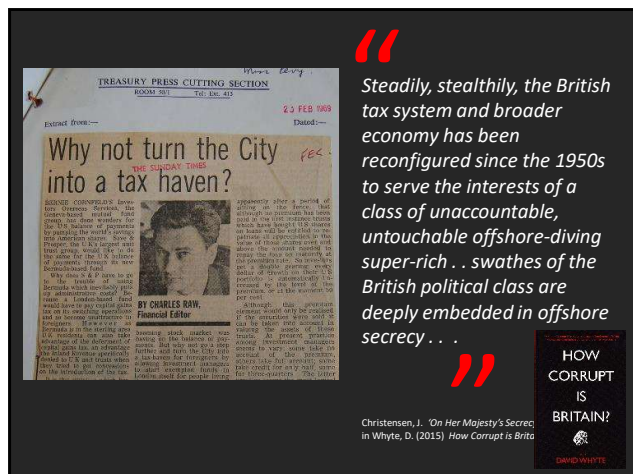
Is Theresa May's Brexit Plan B an elaborate bluff?

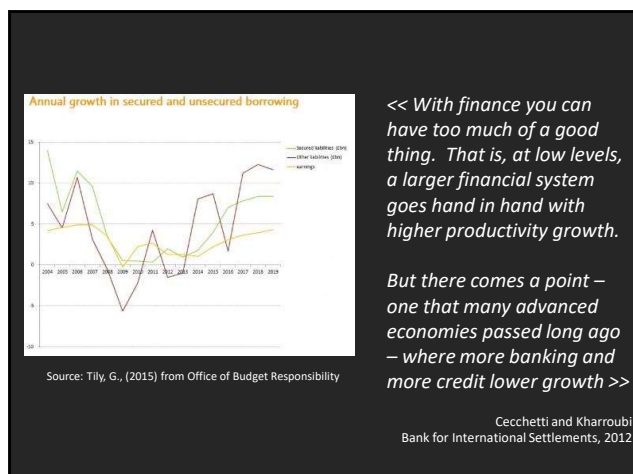
The prime minister has threatened to turn Britain into a tax-free Singapore of the west



George Parker, Jonathan Ford and Alex Barker | 15 FEBRUARY 2018

Theresa May this week summoned EU diplomats to the ornate Long Gallery of





The Paradox of Plenty
Oil Booms and Petro-States
TERRY LYNN KARL

The Resource Curse, also known as *the paradox of plenty*, refers to the paradox that countries and regions with an abundance of natural resources, specifically point-source non-renewable resources like minerals and fuels, tend to have less economic growth and worse development outcomes than countries with fewer natural resources.

Underlying causes	Outcomes
The Dutch Disease	Slower economic growth
Price volatility	Crowding-out
Poor governance	Enclave economy, low job creation
- rent-seeking behaviour	Authoritarianism, political repression
- patronage	Political capture
	Conflict, corruption
	Poverty, inequality
	Debt
	Entrenched secrecy

The Resource Curse

Underlying causes	Outcomes
Inflated exchange rate	Slower and narrow economic growth
Instability and volatility	Crowding-out – the cuckoo in the nest
Insecurity and weak governance	Enclave economy, low job creation
- rent-seeking behaviour	Loss of entrepreneurialism
- dependence	Financialisation
	Authoritarianism, consensus and state capture
	Poverty, inequality
	Entrenched corruption

The Finance Curse

Dutch Disease, Crowding out, Brain drain

Resource Curse

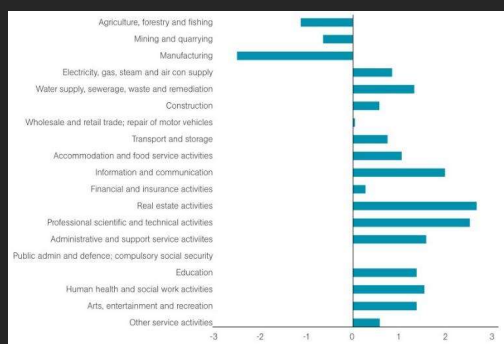
- Widely recognised. Forex inflows bid up real exchange rate, make other tradable sectors internationally less competitive. High-wage resource sector sucks skilled labour from other sectors, public and private.

Finance Curse

- Similar dynamics. Financial services exports cause appreciation of currency, capital inflows bid up local prices of non-tradables: real exchange rate appreciates, damaging alternative tradable sectors like manufacturing. High-wage finance sector sucks skilled labour from other sectors, public and private.

Crowding-out in the UK: Annual Average Sectoral Growth Rates: 1992-2012

Source: Dolphin, T. (2013) IPPR



“Finance literally bids rocket scientists away from the satellite industry. The result is that erstwhile scientists, people who in another age dreamt of curing cancer or flying to Mars, today dream of becoming hedge fund managers”

(Cecchetti and Kharroubi 2012, BIS).

Economic Instability

Resource Curse

- Follows commodity cycles. Drivers mostly external.

Finance Curse

- Cycles track financial booms and crises. Drivers often internal.

Higher private and public debt

Resource Curse

- when commodity prices are high, bankers lend freely; when prices fall, debt rises further as arrears build. A ratchet effect.

Finance Curse

- Also a debt ratchet effect, but boom-bust cycles, underlying drivers are different. Private debts driven by intra-financial lending, housing: these become public debts after crises.

Long term growth damage

Resource Curse

- Growth below 'potential;' for some, a 'curse' is evident.

Finance Curse

- *The growth of a country's financial system is a drag on productivity growth [and] reduces real growth. . . financial booms are not, in general, growth-enhancing, likely because the financial sector competes with the rest of the economy for resources.* (Cecchetti and Kharroubi 2015)

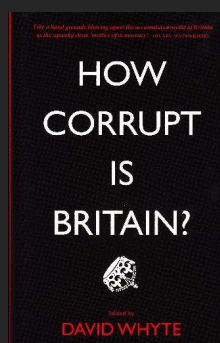
Corruption, Wealth Extraction

Resource Curse

- Fundamental part of Resource Curse. "Easy rents" from oil. Politics becomes winner-takes all game of who gets what: favoured clients benefit.

Finance Curse

- Myriad wealth extraction activities in City of London. Finance abhors chaotic local corruption, but official tolerance for foreign 'corrupt' and dirty money creates rent-seeking opportunities. Products often designed to undermine, arbitrage or circumvent state regulation.



“How Corrupt is Britain?” demonstrates that, rather than an aberration, corruption is endemic in powerful institutions in contemporary Britain, both public and private, and is sustained by a culture of impunity that has emerged over generations.”

Will McMahon, Deputy Director
Centre for Crime and Justice Studies

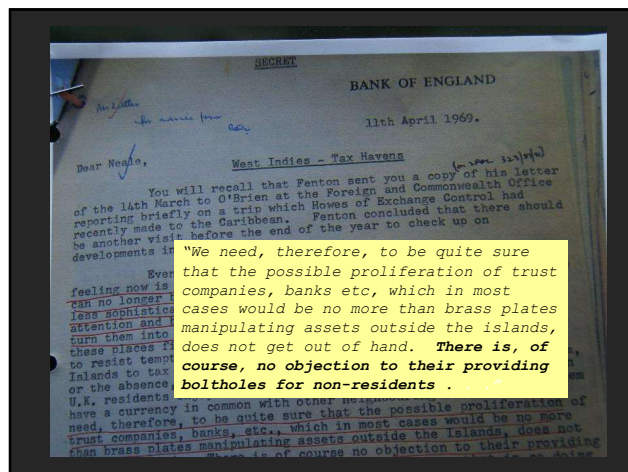
MEMORANDUM

From: W.G. Hullard, Colonial Office
To: B.E. Bennett, Bank of England
Date: 3rd November 1961
Subject: Financial regulation in the Bahamas

half a century of inaction!!!

“ We feel that this (lack of provision) of an effective regulatory system) might be a grave omission, since it is notorious that this particular territory, in common with Bermuda, attracts all sorts of financial wizards, some of whose activities we can well believe should be controlled in the public interest. ”

BANK OF ENGLAND



Damage to entrepreneurialism

Resource Curse

- “Easy rents” from resources distract, detract from tasks of building alternative sectors, made tougher by crowding-out.

Finance Curse

- “Easy rents” from finance distract, detract from tasks of building alternative sectors, made tougher by crowding-out.

Inequality

Resource Curse

- Inequality fueled by high, resource-based incomes at the top, and corruption which privileges wealthiest. Crowding out and damage to other sectors impacts the bottom.

Finance Curse

- Links between financial services growth and inequality widely acknowledged. Key difference with resource curse: much of financial wealth at the top is extracted from those lower down the income scale, e.g. via ‘socialisation of losses’. Political capture worsens inequality via policy capture, financialisation, preferential tax treatment to City firms etc.

Political Capture, Repression

Resource Curse

- Local society can be 'surplus to requirements' as resource revenues flow in; revenues can pay for brute force to suppress dissent.

Finance Curse

- Repression mostly limited to protests about finance, and privileges of wealthy. Repression is most visible in small havens. Political, cultural, societal repression. Usually subtle: brute force is very rare.

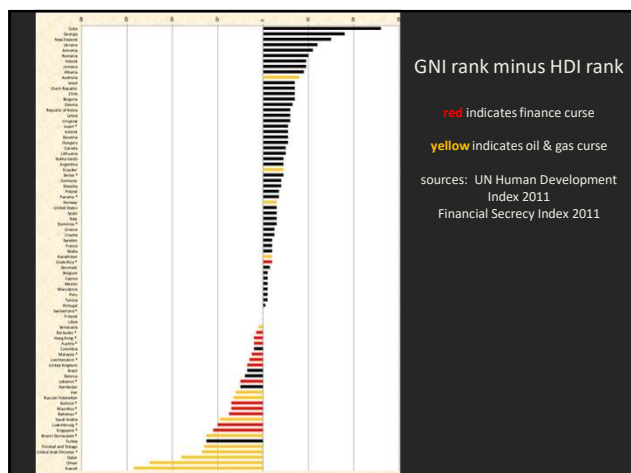
International contagion, inwards and outwards.

Resource Curse

- Outwards contagion not significant. Most oil producers aren't big enough to destabilise world oil markets. Inwards contagion from global booms and busts.

Finance Curse

- International interconnectedness increases financial sector opacity, instability and crises impacts International contagion works in both directions. "Competitiveness" fears transmit deregulation/tax-cutting inwards.



The good news

If the Finance Curse hypothesis applies to Britain, then politicians can safely discount City threats to leave the country, since hosting an oversized finance sector is demonstrably not serving the country's long term development interests.

Maybe its time to face down the City lobby. . .

Policy Matters

The Finance Curse: Britain and the World Economy

John Christensen¹, Nick Shaxson¹ and Duncan Wigan²

Research Highlights and Abstract

- Outlines harms caused to countries hosting an oversized financial sector
- Argues Britain is subject to a Finance Curse, which carries many similarities with the Resource Curse, afflicting mineral-exporting countries
- Provides a narrative and framework to analyse the political economy of finance and financialisation

Political Studies Association
The British Journal of Politics and International Relations
1-15
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DOI: 10.1177/1369148115612793
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