

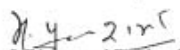
Black Money Menace: Need to Target the Tax Havens

Governments over the world have, of late, begun to take strict cognizance of the black money being siphoned out of their respective countries and stashed abroad, mostly in tax havens, leading to deprivation of the state of its due share of taxes and stripping the nation of its precious capital resources. The amount of black money deposited by the super-rich elite class of the world, in their clandestine offshore accounts is estimated to be as much as USD 20 trillion, according to a study conducted, by James Henry, the former chief economist with the consultants, McKinsey & Co. for pressure group the Tax Justice Network, which campaigns against tax havens. The study estimates the extent of global private financial wealth held in offshore accounts - excluding non-financial assets such as real estate, gold, yachts and race horses between USD 21 and USD 32 trillion. This appears to be over and above the combined GDPs of the US and Japan. Looking towards the growing menace of the black money, Switzerland as well as most other tax havens, have now begun to feel the heat from several countries including the US, that are trying to recover taxes from their citizens with undeclared offshore assets. According to a U.K.-based organization, the Ethical Consumer, the mini-states like Andorra and the Cayman Islands, and financial centers like Hong Kong and Singapore, all offer banking services designed to shelter assets. In addition to Switzerland, the Austria and Luxembourg too, have been favored destinations in Europe for the wealthy individuals, looking to park their illegitimate sums abroad. This menace has peaked in 2009-10. According to Mr. Henry's research, the top 10 private banks — which include UBS and Credit Suisse in Switzerland, as well as the US investment bank Goldman Sachs — managed more than USD 6 trillion in 2010. There was a staggering rise from USD 2 trillion to USD 6 trillion within five years to touch the \$6 trillion figure by 2010, according to the Observer.

Moreover, as per Henry's calculations, the USD 10 trillion of assets lying in cross border havens were owned by just 92,000 people, or 0.001 per cent of the world's population — a miniscule group of the mega-rich. These estimates reveal an intriguing failure of the state to administer the economy and the polity, where poverty and inequality are taking much worse shapes in reality than the official statistics, as the proponents of the neo-liberal economic policies have been advising the politicians to largely rely on the trickle-down of income theory to facilitate alleviation of poverty and transfer wealth to poorer people.

But, now the growing pressure from the U.S. and several other countries has prompted a large number of countries to sign deals to prevent Americans and other people from using offshore banking centers to dodge taxes. The entire global milieu has turned resolutely against the opaque banking secrecy norms of tax havens. The new money laundering laws in US of 2001, requiring sharing of information between financial institutions and enforcement agencies, such a law can be framed by India too, for tracking terror funding and black money. The recent endeavors of the G20 in April 2009, to press for counter-measures against tax havens and non-cooperative financial centers that had agreed to internationally-accepted tax standards on sharing tax information, but had not substantially implemented them, would also help the recently constituted Special Investigation Team(SIT) in India. At the G20 meet in Seoul last year, the use of initiatives and statistics on subsequent significant increases in revenue from tax evaders across the globe was also pushed to enhance the process of exchange of information.

But, mere exchange of information is not going to curb this menace. Tiny tax haven states, facilitating stashing of wealth of nations, which can transform many poor nations and help alleviation of rampant poverty need to be dealt sternly. They should not be allowed to enable and perpetuate crime, terror, drug trafficking, bribery etc including tax evasion in the world, leading to pitiable miseries across the globe, by providing safe havens for criminally amassed wealth. Therefore, a stern UN convention has to be brought.


(Prof. Bhagwati Prakash Sharma)