

## Tax Justice Network.

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### A little learning is a dangerous thing.

Amongst the many nonsenses parading as economic theory these days, the notion of tax competition is probably the most [corrupting](#), especially when it is being touted by an official from a tax haven which specialises in providing offshore mechanisms for tax evasion. Philip Bailhache is Bailiff of Jersey. He is unelected and has no authority to speak on political issues at international fora. His family law firm specialised in offshore tax avoidance. He is quoted in the Jersey Evening Post (9 October 2006) saying: "*Lip service is paid to tax competition, but the instincts of larger countries too often rebel against it.*" This type of talk goes down a bundle amongst tax avoidance practitioners in tax havens like Liechtenstein (where he uttered this nonsense), but Bailhache should be exposed for the charlatan he undoubtedly is.

The theory of competition originates from the micro economic theory of the firm. In theory large numbers of small firms compete to provide goods and services to the public. Competition helps to stimulate innovation, improve productivity, prevent companies from colluding to fix prices, and generally strengthens the efficiency of market mechanisms. In reality, of course, markets are frequently dominated by large companies which do not compete either on price or on the quality of their output, but the theory of competition marks out something worth striving for. Tax competition, on the other hand, distorts markets by subsidising capital, rewarding the larger players (who are better placed to use offshore tax avoidance vehicles) and undermining Ricardian theory of comparative advantage. Not that Bailhache will know anything about such issues.

Trying to apply competition theory to nation states, however, throws up all sorts of issues:

- What evidence is there to support the view that tax competition between nations will stimulate improvements in the efficiency of providing public services, rather than simply forcing cut-backs and inefficient privatisations?
- How can large nations which invest heavily in infrastructure, education, training, research and development, and public welfare, protect their tax revenues from predatory nations which offer businesses and rich individuals the opportunity to free-ride (in the economic sense) by parking their incomes in offshore companies?
- What mechanisms exist to ensure that the public benefits from tax competition, when in practice the only beneficiaries are shareholders who probably live in totally different jurisdiction and probably pay no tax themselves?

- What can be done to prevent tax competition from shifting the tax burden away from capital and onto to labour and consumption - as has been happening over the past three decades?

- What rules need to be enforced to prevent tax competition from eroding the tax base of developing countries, which are already starved of tax revenues?

In practice there is no evidence that tax competition is helpful in any way whatsoever, and plenty of evidence that it is harmful. [Oxfam](#) has calculated that tax competition (and related tax avoidance by multinational companies) cost developing countries \$50 billion annually. That was back in the late-1990s, since when the situation has deteriorated.

Of course, the fact that governments do not compete against one another to provide defence, health, education and other public services to their citizens has not inhibited prominent economists from supporting the concept. Milton Friedman ( a leading member of the Chicago Boys who advised Augusto Pinochet during his dictatorship) is quoted on one right-wing website (funded by offshore banks) saying:

*"Competition among national governments in the public services they provide and in the taxes they impose, is every bit as productive as competition among individuals or enterprises in the goods and services they offer for sale and the prices they offer."*

The rich love this, but according to FT columnist Martin Wolf (a leading proponent of globalisation theory): *"The notion of the competitiveness of countries, on the model of the competitiveness of companies, is nonsense."* In practice, competing on tax is akin to competing on dismantling environmental protection. It makes no sense and will only benefit those chasing short term profits at the expense of the future.

Under increased pressure from multilateral agencies and donor countries, some of the world's poorest nations have succumbed to pressures to compete by offering wholly ineffective tax holidays. The recent deal struck between the [Mittal steel company](#) (a dominant player in that industry) and Liberia, serves to illustrate the point. In addition to negotiating special terms to undermine that country's labour regulations (who benefits?), Mittal has also negotiated a 5-year tax holiday and a further special treatment which enables Mittal, not the Liberian government, to determine what tax rate will be payable on profits generated once the tax holiday terminates. It is hard to see what benefits will accrue to Liberia even after the tax holiday expires, but why should a dominant company be subsidised in this way?

Philip Bailhache is a lawyer by training. He has no qualification as an economist and no experience in life beyond the narrow confines of a tax haven. He was

brought up with all the privileges and arrogance of his upper middle class background and private education. He has never had to confront the harsh realities of poverty, unemployment, discrimination and alination. In chastising major nations for seeking to protect their tax revenues from predatory tax havens, he reveals both his ignorance of economics and the true nature of his politics (despite being an unelected Crown appointment, Philip is a deeply political animal). Like many lawyers engaged in the tax avoidance industry, he belongs to the hard-right of the political spectrum and promotes Jersey's role as vehicle for profiteering from promoting tax dodges for the wealthy and the powerful.

So here's a challenge to Philip Bailhache: Let's see whether your ideas can survive critical scrutiny from real experts. Provide answers to the above questions and I will have them published in the next issue of [\*\*Tax Justice Focus\*\*](#), which as it happens will have tax competition as its principle theme and me as its guest editor.

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