

Tax Havens in Context

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Craig M. Boise & Andrew Morriss, *Change, Dependency, and Regime Plasticity in Offshore Financial Intermediation: The Saga of the Netherlands Antilles* (Univ. Ill. Law & Econ. Research Paper No. LE08-020). Available at [SSRN](#).

Craig Boise and Andrew Morriss have produced a fascinating account of the emergence and role of the offshore financial sector with this case study of the Netherlands Antilles—once a powerhouse, now struggling to stay alive in the global economy. With places like the Antilles again in the political and media spotlight, cast in their now-familiar role as renegades in international society, I have long thought we were overdue for an account that carefully considers the view from these countries and provides the context we critically need to understand the dynamics between tax competition and economic development. This article may well be the most accessible account of the complicated history that shaped U.S. policy toward a growing number of tiny islands with tiny populations and limited opportunities for economic vitality.

It is certainly the most thorough and thoughtful analysis I have encountered on the topic of why “tax havens” exist. Boise and Morriss bring us on a lively tour through the history of the Antilles and its complicated relationship with the United States. They use first-hand accounts and historical research to build a narrative that is decidedly different than the story usually told by those who emphasize the need for crackdown when cooperation cannot yield a mutually beneficial result. For instance, it may surprise readers to learn that the rise of the Antilles as an offshore financial center occurred not as opportunistic banditry but as the result of a serendipitous confluence of factors, all of which served goals other than facilitating tax evasion. You will have to read the paper to find out how the Antilles met a dire need for asset protection during World War II, and how it facilitated American access to the Eurobond markets at a time when the United States depended heavily on foreign borrowing for its economic success. You will also need to read this paper to see why the crackdown on places like the Antilles will likely be as futile as it is harmful to the populations whose livelihood depends on their ability to facilitate transactions in the global economy.

Readers will no doubt be unsympathetic to tax havens, and certainly to tax evaders—I am certainly no fan of Bono, the Rolling Stones, or any other person or group that prefers not to contribute to the social orders that make their fortune possible. But this paper shows that the problem of tax evasion cannot plausibly be viewed as simply a collective action problem that could be solved by universal adherence to norms that would “level” the tax competition playing field, as envisioned in places like the OECD. Once it is clear that the benefit of eliminating tax havens goes only to the world’s wealthiest countries, we may be less inclined to sit in moral judgment of nations that rely on their financial services industries for their economic survival.

You should read this paper if you want to understand what it is that offshore financial sectors offer to American and other investors and what role the United States and other developed countries play in ensuring that tax havens will always exist (even as the message to the public declares otherwise). You may come away from the paper with a little less enthusiasm than the authors for the regulatory tactics employed by these islands, but we could all do better to understand the context of the problems we face in a world of bound sovereigns but footloose capital. I highly recommend this article and hope that it becomes required reading for anyone who takes seriously the dual issues of global tax evasion and disparate economic development.

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