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CNBC

Wealthy Stash \$21 Trillion in 'Pirate' Banks

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There are two banking systems for the wealthy. Private banks. And "pirate" banks.

"Pirate banks" form a large and fast-growing virtual banking system that has helped the wealthy hide more than \$21 trillion offshore, according to a new report from the left-leaning Tax Justice Network USA.

That hidden wealth is costing governments \$280 billion a year in lost tax revenue, the report says.

The report says much of that wealth is held by fewer than 10 million of the global super-wealthy and is handled by the world's 50 largest banks. Today's "pirate banking" clients include everyone from "30-year-old Chinese real-estate speculators and Silicon Valley software tycoons to Dubai oil sheks, Russian presidents, mineral-rich African dictators and Mexican drug lords," the report said.

"The 'pirate banking' system now launders, shelters, manages and, if necessary, re-domiciles the riches of many of the world's worst villains, as well as the tangible and intangible assets and liabilities of many of our wealthiest individuals," said the report.

The report states that the top 50 banks managed more than \$12 trillion in cross-border invested assets from private clients, trusts and foundations. While the report doesn't break down how much if any of those flows are illegal, it states that "they are key players in many havens around the globe, and key enablers of the global tax injustice system."

The report was written by James Henry, a former economist for McKinsey & Co.

Of course, determining how much wealth is hidden overseas is an imprecise science. And many conservative groups contest the estimate.

The problem, says Dan Mitchell, a senior fellow at the Cato Institute, is that the estimate is based on a series of assumptions aimed at making people "believe that much of cross-border investing is all about tax evasion and that all this money should go to government, and that this would be a good thing." The real problem facing governments, Mitchell says, is spending not revenues.

The Tax Justice Network used data from the World Bank and International Monetary Fund, the United Nations, central banks and national accounts to model capital flows for 139 countries. It supplemented this with other data on transfer prices and reserve currencies, along with consulting firm research on offshoring.

All that data-crunching resulted in the estimate that the world's wealthy have between \$21 trillion and \$32 trillion stashed offshore, and that the world's top 50 banks collectively manage more than \$12 trillion of that money. Smaller banks, investment banks, insurance companies, hedge funds and independent money managers oversaw the rest.

The \$21 trillion to \$32 trillion estimate does not include real estate, yachts, thoroughbreds or gold bricks, which could also increase the number.

The report says that traditional offshore havens like Switzerland and Singapore hold substantial amounts. But much of the offshore fortune is held in a "virtual country" - a network of complicated cross-border entities designed to shelter wealth.

An asset may be "owned by an anonymous offshore company in one jurisdiction, which is in turn owned by a trust in another jurisdiction, whose trustees are in yet another jurisdiction," the report said.