

Transcript

The Secret Geographies of Finance

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I'm Michael Pryke. I'm currently head of the Department of Geography at the Open University. Little would seem to link the Cayman Islands, Crickhowell in Powys Wales, U2, and a double Irish Dutch sandwich, but if you type these names into Google, click Search, then in less than a second you'll be looking at a string of results.

Let's all follow Crickhowell and move our businesses offshore. Bono's hypocrisy on Africa. Corporate tax avoidance in Ireland. The tax attraction between Starbucks and the Netherlands. A quick read reveals the link. Taxation. Specifically, ways to reduce taxable profits, and the use of so-called offshore tax havens to help realise this goal.

Let's start with Crickhowell. The connection stems from this Welsh town's quest to shame tax avoiders, which was the subject of a BBC documentary in early 2016. As one of the participants, Irena Kovaleva told reporters, "Now we've got a moral obligation. We want to bring attention to the problem. It's very simple. If a company is based in this country and employs people in this country who pay their tax, why do they use legal loopholes paying the tax abroad?"

Irene's question teases out a number of others, from the apparently simple sounding, just how do offshore schemes work? To questions involving big concepts like social justice and the morality of tax avoidance, and they all-- well nearly all-- involve questions about geographies. How those geographies are made, and their consequences.

The task of revealing what the tax expert Richard Murphy calls a secrecy world of finance and its geographies, I would add, raises more questions than answers. There's an irony, of course, in using Google Search, and it won't have been lost on you if you've been following the news over the past few months. Google itself benefits from tax structures that link Ireland, the Netherlands, and Bermuda, and other offshore territory, with recent estimates suggesting that the use of this network has enabled the company to boost further its offshore cash mountain to more than £30 billion pounds.

Let's take a quick look at a recent avoidance tactic employed by Google in Australia, the workings of which were outlined at a tax conference in Sydney by the Australian assistant treasurer David Bradbury. He took the unusual step for a political figure in naming Google and its employment of a system called a double Irish Dutch sandwich. The sandwich is a tax avoidance technique that uses three rounds of shell companies to move profits from Australia, a high tax jurisdiction, to a low one, Bermuda.

The name comes from the way profits are moved through jurisdictions and loopholes from one Irish company, then on to a Dutch company, and finally to a second Irish company headquartered in a tax haven. This revenue transfer through a three stage series of financial shuffles allows Google to end up paying less than 12.5% on the transaction overall. Evidently the potential gains to corporations that result from distributing their revenue through various regulatory spaces are enormous, and it's not just Google, but Apple, Microsoft, Starbucks, many others do exactly the same thing.

In the UK, where corporate tax is 20%, recent estimates suggest that 100 FTSE companies use 8,000 tax haven registered companies to lessen their corporate tax bills. The same estimate suggests that some 20 billion per annum in lost taxes results from the use of offshore tax avoidance schemes. Roughly the same amount that will be cut from government departments over the next four years.

The movements and flows outlined here suggest a series of geographies essential to the profits of Google, Microsoft, Starbucks, and other major corporations. Yet these are a qualitatively different kind of geography to that traced as the same corporations design, build and distribute their products. Apple, for example, although headquartered in California, conducts its business across the globe from Europe to India and Asia, develops its products mainly through the US based research and development, it sources materials and components from across the globe, assembles the finished products in China, and then distributes them throughout the world via distribution centers headquartered in the US and Ireland.

Both the taxation and production geographies are clearly global. The latter, though, it's tempting to say, is a geography made through tangible territories. The solid ground housing, the assembly plant in China, for example, trackable through the physical export of iPads, iPhones, and so on from China through to the USA. Stuff, real stuff, moves from one territory to another across national borders.

The other geography, the one that enables tax avoidance, is slightly trickier to pin down. For although tax avoidance involves places that could be located on a map, the Caymans, Ireland, Holland, Bermuda, the secret world is more virtual than real, enabled not just by communication networks and IT, but by tax jurisdictions and regulations, and significantly the loopholes in both discovered and created by accounting and legal specialists.

This is a geography innovatively shaped by a different set of cartographers to those who lay out the routes for the physical production of say, Apple's computers. The cartographers of tax avoidance include highly paid specialists, tax lawyers and barristers, accountants and financial advisors offering discreet bespoke advice, as well as a host of advisors and consultants dedicated to the offshore business.

This is an important reminder of some of the key social relations involved in the secret world of finance and tax avoidance. As the social anthropologist Bill Maurer reminds us, "The claim that pure geography creates tax havens conceals the social conditions and actions necessary to the establishment of any financial agreement." As he goes on to say, "Such things do not arise by themselves out of the soil."

This brings us back to Irena Kovaleva question at the start. Why do corporations use legal loopholes paying their tax abroad? Well, because they can. And they can do so legally because current politics produces the enabling legal and accounting framework that renders such movement legitimate.

Finance moves through its secret geographies not simply courtesy of computers, but because the current dominant political climate legitimizes the mobility that creates opportunities for tax avoidance. And the benefits for corporations are significant. For the rest of us, for society, the benefits, well, they're far less clear.

If, as an economist has argued recently, offshore tax arrangements act as fiscal termites gnawing at the foundations of national tax systems, then wider society stands to lose out. Arguably then, offshore schemes work to heighten inequality within and across societies. For me, this suggests that just how offshore operates and for whom should be less secret and instead open to questions that involve moral arguments, and questions of social justice. In other words, the broader politics of finance and its geographies.