



The Panama Papers and Tax Shocks

By Richard W. Rahn

PLACES LIKE THE CAYMAN ISLANDS PROVIDE SAFE HAVENS FROM GOVERNMENT SNOOPS

Grand Cayman, C.I. — Were you shocked with the release of the “Panama Papers” to learn of all of the politicians from around the globe who have utilized Panama and other “offshore” entities to set up financial structures to hide their money? If so, you would probably be more shocked to learn that the United States is the biggest tax haven in the world — where foreign nationals can easily and legally avoid revealing what they own.

The real news is how so many people who have spent most of their lives in government have accumulated so much money. The answer obviously is inside deals and inflated “consulting” and “speaking” contracts. I am no fan of either Bernie Sanders or Donald Trump, but they have done a service by speaking directly about political corruption. Mr. Trump admits (or even brags) that he has spent a lifetime buying politicians. The Clintons are reported to be worth well over a \$100 million. Hillary tells us that she cares about us and is merely sacrificing herself for the greater good — much like Mother Teresa — such selfless sacrifice. The politicians and the crony capitalists who fund them in exchange for lucrative government

contracts and favors need someplace to hide their ill-gotten gains, so they use the same legal financial privacy vehicles that legitimate business people and others employ to try preserve their wealth.

The “Panama Papers” uproar has caused the predictable calls for more financial transparency. Even if you are a person of modest means, do you want the government to know everything about your spending habits? Folks in government will always assure the people that any personal information — income, tax and health records — will be kept totally secret. But that is a lie. Over the last couple of years, the innermost secrets of the U.S. government, involving national defense, personnel and IRS records have all been hacked or stolen. Far too often, those in government use sensitive information for their own purposes or for general citizen abuse and even blackmail. To quote the British writer and barrister, Stanley Brodie, “The idea that everyone’s tax and financial affairs, assets and wealth should be open to inspection by the world at large only has to be stated for its absurdity to be seen.”

The folks here in Cayman do not like their island being referred to as a tax haven, because, in reality, it is less of a tax haven than the states of Delaware, Wyoming, Nevada, as well as the City of London and many other places around the globe. Residents of Cayman pay plenty of taxes; it’s just that they do not have an income tax. Cayman gets its bad rap from decades-old novels and movies, which portrayed it as a wild west for various sorts of tax cheats and evil sorts. It was largely untrue back then and certainly is not true today. Cayman has a vibrant financial services industry based largely on regulatory efficiency, and legal clarity and certainty. It would be a foolish place to try to hide money from the tax man given its tax information-sharing agreements with the United States, the United Kingdom and many other governments.

The “Panama Papers” revelations have caused many to attack “shell” companies. Most all companies begin as “shell companies,” meaning they have few real assets or

operations. Some become giant corporations, some become proper vehicles for investment and productive uses, and a few are used for illegal purposes. Cars, homes, boats, planes, businesses and government agencies can be used for proper and legal activities or, in the hands of bad people, can be used for criminal purposes. If we banned everything that is used for destructive purposes, we would all be lying naked in a cave without sticks or stones.

The fact is the world cannot function without a high degree of confidentiality, including financial confidentiality. Those countries that destroy it for their own and other citizens will find that people with money will merely move it to some place where it is better treated. And despite the endless attempts by many countries and the Organization for Economic Cooperation and Development to require full financial information-sharing, there will always be places that will provide services people want and need. (There is a near-universal ban on certain hard drugs. How well has that worked out?) With the development of new technologies such as block chains, higher levels of encryption and so forth, there will be increasing and endless means by which to move and hide wealth.

Well-run financial centers implicitly pressure other governments to provide full value for the tax monies they receive. It may seem counterintuitive, but financial centers like Cayman, which operate under the rule of law and with little corruption, actually add to world prosperity by facilitating the proper allocation of capital and providing necessary safe havens from corrupt and criminal governments.

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