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Britain's Second Empire

For centuries the City of London, the cash-pumping heart of the British empire, ran the greatest system of wealth extraction ever devised. Royal Navy gunships had long supported the predations of City-based groups like the East India Company, which began as an officially sanctioned trading company in 1600 but evolved into a bloodthirsty and unregulated operation with a private army which in the eighteenth century looted the Indian subcontinent. At the battle of Plassey in 1757 the company defeated the nawab of Bengal; it then loaded the Bengal treasury's gold and silver into a fleet of over a hundred boats and sailed off with it.

The City's core principle underpinning these imperial adventures was freedom – specifically, freedom for finance and trade to flow unmolested across borders. The City's devotion to this principle was so extreme it became the unofficial religion of empire. 'Free trade is Jesus Christ, and Jesus Christ is free trade,' declared Sir John Bowring, a former City trader who became governor of the British territory of Hong Kong as Britain sought to bludgeon open the mouth-wateringly large Chinese market for its goods and services. Britain provoked and won the First Opium War in 1839 when the Chinese tried to stop it exporting industrial quantities of opium into China. When China objected again in 1856, Bowring ordered the Royal Navy to shell Canton, unleashing the Second Opium War. This cracked China wide open, enabling Britain and other European powers to impose on it their system of free trade.

As with everything in finance, the City's imperial role was not a simple tale of good and evil. Alongside all the militarised predation the City financed railways, roads and many other life-changing projects and services around the world; it also provided loans to France, Russia, Prussia, Greece and the new South American republics, as well as to Britain's formal empire. London was, as the financier Nathan Rothschild put it, ‘the bank for the whole world’. Its relentlessly international outlook was also the bedrock of Britain’s relatively tolerant multiculturalism, which has for centuries made London one of the most diverse and exciting cities on the planet. ‘There the Jew, the Mahometan, and the Christian transact together,’ Voltaire declared in 1733, ‘as though they all professed the same religion, and give the name of infidel to none but bankrupts.’

Yet the riches flowing into the City of London didn’t benefit Britain; they benefited certain interest groups in Britain, often at the expense of others. Clashes and tensions between finance and the other parts of economies have happened in myriad ways over the centuries. For instance, large inflows of foreign exchange from overseas can push up the value of the domestic currency, making local manufactures more expensive in international terms, thereby hurting exporters and their ability to create jobs – in Britain often in areas away from London. Or take free trade: it benefits City interests that profit from servicing both imports and exports but potentially harms local industrialists, who often benefit from protective barriers against cheaper foreign imports; and for all the free-trade rhetoric, protectionism has been a centrepiece of the successful industrialising strategies of Britain, the United States, Japan, South Korea and many others.[1]

More surprisingly, the outward-focused City has for long periods failed to provide much finance for Britain’s own domestic industrialists and businesses, especially those outside London. British regional players have tended to get investment money from local and regional channels or from their own retained profits. And the City’s dominance has airbrushed this from public consciousness, explains the historian Peter Cain. When an MP from an industrial region stands up and talks about his locality, he is seen to be representing his constituents’ interests, but ‘if the MP for the City of London gets up on his pins in the House of Commons, he is often assumed to be speaking for the nation’, says Cain. ‘This is thinking that you can see running on and on and on. It is very difficult to break.’[2]

The sinews of empire – British cunning, diplomacy, money and violence – were finally broken by the Second World War, as Britain spent its national strength and treasure defending itself against Nazi Germany. So when the world's leading nations put together the Bretton Woods architecture at the end of the war, power had shifted decisively across the Atlantic to Washington, and Keynes and the British establishment failed in their attempts to fashion the new system in a way that would restore Britain to its self-appointed place at the centre of world economic affairs. The empire staggered on for a few years but by then it was an empty shell, ready to crack.

It may seem counter-intuitive, but Britain entered its greatest period of broad-based prosperity and economic growth at precisely the moment the City of London was at its lowest ebb. This was no coincidence, for it was a reflection of the age-old clash between finance and other parts of the economy. The Bretton Woods restrictions, preventing speculative financial flows across borders, brought this clash into the sharpest possible relief.

By the 1950s, members of the City of London could only look with envy at the giant, fragmented yet fast-growing global marketplace which the Bretton Woods controls had now mostly placed out of their reach. Bottling up City activities inside Britain's war-shattered domestic economy plus the remaining British territories and outposts that still used the pound sterling was bad enough for City profits, but the Bretton Woods system also gave the British government the freedom to impose high taxes on the rich, and strong financial regulations. Heavily constrained, the City became suffused with lethargy. 'I fear that the various ancient businesses of London have practically come to an end, or continue more as shadows,' a British official wrote in 1947.[3] Oliver Franks, the chairman of Lloyds Bank, lamented that his daily job was 'like dragging a sleeping elephant to its feet with your own two hands'.

In the depths of this torpor, in 1951, three senior British officials hatched a top-secret plot to bust the City of London out of the Bretton Woods straitjacket, in order to restore the City to its former glory and dominance. The plot was named Operation Robot after its three top conspirators: Sir Leslie Rowan at the Treasury, Sir George Bolton at the Bank of England and Otto Clarke also at the Treasury. Their idea was suddenly to float sterling, which was then fixed at around four dollars to the pound, and make it freely convertible against other currencies. Had this taken place, Operation Robot would have thrown a grenade into the entire Bretton Woods architecture and might have changed the course of world economic history. Robot was one of those classic skirmishes between finance and manufacturing – and one of the last in the modern era where the financiers lost.

Even Robot's authors conceded that it would lead to economic chaos in Britain, higher interests rates, steeper food prices and hefty unemployment. Knowing how unpalatable their plan was, they tried to bounce it suddenly through an unbriefed Cabinet, having already won over the Bank of England and the Conservative prime minister Winston Churchill, who knew little of economics but 'felt in his bones' that it was the right thing to do. Robot, Bolton wrote, was the 'only international policy which guaranteed the nation's survival in worthwhile form'. Yet word soon got out, and once the implications of the plan had sunk in, people reacted with horror. It was denounced as a 'bankers' ramp' – which it was. Lord Cherwell, head of the civil service, predicted massively higher bread prices and two million more unemployed people, and he feared the situation would be so dire that it could keep the Conservative Party out of government for a generation. The economy, he added sarcastically, 'would be taken out of the hands of politicians and planners and handed over to financiers and bankers who alone understand these things'.

By the middle of 1952 the plot was dead. The Bretton Woods system held together, and the City of London and the pound sterling had lost their global leadership position to New York and the dollar. And for the next couple of decades Britain and the countries participating in the Bretton Woods system would collectively enjoy the strongest, most broad-based and most crisis-free economic expansion in history, with growth running at nearly 4 per cent in the advanced economies and 3 per cent in developing nations, more than twice the rate that had been attained in a thousand years of history.[4]

Despite the remarkable prosperity now flowering across the country, the City of London and its backers didn't give up trying to overthrow the system. A letter to Sir George Bolton in 1952 from

Britain's then housing minister, Harold Macmillan, another Conservative, captures the mood. Iran had nationalised British oil assets in March 1951, which, he wrote, had 'struck a blow at British credit', which in itself may have cost Britain as much as the value of the lost oil. He urged robust military action to defend British oil interests and the empire, so as to restore confidence in sterling and return it to its glorious place at the forefront of world affairs. 'This is the choice,' Macmillan wrote: 'to slide into a shoddy and slushy socialism, or the march to the third British Empire.'[5] Macmillan didn't seem to grasp that Britain's imperial magnificence had already, inexorably, begun to crumble. India had gained its independence in 1947, and others would soon follow.

The trigger for the near-total collapse of the British empire was the decision by Egypt's feisty president, Gamal Abdel Nasser, to take over the Suez Canal in 1956. Britain and France joined Israel in an invasion of the canal zone, but the United States, which had lost patience with European imperialism and fretted that the escapade would inflame pro-Soviet passions in the Arab world, forced the invaders to withdraw. The weakness of war-shattered Britain had been exposed, and in colony after colony people realised that it was possible to break free. Decolonisation happened slowly at first, then in a rush: Ghana in 1957, Nigeria in 1960; then Uganda, Kenya, Tanganyika, Northern and Southern Rhodesia, Bechuanaland, Nyasaland, Basutoland and a few others all secured their independence in the early 1960s.[6] To the members of the City-focused British establishment, this was a grievous psychological blow. Streams of easy profit from the colonies, enforced by Britain's imperial armies, had seemingly dried up for ever. It seemed like a calamitous end to past glories.

Yet it was not, for in 1956, the year of Britain's great imperial humiliation at Nasser's hands, a new financial market was born in London which would nurture itself on the City's religion of freedom and would reinvent the City as a global financial centre armed with an amazing array of sophisticated new tools for extracting wealth from other parts of the world – and from other parts of Britain. Nobody imagined it then, but this market would grow so spectacularly that it would come to replace and even surpass the empire as a source of wealth and prestige for the City establishment.

The new market first came to the notice of officials at the Bank of England a few months before the Suez crisis, when they saw that the Midland Bank (now part of HSBC), one of the City's more adventurous institutions, was taking US dollar deposits unrelated to any commercial or trade deals. Under Bretton Woods this was classified as speculative activity, which wasn't allowed. The City of London in those days was an old boys' network of elaborate rituals and agreement by gentleman's handshake. Financial regulation was achieved, often quite effectively, by the Bank of England governor inviting in the relevant members of the banking establishment for tea and using discreet cultural signals to let them know they were stepping out of line. The Midland's chief foreign manager was called in, and whether or not throats were cleared in his direction, a subsequent Bank of England memo noted that the Midland 'appreciates that a warning light has been shown'. Yet the Midland was finding its new cross-border business unusually profitable, so it pressed quietly on.

One of the key problems facing any central bank trying to implement the Bretton Woods system was that it needed to have enough foreign exchange or gold reserves on hand to defend its currency at the fixed level. The Bank of England was constantly anxious about those reserves running out, making it impossible for the country to source essential foreign goods if things came to a crunch. Midland's dodgy activities were generating healthy dollar fees, which bolstered Britain's dollar reserves, so the Bank of England decided to look the other way. And as more dollar profits tumbled in, this temporary indulgence solidified into a permanent tolerance. In effect, the Bank of England had decided to host but not regulate a new market for dollars in London, yet this new business wasn't regulated or taxed by the United States either, so who *was* regulating or taxing it? The answer was nobody.

Ironically, some of the first users of this uber-capitalist market were Soviet and communist Chinese banks, whose bosses were delighted not to have their transactions overseen by Western governments during the Cold War. But their funds were soon swamped by far bigger tides, as American banks realised they could come to London and do things they weren't allowed to do at home, bypassing both the Bretton Woods straitjacket, and tight New Deal financial regulations at home.[7] In short, these bankers could take their business elsewhere to escape the rules they didn't like at home. Amid high anxiety about the loss of empire, the City establishment had quietly turned Britain into an offshore tax and financial haven.

As word got out, more and more banks, especially American ones, got in on the action. Switzerland and Luxembourg, two long-standing European tax havens, also joined the party. The Americans gave this business an appropriate name, the Eurodollar markets or the Euromarkets. This wasn't anything to do with today's euro currency; a Eurodollar was simply a dollar that had escaped Bretton Woods controls and was being traded in these new libertarian markets, mostly located in Europe. Eurodollars were a new form of stateless money and, as a London banker put it, 'completely isolated from the monetary mass' of the rest of the UK. Bankers in London would simply keep two sets of books: one for offshore Eurodollar deals in foreign currencies, where (mostly) dollars got borrowed and re-lent around the world, and a second book for deals in sterling hooked into the British economy.

So Eurodollars were in one sense dollars like any other, but in another sense they were different because they had escaped into a market outside government control, where they could behave freely. It's a bit like taking someone from their family home in the suburbs to a wild part of town and offering them whisky and cocaine. They are the same person but also different – more fun but also more irresponsible.

A Bank of England memo in those early days explained the Euromarkets' attractions: freedom from local supervisory controls such as banking regulations to stop excessive risk-taking; freedom from macroeconomic controls such as foreign exchange restrictions; low or zero taxes for the players and for their customers; secrecy and 'very liberal company legislation'. Though the Euromarkets were mostly disconnected from mainstream economies, the unrestricted interconnections between the emerging centres were intense, effectively creating a single rootless nowhere zone of finance – think of it as being a bit like cloud computing. It was an unaccountable, profitable, seamless global financial adventure playground, overseen by nobody and growing like the clappers.[8]

One of the main reasons the Euromarkets grew so fast was that their lack of controls made them a paradise for tax cheats, scammers and criminals. Another reason was that they allowed banks to create new money out of thin air without any official restraint. The banking system in any country constantly creates new money when banks make new loans to customers. As the US economist J. K. Galbraith put it, 'the process by which money is created is so simple that the mind is repelled'. To stop banks running amok, governments put brakes on money creation by enforcing reserve requirements, which restrict how much they can lend out in relation to their deposits. But the Euromarkets had none of these brakes. Eurodollar lending, a Bank of England memo noted, 'is not controlled, as regards amount, nature or tenor: reliance is placed on the commercial prudence of the lenders'. Prudent bankers won't indulge in an orgy of reckless lending, whatever the official constraints are, but the Bank of England was assuming that everyone operating in the Euromarkets was prudent.

To start with, the US authorities didn't seem too worried about these ripples across the Atlantic. Benjamin J. Cohen, who worked at the Federal Reserve Bank of New York at the time, remembers being asked to look into Eurodollars in 1962. 'It was in the manner of, "There's this development over in London we want to understand better,"' Cohen recalled, '"go over there and find out about it."' But pretty quickly it became obvious to the Americans that this interconnected system was serving as a global amplifier of financial shocks, relayed by rising tides of financial capital sluicing back and forth across the world in the Euromarkets. Worried US officials were soon calling the markets 'disruptive forces' and a dangerous 'transnational reservoir' of rootless money. By 1963 messages were flying between Washington and New York as higher interest rates in the Euromarkets drew dollars out of the US to London and beyond. A memo from the time lamented 'the undercutting of New York as a financial center' and slammed the Euromarkets for generating the same kinds of risks that caused the crash of 1929. The Federal Reserve Bank of New York and the

US Treasury complained that the markets were making ‘the pursuit of an independent monetary policy in any one country far more difficult’ and aggravating a ‘world payments disequilibrium’. Robert Roosa, a top US Treasury official, told the American banking community using the markets that they should ‘ask themselves whether they are serving the national interest’.[9]

By the beginning of the 1960s Euromarket deposits already amounted to $1 billion, the equivalent of perhaps $50 billion in today’s money. Then things went crazy. Just between 1963 and 1969, US bank deposits in London rose twentyfold. Late in that decade Roosa raised the alarm about speculative global capital flows moving around the globe ‘in magnitudes much larger than anything experienced in the past, massive movements’. Then, from 1970 to 1980, volumes expanded tenfold *again*.[10]

The Vietnam War, which heated up in the early 1970s, added to the flames, as the US was sending more dollars overseas for military spending than it was receiving back in foreign earnings. The result was a growing overhang of dollars in the global system, feeding the Euromarkets further. The twin oil price shocks of the 1970s accelerated the flows, generating giant new surges of petrodollars – more accurately, petro-Eurodollars – which the large banks recycled out of the oil-producing countries via the giant turntable in the City of London back into disastrous, criminalised cycles of Third World lending. Those loans would often be looted by national elites through bogus development schemes or outright theft, and sent back for safekeeping into the Euromarkets, where nobody would ask questions about the money’s origins, and then re-lent *again* back into those looted countries. With each turn of this whirligig, the bankers took a profitable cut.

When Mexico’s Harvard-educated president Miguel de la Madrid took power in 1982, he lectured his fellow citizens about ‘belt-tightening’ while starting to accumulate tens of millions in foreign bank accounts – $162 million in 1983 alone, according to US intelligence reports. Most of this was first obtained by snaffling the proceeds from official Mexican loans via the Euromarkets, and pretty much all of it was then stashed offshore via the Euromarkets in Geneva, London and elsewhere. ‘You have many friends here, not least in the City of London,’ gushed Margaret Thatcher at a luncheon for him in London 1985. ‘We shall continue to offer the widest possible trade opportunities to you.’

Leaders such as the murderous Jean-Claude ‘Baby Doc’ Duvalier of Haiti and the grasping Ferdinand Marcos of the Philippines became famous for looting their treasuries, and the phenomenon was far more widespread than these cases. It has been estimated that more than half the money borrowed by Mexico, Venezuela and Argentina in the late 1970s and early 1980s ‘effectively flowed right back out the door, often the same year or even month it flowed in’. In Venezuela it was nearly dollar-for-dollar. In the Euromarkets there was nobody to stop it.[11] A few people noticed, but at the time almost nobody asked where the money had gone. Meanwhile the ordinary citizens of these countries had to shoulder the burden of crushing debt repayments. From their perspective this was another giant looting machine run out of the City of London long after the formal trappings of empire had been discarded. And this looting machine needed no British soldiers and was predicated on tight secrecy. It was all but invisible.

Fuelled by murky money, the Euromarkets just kept growing. The Bank of England routinely rebuffed American requests for ideas on how to tackle the problem. ‘However much we dislike hot money we cannot be international bankers and refuse to accept money,’ a Bank of England memo said. ‘We shall do lasting damage.’[12] The Americans pressed further, and the British screw-you became more explicit. ‘It doesn’t matter to me whether Citibank is evading American regulations in London,’ said James Keogh, a top Bank official. ‘I wouldn’t particularly want to know.’[13]

Like a slow-motion nuclear explosion, the Euromarkets began to give financial globalisation a life force of its own. They metastasised beyond Britain, beyond dollars and beyond anyone’s control to become a frenzied financial battering ram, which would combine with Hayek and Friedman’s ideological fightback against government intervention to smash holes in exchange controls and the cooperative international infrastructure. By 1973 the pressures had become too great. Major currencies were allowed to float against each other. The Bretton Woods architecture was rubble. The collapse coincided with a massive oil price surge and the beginning of a new period of slower global growth, rising inequality and more frequent financial crises across the Western world.[14] It was exactly what Keynes had warned about.

And as this mayhem unfurled across the world another set of darker developments, umbilically linked to the City of London and to the Euromarkets, was gathering pace.

Tucked away in the UK's National Archives there's a long memo from a Bank of England official to a colleague at the Treasury, dated 11 April 1969. It is marked SECRET, and it radiates alarm. The memo describes some outrageous developments that a Bank of England monitoring mission had discovered on a visit to some British overseas territories in the Caribbean.

The overseas territories were, and still are, the last fragments of the British empire: fourteen territories including seven important tax havens – Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Gibraltar, Montserrat and the Turks and Caicos Islands. Alongside the tax havens of Jersey, Guernsey and the Isle of Man around the British mainland, known as the Crown Dependencies, these colonies did not cut all their ties with Britain when the empire collapsed. Many already had long pedigrees as pirate refuges or dens of nefarious activities, out of the reach of the law-enforcement authorities of nearby mainland economies.[15]

These territories were either part of the Sterling Zone – whose members used the British pound – or had currencies fixed to it. Under Bretton Woods sterling could be transferred fairly freely to British territories, but if you tried to transfer money outside the Sterling Zone you hit controls on cross-border finance. This was tricky because several of these places, including the Caymans and the British Virgin Islands, used regional currencies or the US dollar as their money, so banking in these territories was routinely conducted in both dollars and pounds and also other currencies, and banks were supposed to keep different sets of books and implement exchange controls carefully between them. This was not only hard to do – even more so after they had all plunged into the super-profitable Euromarkets as well – but also created great temptations.

The author of that 1969 Bank of England memo, Stanley Payton, had noticed that these little British territories had punched holes in the Bretton Woods fence, and all sorts of curious creatures were scurrying through. The best-known and among the earliest of these were the Beatles, whose film *Help!* was shot in 1965 in the Bahamas, which was then a British colony, because they had to live there for a while in order to make it work as a tax shelter. Back in those days escaping tax was a rebellious and cool thing to do: other celebrities such as the Rolling Stones joined in, as did (later on) Richard Branson, who would state many years later that if he hadn't moved his businesses offshore, his company would be 'half the size.' (He now vigorously waves the British flag from his home in the British Virgin Islands.)

Payton's memo noted anxiously:

Events, however, seem to be moving rather faster. The potential gaps in the Exchange Control hedge can no longer be contained by occasional visits. The smaller, less sophisticated and remote Islands are receiving almost constant attention and blandishments from expatriate operators who aspire to turn them into their own private empires. The administrations in these places find it difficult to understand what is involved and to resist tempting offers … Tax haven proposals by a US resident are leading them to have second thoughts about the need for Exchange Control at all. We might need to station a man somewhere in the area.[16]

This is ferocious by crusty British civil service standards. It describes a game of whack-a-mole in this outgrowth of the Euromarkets, which is getting faster and faster, and foreign criminals and shady characters are the chief beneficiaries. But which interest groups in Britain benefited and who were the losers? Undoubtedly spurred by Payton's memo, different government departments in London, each representing different interests, bickered over what to do. In one corner was a fellow called Rednall from the Overseas Development Ministry, who seemed gung-ho for secret banking and seedy shell company business: it 'attracts entrepreneurs and financiers', he said, arguing that this was a fine way for these Caribbean microstates to develop their economies – without apparently sparing a thought for the hundreds of millions of Latin Americans, North Americans, Africans and others paying a murderous price for Britain helping their elites, drugs gangs and kleptocrats to ransack their national coffers.

Then there was the Bank of England, which has historically tended to take the side of the City of London.[17] Bank of England correspondence fretted about shoring up exchange controls and the risks that the overseas territories posed to them, but it also quietly liked the idea of foreigners stashing money in the territories, which generated foreign currency fees for handling it. As one Bank memo put it, 'We need, therefore, to be quite sure that the possible proliferation of trust companies, banks, etc. which in most cases would be no more than brass plates manipulating assets outside the Islands, does not get out of hand.' As long as sterling does not leak out of the Sterling Zone, it said, 'there is of course no objection to their providing bolt holes for non-residents'. That last sentence is, of course, code language for welcoming shady money.

But the Bank wasn't entirely gung-ho; the archives reveal a conflicted and confused institution. Other correspondence opposed a proposed 'financial pirates' nest' for the British Virgin Islands, which it suspected were to be used for drugs and gun-running. It expressed shock at a scheme proposed for the Turks and Caicos by an American, Clovis McAlpin, amounting to an 'annual tribute in return for exclusive rights, which would virtually turn him into the uncrowned king of the islands'. (The scheme came to nothing.) It fretted that the Caymans had been 'literally raided by an expatriate tax council, who overnight persuaded them to enact trust legislation which goes beyond anything yet attempted elsewhere'. This council still exists today, and plays a central role in writing the Caymans' tax haven laws.[18]

The Inland Revenue, Britain's tax authorities, had a different, clearer view. Their correspondence described the Cayman Trust Law of 1967 as 'quite uncivilised … it is deplorable that we should encounter it in territories which still derive a considerable measure of assistance from the UK'. These brass-plate entities, the Revenue argued, provided few local benefits beyond modest lawyers' fees, since nearly all the activity took place elsewhere, and island treasuries, one official estimated, 'have only received £1 for every £20 that we have lost: this is hardly an economic form of aid'. The Revenue was also anxious that the United States would be infuriated by British Virgin Islands laws to promote secret shell companies, whose users would be 'immune for at least 20 years from all enquiries from any source'. Both the Bank and the Revenue lamented the role of the accounting firm Price Waterhouse, which the correspondence claimed had been urging nearby Montserrat to set up an 'objectionable' brass-plate business.

The wrangling continued, but slowly those supporting the offshore tax haven model began to gain the upper hand. Payton at the Bank of England increasingly backed Rednall at Overseas Development, musing that this stuff might just provide the 'take-off' the islands needed. Talk shifted away from a crackdown towards using aid as a lever to nudge the territories into behaving slightly better.[19] Yet even then nothing was done, and the merry-go-round was allowed to continue, getting ever faster and more interconnected with the Euromarkets. More and more private operators flocked to the territories, urging each place to compete fiercely with its rivals by putting in place ever more devious and criminal-friendly secrecy facilities, trust laws and financial regulatory loopholes.

This era, from the mid-1950s to the early 1980s, was the great watershed between the two ages of the global system of tax havens, as the slow, discreet system of secret offshore banking dominated by the Swiss ceded ground to a more hyperactive, aggressive Anglo-Saxon strain, operating first out of the London-centred Euromarkets, then rippling out into the unpoliced and heavily criminalised British offshore network that still exists today.

This network acts like a spider's web, linking the City of London at the centre to satellite havens like the Caymans or Gibraltar.[20] A spider's web is a sinister analogy, but it's an apt one. Fees or assets captured in the web, typically from jurisdictions near the British haven in question, get fed upwards to the City of London. So for example a Colombian criminal might set up a shell company or bank in the Cayman Islands; or a French bank or energy company will establish a special purpose vehicle in Jersey to hide assets from shareholders or from government regulators; or a

Russian oligarch wants to set up a dodgy bank in Gibraltar. Sometimes illegal activity is involved, sometimes not. Each step needs lawyers, accountants and banking services, which the British network is only too happy to provide. Much of the most profitable heavy lifting happens in London, but it is often the haven that snared the business in the first place. Overall, as one far-sighted UK tax lawyer put it, ‘the UK uses the Cayman Islands and similar jurisdictions to create a tax-free space for rich people from everywhere else in the world to place their assets under UK-based management.’ Although the UK did not tax those foreigners or foreign assets directly, it could tax many of those London-based managers receiving fat fees for managing those ‘swollen sacs of undertaxed capital’ sitting offshore. Thus the UK takes a cut of the tax dodged elsewhere.

The link with London is crucial for the British territories, because it provides the reassuring legal bedrock that other fly-speck havens can’t match. If there’s a dispute over a Cayman-incorporated structure, for instance, British courts and British judges will rule on the case and have the final say. Who would deposit their money in a banana republic bank when you can go to the Cayman Islands and have your stash protected by the British legal system? This highlights the fact that tax havens turn two faces to the world. On the one hand they need to appear clean, trustworthy and efficient, to reassure flighty money that they’re not dodgy. On the other hand, they want to get their hands on as much dirty money as they can. They square this apparent contradiction with a simple offering to the world’s stateless hot money which goes roughly like this: ‘You can trust us not to steal your money, but if you want to steal someone else’s money, then you can also trust us to turn a blind eye.’

British people are admired the world over for fair play, and British judges for their incorruptibility, yet at the same time we find Roberto Saviano, Italy’s most celebrated anti-Mafia journalist, calling Britain ‘the most corrupt place on earth’ because of all the City’s dirty money. This contrast between apparently clean officials and dirty money is no coincidence; it is the heart of the offshore model.

With the collapse of the British empire in the second half of the twentieth century, the City temporarily lost its ability to use gunboats and government officials to extract riches from foreign countries, but the overseas territories tax havens, plugged into the Euromarkets, enabled the City to regain its wealth-extracting mojo. Professor Ronen Palan of City University, one of the first academics to take tax havens seriously, describes this spider's web as 'a second British empire which is at the very core of global financial markets today'.

This second financial empire, with London at the centre of a globe-spanning web of loose money, has many characteristics in common with Britain's lost territorial empire. First, the libertarian character of these escape routes strongly echoes the old empire's evangelical devotion to freedom. It was, and is, freedom from oversight that makes these offshore places such a haven for nefarious activity. Criminals inevitably flock to libertarian, unpoliced spaces for dealing in money, just as wasps will mysteriously turn up when you open a pot of strawberry jam at a summer picnic. Laws were carefully drafted to achieve maximum secrecy, and when packing crates full of drugs money flew into the Caymans or Panama, the police would be on hand to escort it safely from the airport to the local banks.

This laissez-faire approach to money in the British tax havens has extended far beyond handling the proceeds of drugs deals and organised crime, and into high finance. These territories were also zones of great freedom for banking activities, and they incubated outgrowths of the Euromarkets which posed new and fast-mutating risks for financial stability in the mainstream economies like Britain or the United States. The veteran US crime-fighting lawyer Jack Blum remembers first understanding the links between crime and financial deregulation on a trip to Cayman in the 1980s. 'I began to see that drugs were only a fraction of the thing,' he told me. 'Then there was the [other] criminal money. Then the tax evasion money. And then I realised: *Oh my God, It's all about off the books – off balance sheet*.' By 1989 the Cayman Islands, with just 25,000 inhabitants, would be on paper the world's fifth-biggest banking centre, a position it more or less holds today.

The spider's web has enabled certain people connected to the City of London to make immense profits from illegal or immoral activities while using the overseas territories like bargepoles – to hold the stink at arm's length. And in this game the British government has generally been a willing accomplice. Whenever a bad smell emerges, British officials will tell the newspapers, 'Look, chaps, these places are largely independent from us; there's really not much we can do.' Yet this claim of powerlessness is false. Her Majesty the Queen appoints the governors of British overseas territories; all their laws were and still are sent to London for approval, and Britain has always had complete power to revoke these laws. Yet it almost never does.[21]

The problem with the Janus-faced offshore business model – from the point of view of a country like Britain that hosts and encourages this kind of activity – is that it assumes one can ring-fence the dirt and the criminality safely away from the rest of your economy, from your democracy and from society. This, however, is impossible, for it is precisely in the most dangerous part of your political system that the two things are most likely to meet and become intertwined: among the richest and most powerful members of society, who are of course the biggest users of tax havens.

Fish, as the saying goes, rot from the head. Crafting a national economic strategy that relies on offshore finance creates inevitable blowback, which has criminalised Britain's own elites in four main ways: it brings the wealthiest and most powerful into close proximity with criminals; it offers the elites permanent temptations to criminality; it makes criminals rich, enabling them to join the ranks of the elites; and by making it easy to escape rules and laws, it creates a culture of impunity and a real sense of being above the law.

And all this in turn helps answer a question that bothers many people about tax havens: why don't governments just close these financial brothels down? Lee Sheppard, a leading US tax expert, summarises the answer to this question as well as any: 'We fuss about them, we howl that the activity is illegal, but we don't shut them down because the town fathers are in there, with their pants around their ankles.'

And this brings us to a second major characteristic of these offshore territories: they are all, in the words of the British tax haven expert Prem Sikka, 'legislatures for hire'. Like the old colonies, their political and economic development is mainly dictated not by local democracy but by foreign interests, and in the case of tax havens this means rootless foreign money. A memo in Britain's national archives from 1969 illustrates how quickly this characteristic developed in the British territories. It described

a flow of propositions involving Crown lands put daily and endlessly to the government by private developers. These propositions are inevitably propounded in an atmosphere of geniality, lavish hospitality, implied generosity and overwhelming urgency. They are usually backed by glossy lay-outs, and declaimed by a team of businessmen supported by consultants of all sorts. They are invariably staged against an impossibly tight deadline, with an implicit threat of jam today or none tomorrow. On the other side of the table – the Administrator and his civil servants. No business expertise, no consultants, no economists, no statisticians, no specialists in any of the vital fields. Gentlemen vs Players – with the Gentlemen unskilled in the game and unversed in its rules. It is hardly surprising that the professionals are winning, hands-down.[22]

This has always been the pattern, especially in small island tax havens, where administrations staffed by former fisherfolk or owners or employees of bed-and-breakfast hotels are asked to scrutinise complex laws on special-purpose vehicles or offshore trusts. Even in those rare cases where administrators do possess the technical knowledge to understand such laws, there is a wall of money pressuring them not to oppose any proposal. With Cayman-registered banks holding US$ 1 trillion in assets, equivalent to 100,000 per cent of that microstate's gross national product, it is clear where the power lies. As a result, local administrators can usually do little more than rubber-stamp laws devised for the owners of the world's hot money. For instance, the Panama Papers leaks in 2015 revealed how Mossack Fonseca, the Panamanian firm at the centre of the scandal, effectively wrote the tax haven laws of Niue, a tiny Pacific island of 1,500 people. Mossack Fonseca got an exclusive agreement to register offshore companies there, and this operation was soon generating 80 per cent of that territory's government revenue. The logic, as described by the firm's co-founder Ramón Fonseca, was that 'if we had a jurisdiction that was small, and we had it from the beginning, we could offer people a stable environment, a stable price'. They certainly had Niue.[23]

In fact the business model of these places is deliberately anti-democratic. A tax haven's purposefully constructed loopholes are not designed to help locals escape laws and rules, but to help foreigners do so, elsewhere, offshore – and they carefully write their laws to ensure that any resulting damage is inflicted elsewhere, ring-fencing the tax haven against self-harm. This 'offshore' element means that the people who make the tax haven laws are always separated from those people, elsewhere, who are affected by those laws. So there is never democratic consultation between lawmakers in tax havens and the people elsewhere affected by their laws. That is the whole point of offshore. And it means that offshore is, almost by definition, the equivalent of the smoke-filled room, where business always gets done outside of, and indeed in opposition to, the democratic process. They operate according to the Golden Rule: whoever has the gold, makes the rules.

In such places deference to offshore financial interests becomes reinforced by a ferocious social consensus to make sure everyone does the right thing to keep bringing in the money. The wealthy high-society folk who run these places rarely do anything as crude as to throw opponents of offshore finance in jail. The threat usually lies in more discreet mechanisms, such as the knowledge that if you rock the boat, your employment opportunities will dry up or you will be ostracised. In the goldfish bowl of small-island life, where opportunities are often scant, that is usually enough to silence even the reddest of radicals. John Christensen remembers this pressure from his days when he was the official economic adviser to the tax haven of Jersey. He recalls choking with anger during meetings yet feeling immense pressure to conform to what offshore finance wanted from the island. 'It took real strength to stand up and say, "I'm sorry, I don't agree with this." I felt like the little boy farting in church.' Many years after leaving Jersey and setting up the Tax Justice Network to combat tax havens, he says he is still a hate figure in Jersey financial circles. In such places the capture of the tax haven by offshore financial interests – or financial capture – often extends into family life itself. A few years ago in one tiny tax haven I spoke to a woman who had once spoken out publicly against her country's financial laws. Subsequently, she said, her own sister would cross to the other side of the street rather than talk to her.

Financial capture is contagious too. In the 1990s the accountancy firm Price Waterhouse (now PwC), the London law firm Slaughter and May, and a Jersey-based law firm Mourant du Feu & Jeune persuaded the Jersey establishment to write a new law on limited liability partnerships which would make partners in such firms less accountable for auditing failures. Objectors to the new law were denounced as 'enemies of the state' and 'traitors', and the legislation went through. Next the large accounting firms threatened that if the UK didn't put in place a similar LLP law they would decamp to Jersey. They were bluffing, but as the *Financial Times* noted astutely at the time, 'they want to keep the threat of moving "off-shore" as a cosh with which to threaten the government'. Britain nevertheless passed its own 'competitive' LLP law. The long-term effect has been to transfer large sums of wealth away from the victims of bad audits and bank errors – most British taxpayers – to partners in the so-called Big Four accounting firms.

The capture and contagion is so virulent that since the birth of the Euromarkets offshore practices have steadily spread to onshore economies, as countries like Britain have operated under the assumption that they need to 'compete' to attract the world's hot money. There has been no larger arena for this game than the Euromarkets, which, as one analysis put it, created a giant 'translatlantic regulatory feedback loop that stimulated deregulation on both sides of the Atlantic … eroding the regulatory architecture of the postwar Keynesian state in Britain and destabilising American New Deal regulations'.[24]

This great global deregulation, via the Euromarkets and the world's tax havens, marked the proper start of the era of financialisation, another grand theme of the finance curse.

Financialisation involves a gravitational shift inside capitalism towards the needs of the finance sector, which has steadily grown in size and power. A growing global 'wall of money' is constantly seeking and finding new ways to burrow into the many nooks and crannies of our economies and our political systems, injecting debt into corporate Britain and into the housing market, and in the process delivering a payload of financial techniques and methods that have transformed the way we think about businesses, our homes, our public services and even our cultural values.[25] This global transformation has been accompanied by its ideological cousin, neoliberalism, which has encouraged governments to wrench large parts of what had been regarded as the public sector from government control and feed them to an increasingly financialised private sector.

Meanwhile another set of changes was under way in the United States which would turn out to be just as powerful as the Euromarkets in terms of undoing the progressive reforms that had generated such widespread prosperity during the Golden Age of Capitalism. These would deliver a knockout blow not to the Bretton Woods system but to an older but no less powerful democratic tradition: antitrust. And these changes would help create the wealthiest robber barons in world history.

4

The Invisible Fist

In September 2017 James Murdoch, the chairman of Sky, said an odd thing. The Murdoch family, owners of 21st Century Fox, had been trying for some time to win full control of Sky in an £11.7 billion takeover, but the British authorities had referred the move to the Competition and Markets Authority, the monopolies regulator. Murdoch complained that this decision was sending a terrible signal to the world's investors amid swirling Brexit anxiety: 'If the UK is truly open for business post-Brexit, we look forward to moving through the regulatory process.'

It was the sort of thing big businessmen say all the time, and nobody got too worked up about it. But it was a weird statement if you stop to think about it. This was an example of what I call the competitiveness agenda: the notion that you must dangle endless goodies in front of multinationals and large global investors in case they run away to somewhere like Geneva or Singapore. Murdoch had uttered a phrase that any connoisseur of the competitiveness agenda would recognise – 'open for business', which in practice means being willing to do what big banks or multinationals want, at the cost of other parts of your economy if need be. Britain, he argued, should strive to be more 'competitive' by approving a deal that would strengthen an already dominant firm, thereby restricting competition in the market. For Britain to be more 'competitive', it should reduce competition. This is obviously an odd argument, yet big businesses make it all the time.

There has been plenty of pushback against Fox's attempts to take over Sky, mostly over questions about whether the Murdochs are 'fit and proper' persons to run a media empire in Britain, and fears that Sky would be 'Foxified' to create a virulent British version of Fox News. But what's surprising is that there has been almost no effective pushback against this deal on the grounds of