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'Decolonisation is also a movement of money'

Vanessa Ogle on the link between decolonisation and the expansion of tax havens — and the problems it creates today

When we hear "decolonisation", we may first think of mass protests, independence movements, armed conflict, racism, migration and so on. But you attempt to reconceptualise it as an economic and financial event that led to the expansion and consolidation of tax havens. How did you come to research that and why is it important?

I came across the fact that people, upon leaving the colonies, sent money to tax havens when I was working on a broader book project on the history of the offshore world, offshore finance and tax havens. And this history goes back much further.

It basically starts in the late 19th century. Back then, tax havens such as Switzerland and certain US States really come into their own and then proliferate during WWI and in the inter-war period, when progressive income taxes are introduced in many places. Havens then expand again after World War II, which of course then coincides with decolonisation.

I myself as well as others who have thought and written about the history of offshore and tax havens, have always been aware of this simultaneity of decolonisation and the proliferation of tax havens and the growth of offshore finance.

What I found, upon doing the research, going to archives and reading documents, was that there was a much more of a direct connection between the expansion of tax havens and decolonisation than previously thought. The growth of tax havens in this period was initially propelled by funds that were sent to these emerging offshore places from colonies in the process of becoming independent. What I found in bank archives and other materials was that white officials, settlers, businessmen and others basically saw the writing on the wall. They realised that there would probably soon be an independent

country with a government that was potentially hostile to hosting foreign enterprises.

They then used lawyers and bankers operating in places like Kenya, Algeria and so on. They used these emerging industries to basically move money out of the colonial world. That's when I began to think of decolonisation really not just as a political conflict where independence movements form ideas, political demands and often violently clash with colonial powers, but also a movement of money that essentially follows the political and, if you want, intellectual process of independence movements.

Why did these assets that were liquidated go to tax havens and not to the "mother country", to the metropoles in London, Brussels and Paris?

I have to preface this by saying that some funds certainly did return to metropolitan countries such as the UK, France, Belgium, the Netherlands and so on. But what I found is that a significant amount did not.

The reasons why these white settlers, officials and businessmen, who had been operating and living in colonies, didn't send funds simply back to Europe are three-fold.

The main reason is that at the time – around the 1950s and 60s in Europe – we have of course a regime that is associated with very high tax rates for the very wealthy as well as corporations. So generally, there's a situation in place where European countries, and for that matter also the United States, are taxing their citizens and corporations heavily to build welfare states and provide public services.

This is precisely what, according to Thomas Piketty and others, led to a decline in inequality during these middle decades of the 20th century. And when Europeans faced the choice of sending their liquidated assets back to countries where taxes were pretty high, or alternatively, sending them to tax havens where they faced either zero or very low tax rates, for many that was an obvious decision.

The second reason was that, during colonial rule, empire had afforded settlers and businessmen a privileged existence regarding taxation. They, as opposed to the local colonised populations, had paid extremely low taxes when compared to the metropole and when compared to colonised societies. Europeans living and operating in the colonial world had been used to enjoying these very low tax rates. They had even often vociferously protested the introduction of income taxes in the colonies. Such low white tax morale compounded

the reluctance to send these funds back to high tax places like France and metropolitan Britain.

The third reason was that, under the Bretton Woods System at the time, capital controls severely restricted the movement of money. It was much more difficult and costly than it was after the end of Bretton Woods in the 1970s to move money out of a country with currency controls. But that was a reason that was quite low down the list. The priority was to avoid paying taxes. The sources are very explicit about this.

You provide a vivid example of how the outflow of assets looked back then with Tangier in Algeria. There were obviously no computers, no internet and, hence, no digital bank accounts. So this was flow of money was actually a physical event. How can we imagine this liquidation of assets happening in the frenzy of decolonisation?

This is a really interesting question. And one that, even after extensive research, I'm only half able to answer – and the bankers at the time of these events aren't able to figure it out fully either.

You do have physical acts of smuggling and moving bank notes and gold out of countries. And as you can imagine this was generally an era when border controls were not what they are today.

So it might have been much easier to move gold bars or bank notes across less seriously patrolled borders in different places. I found one anecdote about speed boats carrying bank notes and gold from Tangier across the strait to Gibraltar. And then smugglers taking over there and physically moving these valuables through Spain, across the Pyrenees into France and then from France into Switzerland to be deposited there.

These physical movements of money were quite important. They were important for a perhaps surprisingly long time, even beyond the 1960s, not just in the context of decolonisation. When it comes to tax avoidance, you always hear these stories about people showing up with coffers of money somewhere – at an airport, a border, a bank.

In addition, you had certain banks that operated in these decolonising countries in North Africa, in East Africa and so on. They normally had branches or subsidiaries in places like London and increasingly also in Switzerland at the time. Basically these banks would help clients make these transfers in various forms. I've also found examples of people sending checks in the mail.

Now these funds didn't leave the former colonies permanently, but they came back in different form. They were reinvested. What exactly

happens after all that money left?

We're talking here about an era in the 1950s certainly, and to a certain degree even in the 1960s still, where national income accounting in colonies and newly independent countries was still very much in its beginnings. Even at the time, when development economists and bankers tried to figure out what exactly was happening here, they often basically ended up saying, we can't figure it out entirely.

But occasionally you do get glimpses. And what you can see is that, indeed, some of these funds are reinvested in the newly independent countries. But now through a different company that is primarily registered somewhere else, not locally, but in Switzerland or in another European country, in order to benefit from Swiss or other legal protection. Investors who were jittery about possible acts of expropriation felt, rightly or not, more assured in this way.

In a way, this seems to be the beginning of what we today call illicit financial flows, which still flowing from the so-called developing world to tax havens and rich countries. And often they vastly outstrip any development aid efforts. So it seems that decolonisation is not just an economic and financial event in the 50s and 60s, but it's an ongoing process that lasts until today.

Yes, it certainly is. And in a sense, following the decades of the 1950s and 60s, many countries in the Global South have maintained a troubled and conflicted relationship to foreign investment. They direly need it, but also often resent it because of the influence that foreign companies wield over these investments. And some of the benefits of these investments – including taxes that would provide revenue – are withheld from local societies and are essentially taken out of the country.

Taxes are just one example of that. So it's certainly an ongoing story. But I would also say that when these countries become independent, the local elite and wealthy individuals and increasingly members of the political elite discovered that it was quite convenient to have a Swiss bank account. The same tax evasion connections to Zurich and London that white colonial officials, settlers and businessmen had previously used are then made available to local societies as well.

This needs to be taken into account when we talk about problems of corruption and other so-called irregularities that Global South countries are struggling with to this present day.

We're seeing now that the Covid-19 pandemic pushes even more people, especially in the Global South, into poverty. In particular, it drives countries into even bigger debt crises. They're sorely lacking the

funds that end up in tax havens, which they could invest into healthcare and so on. In other words, it seems that for progressives any tax justice agenda necessarily is decolonial. Would you agree and what do you think a progressive agenda should be in light of all your findings?

In the conversation about tax justice that's definitely necessary and right. It currently focusses very much on the Global North and on rising inequality within high income countries in the Global North – such as the United States, but increasingly even in European societies.

But indeed, what's not so often part of the conversation is the ongoing inequality between countries. Low income countries in the Global South are affected by this to degrees that are less well understood than where it comes to income and equality within Global North countries. That again has to do with the difficulty of obtaining data.

But for all the little that we know, it is a massive problem and the amounts of national wealth placed in tax havens, are very high in many low-income countries. As a percentage, they are often higher than in European societies or in the United States. And accordingly the damage that is done in poor countries in the Global South is much higher.

It's good that there's increasing awareness for tax justice and it's good that there's finally a growing conversation about inequality in Global North countries. But to fully grasp the extent of the problem, there should be a conversation that focusses more on Global South countries.

What are some of the concrete measures that could be taken to create a more just global tax system?

From looking at the long history of the emerging tax haven, you can of course take certain steps to plug legal loopholes. But it'll take only a short while and eventually savvy tax lawyers will figure out a way around it. So you're basically just faced with another loophole. It's a cat-and-mouse game. The recent NYTimes investigation into Donald Trump's decades-long tax avoidance provides a good example of such activity, although Trump's lawyers appear to have acted more aggressively and shamelessly than those of most other wealthy clients.

This is not to say that there shouldn't be anything happening at that legal level. But it is even more important to essentially to move against what I, and in fact some of my sources from the 1960s and 70s, call the avoidance industry. So first and foremost the law firms, the accountants and the bankers who made this a business and who often

create their own demand and actively and aggressively recruit clients and business. It's not always the other way around. There's not always a demand first.

As one example, you can think about something like what happened recently in France. There, the Swiss bank UBS was found to have very aggressively and actively recruited French clients to illegally move funds away from the clasp of French tax authorities to Switzerland. They were fined a record-high penalty of €4.5bn by a French court. Such amounts, and ideally even higher ones, exceed what banks put aside in litigation funds to be used when facing costly law suits or other legal problems. While banks do plan for such events, they don't normally do so at such high levels. Anything else, lower fines and penalties in the millions, might seem high to you and me. But for most bigger banks they are just part of the cost of doing business and banks expect having to pay them every now and then.

Another is to possibly think about accreditation and licensing. Why would banks, law firms, and accounting firms that have been caught red-handed and have, in some cases, pleaded guilty to tax evasion, be allowed to keep their operating licenses in France, the US, or wherever such wrongdoing was uncovered? Another measure to prevent wealthy individuals from using tax havens is to set up registries to reveal the true ownership of real estate and financial assets. Of course, you need there to be a political will to move against the avoidance industry and its beneficiaries in any given country, and we haven't seen very much of that yet.

As evidenced by the recently leaked FinCEN Files?

The recent FinCEN files are a good example of several issues at the heart of the matter. First, they show that big, wealthy banks such as HSBC, Deutsche Bank and JP Morgan are not deterred by lower fines and deferred prosecution deals. They continued to blindly process likely illicit funds while under probation and then, after the probation period, lied to prosecutors about having complied with all efforts to have the criminal charges dismissed.

Second, the files show that problems of regulation and compliance are not simply the prerogative of small, supposedly dodgy tax haven countries. London is one of the world's money laundering capitals due to the ease with which UK registered companies can be used for financial crimes, thanks to insufficient requirements for identifying directors/owners behind shell companies and weak enforcement.

This interview was conducted by Daniel Kopp.



Vanessa Ogle

Berkeley

Vanessa Ogle is an Associate Professor at the University of California, Berkeley. As a historian, she researches global Europe from the 18th century to the present, focusing on the history of capitalism, economic history, and empire in global perspective. She is currently completing a book project titled *Archipelago Capitalism: A History of the Offshore World, 1920s-1980s.*