TAX JUSTICE FOCUS

The newsletter of the tax justice network

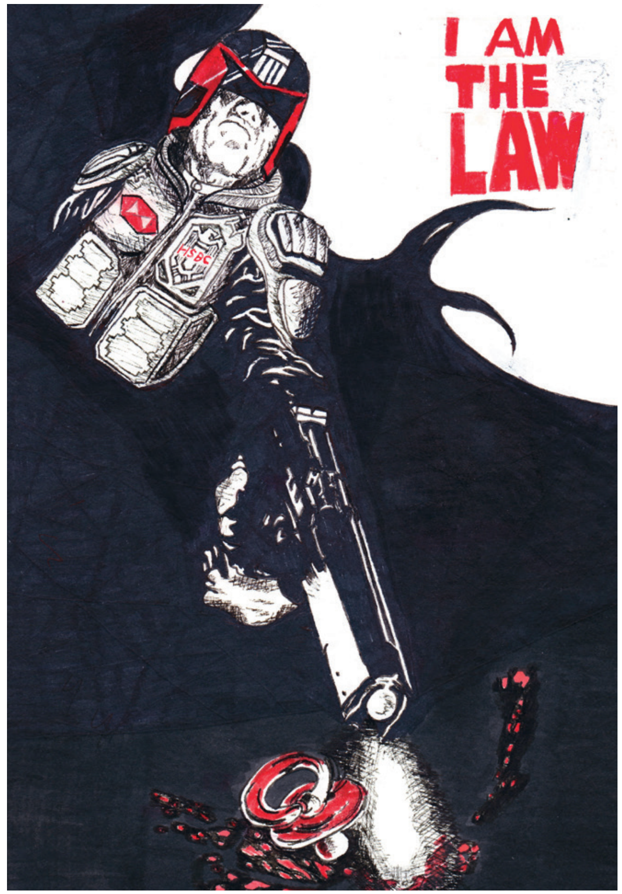
WANT TO KNOW HOW SQUEAKY CLEAN BRITAIN IS? ASK THE PEOPLE!

editorial by **David Whyte**

As Britain prepares to host a 'corruption summit' the Panama Papers have raised awkward questions about the country's role as an enabler of transnational organized crime. Meanwhile evidence is emerging that ordinary people are unwilling to follow elite cues on what constitutes corruption.

As we began work on this issue of *Tax Justice Focus*, at the beginning of last month, the 'Panama Papers' leak of Mossack Fonseca's files went viral. If the various revelations about the Prime Minister and involvement of British individuals and companies might have proved to be a moment of exposure for British politics and British capitalism, there are some key questions that remain unanswered in the wake of the scandal.

Why is the British government, led by David Cameron, still permitted to 'lead' on international anti-corruption initiatives, such as the summit in London this month?



HSBC explains its relationship with the UK legal system. Image: Nick Christensen

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Guest Editor: David Whyte
Editor: Dan Hind
Contributing Editor: John Christensen
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"The British public want rid of many of the practices that have become part and parcel of the British way of doing business and doing politics."

After all, half of all of the companies set up or represented by Mossack Fonseca are registered in British tax havens. And why does the debate on corruption in Britain focus narrowly on tax havens? The questions put to the Prime Minister came in a week when HSBC were once again being questioned about actively helping clients in tax avoidance, when the PFI scam began to quite literally crumble as Edinburgh's schools collapsed, and when the full extent of the predatory property market was exposed in a report by Global Witness. All of those issues are analysed in this edition of *Tax Justice Focus*.

In the UK over the past few years, reports of major corruption scandals of various kinds in the public and private sectors have become daily fodder. We are overwhelmed by the scale, frequency and variety of corruption cases in Britain, from police manipulation of evidence, to over-charging in out-sourced public contracts, bv way of cash-for-access scandals involving prominent politicians and price fixing, market manipulation and fraud in key sectors of the economy.

And yet, in January 2016 it was reported that the UK was now the 10th least corrupt country in the world. This result, reported by Transparency International's benchmark Corruption Perceptions Index (CPI), represented a remarkable rise up the charts. In 2010, David Cameron's first year of office, Britain was in 20th place. Robert Barrington, the head of Transparency International qualified the result by pointing out that there are "good reasons why people are skeptical about whether Britain really merits a top 10 ranking".

There are two major reasons to conclude that Britain's chart position is creating a false impression. The first is that the "corruption" that the CPI is concerned with is of a very particular kind. Economists sometimes distinguish between collusive corruption (where two parties collude for their common benefit) and extortive corruption (where one party is compelled to make a bribe payment to another). It is less common, for example, to have to bribe a public official in the UK than some other countries. Extortive corruption is not a major problem in this country, though it is probably more widespread than we tend to think it is. It is extortive corruption that surveys like the CPI are primarily concerned with.

But the British style of corruption that we are increasingly exposed to is collusive. And collusive corruption is not done merely for personal gain, but is largely done for the benefit of the organization or the institution. Police rigging of evidence for example is typically done to avoid criticism of the police (as in the Hillsborough case). The rigging of LIBOR doubtless benefited the traders that colluded, but benefitted the banks and their shareholders much more.

The second reason that we should be skeptical about Britain's rise up the charts is that the received wisdom projected by surveys like the CPI is exactly that: received wisdom rather than concrete evidence. The CPI merely measures the impressions of a large group of observers and experts around the world who are selected for the survey. In the sense that it is based on perceptions of groups of people who are perceived to be experts, the Index can actually be said to be doubly subjective. But what would a different survey look like, one that asked not a bunch of handpicked experts, but a representative sample of the population?

In a poll commissioned with YouGov earlier this year, we asked a representative cross section of the British public about how they regarded a range of collusive relationships between the public and private sectors.[1]

The survey revealed a public sentiment strongly in favour of prohibiting some of the practices that are normal and routine in government – especially those that indicate a close – collusive – relationship between the public and the private sector. In this survey:

- 73% said that the practice of ministers accepting corporate boardroom appointments on leaving office should be banned.
- 75% said that the practice of senior civil servants accepting corporate consultancies should be banned.
- 62% said that inviting private corporations into government to help shape the regulation of business should be banned.
- 68% say that current PFI arrangements for public projects should be banned.

In other words, the British public want rid of many of the practices that have become part and parcel of the British way of doing business and doing politics. To the extent that they know what is going on, they want it to stop.

It is not difficult to see why. As I have argued elsewhere, the revolving door, and the involvement of the private sector in public functions have proven to be both a symptom and a cause of institutional corruption in the neo-liberal period.[2] Since the 2008 financial crisis, the UK's brand of crony capitalism has enriched the few in a very harsh economic climate that has disproportionately punished the poor. No wonder, then, that public opinion is so fiercely opposed to close collusion between government and the private sector, particularly on issues of crucial public interest like policy-making.

Nicolas Shaxson proposes that "Corruption involves abusing the public interest and undermining public confidence in the integrity of rules, systems and institutions that promote the public interest." A shift

"The government's idea of the public interest is clearly out of tune with the public's."

in the definition of corruption would need us to revisit how exactly we might define the public interest. The survey results summarized above indicate clearly that the government's idea of the public interest is clearly out of tune with the public's.

The UK government conveniently avoids its growing reputation as a crony capitalist state par excellence, preferring in its own Anti-Corruption Plan[3] to more or less follow the World Bank definition of: "offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party."[4] The same Anti-Corruption Plan makes it clear that it is government policy to remain fixated on extortion by criminal gangs, rather than collusion between powerful corporations and government departments.

The evidence gathered here for this special issue shows us that corruption is about far more than 'extortion'. Each of the contributions shows that the British brand of corruption arises from practices that have become normal in business and politics. These practices victimize the most vulnerable: the populations of the Global South who see much of their resource wealth syphoned out of their countries via tax havens run by the Global North countries (Shaxson); UK residents who are forcibly removed from their homes (Cooper); taxpayers who are ripped off by artificially inflated costs of public hospitals (Pollock); and the vast number of ordinary households that are routinely defrauded by new financial products (Tombs). The cumulative force of the contributions to this special issue of *Tax Justice Focus* must make the rest of the world nervous when David Cameron says he wants to take the lead in tackling global corruption.

We need to start to ask fundamental questions about the British brand of corruption. And those questions will have to be answered by the people, rather than by a minority of appointed 'experts'.[5]

David Whyte is a Professor of Socio-legal Studies at the University of Liverpool. His recent books include The Corporate Criminal: Why Corporations Must Be Abolished (with Steve Tombs, 2015) and How Corrupt is Britain? (ed., 2015).

Endnotes

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feature

THE GREAT PFI SWINDLE

Allyson Pollock

Embraced by successive governments and enthusiastically promoted abroad, the Private Finance Initiative contracts have generated windfall profits and driven the marketisation of health and education. Allyson Pollock argues that the process is best understood as a kind of 'legal corruption' in which the powerful change the rules to secure their interests..

It's been called the Great PFI Swindle, 'a huge scam' and a 'cynical accounting fiddle'. Small wonder the government has done all it can to keep Private Finance Initiative (PFI) contracts shrouded in secrecy and 'commercial in confidence'. The taxpayer, the staff and users of our public services are being hung out to dry as PFI has been revealed to be the engine for privatisation and service closure, and the major channel for diverting billions of pounds of tax payers funds to bankers, equity investors and shareholders.

At first sight it is difficult to say which activity underpinning the great PFI scandal is corrupt. What the public have not been told is that the laws and rules have been changed against the public interest and to protect private interests, so that scandalous practices can take place legally. Taken as a whole, the process is best understood in terms of 'legal corruption', a process whereby the legal environment is altered to permit practices that are fundamentally unjust and against the public interest.[1]

In 2011, the independent researchers Jim and Margaret Cuthbert showed the scale of the returns to investors when they analysed three hospital contracts for Hereford Hospital, the Edinburgh Royal Infirmary, and Hairmyres in East Kilbride.[2] Shareholders are predicted to make truly astronomical gains. Equity of just £100 invested in rebuilding Hairmyres Hospital is projected to earn £89 million in dividends over 30 years, while half a million pounds of equity in the new Edinburgh Royal Infirmary is expected to win dividends of £168m and a £1,000 equity in Hereford will yield £555.7m. These high rewards are contractually protected and underwritten by government. The Cuthberts' analysis of internal financial projections for six PFI schemes show investors are expecting to recoup 12 times more than they invested. The UK Government has ignored these findings and there has been no major enquiry.

Using investors' own projections, the Cuthberts calculated how much profit was predicted from the six schemes and found that £42m of "subordinate debt" invested by the companies building the six schemes was predicted to yield £517m. The profits on the £717,297 put in as equity by shareholders were projected to reach £350m.

PFI was introduced under the Conservative Prime Minister, John Major, in 1992 and when Gordon Brown became Chancellor in 1997 he took it to a new level altogether. Brown's aim was to get debts off the Treasury's books and reduce public expenditure, but the effect was to lock in future governments and to commit tax payer funds for generations to come.

The idea behind PFI was that capital would be raised on the private market to fund developments that would then be built and run by private firms. Public authorities would lease the facilities back from the private sector and pay for the projects in annual installments over the next 25 or 30 years. The introduction of PFI required a complete change to public sector accounting rules. In the NHS it required government to find a way to make hospitals pay for private finance from their operating budget, namely the budget that paid for staff and services, and that resulted in the introduction of the internal market and capital charging and the creation of NHS trusts.[3]

PFI has been used to build hundreds of new hospitals, schools, sewage works, courts, prisons and roads across the UK; it continues to be controversial because

> *"What is required is a major PFI enquiry … so that the real costs of PFI to the tax payer, including the loss of services and public buildings and land, can be audited."*

A painfully appropriate metaphor… A Scottish school, built under the PFI, in a state of collapse, April, 2016. Photographer: not known.

the high costs of the annual charges are associated with service cuts and closures. Take the NHS. In December 2015, the National Audit Office reported that hospital trusts and Foundation Trusts in England would have a projected net deficit of £2.2 billion pounds by March 2016.[4] This deficit is fuelled by expenditure reductions and the growing costs of unaffordable and astronomical PFI charges. And yet, according to the Cuthbert's analysis if the money had been borrowed in the normal way from the government's national loan fund two schemes could have been built and operated for every PFI scheme opened.

Instead, when the banking crisis hit in 2008, although interest rates plummeted the public sector was locked into exorbitant contracts paying very high rates of interest on senior debt and subordinate debt so that as well as the tax payer bailing out the banks directly it is also paying through annual PFI charges to rebuild the balance sheets of banks that fleeced us in the first place.

And in our very British way, PFI is now being exported to every country in the world including the African subcontinent.[5] Water, energy, telecoms and transport are key areas. In Lesotho, Nigeria, an OXFAM report showed the devastating consequences for public health expenditure of the high costs of one hospital built using PFI.[6]

In addition to earning excess rates of return, many PFI companies avoid taxes by registering offshore and using transfer pricing. In 2011, the House of Commons Treasury Committee reported a pattern of higher rates of profit and low corporation tax payments by highways PPP projects. In 2012, Dexter Whitfield calculated that 91 shareholder companies investing in UK PFI infrastructure funds are located in tax havens and therefore not liable to capital gains tax. The funds had interests in a total of 314 PFI-created assets.

The public interest case for opening up these contracts and analyzing which companies are involved, the interest and dividend payments and their tax liabilities is compelling but the detailed financial information on most of 700-plus PFI schemes agreed across the UK is still confidential and concealed from the public.

In 2012 the government passed the Health and Social Care Act, the Act which abolishes and dismantles the NHS throughout England. In response to this vandalism, an NHS Bill 2015 has been drafted which is intended to re-establish the NHS as the responsibility of the Secretary of State for Health throughout England and end the internal market and external market.[7] It will also do something about PFI in the NHS. Clause 21 of the Bill will centralise and reduce PFI obligations and transfer financial obligations for the buildings and maintenance under NHS PFI agreements to the Treasury. The Treasury would be required to assess and publish the PFI obligations, and to explain to Parliament how it proposed to reduce them. This would include publication of detailed information on interest rates, equity returns, refinancing deals and subcontracts, and the companies involved so that all public money would be auditable.

"If the money had been borrowed in the normal way … two schemes could have been built and operated for every PFI scheme opened."

This is just a start. What is required is a major PFI enquiry which would force disclosure of all financial obligations under PFI so that the real costs of PFI to the tax payer, including the loss of services and public buildings and land, can be audited. What PFI demonstrates is 'legal corruption' – the ways in which power is abused within the confines of the law — as those with power often have the ability to make laws for their protection.

A vast array of private interests are being protected by the rules and laws – many of them new – that govern PFI. These include the regulations governing public expenditure and procurement, commercial in confidence rules for contracts that protect against FoI requests, and the tax advantages offered by financial secrecy jurisdictions. Nothing less than wholesale reform is necessary in order to bring both the law and the conduct of the state's representatives back into line with the public's sense of what is and is not acceptable.

Professor Allyson is professor of public health research and policy in the Barts and the London School of Medicine & Dentistry in Queen Mary University of London. She is co-author of two books, NHS PLC:The Privatisation of Our Health Care (Verso) and The New NHS:A Guide, (Routledge). Her new book The NHS Reclaimed will be published this year, as will a new book on pharmaceuticals.

Endnotes

1 http://siteresources.worldbank.org/INTWBIGOVANTCOR/Resources/Legal_Corruption.pdf

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THE PANAMA PAPERS MUST MAKE US RE-THINK CORRUPTION

feature

Nicholas Shaxson

In the past definitions of corruption have kept attention and political pressure away from the offshore sector and its professional enablers. The Panama Papers make it clear that this industry is creating a two-tier world of harsh penalties for the majority and corrupt immunity for the few.

The launch of Berlin-based Transparency International in 1993 kick-started a new global conversation about how corruption harms development. Until then, the World Bank and others had danced around the issue, fearing it was 'too political' and might annoy their client countries. More than any other organisation, Transparency International put corruption onto the world's agenda.

But its core analysis, focusing heavily on individual acts like bribery and defining corruption as "the abuse of entrusted power for private gain,", missed a big part of the picture: a global architecture of corruption with tax havens, or secrecy jurisdictions, at its core.

The Panama Papers, a leak of 11.5 million documents from the Panamanian law firm Mossack Fonseca, are the latest lurid exposure that must make us re-think what corruption is and where it happens. The flagship article by the International Consortium of Investigative Journalists (ICIJ), which co-ordinated media coverage of the Panama scandal, was entitled Giant Leak of Offshore Financial Records Exposes Global Array of Crime and Corruption. Among many other things it noted:

"The files reveal offshore companies linked to the family of China's top leader, Xi Jinping, who has vowed to fight "armies of corruption," as well as Ukrainian President Petro Poroshenko, who has positioned himself as a reformer in a country shaken by corruption scandals."

We feel it in our bones: tax havens are somehow corrupt, and corrupting. But how, exactly? Tax havens enter the debate in two main ways.

First, the offshore world of secrecy is a gigantic, delocalised receptacle for the proceeds of (traditionally-defined) corrupt practices like bribery, and a facilitator of those practices. All those assets looted by dictators and their corrupt cronies are stashed in (or via) the secrecy jurisdictions.

Second, on a more systemic global level tax havens are corrupting the fabric of our societies and our democracies, and corrupting market economies. They are undermining – corrupting – public faith in the institutions that are supposed to promote the public good. Havens provide the world's wealthiest and most powerful people and corporations with escape routes from their social responsibilities: from tax; from disclosure and discovery; from crime-fighting agencies; from financial regulation – or from accountability for other forms of bad behaviour. The result is one set of laws for them, and another set for everyone else. If that doesn't corrupt democracy and society, it's hard to know what does.

A new debate emerges

The first stirrings of a new corruption debate began just over a decade ago. Groups like Global Witness had set the stage with in-depth investigations into giant scandals in Africa and Asia, with many tangled trails leading to tax havens. But nobody, as far as I know, had yet brought tax havens and corruption explicitly and deliberately into the same analytical framework. In his groundbreaking 2005 book *Capitalism's Achilles Heel*, Raymond Baker focused on traditional views of corruption but he did hint at something else:

> *Where did the money go? Into western coffers, where it can be accommodated with all the courtliness and secrecy available to the world's rich, whether saints or scoundrels.*

Shortly afterwards, in March 2006, a UK parliamentary report entitled The Other Side of the Coin: the UK and Corruption in Africa, while also largely focused on bribery, got closer to the new corruption agenda. In a section on international financial loopholes and cross-border money laundering, inserted

> *"We feel it in our bones: tax havens are somehow corrupt, and corrupting."*

at the urging of Baker and TJN's Director, John Christensen, it said:

> *Accusations of hypocrisy have been leveled against the UK and other western governments for condemning corruption in Africa without addressing their role in supply side and laundering issues.*

Christensen, a former economic adviser to the tax haven of Jersey, and Prem Sikka, a professor of accountancy, had been making this argument for some time, to anyone who would listen. In September 2006 Christensen laid out the new analysis in full for the first time, in a paper presented at a Royal Geographical Society conference on the theme of "Geographies of Corruption," Its abstract said:

> *The elephant in the living room of the corruption debate is the role played by the global infrastructure of banks, legal and accounting businesses, tax havens and related financial intermediaries in providing an offshore interface between the illicit and the licit economies. This interface facilitates capital flight and tax evasion, distorts global markets to the disadvantage of innovation and entrepreneurship, slows economic growth by rewarding freeriding and mis-directing investment, and increases global inequality.*

He attacked Transparency International's famous Corruption Perceptions Index (CPI), noting that it ranked the world's most notorious tax havens and repositories for corruptly obtained loot – including Switzerland, the UK, US, Jersey, Luxembourg or Singapore – among the "least corrupt." The CPI draws heavily on opinion within the business community and while it does help investors decide where to invest, it is of little use to Nigerians to be informed that their country is among the world's most corrupt. They want to know where their stolen money is.

Christensen remembers talking to a TI director after his 2006 presentation, and said he was "visibly shocked". He promised to take it up with his co-directors: a process of discussion and dispute began inside the organisation – a discussion which, insiders tell me, continues today.

At a meeting in Nairobi in 2007 to launch Tax Justice Network-Africa, a small group of us began discussing the methodology for a new Financial Secrecy Index to rank the tax havens in order of importance – a move aimed specifically at countering the CPI. At the same time Christensen published an updated analysis, entitled "Mirror, Mirror, on the Wall, Who is the Most Corrupt of All?" He describes the intentions:

> *Until then corruption had a black face. It was important to have African voices saying 'Before you point the finger at us, kindly clean up the criminogenic environment created by the West.*

Markus Meinzer and Richard Murphy undertook the research for the first Financial Secrecy Index, which came out in October 2009 (and has since been published every two years). The FSI up-ends the CPI: the biggest corruption players in our analysis were no longer poor African nations but the largest repositories of illicit loot: in first place was the United States, followed by (in this order) Luxembourg, Switzerland, Cayman and then the United Kingdom – all now widely recognised as among the most important players in the offshore world (by 2015, under a tweaked methodology, Switzerland was at the top, with the U.S. at number 3).

> ***"We were greatly helped by the fact that it was dawning on many people, amid a global financial crisis, that the global economy had been profoundly corrupted."***

This ranking was a great surprise to nearly everyone back then – and our new index got publicity around the globe. We were greatly helped by the fact that it was dawning on many people, amid a global financial crisis, that the global economy had been profoundly corrupted.

The west finally finds it can influence corruption

Tax havens began to defend themselves, typically through deflection: 'we should be angry at Africa's kleptocrats', they'd say: 'not at tax havens.' Clearly there is blame in both areas – but sixty years of western development assistance and finger-wagging about good governance hasn't delivered the goods, because in a post-imperial age westerners have little influence, other than to serve as agents of further corruption.

The one area where we do have influence, though, is in cracking down on the havens in our back yard. That is where our policies can have most effect on corruption: both on the pernicious daily stuff that undermines trust in institutions in country after country – and on the more generalised corruption caused by the offshore system's role in undermining public trust in democracies and the world economy.

In building up to the global summit meeting on corruption in London in May, Prime Minister David Cameron has the perfect opportunity to demonstrate leadership by declaring 'Game Over' for Britain's tax haven empire. He has the authority to require Britain's Overseas Territories and Crown Dependencies to create public registries of beneficial ownership, for starters, and he should not hesitate to exert that power if they resist. Anything less would be hypocrisy.

And, while we're at it, let's bring the City of London and all its frauds and misdemeanours firmly into the corruption debate, as David Whyte suggests in his introductory piece to this edition. Now there's an argument waiting to be had.

Nicholas Shaxson is author of Treasure Islands: Tax Havens and the Men Who Stole the World, and Poisoned Wells: the Dirty Politics of African Oil. He writes for the Tax Justice Network.

WILD-WEST PROPERTY TRADING IN OFFSHORE TAX HAVENS

feature

Vickie Cooper

The UK property market has long been used as a store of value by international investors. Against a background of increasing criminality London in particular has become a laundry for tyrants, mobsters and tax cheats. The effects of this criminality cannot be ignored any longer.

UK Property Registered Offshore:

Over the last 18 months, *Private Eye* and, more recently, the Panama Papers published by the ICIJ, have exposed the scale of property owned by people using the offshore trading route. In the midst of this growing public concern, David Cameron vowed to turn a 'torchlight' on corruption and provide greater transparency in land and housing ownership in the UK.[1]

There is nothing illegal about purchasing UK property using 'shell companies' registered offshore: tax havens have provided legal facilities for tax evasion since they were formed. International criminals benefit immensely from the offshore trading route where arms smugglers, dictators, corrupt government officials and oligarchs, are all now lawful and respectable owners of UK property – while falling under the radar of public scrutiny.[2]

So lucrative is the UK property market to the anonymously wealthy that Global Witness estimates that £122 billion worth of property is now registered offshore.[3] According to *The Guardian*, 2,800 properties in London are registered under Panama firm, Mossack Fonseca.[4] Shrouded in the complex web of offshore trading, it is difficult to say what portion of this property has been bought using illegal money. The Metropolitan Police estimate that £180 million worth of UK property is used for money laundering, but it too concedes that this is 'just the tip of the iceberg'.[5]

"The Metropolitan Police estimate that £180 million worth of UK property is used for money laundering, but it too concedes that this is 'just the tip of the iceberg'"

Sweets Way 23 September, 2015: activists put up barriers, in response to the fencing off of houses, as Annington Homes prepares to demolish the estate. Police congregate outside last remaining tenant's house. Photograph by Vickie Cooper.

Despite a growing public awareness and increasing politicisation of offshore wealth, rarely do we see the pervasive effects of offshore property trading coming home, and how it directly impacts on people and communities.

Trading Sweets Way Estate: The Story of Privatisation, Global Investment Banking and Offshore Establishment

In 2015, the impact of this pattern of offshore trading became crystal clear to the residents in Sweets Way estate in Barnet, North London who began to fight back against elite financiers that set out to evict them from their estate.[6] This conflict captured a rare moment in which we were able to see how companies registered in offshore tax havens directly impact upon local communities and residents at the bottom of the housing market.

Annington Homes, one of the largest private owners of residential properties, owned Sweets Way estate for 15 years. Exactly, how it came to acquire the estate tells us a great deal about the relationship between privatisation, private equity investment and offshore tax havens. Sweets Way was originally owned by the Ministry of Defence (MoD) as part of its Married Quarters Estate. In 1996, as part of the former Conservative government's privatisation programme, the MoD sold 57,000 properties to the Japanese investment bank Nomura, for £1.7 billion – only £30,000 each. This deal made Nomura the largest owner of residential property in the UK.[7] Annington Homes was set up as the subsidiary company of Nomura. Guy Hands, hailed by *Private Equity Magazine* as the '20th most influential figure' in the investment world,[8] formed Nomura Principle Finance Group (PFG) as a subgroup of Nomura. Hands then made a string of private equity investments which mainly involved purchasing failing companies and selling them on for profit.[9] This role extended to the purchase of MoD properties and setting up Annington Homes as a subsidiary of Nomura.

While the success of Annington is well publicised, understanding its ownership structure is tricky. In 2002, Nomura PFG split and Terra Firma was set up as the spin-off company under the ownership of Guy Hands.

"Offshore funds drive up housing prices and have created what looks like a dangerous bubble in London in particular"

Hands' wealth continued to grow as Terra Firma expanded and in 2009 he moved to Guernsey, an offshore tax haven, to avoid paying the (then) 50% tax rate on his sizeable profits. Gradually, Terra Firma purchased back those investments originally brokered under Nomura PFG – including Annington Homes, which Terra Firma purchased from Nomura in 2012, for £3.2bn.

When Terra Firma bought Annington Homes, residents of Sweets Way quickly learned about the plans to evict and demolish 140 homes, to make way for a new development.[10] For the best part of 2015, members of 'Sweets Ways Resist' mobilised support against the eviction and demolition, and began exposing the relationship between offshore property trading and the British state.

Adding insult to injury, when Sweets Way residents approached their local authority about their rehousing 'options', Barnet council told them that they had to make a formal homeless application – to be eligible for priority rehousing. Like all homeless applicants, residents were forced to accept the first housing offer, otherwise they would be classified as 'intentionally homeless'. This warped duty of care stripped residents of their freedom to choose and make key decisions about their housing futures, and effectively forced them to move out of the estate, afraid they might miss their one-offer window of opportunity.

Sweets Way 23 September, 2015: activists put up barriers, in response to the fencing off of houses, as Annington Homes prepares to demolish the estate. Police congregate outside last remaining tenant's house. Photograph by Vickie Cooper.

As residents moved out, activists ramped up the resistance, occupying empty homes and continuing to rally support for the last remaining tenant, Mostafa Aliverdipour.[11]

The resistance ended as High Court enforcement officers, supported by a major police operation, evicted Mostafa and activists from the estate. 15 activists were subsequently charged with obstructing those enforcement officers.[12]

What happened on Sweets Way estate demonstrates the direct relationship between offshore property trading and housing poverty, and further exposes the role of the British state as the guarantor of this relationship. Established on the back of a lucrative privatisation programme, Annington Homes has profited from purchasing cheap MoD properties and renting them to low to mid-income families. Now at the peak of the property market, Terra Firma has been granted planning permission – authorised by the Mayor of London – to clear out

Sweets Way estate, charge higher rents and sell profitable housing to first-time buyers. Given the harmful impacts that this trading has had on Sweets Way residents, it is hard to believe that, in 2014, Terra Firma won two awards for 'responsible investment' from the British Private Equity and Venture Capital Association.[13]

Smoke and Mirrors

Terra Firma is not an unusual case, and the impact of offshore on UK housing is pervasive. Offshore funds drive up housing prices and have created what looks like a dangerous bubble in London in particular. But no one has felt the impact of this type of transnational trading more than Sweets Way residents, and no individual has benefitted more than Guy Hands. Even the return to the government is minimal. Richard Brooks commenting on the tax status of Annington in *The Great Tax Robbery*, noted that the ample income that the company receives in rent, 'produces almost nothing in the way of tax payments', because it is registered offshore.

While David Cameron claims that he wants to turn a 'torchlight' on corruption in the UK property market, George Osborne is trying to privatise the Land Registry. Now on his second attempt, Osborne revealed plans in the Spending Review and Autumn Statement, to shake up public ownership of the Land Registry and 'create a new company, to which responsibility for the performance of the service delivery functions would be transferred'.[14] While this move is stirring some serious concern about job losses, it will also create even more opacity in the UK housing market. The privatisation of the Land Registry will effectively restrict public access to important details concerning land ownership – casting yet another veil over wealth, power and corruption. David Cameron's pledges of transparency appear like smoke and mirrors as the government continues to encourage predatory capital – at a dangerous social and economic cost to us all.

Dr Victoria Cooper is a lecturer in Social Policy and Criminology at the Open University where she co-directs the Harm and Evidence Research Collaborative (HERC). Her journalism has been published by Red Pepper and openDemocracy.

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'BANK CRIMES': ENDEMIC CORRUPTION IN UK FINANCIAL SERVICES

feature

Steve Tombs

For more than a generation the UK's financial sector, with the active connivance of the state and both political parties, has repeatedly defrauded the public. Impunity on this scale has created growing insecurity for individuals and growing fragility in the productive economy.

Virtually on a daily basis, tucked away in 'Business' sections of media, are telling reminders that the financial services sector is fundamentally criminogenic. Crime is part of normal business practice for UK banks, in ways that have direct and potentially devastating impacts upon millions of ordinary people. Most notable is a series of systematic, mass, routine crimes in which millions are victimised by the same financial services companies. It is these which are the central focus of this article.

Beyond these routine crimes, in recent years the sector has been the site of an endless litany of offences which have, albeit briefly, hit the headlines. These include the fixing of the London Interbank Offered Rate, and of the price of both gold and silver, the mis-selling of loans to small businesses, as well as "organised and aggressive tax avoidance, tax fraud, money laundering, corruption" – "just to mention a few of their misdeeds."[1]

These crimes predate, and have outlasted, the 2007-8 financial crisis, which was itself brought about by long term and systematic fraud and theft in the credit markets. The UK government's bailout amounted to £850bn before the end of 2009,[2] and its "cash outlay" is said to have peaked "at £133 billion, equivalent to more than £2,000 for every person in the UK".[3] Despite this, the financial crisis was reframed and the UK population schooled in the politics of austerity. The public sector is being dismantled, and capital set ever-freer, as it is claimed it is only private capital which can rescue the national economy. Regulation is to be avoided. And there have been virtually no regulatory reform nor criminal justice responses of any significance to the crisis in the UK. As I write, The Financial Conduct Authority's call to financial services institutions to come clean about any wrongdoing revealed through the 'Panama Papers' will doubtless heap more scandal upon the 'banks'. Yet whatever emerges in the coming weeks and months is unlikely to cast a light on mundane, everyday crime waves in which the sector has been engaged in the UK since the 1980s. It is to these that I now turn.

In the latter half of the 1980s, the Conservative Government gradually reduced state involvement in pension provision and deregulated the retail financial services sector. In this way it created the conditions for a wave of pensions mis-selling. Companies launched into a hard sell, wrongly advising many clients to transfer existing contributions to new, private schemes on the basis of false claims. Early in 1998, the Financial Services Authority estimated the final costs as around £11billion, with some 2.4 million victims.[4]

At the end of the 1990s, evidence of widespread mis-selling of endowment mortgages also began to emerge. Following the end of the post-war state housing building programme, and the sale of Council

Image: Nick Christensen

stock, millions of people were encouraged into 'home ownership', with millions of endowment policies sold through the 1980s and 1990s. These were based on the claim that on maturity, the sum returned to the investor would pay off the costs of their homes - a claim which often proved to be false, As a result up to five million people plunged into negative equity in a fraud totalling up to £130 billion.[5]

"Whatever emerges in the coming weeks and months is unlikely to cast a light on mundane, everyday crime waves in which the sector has been engaged in the UK since the 1980s."

"These are matters not just of crime, harm and immorality, but of accountability and democracy."

Subsequently, Personal Payment Protection Insurance (PPPI) policies were widely marketed and sold at the start of this century, at the height of the credit boom. Financial services firms targeted customers with debts such as mortgages, credit cards or loans insurance against a future inability to meet repayments. But again, these products were often sold when they were unnecessary, or without customers' knowledge, or indeed were to prove invalid in the event of customers claiming against them. In 2005, the Citizens Advice Bureau (CAB) filed a "super-complaint"[6] relating to PPPI mis-selling to the Office of Fair Trading; yet some 16 million PPPI policies have been sold since 2005.[7]

These will not be the last 'scandals' associated with the retail financial services sector and its direct targeting of individual consumers – the latest candidate, almost to take us back to the 1990s, is a further round of pensions mis-selling, predicted by many, when, in another round of deregulation, the UK Chancellor George Osborne allowed the cashing in of pensions in April 2015.[8] Few were surprised when the National Audit Office warned of widespread exploitation less than a year later in February 2016[9] The Government's central role in creating the conditions for crime via its latest pensions deregulation echoes the role of Governments in the previous 'mis-selling' crime waves, where they have been intimately implicated, on several levels.

Indeed, the very opportunity structures for crime have been created by governments themselves, usually in the form of deregulation, or the creation of new markets, or both. Further, whatever level of regulation of these markets has existed has been inadequate, or under-enforced, or both. Then, when evidence of criminality has come to light, states have failed to respond in any effective way, resorting at best to persuasion, cajoling, perhaps a bit of naming and shaming.

The UK might be particularly prone to such crimes in the context of financial services, since the UK economy is one in which finance capital has long held a peculiar dominance.[10] This dominance has been increased. First the Thatcher government broke down the existing barriers to the integration of retail and investment banking in the 1986 ; 'Big Bang'. Second, the incoming Labour administration in 1997 oversaw a long period of light touch regulation during which New Labour generated with and for the City "a new set of instruments, actors and policies that can be identified in terms of economic patriotism".[11] If this dominance has deep historical roots, it plays out in all-too contemporary party funding. A 2011 analysis by the Bureau of Investigative Journalism calculated that "Hedge funds, financiers and private equity firms contributed more than a quarter of all donations to the Conservative party in the past year" – that is, 27%, or £3.3m, of the £12.18m donated to the party. Moreover, "the proportion of donations to the Conservatives from the entire financial services sector has now reached 51.4%".[12] Notwithstanding the financial crisis and subsequent bailouts and the criminogenic nature of the sector, the current and previous Governments have lobbied hard at EU level to protect the City of London from tighter regulation.

It is hard to avoid the conclusion that crime emanating from financial services will continue to proliferate as the state, certainly in the UK, creates its own condition of impotence, further empowering private capital, above all finance capital, to construct its own rules of engagement. These are matters not just of crime, harm and immorality, but of accountability and democracy.

Two telling conclusions follow. First, that financial corruption is not an esoteric, distant set of practices - but has a profound, material effect on all of us in often life-changing ways. It strips us of secure housing, effective insurance, and adequate pensions, while starving the productive economy of investment. Second, this corruption, which has touched almost every home in the UK, has at every turn been supported and encouraged by successive UK governments, of all political stripes.

Steve Tombs is Professor of Criminology at the Open University. His books include Social Protection After the Crisis: Regulation Without Enforcement (2016) and, with David Whyte, The Corporate Criminal: Why Corporations Must Be Abolished (2015)

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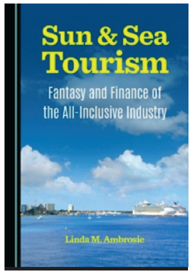
book review



Sun & Sea Tourism: Fantasy and Finance of the All-Inclusive Industry

By Linda M. Ambrosie
Newcastle upon Tyne, Cambridge Scholars, 2015
1443878049/978-4438-7804-3

Apart from iconic palm trees drawn by cartoonists symbolising tax haven islands, offshore finance and tourism are not normally seen as being closely associated, yet as Linda Ambrosie discusses in fascinating detail in her book, there is more than just proximity linking these two giant global industries. Using extensive material from her research on Cancun, Mexico Ambrosie details how the global tourism industry operates almost in symbiosis with the offshore finance business.

The book has some very technical parts which, as she explains in the clearly signposted introduction, can be skipped if readers are already familiar with the world of transfer pricing and other tax dodging techniques used regularly by multinational companies. This book is an excellent introduction to how tourism multinationals such as TUI (Germany), Thomas Cook (UK) and Melia Hotels International (Spain) regularly exploit offshore loopholes to massively reduce their tax liabilities in the tourist destination itself.

The Cancun case study is particularly interesting with a level of detail that clearly sets out how this massive tourism development along the Caribbean coast emerged. In doing so she casts a forensic light on the murkier side of this oft-cited tourism development case study. Ambrosie's book helps explode the popular narrative about Cancun's development since the 1970s.

This story, similar to the common narrative about Bali's Nusa Dua enclave, presents successful tourism as being the result of wise government planning and innovative international private investors who then build a successful tourism destination. It then helps a poor region develop by creating large-scale employment, sizeable tourist expenditure and (eventually, given tax breaks and other incentives) government revenue through taxation of the successful tourism enterprises. That is the commonly-told version of how hosting tourism should lead to economic growth in developing countries. However, Ambrosie actually shows, using original documents that she helped unearth, that the Mexican central bank drove the Cancun development, bankrolling the initial $2 million study in 1967-8 and then, behind the scenes, how it drove Mexican official investment since international investors were very wary.

Once the first heavily subsidised hotels were operating amid publicly financed infrastructure, international investors then started to appear and, as Ambrosie shows, the scale of the development increased rapidly with booming hotel construction and room capacity rising to host more than three million tourists a year. She notes that although Cancun did indeed create significant employment in the region, as the business model of international tourism has changed, so the local economic benefits have decreased significantly. Her argument partly revolves around a key change in much international tourism, that is, the rise of all-inclusive resorts where the visitors stay inside the tourist bubble of the resort hotel with all meals, drinks and most activities prepaid.

Other studies have clearly shown that linkages to the local economy from all-inclusives are far weaker than from conventional tourism when tourists spend locally on meals, excursions and activities (cruise ships being the ultimate 'all-inclusive' having some of the weakest linkages of all). This is increasingly understood in the tourism and international development literature, as well as by local communities such as in St Lucia, among other destinations, where there have been significant local protests about all-inclusives.

However, Ambrosie's work significantly adds to our understanding of how the offshore world further reduces the benefits of this all-inclusive tourism to the host countries. Her systematic discussion of the techniques of transfer pricing, the use of offshore companies for booking and detailed company organigrams clearly illustrate how tourism multinationals are able to divert profits from their lucrative all-inclusive enclave operations in developing countries such as Mexico. Ambrosie argues that Cancun, rather than being a net contributor to Mexico's economic growth, is now a 'fiscal drain'.

Her underlying argument about the tourism multinationals is that their strategic game plan has become more focussed on highly complex corporate structures for tax minimisation rather than creating profit from what was their original core business in resort hotels or tour operations for leisure tourism. In fact she argues boldly that the basic model of international tourism in developing countries is now fundamentally flawed: "public sector mega-resort development no longer leads to poverty alleviation and reduction in income disparities in emerging economies" (p121).

Ambrosie is right to highlight this concern, buttressed by her detailed case study, and this crucial argument deserves more and wider discussion.

Although the book is rather technical in places and data-dense, it is well written. Ambrosie comments on the unavoidable complexity of how tourism multinationals dodge their tax liabilities but she encourages the reader to look past the 'smoke and mirrors' to see the mechanisms that are revealed. She notes the "extreme complexity, yet agility of these groups to constantly re-invent themselves, with shifting brands, shifting products, shifting assets and shifting alliances" (p108).

In this she could easily also be describing other multinationals, not just those in the tourism business. The book is not a quick nor an easy read in places, but it makes a real contribution to our understanding of modern tourism multinationals and how tax and tourism are, in fact, increasingly intertwined in the global economy with growing negative impacts for host destinations and local communities.

Reviewed by Dr Mark Hampton, University of Kent, Canterbury UK.

news in brief…

Fallout from Panama

So far the files stolen from legal firm Mossack Fonseca and selectively published around the world have led directly to the resignation of the Icelandic Prime Minister, Sigmundur David Gunnlaugsson, and the Spanish industry minister, José Manuel Soria.

A total of twelve national leaders have been implicated in the scandal, along with many more of their colleagues in public life. Only a tiny fraction of the 11.5 million files have seen the light of day, and Mossack Fonseca is just one of many law firms active in the offshore sector.

The Real Deal

Back in July 2015 there was plenty of media talk about David Cameron's negotiations with his European partners on the terms on which the UK would remain in the EU after a 'Brexit' referendum. Much of the coverage focussed on minor tweaks to the benefits system. But the provisions on banking and finance are of considerable interest. The final text of the deal states that:

> *The implementation of measures, including the supervision or resolution of financial institutions and markets, and macro-prudential responsibilities, to be taken in view of preserving the financial stability of Member States whose currency is not the euro is, subject to the requirements of group and consolidated supervision and resolution, a matter for their own authorities and own budgetary responsibility, unless such Member States wish to join common mechanisms open to their participation.*

So, the UK state's "own authorities" will continue to preside over the financial sector, the relevant bodies here being the Bank of England and the City of London. Cameron has managed to combine Britain's EU membership with London's continued status as a major offshore centre. His father would no doubt be very proud.

Brazil in Crisis

On April 17th 367 members of Brazil's 513-strong congress voted to impeach the country's President, Dilma Rousseff. The vote was prompted by the fact that Rousseff is accused of making a temporary transfer from state banks to the national accounts directly before the last election. Meanwhile, 150 deputies in Congress are accused of crimes including money laundering, perjury and fraud but enjoy immunity as elected officials.

The future of sub-prime? Chelsea in London. Creative Commons license issued by Phillip Perry

Is the London Property Laundry Breaking Down?

As the Panama Papers remind us, London's prime real estate is a popular place to park ill-gotten gains. Gangsters and politicians alike have been falling over themselves to buy up flats and houses in the city's centre. But there are signs that they are about to take a hit. Hedge funds have been betting against UK property companies for more than a year now and in February 2016 the *Financial Times* reported that "the share prices of the UK's biggest real estate investment trusts have fallen by as much as 20 per cent in the last three months". In March the London estate agents Foxtons left the FTSE 250. Again, according to the *Financial Times*, prices in London's wealthiest areas are down 6.7% from their 2014 peak. London's titanic property bubble has survived any number of bearish warnings and now seems unpoppable. But if prices continue to fall the world's criminals will be looking for another store of value in an uncertain world.

Double Jeopardy in the Cahuzac Case?

In February the trial of former French minister Jérôme Cahuzac was scheduled to begin. The politician, who was appointed by President Hollande in 2012 to lead a crackdown on tax avoidance and evasion, faces allegations that he illegally hid €600,000 in a Swiss bank account.

Jérome Cahuzac, former Minister of the Economy, Finance and External Trade in Hollande's administration in France. Creative Commons license issued by Cyclotron.

news in brief…

The politician successfully sought a postponement on the grounds that he and his ex-wife had already paid a fine in regard to the same facts. According to a report by Swissinfo, France's constitutional council will now rule on whether the case can proceed.

Where Are the Americans?

Prominent Americans are conspicuous by their absence in the Panama Papers. While some have muttered darkly about CIA-sponsored suppression of awkward stories, economist and historian Michael Hudson offers an alternative explanation. In an interview for the Real News Network he pointed out that Mossack Fonseca mostly dealt with newcomers to the offshore game who wanted to anonymise funds on their way to the United States and Europe. The big US players have been effectively tax exempt since the 1920s and don't need to deal with the likes of Mossack Fonseca.

The US and the UK can afford not to tax their largest companies and still run big military-intelligence operations because they have another source of funds:

> *The whole financial system basically has been criminalized in the process of being militarized, to subsidize the fact that countries like the United States and Britain have heavy military budgets. This is how they finance their military budget – with money laundering by the world's criminal class. The byproduct is to leave the largest companies tax exempt, from Apple to Exxon, right down the line.*

Amidst all the talk of rotten apples and the speeches by po-faced politicians about tough action, it's worth reminding ourselves offshore is a crucial resource to the war-making powers.

They would rather borrow from criminals than tax their richest citizens. If the resulting debts mean cuts to public services, then so be it. In the words of the International Military Tribunal in Nuremberg, "war is essentially an evil thing."

A Tax Justice Candidate

Thanks to Democratic candidate Bernie Sanders, the 1% richest Americans are featuring heavily in this year's presidential elections. While professional commentators express bafflement at the levels of support enjoyed by the previously obscure Vermont Senator, Sanders has won a series of crushing caucus and primary victories. Part of his success derives from rhetoric that borrows heavily from the repertoire of the Occupy protests of 2011. Here's the first paragraph of a speech he gave in New York in January:

> *The American people are catching on. They understand that something is profoundly wrong when, in our country today, the top one-tenth of 1 percent own almost as much wealth as the bottom 90 percent and when the 20 richest people own more wealth than the bottom 150 million Americans – half of our population. They know that the system is rigged when the average person is working longer hours for lower wages, while 58 percent of all new income goes to the top 1 percent.*

And Sanders has also adopted the demand for tax justice that infused Occupy. He is campaigning on pledges to crack down on corporate tax avoiders and to introduce a tax on financial transactions.

On April 19th Sanders' opponent Hillary Clinton won Wall Street and the rest of New York City in the state's Democratic primary. But whoever wins in November will preside over a country that has woken up to wealth inequality.

Corruption Hits the Big Time in London

The British government hosts a summit on corruption in London on May 12th. On the previous day the Commonwealth Secretariat will be the venue for an event called "Tackling Corruption Together". It will be a chance for "global leaders from civil society, business and government who are championing the fight against corruption" to "set out their commitments to end impunity, prevent corruption, empower victims and support activists, in an effort to bolster good governance and transparency and support sustainable development."

Transparency International, Thomson Reuters, Omidyar Network, the Commonwealth Enterprise and Investment Council, the B Team, and ONE are co-hosting the event with the Secretariat.

Whether that's an exhaustive list of "global leaders from civil society" who have championed the fight against corruption, we leave to others to judge.

AFTER PANAMA: Five Steps to Push Back Against Offshore Corruption

The Mossack Fonseca scandal created headlines across the world in April. As eyes turn to the London summit meeting on corruption in May, here are five steps governments can take now to push back against the offshore world and the corrupting culture of impunity it creates.

1

ALL COMPANIES IN RECEIPT OF PUBLIC FUNDS MUST PROVIDE A FULL AND CANDID DISCLOSURE OF THEIR ULTIMATE BENEFICIAL OWNERS AND OF THEIR GLOBAL ACCOUNTS ON A COUNTRY-BY-COUNTRY BASIS.

Companies that refuse to provide the information needed to establish a full and fair tax assessment will be disqualified from tendering for public work.

2

ALL COUNTRIES MUST IMPLEMENT A PUBLIC REGISTER OF BENEFICIAL OWNERS OF OFFSHORE COMPANIES, TRUSTS AND FOUNDATIONS.

The information must be on public record to allow journalists and others access to up-to-date information about the ultimate beneficial ownership of companies. If nothing else, public access to this information will allay fears that politicians are themselves involved in hiding their identity behind secretive offshore legal entities. In the case of trusts, trustees must be held responsible for disclosing information about settlors and beneficiaries.

3

ALL LAWYERS, ACCOUNTANTS AND OTHER PROFESSIONALS MUST ACT IN ACCORDANCE WITH THE SPIRIT AS WELL AS THE LETTER OF THE LAW, INCLUDING IN MATTERS RELATING TO TAX.

Failure to do so must lead to the loss of professional status and the privileges it confers. If professional bodies refuse to enforce this simple principle then let them be reformed by law to reflect the overwhelming hostility of the public to the use of professional services by criminals and others to avoid and evade responsibilities shouldered by others.

4

ALL ELECTED REPRESENTATIVES MUST PROVIDE A FULL AND CANDID ACCOUNT OF THEIR FINANCIAL POSITION.

This account should include their tax return and a declaration of any and all interests in trusts and other legal arrangements that either confer current benefits or might confer them in the future.

5

TAX COLLECTION IS A PRIME FUNCTION OF THE STATE.

Adequate resources must be set aside to ensure that all citizens and companies pay their taxes in full. The governance of tax authorities must reflect the views of all sections of society and must be accountable to national legislatures.