Tax havens, a huge cost for public and social activities

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Jacques Fontanel
Emeritus Professor, Université Grenoble-Alpes

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Summary: Economic globalization has favored the rise of tax havens and offshore centers, which allow powerful economic actors to escape at the new tax levies necessary to reduce public debt. At the same time, criminal activities benefit from money laundering. Money laundering circuits were so opaque that very few banks knew whether or not they had dirty or terrorist money in their books. It thus favored the policies of "beggar-thy-neighbor" with impunity for countries. There is no consensual definition of tax havens, judicial, financial and judicial. The term tax haven is often used to define all "non-cooperative territories", with resources of unknown origin. Since 2014, the United States has enacted a Foreign Account Tax Compliance Act (FATCA), which requires financial institutions around the world to disclose the transactions of US nationals. Tax havens still cultivate the secret, they protect all their operations, and they distract most activities to make more complex reading from outside. Capitalism has become difficult to control, politicians no longer control the economic situation, and worst solutions are possible because greed and foolishness of men have no limit.

Tax havens, money laundering, FATCA, “beggar-thy-neighbor”, public budget, inequalities, public debt, GDP, banking activities

International finance has grown considerably in the last fifteen years worldwide, reaching more than $ 165 trillion in 2017. If we include secure products, more than 200,000 billion dollars are in circulation. Finally, over-the-counter (OTC) derivatives markets had an estimated notional value of $ 700 trillion in 2013 (Business Insider, 2015). The management of financial assets is becoming more and more dangerous, taking account of the increased risk aversion, historically low interest rates, the rise of emerging countries, the development of income and wealth inequalities and the indebtedness of states (70.000 billion dollars, 20,000 for the United States in 2018). However, the global GDP of 2018 probably does not exceed 75,000 billion current dollars. Economic world is organized by the rules and laws proposed and agreed by States members of international economic organizations such as WTO, IMF or World Bank[1], but States keep some controls about their policy and financial assets[2].

Economic globalization has favored the rise of tax havens and offshore centers, which allow powerful economic actors to escape at the new tax levies necessary to reduce public debt. At the same time, criminal activities benefit from money laundering. Money laundering circuits were so opaque that very few banks knew whether or not they had dirty or terrorist money in their books. Official statistics on funds available in tax havens refer only to estimates, which, depending on the definitions and extrapolations, range from $ 8 trillion to $ 30 trillion. Three factors explain this new situation:

- First, international financial transactions, favored by deregulation and disintermediation of national markets[3], have grown considerably and they have been attracted by the advantages conferred on States by the most flexible and local regulations.
- Next, tax optimization policies became more widespread. Trade in multinationals accounts for two-thirds of trade by subsidiaries of international industry groups. In a production process involving two or more production units or services located in several countries, companies have used the channel of their subsidiaries to undervalue the value added of the countries of production to increase it fictitiously in the country the so-called "lower tax".
- Finally, social inequalities have exploded for two decades.

Tax havens do not concern only small exotic islands. Thus, European Union turned a blind eye to the fiscal policies of the "lowest" of its components. It thus favored the policies of "beggar-thy-neighbor" with impunity for countries such as Ireland, Luxembourg or the Netherlands who did not hesitate to enrich themselves on the production of their neighbors and partners. Similarly, the City of London committed considerable transfers to protected British exotic areas, using voluntarily opaque financial channels. These operations have had a significant direct and indirect impact on global economic development, while profoundly altering the growth of income and wealth inequalities. French parliamentary reports (National Assembly, 2000, 2012) have even accused the British government of "serious complacency" with regard to a share of the "habits and customs" of the City of London presented as a preferred place of placement of terrorist organizations and British Norman Islands accused of being important places of money laundering crime. In response, London considered that the City had a very stringent legislative arsenal to combat this scourge. "Tax havens", home to 4,000 banks and 2 million shell companies, have become a key issue in global economic development. In 2011, for Attali, 55% of international trade or 35% of financial flows passed through tax havens.

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[1] Fontanel, J. (1995), Organisations économiques internationales, Masson, Paris

[2] Fontanel, J. (2002), L'action économique de l'Etat, Pour Comprendre, L'Harmattan, Paris

[3] Fontanel, J. ((2005), La globalisation en analyse. Géoéconomie et stratégie des acteurs. Coll. La Librairie des Humanités, l'Harmattan, Paris. Septembre. Fontanel, J., Henriques, A. (2007, 2010), A Globalizaçao em Análise: Geoeconomia e Estratégia dos Actores Instituto Piageto, Lisboa. 2007, 2nd. Ed. 2010

After the serious crisis of 2007-2008, it appeared that these "offshore" centers were one of the problems concerning the fragility of the international financial system. It could then be shown that American banks had parallel or shadow banking systems in prudential havens. This situation has not substantially changed the regulations in force. The crisis has been partially fought by the public sector, with taxpayers' money, in favor of agents guilty of tax optimization and tax evasion, banks.

Definition and evolution of tax havens

There is no consensual definition of tax havens, judicial, financial and judicial. The term tax haven is often used to define all "non-cooperative territories", with resources of opaque origin. For the OECD, a tax haven includes several significant characteristics, found in different types of combinations in some countries. Tax havens have particularly interesting tax laws and banking secrecy is very strict, opposable to all foreign judges. Important legal and even constitutional provisions reinforce the confidentiality of financial transactions and professional secrecy. Taxes are generally very low and a very large freedom of capital movements is offered to residents and non-residents, with less burdensome bureaucratic and registration facilities. Business registration procedures are easy and fast, the information requested is minimal. The difficulty for the tax and penal administrations of the countries of origin is to identify the real beneficiaries. International judicial cooperation is limited, organized on the basis of bilateral agreements designed to avoid double taxation of business subsidiaries. To reassure investors, the political and economic stability of the country is also hoped, such as Switzerland, Singapore, the City of London or Luxembourg. Then, the financial sector is hypertrophied in relation to the size of the country and the size of its economy.

There are many forms of rogue countries, depending on the benefits they offer to their non-residents[4].

• Tax havens *stricto sensu* offer both a weak or non-existent tax regime and the anonymity of monetary and financial transactions, which allows non-residents (companies or individuals) to escape taxation.

• Regulatory havens do not subject the financial sector to prudential rules in other countries (notably account transparency or capital ratios in relation to credit or speculation activities). The risk analysis is then treated much less rigorously. Individuals and companies can then create, in all discretion, multiple shell companies, in order to conceal certain revenues both from the tax authorities and all the economic actors concerned. It's about creating a voluntary system of opacity, through offshore subsidiaries. In the United States, FSC or Foreign Sales Corporations may be fictitiously domiciled in subsidiaries located

[4] Fontanel, J. (2016), Paradis fiscaux, pays « filous ». La fuite organisée des impôts vers les pays complices, L'Harmattan, Paris.

in offshore centers, which are often controlled by US funds (Panama, Virgin Islands, Bermuda, Barbados, for example)[5].

• Banking havens reinforce the professional secrecy in favor of the foreign client with respect to the respect of the civil, financial and social regulations in force in his country of origin.

• Judicial havens are territories that escape the laws, including criminal laws, applied in other states. The justice of these countries is less interested in the source of funds, it often refuses to provide information necessary for the prosecution of doubtful commercial and financial matters and it refuses to cooperate with the States that make them the demand. Moreover, the trust system is a factor of considerable opacity.

. Finally, Offshore Financial Centers (OFC) allow non-residents to borrow from other non-residents in a third national currency (such as the dollar or the euro) in order to benefit from favorable tax conditions. The main OFCs are in London, New York, Tokyo, Hong Kong and Singapore. They offer much better tax and banking conditions than those offered by on-shore jurisdictions. The paradox is that some OFCs, like Delaware and the City of London, are actually "on shore". Based on this intensity ratio, the United Kingdom and the Commonwealth represent a large part of this funding, such as Cayman Islands, British Virgin Islands, Guernsey, Jersey or Bermuda.

The OECD (2014), which does not deal with tax issues, has classified countries into three categories, based on their willingness to cooperate, according to whether they comply with their commitments (such as France, Japan or India), mostly compliant (such as Germany, Russia, or the United States), partially non-compliant (such as Austria, Israel, Indonesia) or non-compliant (such as Switzerland, Lebanon, or Liberia). This typology is based on a limited commitment. There are also three lists of states (called black, gray or white) depending on the information provided by the banking system. The Brussels authorities are starting to think seriously about tax avoidance. In a situation of budgetary austerity, multinational firms pay barely 2% of taxes on their profits, while the average European citizen pays back 20 to 30% of his income. In the United States, "GAFAM" companies (Google, Apple, Facebook, Amazon, Microsoft) have been subject to the same criticism from senators of the Senate's permanent subcommittee of inquiry[6]. There are at least 3,000 tax treaties worldwide to avoid double taxation. Thanks to this system, Apple in Ireland, Amazon in Luxembourg and Google nowhere thus escaped any taxation in Europe until 2015. Today, France decides a GAFAM tax, but the US government proposes a retaliation tax against French wine.

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[5] In fact, the US government is not fooled, it seeks to promote the activities of its domestic companies in obtaining major contracts, especially in commercial aviation or large public works. He thus agrees to offer them a disguised subsidy, normally prohibited by WTO rules.

[6] For example, until 2015, using the labyrinth of tax laws, a subsidiary of Amazon held 15,000 employees in the United Kingdom for a zero profit, and 500 employees in Luxembourg, with a considerable profit (National Assembly, 2013).

Transparency is at the heart of the problem, but the corporate world still claims a "business secret". The culture of secrecy favors speculation and predation. With the BEPS project (Base Erosion and Profit Shifting), the OECD wants to impose on multinational companies the transmission of detailed information (incomes, profits, assets, workforce and total taxes paid) to the tax administrations of the countries concerned. This initiative is based on three principles, the exchange on request of information considered relevant to the administration, the ability to access reliable information while respecting taxpayer right and, finally, the confidentiality of the information exchanged is always maintained.

The Tax Justice Network Association (2013, 2014) publishes annually a Financial Secrecy Index, highlighting an opacity index highlighting the degree of confidentiality of countries. Territories under jurisdiction United Kingdom, United Kingdom and Overseas Dependencies, Switzerland, Luxembourg, Singapore, USA, Lebanon, Germany and Japan take advantage of their regulations to impoverish neighboring countries. They are among the countries with the highest GDP per capita in the world. It must also be considered that the tax laws of Delaware, but also Wyoming and Nevada are legitimate, but certainly not morally in the eyes of US taxpayers[7]. How is it explained that within Europe, such behavior has been accepted? A lot of small islands are also concerned[8].

Because of its special status, its neutrality and the advantages conferred on foreign companies, Switzerland ranks first in the world for commodities trading, especially Russian oil. 35% of oil trading, 60% of metals and 35% of cereals are concentrated there. It is then easy to see that the Swiss laws so favorable to foreign companies are at the base of the economic development of this country. The free port of Geneva does not charge any tax on transactions, without any control of payments and their origin. The "rogue" countries still have a future. Similarly, the City of London is undoubtedly indirectly at least one of the largest tax havens in the world (half of the international "trading" of equities, international public issues and OTC derivative trades, a third currency exchange), since it is not restricted to UK regulatory and supervisory authorities. It benefits from the capital of the Caribbean islands, former colonies, the Channel Islands and even Cyprus. The bulk of hedge funds, hedge funds, are located in the Cayman Islands. The tax evasion does not seem to be amoral, when it is not unlawful[9]. The sovereignty of each state does not make it possible

[7] In 2009, for Forbes magazine, the best tax havens for business were Delaware, followed by Luxembourg, Switzerland, the Cayman Islands, the City of London, Ireland and Bermuda. Singapore, Belgium and Hong Kong.

[8] In small islands, the Tax Justice Network Association insists on the specific role of these small states on the development of tax havens: Andorra, Anguilla, Antigua & Barbuda, Aruba, Bahamas, Barbados, Belize, Bermuda, Hong Kong, Macao , Cyprus, Gibraltar, Guernsey, Cayman Islands, Marshall Islands, British Virgin Islands, Jersey, Liechtenstein, Luxembourg, Malta, Mauritius, Panama, Seychelles, St Martin, St Kitt & Nevis, St Lucia, St Vincent & the Grenadines, Switzerland and Turks & Caicos.

[9] Fontanel, J. (2007), Questions d’éthique, L’Harmattan, Paris.

to fight effectively against the scourges of tax evasion, acts of corruption, dirty money or secret agreements, often organized or suggested by the public authorities of the countries concerned.

The information on the sums hidden under true or false names is secret and protected, the investments have existed in these territories for at least two generations and it is difficult to know how these securities were or were not reinvested in other productive investments, real estate or precious metals. When countries grant tax amnesties, sums legally reintegrated into national economies are not the subject of accurate information, tax secrecy well understood. In 2016, according to the CCFD-Terre Solidaire report, the British Virgin Islands invests four times more than Japan in China. Each resident theoretically invests nearly $ 700,000 a year in the ten most powerful economies in the world. The Virgin Islands, the Cayman Islands, Luxembourg, Mauritius and the Netherlands have cumulative direct investment abroad 70% higher than United States and three times more than Japan, Germany and Australia. France united. Luxembourg is the second largest investment fund after the United States; it is the first international wealth management center in the euro zone, thanks to the advantages granted to holding companies (more than 15,000 holding companies holding nearly 2.3 billion euros). The Offshore Leaks files revealed the existence of 120,000 trusts and corporate names in the Cayman Islands and the Virgin Islands. The activity of tax havens is considerable, accounting for 20% of the world's private wealth, with illicit activities estimated at a quarter of these amounts. Thanks to this competitive situation, multinational corporations taxes have decreased, from 33% in 1999 to 20% in 2018. Large companies pay fewer taxes than SMEs, which gives them an indisputable competitive advantage

For UNCTAD, developing countries are losing about $ 100 billion in revenue from tax avoidance and at least $ 300 billion in lost development finance. While not all investments to or from tax havens are related to corruption or other criminal activity, they account for more than 20% of the global total of cross-border investments, which is out of proportion to the weight of these tax havens in the real economy.

The modalities of action of tax havens

The explanations given by the establishments in the tax havens concern the respect for the famous "business secret", their professional abilities to solve insurance problems (Bermuda), to develop trusts (Jersey) and to manage hedge funds (Cayman Islands). These considerations are justified, except for the "in situ" competences of the operators, because the reality of the acts is realized in the big financial places (London, New York or Paris). Tax haven users (in the broadest sense) are companies and banks that install subsidiaries, hedge funds, investment companies, but also wealthy individuals and criminal networks. This is to avoid paying taxes or laundering money. Any individual may legally hold an account abroad, but must declare it to the tax authorities of his country.

Today, because of these interstices in the tax jurisdictions of the States, more than half of the international trade and the third of the financial flows transit in the tax havens. Enterprises try to conceal their added value at the shelter of banking secrecy. They organize, with the help of banks or consulting companies, complex financial arrangements or operations on the value chain that favor the drastic reduction of their taxation. Then, they avoid participating to in the financing of public services; they benefit from a public service without paying for it.

Tax evasion now threatens the stability of states, but also of groupings of states. The business restructuring process involves charging all costs in the country of origin and generating the benefits in low tax countries. In this case, the prices have no connection with the economic reality. Even French companies whose state is partly a shareholder use these procedures without reaction from the executive. Thus, EADS, a Franco-German company, is a public limited company under Dutch law, which it justifies by the competition with Boeing. In the case of insurance financial products, if the related premiums and risks are located in a country and the compensation received in a tax haven, the losses are then to be borne by the country of origin, for the benefit of the "offshore" territory.

Similarly, the under-capitalization of subsidiaries is interesting when the interest is deductible from the taxable income in the State where the subsidiary is established. This procedure is mainly used by the digital economy, which locates its industrial property rights (license box) and its services in tax havens. In the European context, the multinational firms use the "treaty shopping" so as to obtain the best solution for their results net of taxes. Two Member States of the European Union (Ireland and the Netherlands) give rise to a financial transaction commonly known as a sandwich in the fiscal sense of the term. It is a question of admitting the existence of legal societies whose sums passing through them give rise to no taxation. The "Irish sandwich" consists of creating a non-fiscally resident Irish company, which is therefore uncontrolled. It allows a simple passage to Bermuda or the Cayman Islands. The Netherlands offers a network of important bilateral tax treaties to reduce the withholding tax on dividend payments as well as taxes on royalties and interest paid or received. With the agreements with the Netherlands Antilles, sums related to interest paid, royalties or services are exempt from withholding tax. It is then a matter of setting up a system whereby most of the added value created will be declared in the country with the lowest taxes. This policy significantly modifies the rules of global and European competition. According to the accounts of multinational firms, applying transfer price optimization, their tax haven employees are exceptionally productive and profitable in comparison with their other subsidiaries. These results are obviously fictitious. The declared establishment of fair and normal competition between all members of international organizations to regulate free trade (WTO), the financial system (IMF) or support for specific operations in developing countries (World Bank) is intentionally diverted.

Statistical analyzes of financial and commercial transactions do not fail to challenge specialists. Russia seems to favor agreements and economic exchanges with Cyprus, a state belonging to the European Union. Mauritius is the largest investor in India. Multinational companies create subsidiaries in these tax havens, which invest worldwide and often develop their own subsidiaries. The complexity of financial networks makes all financial operations even more opaque. With the tax benefits of Delaware, a federated state contiguous to New Jersey, the shortfall for the US government is estimated at more than $ 300 billion a year. In other words, the US federal state accepts this situation in order to favor US exports and imports, with "special" assistance not raised by the WTO of $ 300 billion for the competitiveness of US companies and subsidiaries. 60% of US imports are intra-company trade, without knowing the importance of financial networks that belong to US economic actors in the complex set-ups of trusts and holding companies.

Transfer prices for companies in the same group are supposed to be governed by well-defined regulations, established by each country or at the multilateral level. The general principle assumes that the prices of trade between two companies in the same group should not differ from those defined by two independent firms. Transfer pricing strategies are central to the tax optimization of financial groups and multinationals. More than two-thirds of multinational companies use transfer pricing manipulation to reduce their final costs, thereby increasing their overall profit. Legal tax optimization study services have become recognized profit centers, designed to create net worth for the company. Lastly, large audit firms receive a remuneration based mainly on the results thus obtained in terms of tax avoidance.

United States law encourages complex arrangements designed to increase the commercial competitiveness of multinational enterprises established on its territory. It accepts the forms of tax exemption constituted by the domiciliation of the profits of international contracts in subsidiaries located in "offshore" places. Thus, thanks to these "mounts, most US companies facing competition in international markets no longer pay corporate tax, which is detrimental to middle-class taxpayers whose purchasing power is has not been increased in the United States for 35 years. In this context, it is difficult to know the value added of each country, and therefore the real GDP. Indeed, a company based in France has an interest in underestimating its added value of its products exported to its subsidiaries abroad, in order to pay the least amount of tax possible. The next step is to move part of the production chain to the lowest tax country to make the most important added value official and public. This behavior highlights the great problem of legibility of statistics and their interpretation. In reality, it is only an accounting manipulation whose social consequences on wages and employment are considerable.

Article 238 A of the French General Tax Code establishes a presumption of "abnormality" of certain financial transfers or payments made to areas with reduced taxation. Article 209 B of the French General Tax Code provides for the possibility of taxing French parent companies on the basis of profits earned in subsidiaries located in countries with preferential tax treatment. However, this rule can easily be circumvented. Thus, a company can sell the milk produced in France almost at a loss; it exports it to Germany for a simple operation, always with low added value. The finished product is then sold in Luxembourg, where, without any industrial operation, the highest added value is declared with a very low tax rate. The product can then return to France to be sold at a price that has increased significantly compared to its original cost. In this case, Luxembourg uses the policy of impoverishment of its neighbors, without any restriction, which can explain the importance of its per capita income that its real activities in the chain of values make very difficult to justify.

Finally, the complicity of politicians and economic leaders in some forms of corruption, especially tax fraud, seems normal to many people of influence. Legal proceedings are often politically sensitive and technically complex to conduct on an international scale. The lack of harmonization of national legal systems and the absence or insufficiency of communication between countries normally belonging to the same networks can explain it. The procedures are very long; they are constantly bent on technical or legislative details, which, ultimately, promote the practice of money laundering. Requests for information from magistrates are often and usually completely ignored by their counterparts, the importance of fraud in the activities of rogue countries is considerable. If we look at the figures, Ireland and Switzerland have an average ratio of value added per employee 5 times higher than that of other European countries, Bermuda more than 50 times. In addition, the ratio of profit after tax to the payroll is also unusual in tax havens, about 7 times more in Ireland and 35 times more in Bermuda. Which, of course, is unlikely, this result depends first of all on the manipulation of figures and transfers to tax havens.

Criminal activities use tax havens. The secrecy of these transactions that lead to money laundering is particularly high, and international laws are unable to control them. The estimates are random, they often only show the visible side of the iceberg[10].

[10] If analysts are familiar with the organization of these criminal activities, the estimation of their importance remains questionable. It is necessary to calculate the importance of drug trafficking (with the difficulty of highlighting whether, at the international level, certain substances are well recognized as drugs, such as hashish or marijuana), the growing trafficking in human beings (human smuggling, sex industry, forms of slavery), the destruction of the animal world, smuggling (concerning price divergences due to heterogeneous taxes from country to country), counterfeiting, or the arms trade. It should also be reported corruption, false invoices, clandestine work, insurance fraud, computer manipulation (impossible to estimate), financial delinquency, VAT

Consequences of tax havens

Tax havens have important consequences for the functioning of market economies:

For the country victim of it, it results in a triple downward pressure; first the reduction of the resources collected by taxation on high incomes and on capital, at the benefit of multinational enterprises; then the profits of small and medium-sized enterprises are reduced by an unfair international trade; finally wage incomes receive a negative trend with an apparent but artificial loss of international competitiveness of employees.

- First, they degrade public budget, the loss of profits for the States is then considerable and growing. The very global estimates of these tax revenue losses place them at over $ 300 billion a year in the world. The figure must be improved as countries are forced to limit tax rates on their own to stay in the race for investment attractiveness of their territories. Governments are under pressure because of the threat of fiscal relocation. A race to lower corporate taxes has even begun (12,5 % for Ireland, for instance). The companies with 2.5 billion euros in turnover pay between 15 and 20% of the corporate tax, while they realize between at least 60% of the turnover of the national business. The state of Delaware, with its particularly attractive tax system, saves tens trillions of dollars a year for the companies. Without the existence of tax havens, no doubt its tax requirements would increase, particularly with regard to public debt and the collective services to be developed.
- Secondly, the low coherence of partner states on public budget issues allows business leaders and shareholders to increase their personal income. Banks have supported their wealthy clients in this process. The states are now heavily indebted, and the banks are putting up a lot of pressure to be reimbursed[11]. This system increases the injustice, for the benefit of the richest and the most mobile taxpayers. The first victims of capital flight are the middle and poor classes. To avoid an excessive reduction of their purchasing power, the States then come to get into debt.
- Due to the opacity of financial operations, dominant financial players are likely to take significant risks, thus beyond the control of regulators, shareholders or rating agencies. This situation produces financial instability and a particularly high systemic risk.
- Statistics on the value added of countries are undervalued in countries that are victims of tax havens, which do not improve their attractiveness and the level of

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fraud by the so-called system. "Carousel TVA"), but also the special effects of balance sheets (Enron, Andersen) which benefit, at least partly, to tax havens.

[11] In May 2013, the European Parliament estimated the public money lost each year in Europe to 1,000 billion euros, as a result of tax evasion. This sum corresponds to an annual loss of 2000 euros per European citizen.

wages. The national statistics of GDP[12], a concept that is otherwise questionable, influence the economic optimism of citizens and businesses.

- Natural or legal persons engaged in illegal activities may escape the control of national courts, as tax havens allow them to hide the origin of funds. The ratification of the December 1999 UN Convention on the Suppression of the Financing of Terrorism includes the immediate freezing of all funds and assets of terrorists, in accordance with UN Resolution 1373, the declaration of suspicion of financial institutions, the monitoring of parallel money transfer systems or the transparency of non-financial entities such as charities. The fight against terrorism has been one of the factors strengthening the anti-money laundering rules. Terrorist groups know how to use the financial techniques proposed by rogue states.
- UNCTAD highlighted the effects of tax avoidance in developing countries. In 2014, the contribution of multinational firms to the state budget in these countries represented only 10% of total government revenue (14% in Africa), i.e. about $ 100 billion of tax revenues at the profit of "offshore hubs". The estimated loss in terms of tax revenue is one-third of the potential total. 30% of direct investments from abroad went through tax havens[13]. According to the FAO, the fiscal deficit of the southern states caused by tax evasion alone is 5 times the amount needed to eradicate hunger in the world. If the investments made by multinationals in Africa pass through tax havens, the same goes for the assets of the heads of state of the least democratic countries, which favor investments in Switzerland. Despite the international desire to limit these harmful effects on the reputation of the "rogue" countries, the use of screen structures constituted by trusts and non-resident companies favors the maintenance of a large opacity.
- Lack of financial resources for public education and research, health and protection of the weakest, normal remuneration of civil servants, assistance to farmers and financial support to young companies reduce the potential achievement of human security for citizens of a lot of countries[14]. The state is stolen on the one hand from its income and the dominant idea is that taxes are already too high. The flight of savings to tax havens also causes a rise in interest rates of national and local banks that lack liquidity.

What actions to take?

[12] Fontanel, J., Guilhaudis, J-F. (2019), Les effets pervers de l'usage du PIB pour la décision politique et les relations internationales. Comment en sortir ? PSEI, Paix et Sécurité européenne et Internationale, Nice.

[13] By applying a rate of reinvestment of profits of the order of 50%, 165 to 225 billion dollars could be available every year for the financing of the national economy of developing countries. By adding tax losses and profits that are not reinvested on the spot, the loss of financing for growth in developing countries is estimated at between $ 250 billion and $ 300 billion a year.

[14] Fontanel, J. (2016), La sécurité économique et sociétale. Pour une conception humaniste multidimensionnelle. PSEI ; Paix et Sécurité Européenne et Internationale, n°3.

We must distinguish three types of fraud, those companies that intend to optimize their tax situation, that of individuals who do not want to respect the democratic rules of the state budget and that of organized crime. Large companies, under the pretext of fierce competition, do not seek to respect their tax obligations, they prevent States from effectively fighting inequalities, especially in developing countries. Their relations with state officials give them considerable weight in political choices. The tax rules are more and more dependent on the influence of the multinational firms, who exert all their powers on the nation of territorial attractiveness. The G20's new approach to tax reform is likely to be under pressure from many private sector lobbyists.

At the initiative of the French presidency, a first international action against money laundering was decided in 1989, at the same time as the creation of the Financial Action Task Force (FATF), which, in April 1990, presented forty recommendations. In 1990, France set up the Tracfin aimed at fighting against clandestine financial circuits. The European Union has also been interested since 1998 in the issue, proposing, in particular, unsuccessful harmonization of taxation of savings (withholding tax of 15% on interest paid), but Luxembourg and United Kingdom then affixed their rights in a legal context requiring unanimity for all matters relating to the taxation of member countries. In 1989, at the initiative of the G7, the FATF (Financial Action Task Force) was created to combat money laundering and terrorist financing. Inter-governmental multidisciplinary body to develop and promote national and international anti-money laundering policies, it proposes to create non-imperative standards, which constitute guidelines that governments should respect in order to avoid opacity of certain financial transactions. It brings together economic, legal and financial experts, delegated by its members, to guide the action of the public authorities. It sets the standards for combating money laundering, monitors the progress of its members in the implementation of the recommended measures, and conducts specific studies to better understand the workings of this system. Today, FATF includes 34 countries and territories (with Luxembourg, the United Kingdom, Switzerland, Singapore, Ireland and the United States) and 2 regional organizations.

The FATF classifies countries according to their degree of opacity perceived by foreign governments. The Financial Stability Forum (FSF), followed by the Financial Stability Board (FSB) in 2009, offers international cooperation in the area of supervision and supervision of financial institutions. They concern Ireland, Luxembourg, Switzerland, Andorra, San Marino, Barbados, Bermuda, Gibraltar, Aruba, Hong Kong, Isle of Man, Bahamas, Anguilla, Nauru, Netherlands Antilles, Turks Islands and Caicos. However, if the situation improves slowly with the creation of specialized judges, States reluctant to transparency of information are not subject to international retaliation. More than ten years after this first text, the automatic exchange of information is not still realized between the European countries. Banks established in tax havens dedicate considerable resources to their cells responsible for drawing up tax optimization schemes. The real names of real operators remain are often unknown, the automatic exchange of information offers no difficulty. The role of the FATF, in the absence of an executive power, remains limited because the scale of the phenomenon is still poorly controlled. United States has obtained the lifting of Swiss banking secrecy in the context of certain operations considered important by his government, without renouncing himself the operations initiated in Delaware.

It is rooted that these "offshore" centers are necessary for the functioning of capitalism and the market economy. Financial crime has no visible or understandable effect on citizens. Corruption is secret, "doubtful" funds escape the vigilance of national jurisdictions. This "white-collar" crime is located in the rich strata of society, surrounded by legal and economic advisers who are in charge of finding all the interstices of the laws in order to valorize their patrimonies, to the detriment of the already unfair rules of the distribution of the income produced by the 'market economy.

The harmonization of tax regimes at the international level would be the most radical way to remove the comparative advantages of rogue states. It seems at this stage of development very difficult to implement and it does not suppress the banking and legal haven. However, the European Commission recently obtained the support of the 27 EU member countries for large companies to publish their profits and taxes country by country. At the moment, the statistical data are very insufficient on this subject and the control of their effectiveness remains questionable. Today, the exchange of information between tax administrations is still mainly on a voluntary basis. However, the European Commission's initiative is likely to improve transparency regarding the location of profits, particularly in countries with favorable taxation. The fight against tax fraud suffers from the retention of information between states, even those belonging to an already well-organized regional group such as the European Union. The establishment of a list of tax havens can have a deterrent effect, that called "name and shame" in the Anglo-Saxon countries. It proposes to put States on lists made public, which gives a negative image of the country. The KYC rule (Know Your Customer) is sometimes necessary, the management of private fortunes being overexposed to the risk of money laundering.

Since 2014, the United States has enacted a Foreign Account Tax Compliance Act (FATCA), which requires financial institutions around the world to disclose the transactions of US nationals, even if the text is not sufficiently restrictive. The income tax is based on a residence criterion, but also on a nationality criterion. Every US citizen declares and pays tax in the United States, except if there are changes in tax treaties with the country of residence. It provides for retaliatory measures against banks that refuse to cooperate (notably by a strong taxation of transactions on the US territory), but small establishments or territories may wish to give up working in the United States to continue to manage profits from tax evasion. For Switzerland, banks are obliged to inform the US tax authorities on the assets available on accounts in the Swiss Confederation. With France, Italy, the United Kingdom or Germany, the two tax administrations provide the necessary information automatically. However, there remains an asymmetry because if the information given by the European countries concerned will be automatic, it is not yet the case for the United States under its laws. However, it is the US government that requires a change in legislation to all other countries, without itself being able to comply with this rule. Today, the will for a European FATCA exists, between the United Kingdom and its dependencies, as well as with Germany, France, Italy or Spain. A multilateral convention is under discussion regarding the exchange of tax information. Europe comprises almost half of tax havens, which is not the least of the paradoxes. The European Commission could declare the non-respect of the rules of competition, with regard to the heterogeneous fiscal commitments of the countries of the Union.

The underground finance is dangerous for the stability of the international financial system. If the conditions concerning the weakening of tax competition are not yet met, we must already fight against areas that refuse the application of banking habits and customs, as well as any cooperation or information to the victim states. Several measures could be taken such as the refusal to access rescue and guarantee plans of banks domiciled, all or part, in tax havens, the prohibition of "hedge funds" (hedge funds) to opaque management, the creation of an international register of offshore companies, the requirement for banks and multinational companies listed with information on their subsidiaries based in tax havens to end the shell companies, and the enlargement of the European directive on the savings of non-residents to legal persons.

Tax havens attract one-third of foreign direct investment by multinationals, but their usefulness has never been demonstrated. In fact, they favor corruption and tax avoidance, even if they were not necessarily the source of hedge funds. With the LTCM (Long Term Capital Management) case, new financial transactions sometimes present a systemic risk that endangers the solvency and liquidity of the entire international financial system. Financial innovation controlled by simple mathematical algorithms, controlled by the insiders alone, poses a considerable problem to the whole functioning of the current system of the market economy, which is too liberalized and monopolized by the powers of money. At a time when the European Union is only beginning to be alarmed at the widespread tax evasion, it is still asking citizens for important sacrifices to repay debts partly due to the tax optimization of the richest or the least honest with regard to their collective responsibilities. On the questions of tax evasion, the States are generally very magnanimous and do not apply the penal rules with severity.

However, the UBS affair has highlighted a first revolt of states, mainly because the US government is heavily committed to a proven situation of organized tax evasion. It confirmed that a whole system of tax evasion was set up by Swiss bankers, in application of illegal practices of the program "Qualified Intermediary" (QI) in the United States[15]. The HSBC case has also highlighted the importance of fraud allowed by bankers[16]. Sanctions have been provided for recalcitrant countries and territories to protect the public finances of the larger countries and to strengthen the normal functioning of the international financial system. However, the business world of the United States is clearly opposed to any idea of control of tax havens, which offer to international exchanges at the same time inexpensive adapted services, freedom, flexibility, innovation and competitiveness. France wants a harmonization of taxation within the European Union, but fiscal sovereignty remains a freedom that no country wants to give up. The United States is determined to act on bank accounts, because it is then to thwart the Swiss and European competition. However, on the issue of trusts that conceal considerable sums in complex banking procedures to maintain the anonymity of beneficial owners of capital, the US government is less enthusiastic to conduct checks. Tax havens still cultivate the secret, they protect all their operations, and they distract most activities to make more complex reading from outside. Capitalism has become difficult to control, politicians no longer control the economic situation, and worst solutions are possible because greed and foolishness of men have no limit.

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[15] UBS solicited clients and provided them with the means to escape the IQ program, mainly through the use of screen structures, assistance with the use of undeclared assets and even training to customs controls. The Bank had to pay a fine of $ 780 million in the United States. UBS has reached a financial agreement with Germany, in the order of 300 million euros, avoiding any conviction. France was also a victim of this system, but the procedures were inexplicably very long to set up. The Prudential Supervisory Authority (ACP) imposed a fine of 10 million euros for "laxity" in the control of commercial practices that may be laundered tax fraud.

[16] It was found that on Bouvet Island, uninhabited, in Geneva there were more than 121,000 accounts. Hidden assets represented about $ 5 billion. Because of the conditions for obtaining information, the State could not directly oppose the information available to taxpayers, who sometimes denied possession of these undeclared assets. The same bank was prosecuted by the United States for money laundering from drugs, terrorist organizations and trade with Iran (a rogue state). It paid a fine of nearly $ 2 billion. dollars to stop the prosecution.

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