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The Real Victims of Endless Financial Regulations

BY RICHARD W. RAHN

TARGETING MONEY LAUNDERERS,
THE TAX GLOBALISTS HIT THE WORKING POOR

Grand Cayman

Government is supposed to make life better for people — particularly the poor — but the U.S. and European governments are increasing the misery of the poor.

In the popular culture, Cayman is viewed as place were tax evaders and money launderers put their wealth. The truth is quite different in that most money laundering takes place in the big financial centers like London and New York, not Cayman. For many years, Cayman has had information exchange agreements with the Internal Revenue Service and U.S. Treasury and the major European governments — so one would be very foolish to put money in a Cayman bank with the intent of not getting caught for tax evasion or money laundering.

Cayman is a high-income jurisdiction as a result of having a prosperous financial sector (having nothing to do with illegal activity), a vibrant tourist industry, and an increasingly diversified economy. Like most high-income places in the world (including the United States), it relies on foreign workers to fill many of the jobs, particularly in the construction and hotel industries. These workers typically send back part of their earnings to their families in their home countries — which are known as remittances. Remittances are correctly regarded as the best form of "foreign aid" because they go primarily to people who really need the money, without government or nongovernmental organization middlemen who take their cut. Remittances often provide the seed capital for people to start businesses in their home countries to make their lives better.

Most of the remittances from workers in the United States go to those living in Mexico, the Caribbean, Central America and the Philippines. In Europe, most of the remittances go to those living in Africa, India and the Middle East. Without remittances, the poor countries of the world would be much poorer and the refugee problems would be much greater. Typically, foreign workers in rich countries send funds to relatives in their home countries by money transfer companies, such as Western Union, often known as cambios.

As a result of the new financial regulations, most notably the Foreign Account Tax Compliance Act (FATCA), imposed by the U.S. and European governments, banks are shutting down the accounts the remittance services have with them. Banks transmit monies between each other through what are known as corresponding accounts. For instance, a bank in Cayman might have a corresponding account with a big New York bank, which, in turn, has a corresponding account with a bank in the Philippines. Workers in Cayman take the money they wish to send to their families in the Philippines to a cambio that has an account with a Cayman bank, and that bank then sends it to the New York bank that sends it to the Philippine bank that finally sends it to a local Philippine cambio, where it is picked up.

Low-income people often cannot open bank accounts directly because of the existing global anti-money laundering regulations, including "know your customer," and thus are forced to use intermediaries. Under the new regulations, banks can be held liable if their clients have "dirty money." Since the banks cannot possibly know the financial details of all the cambio customers, they are playing it safe by shutting those accounts — and this is happening all over the world — leaving poor workers out in the cold and often forcing them to use non-legal sources to transmit money at great cost and risk.

Michael Alberga, a leading Cayman lawyer, sent me a letter about the problem, where he writes: "All of the banks in Cayman have shut their accounts to the cambios who generally take small amounts of money from the migrant workers. As a result, the some $200 million which is sent to Jamaica from construction workers, helpers, etc. who send $50-100 a week to their families and children are being required to buy U.S. cash and provide it to the cambios. The cambios have arranged to fly the money to Jamaica and, as a result, there is a shortage of U.S. cash in the country. In addition to that, there is an increased fee to exchange the money and an increased fee to send the money. The result is the poorest of the poor now have to pay more to purchase U.S. dollars, if they can get them, and more to send money."

In addition, the new FATCA regulations have made it almost impossible for many Americans living overseas to open or maintain bank accounts. Many of us have been warning about the unintended consequences of all of these new financial regulations, including the pleas of overseas Americans and the poor worker victims, but we have been ignored by the smug politicians and bureaucrats in Washington, Paris and London, who are willfully blind to the misery caused by their own actions. The tragic irony is that the supposed targets of all of these new regulations, major tax avoiders and money launderers, have the financial resources and knowledge to find ways to avoid the regulations.

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