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6010

91/20 Dean
Claremont
Western Australia
18/7/96

The Office Manager
Financial System Inquiry
Treasury Building
Parkes Place
Parkes ACT 2600

Dear Ms.Sykes,

Thank you very much for your letter of 6/7/96 containing the information kit. I am pleased that my two articles will be included in the Financial System Inquiry as submission No:2. As I believe that it is important to follow the correct procedure per instructions I am making the following changes:-

- 1) My original letter to you contained a mistake and I would request that you substitute it with the improved version.
- 2) I am enclosing a formal letter to Mr.Stan Wallis, the Inquiry Chairman.
- 3) I am enclosing my CV.
- 4) I am enclosing a further submission (A) to clarify certain aspects of my articles and identified the other 2 articles as (B)&(C). Please substitute the new copies for the old.
- 5) I am enclosing a computer disk, Apple Mac Quadra 610. The letters, written in Claris Works will be presented in Microsoft Version 4. The articles will be presented in Rich Text format. Hope that this will be readable at your end.
- 6) I am the contact person, contact address as above.

Yours sincerely,

Tel /Fax: 61 (0)9 3851830
Street

6010

91/20 Dean

Claremont
Western Australia

23/6/96

The Secretary
Financial System Inquiry
Treasury Building
Parkes Place
Parkes ACT 2600

Dear Sir/ Madam,

Further to your advertisement in the West Australian I am enclosing two articles which I hope will add to the inquiry. Both articles are on Apple Macintosh system and I can send a disc if required. Would the information kit be helpful to me? If yes, please send it to the above address.

It may be necessary to accompany the articles by a submission giving further details. I would appreciate advice.

Yours sincerely,

Gertrud H Thompson, B.Sc., Ph.D., F.A.I.P.

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Street
Email: truditwa@iinet.net.au
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91/20 Dean
Claremont
Western Australia
21/7/96

Mr.Stan Wallis
Chairman,
Financial System Inquiry, 1996

Dear Mr.Wallis,

Because I was trained as a physicist, CV enclosed, I used the analogy of the "Black Hole" for my talk on the ABC, Ockham's Razor, 1995, here submission section (B). Since then the term "Black Hole" has been misused on the news, sometimes describing the national debt and sometimes describing the budget deficit. Of course, these applications are wrong.

I wrote submission section (C) this year. It was published by Mr.Bob Santamaria under the title, his choice, "Tax havens siphon off billions of dollars."

Submission section (A) is giving special attention to the Financial System Inquiry- Terms of Reference. I hope this is satisfactory and that you will take this difficult subject on board!

Yours sincerely,

Gertrud H.Thompson, B.Sc.,Ph.D.,F.A.I.P.

(A)
FINANCIAL SYSTEM INQUIRY- TERMS OF REFERENCE

Mission:

In 1996, a financial system inquiry dealing with the effect of deregulation of the market cannot be relevant if the profound and disturbing effects from "Tax Havens" are not taken into consideration. My thoughts on this subject are summarised in submission parts (B)&(C), both are previous publications. Here I will add comments required by your terms of reference:-

1) Fairness: When a democratically elected government finds itself in a financial position where it cannot balance its budget because of enormous tax avoidance and tax evasion, one can hardly speak of a fair situation. Worse, the resulting, ever increasing balance of payments deficit ironically forces the government to borrow money deposited in Tax Havens to pay the interest on this debt. This makes the democratically elected government a puppet of the Tax Havens.

As a result fairness to various sections of the community has been seriously undermined. Public facilities of great importance in a modern democratic society, such as schools, hospitals, universities, libraries, public broadcasting, research facilities are being decimated! The living standard of middle class citizens has been in decline. The environment, which in Australia is particularly fragile, is being destroyed with devastating consequences for those Australians who will be living in the next century.

2) Prudence: Until action is taken to remedy the influence of Tax Havens a position of imprudence exists as the financial situation spirals exponentially towards unavoidable disaster.

3) Integrity: Integrity is being replaced by corruption. Western Australia has been an excellent example. Since 1986 we have witnessed State Government corruption on an unprecedented scale. Secret arrangements, via Tax Havens, have made it impossible to trace millions of lost dollars even after criminal conviction. 10 years later, legal proceedings are still continuing at great cost to the ordinary tax

payer. Local council and police corruption are on the increase.

4) Stability: At present stability is being maintained by selling public assets. This cannot last as we have seen in the U.K. . It is impossible to maintain stability in an individual country while operating in an international lawless market.

Specifics:

The Inquiry into the Australian Financial System ("Campbell Report")1981

As the previous inquiry into the Australian Financial System had taken place before World War II, the Campbell Report was undertaken to determine the position of the Australian economy in recently deregulated national and international markets. It strongly supported deregulation with few precautionary comments. The report is now 15 years old and needs urgent revision. As hindsight comes easy, my negative comments on the Campbell Report should not be taken as criticism!

In its 838 pages the report does not mention Tax Havens although these existed at the time, albeit with a much smaller capital base.

The report does not deal with ways of preventing tax avoidance or tax evasion.

The discussion of the Futures Exchange is confined to two pages and is mainly concerned with the Sydney Futures Exchange. International problems are not discussed. Under 21.25, page 368, the Rae Committee detailed various instances of improper practices in securities markets such as market rigging. But how can this be controlled when it occurs in secret overseas yet with profound effect on the Australian market, especially when futures in currency speculation are involved?

In Chapter 4, "Instruments of Monetary Policy", Table 4.1 lists interest rates in the Australian short term money market between 1960 and 1980. These ranged from 3.5% to 18.80%. The period of high interest rates corresponded to the period of high inflation. To-day with interest rates low, inflation is low. This is

exactly the opposite of what we have been led to believe, namely that rise in interest rates controls inflation!

At present the Australian Reserve Bank seems to be the main stabilising influence in Australia. In its booklet "Reserve Bank in the Market Place, 1990," Article "The Reserve Bank's Foreign Exchange Market Operations", the impact of deregulation on the Australian Dollar is discussed. The Campbell Report comes under some criticism for not anticipating problems correctly. During the stock market crash in October 1987 the Reserve Bank had to sell \$A2.5 billion in foreign currency to stabilise the situation. The booklet is 6 years old and should be brought up to date.

The role of the Australian Securities Commission should come under review.

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(B)

Talk for Ockham's Razor

Black Holes of Economics

by

Gertrud Thompson

What is a Black Hole?

A Black Hole is an astronomical phenomenon. It is the result of a star collapsing on itself, a star where all interatomic spaces have vanished. Astronomers have had to infer its existence in order to account for the strange behaviour of fast rotating stars observed in the galaxy. This behaviour can only be explained by the proposition that a huge gravitational

field exists around which the star is travelling. For example:- If the sun

were to collapse, its radius would be 2 miles. Then its gravitation, the force that attracts other bodies would become a trillion times stronger.

On

the surface of the sun the force would be so huge that it would

prevent light

waves from leaving making it appear as a black hole to an outside observer.

Any matter coming too close would be swallowed. It is this latter

property

that prompted the analogy with the modern economic phenomenon

namely

the Tax Havens.

What are Tax Havens?

Retirement offered me the opportunity for extensive travel. On my journey I

encountered the Tax Havens. I found that Tax Havens have been established

in small countries or islands when these deliberately adopted the policy of

keeping bank accounts secret. After WW2, when interest rates were still 3

to 4%, only Switzerland with its numbered accounts was a real player.

Mainly the fortunes of oil sheikhs and some crooked moneys from pre-war

Nazis were hidden there but on the international scale this had little or no

impact. As interest rates started to rise other players such as the

Bank of

Bermuda, on the island of Bermuda, Banks in the Channel Islands, which lie

between Britain and France, and Banks in the Caribbean entered this market.

When the Carribean Islands became independent from Britain in the 70's, the

financial community acquired the Cayman Islands, just south of Jamaica.

There they established a giant Tax Haven. Some small European states, like

Andorra, where you may live without paying tax, also classify as Tax

Havens. These states have their individual rules about residence requirements. Many retired expatriates choose to live there. But Havens have this feature in common:- The Banks invest their clients' deposits on the world market depositing interest and gains in secret accounts. Whether this is legal or illegal depends on the client who may be living anywhere. If the client reports the interest or gains correctly to the tax department in the country of residence then it is not an illegal act in itself.

What has caused the phenomenal growth of the Tax Havens? Deregulation of the financial system has caused this growth. Deregulation can frequently be of great advantage by removing unnecessary obstacles from sound commercial operations. For example:- Some years ago in the United States, banks were only permitted to invest in their home State not even in other States of the Union. They worked under strict government controls. It was cumbersome to transfer money from one State to another. To-day anyone may invest money anywhere, money can be moved from one country to another, currencies can be bought and sold without government permission. Most other democratic countries including Australia, work with such a deregulated economy. Modern technology helps to make all transfers a speedy operation. The next act of deregulation has been the reintroduction of the futures market. This can be of tremendous help to primary producers but it was outlawed after the 1930's crash because it was held responsible for the crash. The reintroduction occurred without a murmur. But dealing in futures, especially in currencies, represents a great danger as recently observed by the demise of Baring's Bank. Constant changes in currency evaluation can be very costly especially to poorer countries for example Mexico. The ordinary citizen, who is the loser, is unaware of this cause for increasing poverty. With deregulation in place, dealers living in Tax Havens have been able to accumulate fortunes, as none pay tax on their gains. Ever greater sums are being invested causing large, constant currency fluctuations. During my journey I found that most banks were represented in

the Tax Havens, for example, the ANZ's overseas partner, Grindlays Bank, operates in the Channel Islands, Westpac has offices in Hong Kong, Barclays, Lloyds all are involved. All this is completely legal. Because of the secrecy surrounding deposits, illegal operations have also brought money into the Havens. We have learnt about drug and illegal armament money being laundered there. Bank collapses such as BCCI, US Savings and Loans, where President Bush's son was involved, our own WA Inc. and other Australian scandals must have added to the pile. I have also heard that some exporters and importers do not report their accounts accurately, but withhold about 10%, thus costing a loss of 20% turn around to the balance of payments. This money also finds its way into the Tax Havens. In 1992 I read that in the Cayman Islands alone 4000 billion US dollars were deposited, which is an amount larger than the US National debt. I wonder how much money we would find there to-day?

What are the consequences of this situation?

Because so many commercial transactions are taking place without paying tax, elected governments lose more than 1000 billion dollars in legitimate tax revenue per year. As a result governments cannot balance their budgets and the balance of payments is in the red in most countries. In fact the situation is now so ironic that elected governments are forced to borrow from this pool of money in the Tax Havens to finance their debts. Interest paid to these pirates increases their power. When national assets are sold financial corporations residing in the Havens could be buying them. This dangerous situation is made worse as media barons shelter their money in the Havens and are more and more able to manipulate our knowledge to the point of influencing the outcome of elections. Ever since the Thatcher- Reagan era greed has become a virtue and the accumulation of fortunes laudable. As a result of this situation, the gap between the living standards of the rich and the poor has widened. Social services have been cut world wide. Our excellent public health service is deliberately being destroyed. Public education at all levels is under threat. There are insufficient funds to restore the environment. Crime is on the rise

everywhere. The unemployment rate is huge and we are fast approaching the problems that lead to WW2, when dangerous right wing lunatics offered primitive solutions to people who had lost hope and felt exploited.

Where do we go from here?

When money was first introduced in classical times the aim was to facilitate commerce. Once the coins were created they could not disappear,

of course, even then someone hid their coins in a jar, which we would find

2000 years later. But these minor incidences had no effect on the amount of

money in circulation. To-day commerce is a much more complicated proposition but we also have more powerful tools to solve the problems that

arise. Since the famous physicist John von Neumann together with Oskar

Morgenstern published "The Theory of Games and Economic Behaviour" in

1944, statistical and scientific theories have been applied to gain understanding and find solutions to economic problems. One of the most

distinguished economist working in this field in California is Prof.

John

Harsanyi who has published rigorous analyses of complicated economic

situations, even writing about the ethical component of trade. Why then are

able economists not applying their talents to the situation of the Tax Havens? After all it is obvious that something is amiss. Not all countries

can have a budget deficit, as a deficit must be balanced by a profit.

I have only come across one international economist discussing these problems. He is Manfred Max-Neef, who gave a brilliant lecture at the University of Western Australia showing that international agreements like

GATT require international commercial legislation plus an international

legal structure to avoid fraud. He clearly demonstrated that we are facing

the age old problem which is:- Regulation versus freedom or as so beautifully stated in the bible, tables of the law versus the golden calf.

This

eminent man received hardly any publicity. Why? Then, much to my surprise,

the West Australian published an article by Rex Bevan, research manager of

Western Pacific Securities which read:- Looking directly at the balance of

payments issue, examinations of the numbers suggest not so much that we

import too many goods and services and don't export enough, but rather that

we send too much money overseas as interest payment on debt. We find that

something like two-thirds of our private foreign debt has been run up by companies. While nominally these are Australian (being Australian registered companies) they are in fact the Australian subsidiaries of overseas groups. The upshot of these tax driven financial arrangements is that amounts, which would otherwise accrue to Australian savings in the form of Australian company tax payments and undistributed profits, actually go offshore to the detriment of our balance of payments performance; end of quote.

I have contacted many politicians of all different political persuasions in Australia and in other countries. I rarely receive a reply. Politicians just acknowledge receipt of letter and that is all I ever hear. With amazement I watch how the newly elected Republican Congress in the USA is pretending to balance the budget some time down the track. All our elected representatives appear to be unaware of the enormous financial abyss that we are facing, as more and more money is being sucked into the Tax Havens, the Black Holes in our economic system. Nevertheless and in spite of the secrecy surrounding Tax Havens, it should be possible for governments to obtain information about moneys deposited there, as all major banks are taking part. We must, therefore, demand honest accounting. Ordinary tax paying citizens must demand that the Tax Havens be abolished and their bank accounts opened to an international regulatory authority. In addition, this authority should have powers to regulate tax paid on international commerce. Enforcement of the new rules would be easy as none of these small countries could survive economic sanctions for any length of time. Perhaps some politicians and industrialists will be embarrassed when the truth emerges. That should not deter us. We, the people, must demand action. Once there is this will, there is a way!

—

(C) Tax Havens 1996
(published News Weekly, 9/3/96)

1996 is an election year not only in Australia but also in the U.S.A. It is therefore of great importance that the subject:-

"Tax Havens and their Influence on National Economies"

be included in the political discussion.

All are aware that financial problems exist. Most countries cannot balance their budgets with their national deficit constantly on the increase. In the U.S.A. this has resulted in a partial shut down of government, in France we have witnessed huge strikes due to the attempted curtailment of social programs and in Italy formation of any government appears in doubt due to the amazing amount of corruption. Here, in Australia, we witness both major parties making promises which we all know are fatuous due to the financial situation.

How has this situation arisen? The short answer is tax havens. These first appeared after World War 2 and since then their number has been growing steadily. In 1978, Erasmus University, Rotterdam, Holland wrote a report which opened with a significant sentence: "Owing to the complexity of the factual material and to the secrecy surrounding tax haven operations, analysis of tax haven concepts cannot be more than introductory." In 1977 the OECD undertook a detailed study of tax havens. Their report was published 10 years later in 1987. It urged "governments of the Council of Europe member states to abolish unduly strict rules on bank secrecy with a view to facilitate investigations in cases of tax evasion." It also pointed out "the lack of equity between those taxpayers who can and do exploit this particular loophole and those who cannot". But beyond this mild admonition no serious condemnation of the practice itself appeared in their report.

Since then a dramatic increase in the number of books and articles on tax havens has occurred showing people how to participate in the scam. One such book: Tax Havens by A.S. Ginsburg, published in 1991, stated in its conclusion that "50% of all the world's money was to be found in tax

havens or was transferred through them"! It quoted tables of deposits in tax havens in billion U.S. dollars. These tables were collected by the IMF. In 1992, I read in an airline journal that in the Cayman Islands alone 4000 billion U.S.dollars were deposited. To-day hundreds of articles on tax havens can be found on the Internet. Combing through one hundred of them, I did not find a single one discussing the financial predicament that has arisen, as they were basically advertisements telling people how to manipulate the system. Some were even so outspoken, stating that all taxes amount to robbery!

This shows that many people have a contorted view about democracy and democratic government. We elect a government to govern and must provide the necessary funds for it to operate. How the money is to be spent depends on the collective philosophy of the population. We must discuss and decide to what extent our society should be operating to ensure good education and medical care for all, a clean environment, minimum unemployment besides an adequate police and defence force. But one thing is certain, we should not allow ourselves to be manipulated by a non elected oligarchy with their moneys deposited in tax havens. At present the Australian foreign debt is said to be upward of AUS \$126 billion which means that for a population of 16 million people every person owes more than \$7000. In the U.S.A. it is said to be US \$5 trillion dollars (5000 billion) which means that for a population of 300 million people, each person owes U.S.\$ 16000. Even worse, to finance these deficits governments have had to resort to borrow from organisations in tax havens which thus become even richer.

The situation is now so far out of balance that politicians will not talk about this subject for fear of losing their sponsors, the news media will not discuss the subject for fear of losing their advertising revenue or offending their press barons whose huge fortunes reside in the tax havens.

I must, therefore, call on all honest and courageous television programmers and journalists to raise the following questions:

- 1) How much money does the country (in our case Australia) lose in tax revenue by this type of tax avoidance?
- 2) How much do secret accounts in tax havens encourage corruption?
- 3) Do sales of national assets like Telstra increase the power of tax havens as most of the stock resides there.

4) Are you in favour of abolishing tax havens? If yes, by government minister or opposition, what do you intend to do during your period in office?

Last year while visiting a court house in Germany, I found a notice in the law library informing judges and other legal staff how to open numbered accounts in Austria. I believe this to be my first real evidence of corruption being encouraged in the legal profession. I have also found that most books on tax havens are to be found in University Law School libraries, interesting as secret accounts make corruption virtually untraceable.

How do we proceed? We must demand that our government co-operates with an international body composed of U.S., OECD, etc. immediately. This powerful organisation must threaten economic sanctions to all small islands and countries calling themselves tax havens or practising banking in a secret manner until all numbered accounts are opened. Moneys not claimed by the owners will be forfeited and will be used to pay various national deficits. All other accounts will be treated in the normal manner with tax levied in future under new international agreements. No honest person or company will be disadvantaged as all commerce will be conducted under new and fair international rules.

It is essential that we demand strong action. It is the only way to avoid the disasters that we, older people, experienced at the beginning of the century or going back in history, the horrors of the French revolution. With a will, courage and foresight we can avoid this new disaster in the next century.

Gertrud H. Thompson, Ph.D., B.Sc., F.A.I.P.