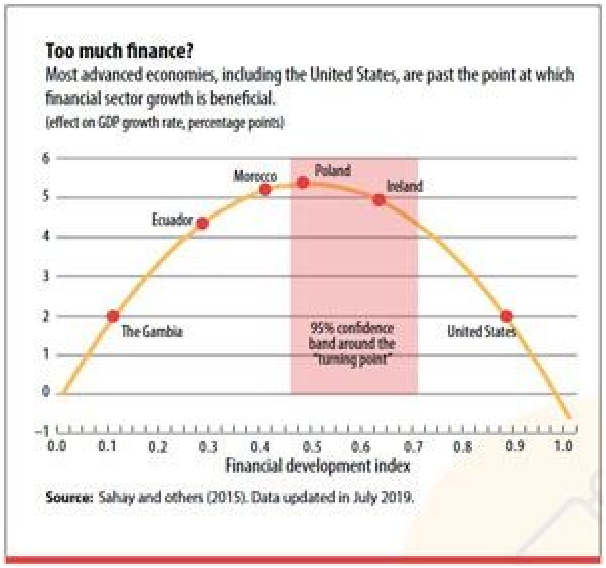
AFD 298 Links and Notes - White Collar Crime

- https://www.huffpost.com/highline/article/white-collar-crime/ ("The Golden Age of White Collar Crime" - by Michael Hobbes, a senior enterprise reporter for HuffPost)
    - *Since 2015, criminal penalties levied by the Justice Department have fallen from $3.6 billion to roughly $110 million. Illicit profits seized by the Securities and Exchange Commission have reportedly dropped by more than half. In 2018, a year when nearly 19,000 people were sentenced in federal court for drug crimes alone, prosecutors convicted just 37 corporate criminals who worked at firms with more than 50 employees.*
    - *Tax evasion, to pick just one crime concentrated among the wealthy, already siphons up to 10,000 times more money out of the U.S. economy every year than bank robberies.*
    - *In 2017, researchers estimated that fraud by America's largest corporations cost Americans up to $360 billion annually between 1996 and 2004. That's roughly two decades' worth of street crime every single year.*
    - *Perhaps the greatest myth about white-collar crime is that Americans struggle to understand it—as if chemical companies toxifying rivers or insurance executives gouging their customers fail to stimulate our moral intuitions. In fact, surveys consistently show that the vast majority of the population considers white-collar crime more harmful than street crime and powerful offenders more odious than common criminals. Those intuitions are correct: An entrenched, unfettered class of superpredators is wreaking havoc on American society. And in the process, they've broken the only systems capable of stopping them.*
    - *Even though auditing millionaires and billionaires is one of the most cost-effective government activities imaginable—an independent report estimated in 2014 that it yielded up to $4,545 in recovered revenue per hour of staff time—the IRS investigated the returns of just 3 percent of American millionaires in 2017.*
    - *In a case-by-case analysis of the 216 alleged large-scale corporate frauds discovered between 1996 and 2004, researchers found that the media uncovered twice as many as the SEC.*
- https://en.wikipedia.org/wiki/Upper_Big_Branch_Mine_disaster
- Boston Globe Ideas Jan 2018 "Trillions of dollars have sloshed into offshore tax havens. Here's how to get it back" https://www.bostonglobe.com/ideas/2018/01/20/trillions-dollars-have-sloshed-into-offshore-tax-havens-here-how-get-back/2wQAzH5DGRw0mFH0YPqKZJ/story.html (this is also noteworthy in that it was an attempt to grapple at least in part with the Paradise Papers https://en.wikipedia.org/wiki/Paradise_Papers of Nov 2017 which no one remembers much like no one remembers the Panama Papers https://en.wikipedia.org/wiki/Panama_Papers of Spring 2016)
    - This article has a great section on the concept of "formulary apportionment" where the value your company generates as a whole in a given country should be taxable in that country regardless of registration, and they discuss the history of US railroads trying to argue they should only pay a small fee to each county they pass through rather than a percentage of their total national value based on how much of the value was being contributed toward the aggregate by each county being home to a stretch of rail and rail activity

        - *Experts say the same model could be applied to international taxation.If Apple sold half its iPhones and laptops in the United States, then half of its profits would be subject to the American corporate income tax. Simple as that. With apportionment, it wouldn't matter where a corporation put its money. Apple could stash its billions in a shell company on the island of Jersey or in a bank account in Jersey City. It's the geography of consumers, not cash, that would control. That makes the system much harder to game, says Kimberly Clausing, a Reed College economics professor. You can ship all your money to an exotic isle at the stroke of a pen, but "you can't move all your consumers to Bermuda. Consumers are pretty sticky. They stay where they are."*
- IMF "Finance & Development" Sept 2019 article on the damage of tax havens https://www.imf.org/external/pubs/ft/fandd/2019/09/tackling-global-tax-havens-shaxon.htm
    - Tax havens collectively cost governments between $500 billion and $600 billion a year in lost corporate tax revenue, depending on the estimate (Crivelli, de Mooij, and Keen 2015; Cobham and Janský 2018), through legal and not-so-legal means. Of that lost revenue, low-income economies account for some $200 billion—a larger hit as a percentage of GDP than advanced economies and more than the $150 billion or so they receive each year in foreign development assistance. American Fortune 500 companies alone held an estimated $2.6 trillion offshore in 2017, though a small portion of that has been repatriated following US tax reforms in 2018.
    - In May, the OECD published a "road map" proposing reforms based on two pillars: first, determining where tax should be paid and on what basis, and what portion of profits should be taxed on that basis; and second, getting multinationals to pay a minimum level of tax. Professor Reuven Avi-Yonah, of the University of Michigan Law School, said the plan was "extraordinarily radical" and would have been "almost inconceivable" even five years ago.
    - But radical change is feasible. The Tax Justice Network, which I have worked with, now sees its four core demands, initially dismissed as utopian, gaining global traction: automatic exchange of financial information across borders, public registers of beneficial ownership of financial assets, country-by-country reporting, and now unitary tax with formula apportionment.
    - There is a radically different, more powerful, approach. The relevant question is, Do the financial flows attracted by tax havens help the receiving countries? They certainly help *interest groups* there—typically in the banking, accounting, legal, and real estate professions—but do they benefit the *jurisdiction as a whole?*



- A new and growing strand of research by the IMF, the Bank for International Settlements, and others suggests that the answer is no. This "too much finance" literature argues that financial sector growth is beneficial up to an optimal point, after which it starts to harm economic growth (see chart, previous page). Most advanced economies, including the United States, the United Kingdom, and other major tax havens, passed that point long ago. For them, shrinking the financial sector to remove harmful financial activities should boost prosperity.
- This "paradox of poverty in the midst of plenty" has multiple causes: a brain drain of skilled people from government, industry, and civil society into the high-paying dominant sector; rising and growth-sapping inequality between the dominant and the other sectors; an increase in local prices that renders other tradables sectors less competitive with imports; recurrent booms and busts in prices of commodities and financial assets; and an increase in rent seeking and loss of entrepreneurship at the expense of productive, wealth-creating activities as easy money flows in. Some scholars also decry "financialization," or a shift from wealth-creating activities toward more predatory, wealth-extracting activities such as monopolization, too-big-to-fail banking, and the use of tax havens.

* USPIRG 2017 "Offshore Shell Games" report (Bill wrote about the 2015 version of the report on the Arsenal For Democracy website & Bill/Nate/Persephone discussed it on episode 147 as well, but we never talked about it since then) https://uspirg.org/sites/pirg/files/reports/USP%20ShellGames%20Oct17%201.2.pdf https://itep.org/offshoreshellgames2017/
    - The main findings of this report are:
        - Most of America's largest corporations maintain subsidiaries in offshore tax havens. At least 366 companies, or 73 percent of the Fortune 500, operate one or more subsidiaries in tax haven countries.
            - All told, these 366 companies maintain at least 9,755 tax haven subsidiaries.
            - The 30 companies with the most money officially booked offshore for tax purposes collectively operate 2,213 tax haven subsidiaries.

- The most popular tax haven among the Fortune 500 is the Netherlands, with more than half of the Fortune 500 reporting at least one subsidiary there.
- Approximately 57 percent of companies with tax haven subsidiaries have set up at least one in Bermuda or the Cayman Islands
- Fortune 500 companies are holding more than $2.6 trillion in accumulated profits offshore for tax purposes. Just four of these companies, Apple, Pfizer, Microsoft and General Electric, account for a quarter of the total. Just 30 Fortune 500 companies account for 68 percent or $1.76 trillion of these offshore profits.
- If we assume that the average tax rate of 6.1 percent applies to all 293 Fortune 500 companies with offshore earnings, they would owe a 28.9 percent rate upon repatriation of these earnings, meaning they would collectively owe $752 billion in additional federal taxes if the money were repatriated at once.