

FIGHTING BACK

By Richard W. Rahn
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For years, the offshore financial industry has been slandered by political rabble-rousers and economic adolescents.

There is a basic question: Would the world be better or worse off if there were no so-called offshore financial centers? For those who can think beyond “stage one” and have a good grasp of economics, the unambiguous answer to the question is the world is better off.

There are more jobs and more growth due to the improved allocation of global capital – because of the existence of the offshore financial industry. They are often referred to as “tax havens” but that is just part of the slander. They all have considerable taxes – it is just that most of them tend not to tax labor and capital at destructive rates.

A few basic facts should help put the argument in perspective. All major countries now have government sectors well above the growth, job, and general welfare maximizing rates. There have been many studies concerning the optimum size of government and almost all show that is less than 25 percent of GDP.

Many of the offshore centers have government sectors of under 20 percent, such as Singapore, which now has twice the per capita GDP of France. All of the major countries have tax rates on labor and capital far above revenue and growth maximizing rates. Sir James Mirrlees, who won the Nobel Prize in economics in 1996, showed that over the long run, income tax rates above 20 percent lose revenue by depressing economic

growth and job creation. Without the competition and good examples stemming from the offshore centers, global tax rates would likely even be higher and economic growth, job creation, and real incomes lower.

A major reason the slander and misrepresentation of the offshore entities and industry continues is because many of them act like they are guilty of something and do not fight back. In the 1980s, I was chief economist of the Chamber of Commerce of the United States, and at the time I was struck by the fact that many businesses that were unjustly under attack by left-wing groups or governments devoted far fewer resources to defending themselves than they should have, given what they had in stake.

Good business people know that to maximize profits, they should continue spending on an activity up to the point where the marginal revenue no longer exceeds the marginal cost. Yet, many of these same business people failed to spend what they needed – from a purely profit-maximizing strategy – to fend off destructive taxes and regulations, which would do much more damage to their bottom lines than most product decisions they were making.

There is a whole body of economic literature devoted to determining how much a country should spend on national defense. Most people understand that too little defense spending can lead to economic and personal destruction, and too much is a waste and also may lead to counterproductive military adventurism. The same thing is true of defending the economic base of a country or industry. Too little spending to defend it can result in the killing of the golden goose.

Jersey, being a tiny island in the English Channel, but having a very robust international financial center, has been under attack by the usual suspects. But it is fighting back in a number of very civilized ways. Jersey Finance, which represents the private sector financial industry, commissioned an extensive study, entitled Jersey's Value to Britain. The British and Jersey financial industries have a very symbiotic relationship, and both countries are richer because of it. A few of the findings of the study are as follows:

- “One in every 20 pounds invested by foreign individuals and companies in assets located in Britain reach the U.K. via Jersey;
- Jersey is a conduit for nearly 500 billion pounds of foreign investment into the U.K., comprising 5 percent of the entire stock of foreign owned assets;
- Jersey helps the U.K. generate around 2.3 billion pounds in tax revenues each year and supports 180,000 British jobs;

- Two-fifths of all assets administered or managed across Jersey’s financial and wealth management sectors come from markets outside the U.K. and EU.”

As an aside, perhaps one reason Jersey has been a leader in defending itself is that the island is loaded with forts and fortifications built over the last 800 years to protect it from foreign invaders. These fortifications cannot help remind one that the world is a dangerous place for capital and liberty. Jersey is a very nice place to visit – so it is no surprise that others have wanted to grab it.

It is in the self interest – and the global economic interest of the offshore jurisdictions and their financial industries – to become more proactive in defending themselves, as Jersey is doing. For instance, in this issue of the Cayman Financial Review Cayman Finance presents the first results of a study that shows how Cayman benefits the U.S. economy. It is widely assumed that the existence of Cayman causes the U.S. government to lose tax revenue, when, in fact, the opposite is almost certainly true – because Cayman entities provide very large sums for economic development and job creation in the U.S. by productively investing extra and flight capital from the rest of the world into the U.S. Until now the absence of well-done and highly-publicized studies about the benefits of Cayman to the U.S. has allowed demagogues in the U.S. Congress and the media to portray Cayman as evil rather than beneficial.



There are destructive and dangerous proposals and actions coming out of the OECD, EU, U.S. government, and others for essentially global financial information sharing. Such information sharing will lead to abuse – as it always does. Bad actors will use it for blackmail, extortion, kidnapping and other evil deeds. It destroys the ability of people to protect themselves against both criminals and corrupt, or worse,

governments. The offshore financial centers and their industries are the first targets of these efforts to destroy financial privacy and liberty, and by doing so undermining world economic growth. The time is growing late to get the truth out.

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