

The oil industry created the practice of countries (SHIPS?) flying "flags of convenience" as a means of avoiding income taxes nearly a century ago. Since the 1960s the U.S. Government itself has encouraged American banks to set up branches in Caribbean hot-money centers and more distant islands as a means of attracting foreign money into the dollar. The initial aim was to help finance the Vietnam War by turning America into a new Switzerland for the world's hot money.

This policy succeeded in turning the United States into a flight-capital center for third-world dictators, Mexican presidents and Russian oligarchs. The former Soviet Union now finances a substantial portion of the U.S. balance-of-payments deficit with the flight capital that neoliberal "reformers" facilitated by backing the kleptocrats. The result has grown into a full-blown system enabling multinational corporations to evade taxes everywhere, including the United States itself. It enables domestic investors to globalize their operations by setting up offshore affiliates Enron-style in the Cayman Islands, Dutch West Indies or some small and newly notorious Pacific Island of their choice.

The permissive regulatory system relating to these offshore beachheads of tax avoidance has evolved to a point that enables U.S. and European investors to shed taxes simply by hiring a lawyer to set up a boiler-plate office and finding an accounting firm willing to take its records at face value--which is good enough for the tax authorities to accept in these days of downsized fiscal operations. The resulting plunge in the ratio of corporate tax obligations to national income has been a major factor in America's soaring federal budget deficit. Businesses--and especially the financial sector--establish dummy companies and adjust their transfer pricing (e.g. on sales of raw materials to refineries, and of refined or semi-manufactured products to their final distributors in the industrial nations) so as to take all their profits in these tax-free enclaves.

Flight capital would not leave countries without having somewhere safe to go. A rising number of tax-avoidance islands have made use of the fact that they are small enough to adopt whatever tax code they wish. Lawyers acting on behalf of financial and business lobbies in North America and Europe have drawn up laws to turn these banking centers into what Prof. Hudson calls anti-states.

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