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Archipelago Capitalism: Tax Havens, Offshore Money, and the State, 1950s–1970s

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In 1906, the British House of Lords heard a legal case that would have important implications for matters of international taxation in the following decades. De Beers Consolidated Mines, founded in South Africa in 1888 by British business magnate Cecil Rhodes, had been formed under South African law, and its head offices and mining activities were at Kimberley, South Africa, where, moreover, all general meetings were held. Yet, as the Lords argued in their decision, the "directors'" meeting still took place in London, and therefore this was where the real control was exercised, where important business decisions were made. Even though De Beers was not a British "person," it was resident in Britain and liable to British tax on all its income, wherever said income had been produced or, in this case, mined. The lesson to be learned here was obvious to those with similar intentions: a year later, Egyptian Delta Land and Investment Co. Ltd., which had been set up in 1904 in London, moved its head-

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quarters and control, including board meetings, to Cairo, while remaining registered in Britain.[1]

Political scientists and legal scholars characterize contemporary tax havens as places with sufficient autonomy to allow individuals and corporations to register and maintain assets there while paying low or no taxes and avoiding the more stringent regulations they would be bound by in other countries. They also offer significant guarantees of secrecy and anonymity as well as greatly eased incorporation and registration procedures.[2] According to this definition, neither Cairo nor Kimberley nor London nor any other place in the nineteenth-century British Empire was a tax haven. Contemporary definitions, however, are often too static to capture the more fluid and multifaceted legal constellation among such sites as they appear to the historian.

Thus it was not by coincidence that many still-seminal tax law cases in the British common law tradition emerged from the world of empire and the multinational corporations, such as De Beers, operating within it—dispersed across various jurisdictions, with headquarters, subsidiaries, and production sites anchored in different parts of the empire. The nineteenth century helps us understand developments that would characterize the decades of the long mid-century (1920s–1980s), particularly the period from the 1950s to the 1970s. In the British Empire and the age of empire more generally, the natural state of affairs entailed legal unevenness—"lumpiness," as Lauren Benton has characterized it.[3] This world was made up of centralized nation-states, multiethnic land empires, overseas empires with their colonies, protectorates, settlements, and dominions, as well as "informal empire" with its regimes of extraterritoriality and legal pluralism. Sovereignty was often attenuated, multiplied, and layered, and authority delegated. Local administrations in overseas territories had considerable leeway in drafting company and bank laws or tax codes and accounting standards for these respective entities and sub-entities. Legal and political unevenness greatly benefited tax avoidance, and capital accumulation more generally, on a global scale.[4]

As empires continental and other gradually came undone over the course of the long mid-twentieth century, the emerging offshore world replaced empire's unevenness with another variety of lumpiness. An archipelago-like landscape of distinct legal spaces—sometimes carved out within a national territory, sometimes located in smaller territorial units on the margins of more sizable states, sometimes hosted in city-states—re-created some of the unevenness that had characterized the nineteenth-century world of empire. Yet in the twentieth century, this offshore world and the unevenness it offered now existed in and for a very different kind of world order, one in which bounded, homogeneous national state spaces and generally sizable nation-states had eventually become the norm for organizing political and economic life. The New Deal, the European welfare state, decolonization, development and moderniza-

[1] Sol Picciotto, *International Business Taxation: A Study in the Internationalization of Business Regulation* (New York, 1992), 6, 8.

[2] Ronen Palan, Richard Murphy, and Christian Chavagneux, *Tax Havens: How Globalization Really Works* (Ithaca, N.Y., 2010), 8–9. See their first chapter, "What Is a Tax Haven?," on the problems with such definitions.

[3] Lauren Benton, *A Search for Sovereignty: Law and Geography in European Empires, 1400–1900* (Cambridge, 2010), xiii, 290. Benton's work is primarily concerned with the early modern period and only partially extends into the nineteenth century.

[4] On capitalism and unevenness, see David Harvey, *The Limits to Capital* (London, 2007); Doreen Massey, *Spatial Divisions of Labour: Social Structures and the Geography of Production* (London, 1984).

tion projects in the Third World, and the Bretton Woods system were nation-state-based and government-driven projects. The offshore world emerged on a more significant scale precisely at the moment when these state-based projects began to assume their greatest importance. It consisted of multiple elements and enclaves: tax havens, with their relaxed regulations and minimal taxes; flags of convenience registries, which allowed a ship whose owner lived in one country to be registered under and subject to the laws of another country; offshore financial markets and banking institutions, which offered investors advantages absent in national financial markets; and foreign trade or special economic zones, which provided incentives designed to attract foreign investment. This archipelago-like landscape allowed free-market capitalism to flourish on the sidelines of a world increasingly dominated by larger and more interventionist nation-states.

Following the definitions proffered by legal historians and political scientists, these institutions are conceived as separate and distinct. To the historian, they share a much more blurred genealogy in which a single site often combined two or more of these institutions: tax havens were at the same time centers for offshore finance as well as registries for flags of convenience. All varieties of archipelago capitalism shared two broad features regardless of their more specialized function: low or nil tax regimes and light regulation and government oversight. This "other" international political economy was by no means a deviation from normal economic practice that, due to its irregular character, does not have to be taken seriously.[5] Archipelago capitalism was the product of concrete, conscious, and deliberate government decisions and support, most typically pushed by lawyers, accountants, former diplomats and politicians who were now engaged in business, and former spies and people with ties to intelligence services acting at the behest of business groups as well as in their own interest. It was a regular and integral rather than exceptional element of twentieth-century liberal-democratic capitalism.

Most importantly, for interpreting the relationship between capitalism and the state in the twentieth century, it is crucial to emphasize that there was support for the offshore world not just from any state or government, but even during a moment that was otherwise dominated by a belief in nationally organized economies and a strong and interventionist, to a certain degree redistributive, state. This is not to invalidate the importance of the state during the long mid-century, and even after. To the contrary, the capitalist archipelago was an outgrowth of this world organized by and into nation-states (rather than, as in previous centuries, "lumpy" empires). By allowing and even inviting archipelago capitalism to flourish on a smaller scale during these decades, national governments, egged on by increasingly assertive business communities and their executors, created conditions that eventually made it impossible for the old nation-state-based political-economic order to survive after the 1970s. The motives that inspired governments to selectively encourage offshore leakages were often extremely limited and short-sighted, while the consequences were extensive and long-ranging.

The state projects of the long mid-century began to unravel in the 1970s. The end of

[5] In analyzing the strong government support for globalized finance, Eric Helleiner makes a related argument in *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s* (Ithaca, N.Y., 1994). Palan, Murphy, and Chavagneux consider offshore to be an integral element of the world economy today, due to its size and because the business practices surrounding it are standard parts of the world of finance; *Tax Havens*, 4, 236.

the Bretton Woods system of pegged exchange rates, the decline of industry in the North Atlantic world and the relocation of manufacturing, and the concomitant rise of finance and services as increasing shares in GDP spelled the onset of a different regime of statehood and economic organization. Neoliberalism, historically associated above all with Margaret Thatcher in Britain and Ronald Reagan in the United States, means different things to different people, and the fuzziness and omnipresence with which the term is used considerably blunts its explanatory force. Yet scholars from backgrounds as different as history, political science, and historical sociology agree on a number of policies that they consider to be integral to neoliberalism: deregulation of financial markets and financial industries as well as other aspects of economic life, and the general rolling back of government intervention; the rise of finance at the expense of industry and manufacturing—"trading factories for finance," as historical sociologist Judith Stein has termed it; and a preference for a pro-business, pro-enterprise economic environment with tax cuts for both individuals and corporations.[6] The common denominators that bound together the entire offshore world in the preceding decades—low taxation and deregulation—were thus later part of the neoliberal free-market capitalist agenda.[7]

Intellectual historians and others have charted the rise of neoliberal thinking among economists and others since the 1930s and 1940s.[8] It is equally possible to point to a set of political, economic, and legal institutions designed to let free-market capitalism flourish from the interwar years until the 1970s and 1980s. It was in tax havens, offshore financial centers, flags of convenience registries, and foreign trade zones that certain elements of free-market capitalism were implemented as limited experiments in circumscribed spaces during an age otherwise characterized by interventionist states and embedded markets. From the 1970s on, some characteristics of taxation, rolled-back regulation, and carved-out economic enclaves moved from offshore to onshore in Europe and North America. Legal and political unevenness—Lauren Benton's "lumpiness"—thus persisted once more, now onshore, under yet again very different circumstances and in very different states. Retrieving the history of archipelago capitalism thus means reopening the history of the period between the 1920s and the 1980s in order to rethink the role of the state and the nation-state and to question the current historiographic obsession with the 1970s as a moment of discontinuity and sharp caesura.[9]

[6] See, for instance, Judith Stein, *Pivotal Decade: How the United States Traded Factories for Finance in the Seventies* (New Haven, Conn., 2010); Helleiner, *States and the Reemergence of Global Finance*; Greta R. Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance* (Cambridge, Mass., 2012).

[7] Stein, *Pivotal Decade*, xii, 251.

[8] Angus Burgin, *The Great Persuasion: Reinventing Free Markets since the Depression* (Cambridge, Mass., 2012); Philip Mirowski and Dieter Plehwe, eds., *The Road from Mont Pèlerin: The Making of the Neoliberal Thought Collective* (Cambridge, Mass., 2009). Patrick Neveling adopts a different periodization for neoliberalism in export processing zones (EPZs), starting in 1947, but equally argues against the sharp discontinuity of the 1970s for the rise of neoliberalism as manifest in EPZs. With regard to the history of EPZs, he considers the 1970s a "decade of consolidation." Neveling, "The Global Spread of Export Processing Zones and the 1970s as a Decade of Consolidation," in Knud Andresen and Stefan Müller, eds., *Changes in Social Regulation: Debates, Practices and Developments in the West since the 1970s* (Oxford, 2017), 23–40; see also Neveling, "Structural Contingencies and Untimely Coincidences in the Making of Neoliberal India: The Kandla Free Trade Zone, 1965–91," *Contributions to Indian Sociology* 48, no. 1 (2014): 17–43.

[9] Charles S. Maier, "Consigning the Twentieth Century to History: Alternative Narratives for the Modern Era," *American Historical Review* 105, no. 3 (June 2000): 807–831. This focus on the 1970s is particularly pronounced in the field of human rights history. For a recent revisionist account, see Stefan-Ludwig Hoffmann, "Human Rights and History," *Past and Present*, no. 232 (August 2016): 279–310.

The offshore world as a whole and tax havens in particular make up an important share of the world economy today. Available data from a 1994 report shows that about half of all cross-border lending was conducted via offshore jurisdictions. Roughly 30 percent of all foreign direct investment is invested or at least passes through havens, a number that has been surprisingly consistent since the 1990s.[10] More than 60 percent of the world's merchant-fleet tonnage is registered under flags of convenience.[11] In the wake of the 2008/2009 financial crises that led to empty government coffers in the United States and Europe, heightened awareness of the rising inequality between the "one percent" and the rest has focused interest on the extent of tax avoidance. Tax evasion—the illegal failure to properly report income and other earnings—and tax avoidance—the "legal" use of "tax planning," "tax arbitrage," and "wealth management" (to use the sanitized language invented by the tax avoidance industry)—are a trillion-dollar problem today. According to the most widely cited estimate available, \$7.6 trillion is currently stashed away in tax havens, which amounts to 8 percent of total global financial wealth—more than what the poorer half of the world's population owns in total.[12] Those ready to shrug off such amounts (so what; it's just 8 percent) are willing to ignore the important distributional implications of these numbers: as economists such as Thomas Piketty have shown, the kinds of wealth that individuals hide away through tax havens is concentrated disproportionately in the hands of the upper 10 percent of earners, primarily among the top 1 percent. The ability to use tax havens thus contributes to the perpetuation of structural inequality.[13]

Corporate tax avoidance is even more difficult to quantify than the concealment of individual wealth in tax havens. In the American case, it is estimated that 55 percent of U.S. foreign corporate profits are "earned" in low-tax countries with the help of accounting manipulations, and that in consequence, the U.S. loses \$130 billion in corporate income tax revenue annually.[14] U.S. multinationals such as Google have come under intense scrutiny for such practices. The most recent chapter in this saga was a ruling by the European Union in early September 2016 that ordered Apple to pay Ireland more than 13 billion euros that it had been allowed to forgo in taxes.[15] The

[10] Palan, Murphy, and Chavagneux, *Tax Havens*, 50, 52.

[11] Elizabeth R. DeSombre, *Flagging Standards: Globalization and Environmental, Safety, and Labor Regulations at Sea* (Cambridge, Mass., 2006), 3.

[12] Gabriel Zucman, *The Hidden Wealth of Nations: The Scourge of Tax Havens*, trans. Teresa Lavender Fagan (Chicago, 2015), 35. See also J. Bradford DeLong and Michael M. DeLong, "Sunlight on Tax Havens," *Project Syndicate*, September 28, 2015, https://www.project-syndicate.org/commentary/tax-havens-costs-of-hidden-wealth-by-j--bradford-delong-and-michael-m--delong-2015-09; and Gabriel Zucman, "The Missing Wealth of Nations: Are Europe and the U.S. Net Debtors or Net Creditors?," *Quarterly Journal of Economics* 128, no. 3 (2013): 1321–1364. James S. Henry, author of another recent study, puts the amount of money held in tax havens at \$21 trillion. Henry, "The Price of Offshore Revisited," Tax Justice Network, http://www.taxjustice.net/price-offshore-revisited/. See Heather Stewart, "Wealth Doesn't Trickle Down—It Just Floods Offshore, Research Reveals," *The Guardian*, July 21, 2012, http://www.theguardian.com/business/2012/jul/21/offshore-wealth-global-economy-tax-havens.

[13] Thomas Piketty, *Capital in the Twenty-First Century*, trans. Arthur Goldhammer (Cambridge, Mass., 2013), 248.

[14] Zucman, *The Hidden Wealth of Nations*, 105. On corporate cash holdings and the refusal to repatriate profits held abroad, see Juan M. Sánchez and Emircan Yurdagul, "Why Are Corporations Holding So Much Cash?," Federal Reserve Bank of St. Louis, *The Regional Economist*, January 2013, 5–8, https://www.stlouisfed.org/Publications/Regional-Economist/January-2013/Why-Are-Corporations-Holding-So-Much-Cash.

[15] Sean Farrell and Henry McDonald, "Apple Ordered to Pay €13bn after EU Rules Ireland Broke State Aid Laws," *The Guardian*, August 30, 2016, https://www.theguardian.com/business/2016/aug/30/apple-pay-back-taxes-eu-ruling-ireland-state-aid.

amount of $130 billion might seem trivial when compared, for instance, to the size of the U.S. federal budget (some $3.9 trillion in 2016), and this is not to argue that the U.S. government cannot sustain a tax loss of $130 billion per year. But revenue from corporate tax has declined from around 33 percent in the 1950s to only 10 percent today, despite record corporate profits. Moreover, as a recent study on the use of offshore jurisdictions by Fortune 500 companies puts it, "every dollar in taxes that corporations avoid must be balanced by higher taxes on individuals, less public investments and services and more federal debt."[16]

Archipelago capitalism was not always as extensive as it is today. An assessment of its historical scale and scope reveals that there were three distinct phases in its development. During the first phase, which lasted from roughly the 1920s to World War II, the offshore world, and tax havens in particular, emerged on a mostly moderate scale.[17] The second phase, which lasted from 1945 to 1975, saw the significant growth of the offshore world. A third stage then began in the 1970s, which was marked by the dramatic expansion of all varieties of archipelago capitalism. Zucman calls the 1950s and 1960s the "golden age" of Swiss banking.[18] The same can be said for tax havens and offshore finance more broadly. Although purely quantitative estimates of tax avoidance and hidden assets were not large before 1970 compared to recent times, these were the decades when lawyers, accountants, and a cohort of former politicians, diplomats, and spies managed to convince governments to put in place the legal architecture for a wide range of avoidance and offshoring practices.[19] Between World War II and the 1970s, the avoidance industry developed into a veritable profession, with different branches and sub-specializations, including advertising, specialist publications, and even seminars to teach investors about the best strategies for minimizing their taxes. Without such qualitative legal and political developments, the unprecedented expansion of archipelago capitalism from the 1970s on would have been impossible. When the Bretton Woods system of fixed exchange rates was dismantled, a differentiated global political-legal landscape of avoidance thus was readily available.

[16] Richard Phillips, Matt Gardner, Alexandria Robins, and Michelle Surka, "Offshore Shell Games 2017: The Use of Offshore Tax Havens by Fortune 500 Companies," October 2017, 1, https://itep.org/offshoreshellgames2017/. On the declining share of corporate taxes, see the analysis by the Urban-Brookings Tax Policy Center, http://www.taxpolicycenter.org/briefing-book/what-are-sources-revenue-federal-government-0. Of course, multiple factors have contributed to the decline of corporate taxes, starting with the proliferation of loopholes and exemptions and including the reduction of rates. But the ability to use tax havens has doubtless had its impact.

[17] Even during the early phase, Switzerland was already attracting significant flows of avoidance money: historians have estimated that an amount as high as 5 to 10 percent of French GDP was "placed" in the Swiss tax haven in the interwar period. There might have been legitimate purposes for some of this money, but historians argue that such legitimate investment opportunities were few. In 1932, a scandal rocked France when a raid revealed the existence of an elaborate tax avoidance scheme at the Banque commerciale de Bâle, helping wealthy French citizens to conceal wealth. The sting operation at this one bank alone recovered funds of around 550 million francs. Nicolas Delalande, *Les batailles de l'impôt: Consentement et résistances de 1789 à nos jours* (Paris, 2014), 337, 339. On the Swiss tax haven in the interwar period, see also Christophe Farquet, *La défense du paradis fiscal suisse avant la Seconde Guerre mondiale: Une histoire internationale* (Neuchâtel, 2017).

[18] Zucman, *The Hidden Wealth of Nations*, 20.

[19] Numbers for the pre-1970s period are extremely incomplete, and for a variety of reasons, the amount of assets hidden in havens during previous decades might never be fully revealed. One study suggests that from 1950 to 1960 and from 1960 to 1970, between 2 and 5 percent of European household wealth was kept in and invested through Swiss banks (today the estimate is 10 percent of household wealth, although this includes non-Swiss tax havens). Ibid., 24.

Prior to the 1970s, capitalism's archipelago consisted of a variety of spaces—some of them small island territories such as the Cayman Islands; some of them city-states such as Singapore; some of them areas within a larger national territory such as Delaware or the Panama Canal Zone.[20] The first generation of tax havens in the modern sense dates back primarily to the interwar period. Liechtenstein, Luxembourg, and the Channel Islands, and on a more moderate scale Bermuda and the Bahamas, became tax havens in the 1920s and 1930s. Havens thus followed directly from the introduction of more widely applied income taxes in Europe during and after World War I.[21] As well, the instability arising from war, inflation, and political and economic collapse in the 1920s led many individuals and corporations to move their assets to safer havens in Switzerland, Luxembourg, and Liechtenstein. *Kapitalflucht*, the flight of capital and the concealment of German wealth abroad, became a hotly contested issue between Germany and France in reparation discussions after World War I.[22]

During and after World War II, the individual income tax was levied on more people than ever before. In many countries in the North Atlantic world, corporate tax rates reached levels as high as 40 and 50 percent. New tax havens began opening up at a much faster pace, and old ones were reinvigorated. By the 1970s, the list included sites as different and as far apart as Bahrain, the Cayman Islands, Delaware, Hong Kong, Lebanon, Malta, the Netherlands Antilles, Panama, Singapore, and Switzerland. Tax havens also became favored sites for avoiding certain national banking and currency regulations and thus led to the appearance of offshore financial institutions as part of the so-called Euromarket.[23] The Eurodollar and Eurobond markets were

[20] In part, the archipelago mapped onto an older landscape of port cities and the networks emanating from them, as depicted in Michael B. Miller, *Europe and the Maritime World: A Twentieth-Century History* (Cambridge, 2012).

[21] As one example, the interwar inflow of assets into Switzerland peaked during two moments in 1921–1922 and 1925–1927, both following on the heels of increased top tax rates on the very wealthy in France; Zucman, *The Hidden Wealth of Nations*, 15. See also Kurzgefasste Betrachtungen über die Holding-Gesellschaften in Luxemburg, January 1941, 3, which lists the approximate numbers of holding companies registered in Luxembourg after a law was passed in 1929, for each year from 1929 to 1939. Archives nationales du Luxembourg, Cdz-A-6596.

[22] Leo Wulfsohn and Gabriel Wernlé, *L'évasion des capitaux allemands* (Paris, 1923).

[23] The archivally based literature on tax havens and offshore jurisdictions is extremely scarce. Farquet, *La défense du paradis fiscal suisse avant la Seconde Guerre mondiale*, is one example of an archivally researched longer work by a historian. The vast majority of accounts have been written by political scientists, who usually treat the historical development of havens as a background development. Among the very helpful accounts by political scientists and others are Nicholas Shaxson, *Treasure Islands: Uncovering the Damage of Offshore Banking and Tax Havens* (New York, 2011); Ronen Palan, *The Offshore World: Sovereign Markets, Virtual Places, and Nomad Millionaires* (Ithaca, N.Y., 2003); R. A. Johns, *Tax Havens and Offshore Finance: A Study of Transnational Economic Development* (New York, 1983); Mark Hampton, *The Offshore Interface: Tax Havens in the Global Economy* (Basingstoke, 1996); J. C. Sharman, *Havens in a Storm: The Struggle for Global Tax Regulation* (Ithaca, N.Y., 2006); William Vlcek, *Offshore Finance and Small States: Sovereignty, Size and Money* (Basingstoke, 2008); and Hilton McCann, *Offshore Finance* (Cambridge, 2006). An extremely well-executed contemporary survey is Tony Doggart and Caroline Voûte, *Tax Havens and Offshore Funds* (London, 1971). Historians have seldom studied taxation from an international perspective, with a few exceptions: W. Elliot Brownlee, Eisaku Ide, and Yasunori Fukagai, eds., *The Political Economy of Transnational Tax Reform: The Shoup Mission to Japan in Historical Context* (Cambridge, 2013); Isaac William Martin, Ajay K. Mehrotra, and Monica Prasad, eds., *The New Fiscal Sociology: Taxation in Comparative and Historical Perspective* (Leiden, 2009); within a broader context though not always based on archival material: Linda Low, *The Political Economy of a City-State: Government-Made Singapore* (Singapore, 1998); Catherine R. Schenk, *Hong Kong as an International Financial Centre: Emergence and Development, 1945–65* (London, 2001); Brian Kettell, "Analyzing the Emergence of an Offshore Banking Centre: The Case of Bahrain," in Michael Bowe, Lino Briguglio, and James W. Dean, eds., *Banking and Finance in Islands and Small States* (London, 1998), 134–154.

primarily for transactions in dollars held outside the United States, initially mostly in Europe. Such deposits did not fall under the jurisdiction of the U.S. Federal Reserve, but neither were they under the control of any European central bank or government. The absence of certain kinds of regulations and taxes in these stateless markets—reserve requirements, interest rate limits, restrictions on capital export, and taxes on bond interest payments—meant that the Euromarket shared some of the characteristics of other forms of archipelago capitalism. Like tax havens, it was an integral part of the offshore world. Although the Euromarket was anchored in London, the tax havens of Luxembourg and the Bahamas as well as Singapore and Panama nevertheless soon became important centers for global offshore finance.

A significant number of new or invigorated tax havens after 1945 were situated in the world of the now-dissolving empires. Moving to uneven or "lumpy" tax jurisdictions within the spheres of British, French, and perhaps to a certain degree even U.S. formal and informal empire in the pre–World War II period had offered individuals and corporations opportunities for reducing their tax liability. Tax codes as they applied to Europeans and other non-natives in colonies were extremely varied, laced with exemptions, and often simply hard to enforce. Tax rates were much lower in colonies and other dependent territories than in metropolitan centers. This state of affairs continued throughout the 1940s and 1950s, when taxes in the North Atlantic world peaked.[24]

As a consequence, when Europeans retreated from the colonial world abroad in the 1950s and 1960s, some returnees sought to prolong the favorable tax arrangements that had come with empire. In comparison, the high tax rates now intended to finance the welfare state at home seemed excessive.[25] But the former colonies were no longer set up to securely serve in their former capacity as tax shelters. The dark cloud of economic nationalism, including expropriations of Western businesses, appeared on the horizon. Settlers, civil servants who had served overseas, business owners, and investors alike were thus reluctant to leave their assets in the colonial world. These "returnees from empire," British merchant banks soon discovered, could be a lucrative source of tax haven business. Malta and Jersey began offering tailored solutions

[24] The literature on colonial taxation is shaped by questions asked by economic historians in economics departments, with various consequences. Such questions normally seek to determine how "extractive" the colonial state was—for example, how heavy the tax burden was—and at the same time, how considerable the potential for state- and institution-building was in colonial and postcolonial states. This literature focuses primarily on the taxation of colonial subjects, not the tax rates for white Europeans and others in the colonies. Due to the institutionalist focus of this literature and a tendency among economic historians in economics departments to take the nation-state as a natural category of analysis, colonies are, moreover, commonly approached on an individual basis, going colonial state by colonial state without taking into account the systemic implications for taxes across colonial empires or even globally. For an introduction to the literature on extraction, see Ewout Frankema, "Raising Revenue in the British Empire, 1870–1940: How 'Extractive' Were Colonial Taxes?," *Journal of Global History* 5, no. 3 (2010): 447–477.

[25] For hints at uneven taxation in the French Empire, I rely on Madeline Woker's paper "Paying for Subjection: A History of Fiscal Power in the French Colonial Empire, 1870–1939," presented at the conference on "Global Histories of Taxation and State Finances since the Late Nineteenth Century," University of Basel, December 1–3, 2016. For a comparison of low tax rates on the incomes of Europeans in different British colonies as compared to the United Kingdom, see The National Archives, Kew, UK [hereafter TNA], Colonial Office Records, CO 537/6980, Income Tax Rates in the Colonies, "Amount of Income Tax (and surtax, if any) and the combined rates of such taxes, on earned income of Pound 1500 (2000) and over received by a locally resident unmarried person, 1950." On some of the unevenness in tax law, tax rates, and even tax assessments and accounting practices within the British Empire, see *Report of the Royal Commission on the Income Tax, Presented to Parliament by Command of His Majesty* (London, 1920), 5, 17.

to such clientele.[26] Similarly, to French observers at the time, it was clear that Monaco's fortunes as a burgeoning tax haven from the late 1950s on had to do with French returnees, especially from Indochina, Algeria, Tangier, and Morocco.[27] Decolonization and the end of empires created something of a money panic and a clientele eager to move assets out of the colonial world to havens that would shelter them from the "socialized taxation" that the *New York Times* now saw at work in the Western world.[28] The combination of decolonization and postwar welfarist policies created conditions that made people more eager to pursue avoidance and evasion opportunities than before.[29]

Such demand for more and better tax havens had to be met by both governments and an army of avoidance assistants. Between 1945 and 1970, some of the most important new or improved tax havens and offshore markets were set up, and older ones expanded, with government involvement from London and Washington, D.C. Even where governments were not directly involved, they at least tolerated these developments. Especially in the case of tax havens in the British Empire, dependent territories normally required approval from London in order to pass tax haven legislation. Lawyers, accountants, former diplomats, politicians, and intelligence officials now turned businessmen were among those who jumped at the opportunity offered by the increased demand for tax havens. They were looking for ways to promote private enterprise (often their own) in the developing world while simultaneously expanding opportunities for tax avoidance (often their own). The result was a symbiotic relationship in the 1950s and 1960s. Governments supported Third World modernization, notably in former colonial areas, while the private sector took the initiative to promote the participation of private business in the process of development.

The important role of private actors suggests that we should reconsider the history of development and modernization efforts in the Third World as planning-driven and officially orchestrated expertise-guided projects. The massive development and aid efforts by the U.S. and Europe in the Third World have been a flourishing field of historical inquiry since the early 2000s. This literature is especially well-developed in American history, as U.S. efforts have dwarfed all others. Historians have examined

[26] On economic nationalism and expropriations, see Vanessa Ogle, "State Rights against Private Capital: The 'New International Economic Order' and the Struggle over Aid, Trade, and Foreign Investment, 1962–1981," *Humanity* 5, no. 2 (2014): 211–234.

[27] Jersey Heritage Center, Jersey, UK (Jersey Archives), D/G/A1/4/1A/4, advertising brochure by Royal Trust Company of Canada (C. I.) Ltd., *Jersey as a Financial Centre*, Jersey, March 1973, 7; and D/G/A1/2/10B/3, advertising brochure, Hemery Trust and Corporate Services Limited, *Introducing Jersey—An Offshore Centre for Financial Services in the Channel Islands*, Jersey, December 1983, n.p.; oral history interview with Colin Powell, from 1969 to 1996 advisor to the States of Jersey on economic and financial matters, conducted by the author in Saint Helier, Jersey, July 7, 2016. On France, see Archives nationales françaises Pierrefitte-sur-Seine, 5/AG1/701, Côtes et documents de 1959 à 1962, Note d'information rélative à la principauté de Monaco, Raoul Chenevez, Delegué des français de Monaco, 3; Alain Vernay, *Les paradis fiscaux* (Paris, 1968), 37. Vernay's 1968 account of tax havens, although journalistic and anecdotal, is a rich contemporary primary source for the history of tax havens.

[28] "Morocco Seeking Tangier Solution," *New York Times*, October 20, 1956, 38.

[29] I will have more to say on the retreat from empire and the move of assets to tax havens in Ogle, "'Funk Money': Decolonization and the Expansion of Tax Havens, 1950s–1960s," in progress. I owe the term "money panic" to Richard Drayton.

the politics of development primarily as an instrument of foreign policy, sometimes in an attempt to reinvent the established field of U.S. diplomatic history. Yet this historiographic context has led to a focus on official efforts, whether carried out by governments or NGOs such as the Ford Foundation or by international organizations such as the United Nations and the World Bank.[30] The history of tax havens and archipelago capitalism, however, suggests that it is necessary to look at business interests and market-based solutions in development as well, an approach that to date has only rarely been taken. Governments and international organizations had to rely on private actors in development and sought their support and cooperation—globally operating construction and engineering firms as well as the wholly understudied case of development consultants are perhaps the most obvious examples. The private sector systematically forged ties to diplomats and technocrats in particular and used the state to further its interests.[31]

The postwar expansion of archipelago capitalism was strongly promoted by these non-state or quasi-state actors. Politicians and former diplomats and intelligence officials, in particular, easily moved between the public and the private sector as facilitators of business interests in development. These "diplomat capitalists" both promoted and used the increasingly sophisticated landscape of archipelago capitalism.[32] George Olmsted was one such example: a retired U.S. army general with ties to the Office of Strategic Services, in the early 1950s he bought up what was then a banking umbrella organization, the International Bank of Washington, D.C., which by the early 1960s served as a holding company for roughly thirty banks operating in the U.S. and West Germany, but also Luxembourg and Liberia, with a big presence in the Bahamas as well. Most alluring, perhaps, was the World Commerce Corporation (WCC), formed at war's end for the promotion of private enterprise in the developing world by former U.S. secretary of state Edward R. Stettinius Jr., former Office of Strategic Services head William J. Donovan, and William Stephenson. The latter was World War II head of British secret operations in the Western Hemisphere and allegedly the real-world model for Ian Fleming's James Bond. The WCC was conveniently registered in the tax haven of Panama.[33]

[30] The literature on U.S. development and modernization efforts has become too comprehensive to list here in full. Some paradigmatic early examples are Nick Cullather, "Development? It's History," *Diplomatic History* 24, no. 4 (2000): 641–653; Cullather, *The Hungry World: America's Cold War Battle against Poverty in Asia* (Cambridge, Mass., 2010); Nils Gilman, *Mandarins of the Future: Modernization Theory in Cold War America* (Baltimore, 2003); David Ekbladh, *The Great American Mission: Modernization and the Construction of an American World Order* (Princeton, N.J., 2010); David C. Engerman and Corinna R. Unger, "Introduction: Towards a Global History of Modernization," *Diplomatic History* 33, no. 3 (2009): 375–385; Bradley R. Simpson, *Economists with Guns: Authoritarian Development and U.S.-Indonesian Relations, 1960–1968* (Stanford, Calif., 2008).

[31] For passing references to construction, see Cullather, *The Hungry World*, 118. On private contractors, see also in passing Ekbladh, *The Great American Mission*, 159; United Nations Economic and Social Council, *Financing of Economic Development: The Promotion of the International Flow of Private Capital—Third Report by the Secretary-General*, July 23, 1962, 21. I have come across a number of consulting firms offering services to Third World governments and organizations such as USAID and the British Ministry for Overseas Development, including Transport and Tourism Technicians Ltd. and Shankland Cox and Associates in the UK context. Especially fascinating is Italconsult, co-founded as a public private consulting and engineering venture by Aurelio Peccei (then of Fiat), who would later co-found the Club of Rome.

[32] I owe the term "diplomat capitalists" to Glenda Sluga.

[33] The WCC was initially formed in September 1945 as the British American Canadian Corporation, apparently at the suggestion of David Ogilvy, a former member of the British Secret Service and the fu-

Several such initiatives for the promotion of private enterprise in the developing world were directly tied to capitalism's archipelago. Stettinius's company Stettinius Associates–Liberia Inc., set up in 1947, was one example. Stettinius was able to use his well-honed corporate and political ties harking back to his time at General Motors and U.S. Steel, and later as a member of Franklin D. Roosevelt's cabinet, to organize a corporate-controlled system of economic aid to Liberia. One of the main services offered through Stettinius Associates was the registration of ships under the Liberian flag of convenience. Stettinius and his firm were actively involved in drafting the Liberian Maritime Code, which created the registry.[34] As a result, no matter where in the world the owner of a ship lived, the vessel could be registered under Liberia's laws and fly the Liberian flag. At Stettinius's initiative, Liberia thus joined Panama and Honduras in becoming the third modern flag of convenience registry, allowing ship owners from the U.S. and other countries to thereby avoid the higher wages and regulated working conditions required under their own government's laws.[35]

While private actors pushed the boundaries of national markets and the nation-state-based organization of the economy, they also received support from different national governments.[36] Like the United States and other Western governments, British officials believed that fighting hunger and poverty in the Third World with significant amounts of foreign aid was a way to prevent those territories from falling under the sway of communism. Regarding Britain's own dissolving empire, however, officials firmly held that development aid was but a temporary palliative; former and current territories must eventually become self-sustaining and independent of foreign aid. It was against this backdrop that British officials condoned and sometimes encouraged the emergence of tax havens as a means for resource-poor territories to attract foreign capital and achieve economic uplift.

In the post-1945 world of unraveling empire, Britain soon found itself at the center of expanding tax havens. The Caribbean in particular offered several favorable conditions for business. Geography was undoubtedly a factor, since with the beginning of the jet age, the region offered fast and easy access from the North American continent

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ture "father of advertising." Its first president was Frank T. Ryan of the textile-exporting firm John J. Ryan & Sons. Other parties involved in the WCC were London's Robert Benson of Lonsdale & Co. Ltd., Pittsburgh's Mellons, former U.S. ambassador to Japan Joseph C. Grew, and the Atlas Corporation. The WCC was said to have access to nearly unlimited credit from Hambros Bank and the Transamerica Corporation. Like many other official U.S. efforts, the WCC focused initially on non-communist Europe, but turned to the developing world shortly thereafter. "Know-How for Export," *Time* 53, no. 23 (1949): 90; Thomas E. Mullaney, "Anglo-U.S. Group Called 'Little ECA,'" *New York Times*, January 2, 1949, F1; Bill Macdonald, *The True Intrepid: William Stephenson and the Unknown Agents* (Surrey, B.C., 1998), 266; Stephen Dorril, *MI6: Inside the Covert World of Her Majesty's Secret Intelligence Service* (New York, 2000), 814.

[34] Grew, the former U.S. ambassador to Japan who was involved in the WCC, was also part of Stettinius Associates. Rodney Carlisle, "The 'American Century' Implemented: Stettinius and the Liberian Flag of Convenience," *Business History Review* 54, no. 2 (1980): 175–191.

[35] The Panamanian registry had been created after World War I. The initial motivation for moving ships to Panama appears to have been Prohibition—ships under the U.S. flag could not serve alcohol. On flags of convenience, see Rodney Carlisle, *Sovereignty for Sale: The Origins and Evolution of the Panamanian and Liberian Flags of Convenience* (Annapolis, Md., 1981); Boleslaw Adam Boczek, *Flags of Convenience: An International Legal Study* (Cambridge, Mass., 1962).

[36] Generally on British official development politics, see James Tomlinson, "The Commonwealth, the Balance of Payments and the Politics of International Poverty: British Aid Policy, 1958–1971," *Contemporary European History* 12, no. 4 (2003): 413–429; Barrie Ireton, *Britain's International Development Policies: A History of DFID and Overseas Aid* (Basingstoke, 2013).

and was in the same time zone as New York. Most importantly, these territories were situated within the Sterling Area, a bloc of countries that pegged their currency to or used the pound sterling.[37] Even in the age of capital controls during the Bretton Woods era, British residents could move assets to Sterling Area countries without having to follow exchange control protocol. Moreover, the British Empire provided a convenient umbrella of political stability to be advertised to potential investors. During the end of empire in the Caribbean, amid plans for a federation and especially following the Cuban Revolution and the intensification of Cold War tensions in the region, the only important Caribbean tax haven to choose independence was the Bahamas. Its achievement of autonomy in 1973 initially resulted in a temporary loss of tax haven business. Others, such as the Cayman Islands and the British Virgin Islands, have to this day opted to remain British dependent territories.[38]

The earliest case in which tax haven business intersected with development politics occurred in the Bahamas. In 1954, British authorities there were approached by a U.S. citizen, Wallace Groves, who promised to carry out far-reaching industrial and infrastructure projects on the island of Grand Bahama. Groves, a lawyer, had spent three years in prison in the 1940s for a fraudulent investment scheme. Upon his release, he set sail for the Bahamas.[39] At one pound per acre, Groves and his associates leased 50,000 acres of Crown land. In return, the American entrepreneur pledged to dredge a deepwater harbor to create a free port, to provide public utilities, and to build an airstrip, among other things. The concessions he demanded in return for his investment were what made this arrangement unusual: the Grand Bahama Port Authority Ltd., controlled by Groves and his associates rather than the Bahamian government, would run "Freeport" and would obtain wide-ranging rights to license companies active in the port and to control immigration into the area, responsibilities normally reserved for governments. Companies operating under Groves's regime in Freeport were guaranteed exemption for thirty years from taxes on income and profits, including profits earned outside the colony. Customs duties would be waived for a guaranteed ninety years. In August 1955, these terms were spelled out in the notorious Hawksbill Creek Agreement—"one of the most one-sided agreements ever signed by the British Crown," a newspaper later remarked.[40] Once the Port Authority in Freeport was set up, it was run by the Bay Street Boys, a notorious group of white British economic and political players who regularly met at a club on Bay and Charlotte Streets in Nassau, and who also controlled the Bahamian government.[41] As one

[37] On the early postwar Sterling Area, see Catherine R. Schenk, *Britain and the Sterling Area: From Devaluation to Convertibility in the 1950s* (London, 1994).

[38] Spencer Mawby, *Ordering Independence: The End of Empire in the Anglophone Caribbean, 1947–69* (Basingstoke, 2013).

[39] Alan A. Block, *Masters of Paradise: Organized Crime and the Internal Revenue Service in the Bahamas* (New Brunswick, N.J., 1998), 28. On criminals such as Meyer Lansky and the mob's operations in the Bahamas, see R. T. Naylor, *Hot Money and the Politics of Debt* (Montreal, 1994). See also Richard H. Blum, *Offshore Haven Banks, Trusts, and Companies: The Business of Crime in the Euromarket* (New York, 1984).

[40] In 1960 and 1965, further legislation was passed, allowing the Port Authority to enter the hotel and holiday resort business and to build low-cost housing and schools. TNA, Inland Revenue, IR 40/16744, Tax Havens and Tax Concessions, Note of a Meeting Held in the Foreign and Commonwealth Office on 25 March, 1969, 2; "Empire Builders," *Sunday Times*, May 24, 1964, 7.

[41] TNA, Foreign and Commonwealth Office, FCO 44/181, "Business Gets the Jitters in the Bahamas," *Evening Standard*, November 17, 1969, 4, clipping.

newspaper commented, Bahamian cabinet ministers had, "freely and profitably, simultaneously pursued their business and political careers."[42]

As long as some form of development was offered, British officials received investors with open arms. At one point, the Foreign Office was approached by Clovis McAlpin, another American who promised development, in this case in the Turks and Caicos Islands. These arrangements made private investors into virtual suzerains of the territories. As the Bank of England commented, McAlpin was in essence offering "annual tribute in return for exclusive rights, which would virtually turn him into the uncrowned king of the islands."[43] Contrary to other developers, McAlpin was apparently frank about the purpose of his planned undertakings: "to obtain a secure tax haven for brass plate financial activities."[44] He had established an initially successful mutual fund in the Bahamas, the Capital Growth Fund, and was now looking to expand to the Turks and Caicos. At the time when British officials in London were considering his proposals, he came highly recommended by the renowned British merchant bankers Kleinwort, Benson.[45]

A similar proposal was put forward for an island in the British Virgin Islands. Under a 1967 agreement between the government of the British Virgin Islands and the Development Corporation of Anegada, the island of Anegada was leased to the corporation for 199 years. In exchange for building roads and other public utilities, the corporation, along with any companies it licensed to undertake works on Anegada, would be wholly exempt from income and profits tax and estate duty for the duration of the lease. The corporation was also exempt from paying import duties on plants, equipment, and construction materials.[46] In 1967, a group calling itself "Global Risk Underwriters" approached the government of Antigua with a plan "involving the virtual takeover of Antigua's satellite island of Barbuda." The proposal, which amounted to a "financial pirates' nest," involved creating a free port, establishing an investment bank that would be guaranteed the right to offer numbered accounts free from investigation, setting up a gold-refining and -trading facility, and opening casinos. British officials also suspected that trafficking in drugs and arms was part of the plan.[47] At a time when natural resources and industrialization were viewed as the sole path to growth and development, small and resource-poor territories had few options for attracting foreign capital other than to turn themselves into tax havens. Despite the dubious nature of these and other such proposals, the British colonial government of Antigua was "tempted by the offer of substantial capital investment in an otherwise poor and barren area."[48]

Support for tax havens extended into the highest circles of government. In the

[42] TNA, IR 40/16743, "Bahamas: The Tax-Free Haven," *Sunday Times*, October 23, 27, clipping.

[43] Bank of England Archives [hereafter BEA], 12A10/1, West Indies—Tax Havens, Bank of England, memo, March 26, 1969.

[44] BEA, OV 132/1, telegram, Bahamas Government House to Foreign and Commonwealth Office, February 28, 1969.

[45] BEA, OV 132/1, letter, Bank of England to Commonwealth Development Corporation, October 10, 1968.

[46] BEA, 12A10/1, Tax Havens and Tax Concessions in the Dependent Territories, Note by the Foreign and Commonwealth Office, March 25, 1969, 5.

[47] BEA, OV 121/21, letter from Bank of England representative to Bank of England, Leeward Islands—Antigua/Barbuda, September 4, 1967.

[48] Ibid.

early 1970s, Australia and Britain quarreled over a new tax haven that was emerging in the New Hebrides, which at the time was a dependent territory administered by a Franco-British condominium. (Today, Vanuatu is still a tax haven, most recently associated with terrorism and money-laundering.) The British resident commissioner in the New Hebrides had himself pushed for tax haven legislation. In the following years, it became clear that it was primarily Australians who were using the New Hebrides for avoidance purposes. When British premier Harold Wilson was set to visit Australia in 1974, his Australian counterpart, Gough Whitlam, urged the UK to exercise its power over the New Hebrides to shut down the haven. Wilson, who at home was sharply critical of tax avoidance and whose Labour Party had been instrumental in adopting legislation that was intended to curb avoidance, simply told Whitlam, "the problem for us in the New Hebrides must also be viewed in the context of the need to promote the territory's economic development." He went on to explain that economic development might initially arise only as a "side development" of the tax haven business, but that it could be "expected to become increasingly important," with the result that a worthwhile growth of "genuine business activity" would eventually occur.[49] This was the single most important factor leading officials in London to support tax havens.[50]

Private actors found ways to connect their interest in tax avoidance with government interest in economic development. With lawyers and bankers came accountants in tow. In 1968, Price Waterhouse & Co., a pre-merger predecessor of today's PricewaterhouseCoopers, was hired by the Ministry of Overseas Development to carry out a fiscal survey for the purpose of assessing the economy and fiscal situation of the island of Montserrat, with the aim of increasing local revenue and reducing budgetary aid from London. What they got was something else entirely. A few months later, the Bank of England, Treasury, and Inland Revenue were "disconcerted . . . when a representative of the firm of accountants, Messrs. Price, Waterhouse & Co., called at the Bank of England for a discussion and explained that his firm, financed by the Ministry of Overseas Development under the aid program, was advising the Government of Montserrat on measures which could effectively be taken to set Montserrat up as a tax haven."[51]

In their responses, British officials appeared to be seeking to downplay such concerns. But a look at Price Waterhouse's recommendations suggests otherwise. The accountants came up with a list of measures relating to Montserrat's tax legislation, including exempting non-residents from income tax, offering tax holidays for hotel investors, and providing other relief for capital expenditures in industry and manufacturing. While such concessions were far-reaching, some of the report's most questionable passages dealt with "the tax climate which it is hoped will be created for Montserrat to enable persons not resident on the island to set up investment companies, trusts and so on."[52] It went on to detail how to create such a "climate," including repealing several sections of Montserrat's existing tax code and avoiding anything that

[49] TNA, Prime Minister's Office, PREM 16/18, letter, Harold Wilson to Gough Whitlam, August 30, 1974.

[50] In fairness, Inland Revenue often voiced very serious concern about and criticism of "tax havenry." It was the Foreign and Commonwealth Office that pushed most rigorously for allowing dependent territories to adopt tax haven legislation.

[51] BEA, 12A10/1, letter, Treasury to Foreign and Commonwealth Office, March 13, 1969.

[52] TNA, IR 40/17137, letter, Price Waterhouse to Administrator of Montserrat, June 16, 1969; and Government of Montserrat, Report on Review of the Taxation Legislation and the Economy, 29, 15, 20.

might weaken banking secrecy, as "one of the features of banking in places such as the Bahamas, Bermuda and Switzerland is the secrecy in which banking transactions are cloaked." Price Waterhouse also laid out how to write legislation in such a way that it would offer sufficient avoidance advantages but would not prompt the United Kingdom to amend existing double taxation treaties and thus enact anti-avoidance legislation.[53] In such legislative work, accountants were joined by tax lawyers. In the mid-1960s, as one Bank of England official described it, the Caymans were "literally raided by an expatriate tax Council, who overnight persuaded them to enact trust legislation which goes beyond anything yet attempted elsewhere." The Cayman law was particularly perfidious, as it was based on a close reading of Britain's tax laws, with its own language carefully chosen so as to fall outside those laws.[54]

By the mid-1970s, tax havens in British dependent territories and former colonial possessions reached from Malta to Bahrain, the Bahamas, Singapore, Hong Kong, several Caribbean territories, the Channel Islands and the Isle of Man, Gibraltar, and the New Hebrides. A certain amount of resignation had set in among British officials. Some Foreign Office members still firmly believed that "tax havenry" actually contributed to economic development and continued to advance the same justifications that their predecessors had used to justify government support for tax haven legislation. Others were more skeptical and pointed to the meager economic advantages that had materialized or failed to materialize in tax havens. The supposed side benefits of tax haven business—tourism, registration fees, tax revenue from incomes paid to the lawyers, bankers, trust company managers, and so on—had to that point been insignificant. But the priorities of the time blinded officials in London to the rather bleak prospects of tax haven business in the medium and long run. Instead it was repeatedly emphasized that potential tax haven sites had "little or no natural resources capable of development," meaning that the attraction of "international companies" was the "only source of growth potential."[55] All in all, however, the approach taken then and in future years in London was to prevent the establishment of new tax havens while coming to terms with existing ones. "Our freedom of action is confined by the world as we find it. The clock cannot be put back in Bermuda and Bahamas," was the verdict.[56]

Government support for the proliferation of archipelago capitalism went beyond merely tolerating or approving of tax haven legislation. It extended to offshore finance as well. From the late 1960s on, a growing volume of Euromarket business was conducted through tax havens, to avoid regulations as well as taxes. Tax havens were

[53] TNA, IR 40/17137, Government of Montserrat, Report on Review of the Taxation Legislation and the Economy, 40, 30, 59.

[54] BEA, EID 7/52, West Indies—Tax Havens, memo, March 26, 1969; TNA FCO 59/533, Inland Revenue to Foreign and Commonwealth Office, May 7, 1969. See also Picciotto, *International Business Taxation*, 132, on Cayman trust legislation.

[55] TNA, IR 40/16744, Tax Havens and Tax Concessions, Note of a Meeting Held in the Foreign and Commonwealth Office on 25 March, 1969, 3.

[56] TNA, FCO 44/480, Draft Report (for interdepartmental report on tax havens), n.d., ca. January 1971, 3; FCO 59/533, Guidance to Dependent Territories on Agreements with Commercial Organizations, memo, June 4, 1969.

never just tax havens alone. In places such as Panama, Liberia, and the Bahamas, flags of convenience, free trade zones, and low-tax or no-tax regimes intersected and overlapped. Liberia lured shipping companies with low taxes and the possibility of skirting labor laws. Panama's Colón foreign trade zone offered all the benefits of light regulation and low taxes right next to an offshore banking center and a shipping registry. Freeport in the Bahamas was a tax- and law-exempt zone within a tax haven, and the state itself was another popular shipping registry.

One important economic function that tax havens additionally came to fulfill was offshore finance. They thus allowed certain aspects of neoliberalism to thrive before it came fully to the fore with the end of the Bretton Woods system. As was the case with tax havens, governments in Western Europe and North America once again supported and encouraged the growth of the offshore archipelago. By the 1960s, the proliferation of tax havens provided a basis for a growing volume of Euromarket business. Such activities were conducted through tax havens to avoid regulations as well as taxes. The precise origins of the Euromarket—initially the core of offshore finance—are somewhat unclear. What is known is that from the mid-1950s, European banks began to bid for deposits denominated in currencies other than their own by offering better interest rates, and to employ those funds in foreign markets. One of the "founding myths" of the Eurodollar market is that Soviet banks, in need of foreign currencies but fearful of having their assets frozen or even seized by American authorities, increasingly deposited dollars in European banks. Yet once the markets expanded, the absence of certain forms of regulation—capital controls, interest rate limits, and reserve requirements for banks, among others—really drove their expansion. On the American side, what sent dollars to European banks was the ceiling imposed on interest rates in the U.S. by a law dating back to 1933, "Regulation Q." Eurodollars, then, were dollars held outside the United States, initially mostly in Europe. Although numbers for the early period are less well established, they illustrate the rapid expansion of the market: it grew from roughly $1.5 billion in the late 1950s to $71 billion in 1971, $91 billion in 1972, and $132 billion in 1973, a volume that Harold James has called "very substantial."[57]

[57] Harold James, *International Monetary Cooperation since Bretton Woods* (New York, 1996), 180. Numbers often vary considerably among different sources. Those indicated here are taken from Brian Scott Quinn, *The New Euromarkets: A Theoretical and Practical Study of International Financing in the Eurobond, Eurocurrency and Related Financial Markets* (New York, 1975), 36; see also Geoffrey Bell, *The Euro-Dollar Market and the International Financial System* (New York, 1973), 22. More accurately, the term should be "Eurocurrency market." In addition to dollars held abroad, there were deutschmarks, Swiss francs, and other European currencies in similar situations. There was thus also an extraterritorial market for German deutschmarks and the like. Extraterritorial dollars were, moreover, handled in Asia, particularly in Hong Kong and later Singapore, where they were normally called Asiadollars. For the sake of readability, I am using "Eurodollar" for dollars only and "Euromarket" to describe the entire market. On the Euromarket, see Catherine R. Schenk, "The Origins of the Eurodollar Market in London, 1955–1963," *Explorations in Economic History* 35, no. 2 (1998): 221–238. Eric Helleiner's account in *States and the Reemergence of Global Finance* is by far the most interesting. See also Youssef Cassis, *Capitals of Capital: The Rise and Fall of International Financial Centres, 1780–2009* (Cambridge, 2006), 219–222; Gary Burn, "The State, the City and the Euromarkets," *Review of International Political Economy* 6, no. 2 (1999): 225–261; and Burn, *The Re-emergence of Global Finance* (Basingstoke, 2006). Niall Ferguson sees Euromarkets as precursors to European integration; Ferguson, *High Financier: The Lives and Time of Siegmund Warburg* (New York, 2010), chap. 8, based on Warburg's intentions and motives. Gianni Toniolo, *Central Bank Cooperation at the Bank for International Settlements, 1930–1973* (Cambridge, 2005), chap. 12.4. Interesting but with little primary source use is Chris O'Malley, *Bonds without Borders: A History of the Eurobond Market* (Chichester, 2015).

Eurobonds were another part of the offshore Euromarket and would eventually become even more important than Eurodollars. Eurobonds were loans issued in dollars on behalf of borrowers seeking investment money. What distinguished these securities from others was that they were floated simultaneously in several countries by multinational underwriting syndicates, for sale to investors anywhere in the world. In traditional foreign bond markets, issues by foreign borrowers were underwritten by national syndicates and sold primarily in the country of the syndicate, denominated in the currency of that country and subject to its taxes. Both Eurodollar and Eurobond markets were therefore often referred to as "extraterritorial" markets.[58]

Beginning in the mid-1960s, a particular set of measures compounded the incentives created by Regulation Q and triggered impressive growth in the Euromarket. These policies stemmed from America's growing balance of payment problems in the 1960s and were designed to stop the outflow of dollars. In 1963, the U.S. government implemented the Interest Equalization Tax (IET), a federal levy on interest earned by U.S. residents on securities issued by borrowers in other countries.[59] Two years later, the voluntary restraint program for foreign investment announced as part of the U.S. balance of payments measures of 1965 caused American companies to use foreign subsidies for borrowing in international capital markets rather than at home, contributing further to the expansion of the offshore money and securities market. Some of these restrictions were made mandatory in 1968. It is safe to say that the well-known story of the "rise" of U.S. multinational corporations after World War II, first in Europe, then gradually across the globe, would have been impossible without the Euromarket and the offshore economy.[60]

From the outset, in addition to regulatory questions and capital controls, matters of taxation propelled the move of money offshore. Some of these perceived benefits stemmed from the simple fact that this money thereby escaped U.S. jurisdiction (and thus regulations and taxation) by moving to Europe. Others, however, could be found more specifically in tax havens. A combination of light or no regulation with low or no taxes made certain tax havens important centers for the growing volume of offshore finance. The British merchant bank S. G. Warburg is believed to have organized the first Eurobond issue of $15 million in 1963. The borrower was Autostrade Italiane, the Italian highway authority. The bond was guaranteed by the Italian state holding company, the Istituto per la Ricostruzione Industriale. As even the pro–freedom of

[58] Anthony Sampson, *The Money Lenders: Bankers and a World in Turmoil* (New York, 1981), 114.

[59] Under the Bretton Woods system, various countries strove to retain control over domestic monetary supply by applying certain taxes. Countries that, unlike the United States, suffered from an increased inflow (rather than outflow) of capital would at times impose special taxes on deposits held by foreigners. In 1964, Germany began imposing a withholding tax on interest paid to foreign holders of domestic German bonds. Richard N. Cooper, "Towards an International Capital Market?," in Charles P. Kindleberger and Andrew Shonfield, eds., *North American and Western European Economic Policies* (London, 1971), 192–208, here 203.

[60] The "phenomenon" of the multinational corporation was discovered and subsequently became the subject of a rapidly expanding literature in political science, in particular, beginning in the 1960s. For a seminal contribution that addresses the tension between national sovereignty and the rapidly shifting and constantly moving worldwide operations of multinationals, see Raymond Vernon, *Sovereignty at Bay: The Multinational Spread of U.S. Enterprises* (New York, 1971). On the "discovery" of multinationals and critiques of their encroachment on sovereignty in developing countries, see Ogle, "State Rights against Private Capital." Mira Wilkins is one of the few contributors to the multinationals literature who adopts a more historical perspective; Wilkins, *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970* (Cambridge, Mass., 1974).

capital flows *Economist* admits, "the first Eurobond was less a piece of clever financial engineering than an elaborate tax dodge." The bond was issued in Schiphol Airport in Amsterdam to avoid the British stamp tax, which would normally have been levied on the bond certificate. The interest coupons were payable in the tax haven of Luxembourg to avoid British income tax.[61] For future issues, Warburg managed to strike a deal with the British government, which agreed to waive the stamp tax on Eurobond certificates. While the stamp tax was at a low 4 percent, the amounts soon issued in Eurobonds were so high that even at that rate, the tax would have rendered the new bonds much less attractive.[62]

Little is known about the initial "end users" and purchasers of Eurobonds, not least because of another feature of such financial instruments. If issued in a place such as Luxembourg, bonds could be sold in so-called bearer form. Bearer bonds do not require registration, and thus the owner's name does not have to be revealed. Whoever "bears" or possesses the bond certificate owns the bond. Such "highly valued anonymity" and the opportunities for tax evasion it offered created the archetype of the so-called Belgian dentist: a high-earning individual seeking to conceal his or her full income from domestic tax authorities. Belgians appear to have been among the more frequent end purchasers of Eurobonds, as the close relationship between Belgium and Luxembourg made it easy to hold such bonds through a Luxembourg bank account and to receive interest payments on them without deduction of tax. Genuine investment interests initially played only a secondary role for Eurobond investors.[63]

Tax havens attracted offshore finance through a combination of minimal taxation, absence of capital controls, and little regulation of bank activity. The possibility of using them to avoid regulatory oversight became a major problem in a number of crises and scandals that rocked the banking and funds world in the 1960s and 1970s. In the summer of 1974, the German private bank Herstatt failed. Like many banks, Herstatt had started to trade aggressively in foreign exchange markets after currencies began to float in the early 1970s. Some of these trades involved Eurocurrencies. But even more importantly, a good part of Herstatt's foreign exchange business had been run through the bank's subsidiary in Luxembourg, thus eluding the grasp of German regulatory authorities.[64] Another case that drove home the problem of lax oversight in tax havens was the defrauding and subsequent collapse of Bernhard Cornfeld's Investors Overseas Services (IOS). IOS's mutual funds were targeted at middle-class investors in Europe and Latin America. Founded in the 1950s, by the early 1960s it had become one of the most successful enterprises of its kind. IOS was headquartered in Switzerland, but its funds were registered in Panama, the Bahamas, and other tax havens. Opportunities for avoiding taxes, with attached courier services for secretly moving

[61] "Money Will Find a Way," *The Economist*, July 6, 2013, 18.

[62] Ian M. Kerr, *A History of the Eurobond Market: The First 2l Years* (London, 1984), 14. See also Richard Roberts with Christopher Arnander, *Take Your Partners: Orion, the Consortium Banks and the Transformation of the Euromarkets* (Basingstoke, 2001), 8.

[63] Kerr, *A History of the Eurobond Market*, 19, 20–21. See also Cooper, "Towards an International Capital Market?," 204, who similarly emphasizes the opportunity for tax avoidance as "one of the principal attractions" of foreign bonds.

[64] Emmanuel Mourlon-Druol, "'Trust Is Good, Control Is Better': The 1974 Herstatt Bank Crisis and Its Implications for International Regulatory Reform," *Business History* 57, no. 2 (2015): 311–334, here 317, 322; Catherine R. Schenk, "Summer in the City: Banking Failures of 1974 and the Development of International Banking Supervision," *English Historical Review* 129, no. 540 (2014): 1129–1156, here 1134–1135.

money if necessary, were among the company's explicit sales pitches.[65] Part of IOS's empire was a life insurance company based in Luxembourg as well as a bank incorporated in the Bahamas. IOS funds began to experience troubles in the bear market of the late 1960s. U.S. financier Robert Vesco offered his help, then looted IOS and made off with $425 million. Vesco became one of the most high-profile white-collar criminals of the twentieth century, subsequently living a life of exile in the Bahamas, Costa Rica, and Cuba.

In the 1960s, the offshore Euromarket coexisted with the Bretton Woods system, a system that had, after all, been based on the idea of nationally bounded economies. Government tolerance of this brave new world of de-territorialized capitalism varied, depending on domestic developments in the individual countries, and on the state of the world economy as a whole. But all in all, governments in Europe and North America did more than just tolerate the offshore economy. They also encouraged archipelago capitalism as a convenient way of circumventing the regulations and taxation imposed by territorial capitalism. Governments did so because they too benefited from the offshore markets, which they used to prop up their economies. It was well known to observers at the time but has since been largely forgotten that the European public sector was a frequent borrower in offshore markets. Among those borrowers were Scandinavian, Dutch, British, and Japanese municipalities seeking to expand their stock of public housing and the like; public corporations in Spain and Italy that were building highways and roads; and newly nationalized industries in France or Britain, such as Électricité de France—in other words, the combined arsenal of a Keynesian economy and a welfare state.[66] In 1976, one estimate stated that at this point, only 4 percent of Eurobond issues were done on behalf of American companies. Japanese and European firms had moved in and now accounted for 52 percent, while non-U.S. governments and government institutions made up the rest.[67]

Government support came not only in the form of creating demand, but also through encouraging private domestic borrowers—notably multinational corporations—to tap these markets, in London as well as in the tax havens where Eurodollar business was increasingly taking place. London was the uncontested center of the Euromarket, but beyond Europe, tax havens played a significant role. Nassau in the Bahamas was the most important non-European center, accounting for roughly half of the non-European business. Singapore and Panama had a smaller share. Together, the non-European market—based largely in tax havens—was about a quarter the size of the European market.[68] Some of the perceived advantages of offshore money and bonds lay not simply in London or Frankfurt, but more specifically in tax havens. As a

[65] Arthur Herzog, *Vesco: From Wall Street to Castro's Cuba—The Rise, Fall, and Exile of the King of White Collar Crime* (New York, 1987), 55. Another notorious banking venture operating in and out of tax havens such as Luxembourg and the Caymans was the Bank of Commerce and Credit International, closed down in 1991 after massive involvement with terrorism, money-laundering, and drug trafficking, among other crimes. James Ring Adams and Douglas Frantz, *A Full Service Bank: How BCCI Stole Billions around the World* (New York, 1992).

[66] Schenk, "The Origins of the Eurodollar Market in London," 228; J. E. Wadsworth, *The Banks and the Monetary System in the UK, 1959–1971* (London, 1973), 183–191; U.S. National Archives and Records Administration [hereafter NARA], College Park, Md., Record Group [hereafter RG] 59, Records of the Foreign Nationalities Branch [hereafter FN] 13 LUX, airgram, American Embassy to Department of State, November 17, 1965.

[67] Peter T. Kilborn, "Eurodollar Market Booming in London; International Deals Using Many Currencies Are Largely Unregulated," *New York Times*, December 25, 1976, 19, 21.

consequence, within Europe, smaller states also began adopting more aggressive tax haven strategies to attract Euromarket business. Luxembourg morphed into a tax haven and center for offshore finance as the number of banks in the duchy grew rapidly, from thirty-six in 1970 to seventy-nine in 1975.[69] European banks had persuaded Luxembourg authorities to allow a Luxembourg holding company formed by a foreign group to put the proceeds of a bond issue at the disposal of any company in that group, without withholding tax. Multinational corporations could thus issue tax-free bonds, the proceeds of which were used to finance the subsidiary's foreign operations, instead of repatriating such funds and incurring tax in the U.S. Already in 1959, Leon O. Stock, a member of the accounting firm of Peat, Marwick, Mitchell & Co. (a predecessor of KPMG prior to a merger in 1987), had marveled at the opportunities for perpetually keeping profits abroad: "the possibilities are endless for pyramiding tax-deferred profits."[70] American companies could raise money in Europe without contributing to the outflow of dollars under Bretton Woods and without paying taxes due upon the remittance of profits. Instead, such profits could be lent out as bonds. U.S. authorities, while initially and occasionally worried about the Euromarket's impact on the overall dollar supply, and thus domestic politics, quickly came to support such foreign-routed borrowing operations.[71]

For UK companies, similar avoidance routes existed through the Netherlands Antilles. In this case, an older double taxation agreement (DTA) suddenly took on new meaning when the Antilles began developing into a haven starting in the 1950s. DTAs have an interesting history that dates back to the late nineteenth century, and on a more significant scale to the interwar period and tax relief within the British Empire as well as the activities of the League of Nations' Economic and Financial Organization.[72] The solution offered by DTAs was to make each party to the contract give up a certain

[68] TNA, FCO 44/1309, letter, Bank of England to FCO, September 16, 1976, Annex A, and letter, Peter Mennel, Bahamas, to MP Anthony Crosland, July 13, 1976, especially 3, 8; David Ashby, "The $300 Billion Super-Dollar Market," *The Banker*, May 1974, 453.

[69] M. Campbell, "Luxembourg—City State of Finance," *The Banker*, February 1975, 189–195, here 190.

[70] Leon O. Stock, "Opportunities in the Use of Bahamian Facilities," in Tax Institute, ed., *Taxation and Operations Abroad: Symposium Conducted by the Tax Institute, December 3–4, 1959* (Princeton, N.J., 1960), 161–169, here 169. TNA IR 40/16744, "Come to Tax-Free Luxembourg," *The Economist*, October 28, 1968, clipping.

[71] Centre des archives diplomatiques de La Courneuve, Archives du ministère des Affaires étrangères, Luxembourg, 1961–1970, MAE 194 QO 31, Rélations economiques avec la France, letter, French Embassy Luxembourg to Foreign Minister, October 2, 1970; TNA, T 295/1013, John Chown and Michael Edwardes-Ker, "'Offshore' Investment Centers and Tax Havens," 481, *The Banker*, magazine clipping; NARA, RG 59, FN 13 LUX, letter, American Embassy Luxembourg to Department of State, November 17, 1965.

[72] On the League's Economic and Financial Organization, see Patricia Clavin, *Securing the World Economy: The Reinvention of the League of Nations, 1920–1946* (Oxford, 2013); Stephen A. Schuker, "Money Doctors between the Wars: The Competition between Central Banks, Private Financial Advisers, and Multilateral Agencies, 1919–39," in Marc Flandreau, ed., *Money Doctors: The Experience of International Financial Advising, 1850–2000* (London, 2003), 49–77. On the League's effort at economic governance, see Yann Decorzant, *La Société des Nations et la naissance d'une conception de la régulation économique internationale* (Brussels, 2011); Michel Fior, *Institution globale et marchés financiers: La Société des Nations face à la reconstruction de l'Europe, 1918–1931* (Bern, 2008). For a diplomatic and political perspective on the Genoa Conference, see Carole Fink, *The Genoa Conference: European Diplomacy, 1921–1922* (Chapel Hill, N.C., 1984). On the League of Nations' work, see Mitchell B. Carroll, *Prevention of International Double Taxation and Fiscal Evasion: Two Decades of Progress under the League of Nations* (Geneva, 1939).

degree of power to tax, granting reciprocal tax relief and credits. Unrelated to these earlier developments, Dutch, American, and British authorities had, in the mid-1950s, extended the scope of a DTA to include the colony of the Netherlands Antilles. The Antilles therefore became another base for tax-free Euromarket borrowing. Whenever British companies took out a loan or issued a bond, UK tax would normally be deducted from the interest payments, thus reducing the profits for whoever had extended the loan or underwritten the bond. Under this new arrangement, UK companies set up subsidiaries in the Netherlands Antilles that would issue Eurobonds. The net proceeds of those funds would be lent back to the parent company in the UK, the advantage being that the loan interest payments (by the UK company to the Netherlands Antilles subsidiary) were deductible from UK-calculated corporate taxes as part of the double taxation agreement, as a credit for taxes incurred elsewhere. The Netherlands Antilles subsidiary could then pay interest to the bondholders without deducting tax.[73] "The need to use an overseas base may seem to be a little undignified, particularly for an important United Kingdom company or a nationalized industry," Inland Revenue and Treasury officials admitted, but overall these were not particularly powerful objections to current practices. "One nationalized industry commented revealingly that it means no more than a day in Luxembourg for the directors."[74]

As the existing Bretton Woods system came under pressure from offshore practices, states grew more willing to assist the development of finance and tax havens as a way to support their own financial industries in a climate of increased international competition. Beginning in 1969, the U.S. Federal Reserve allowed U.S. banks to set up shell branches in havens such as the Bahamas and the Cayman Islands. With capital controls and other regulations operating in the U.S., the Fed did not want to stand in the way of letting U.S. banks share in this lucrative growing field of business. Initially the motive was to enable smaller banks to compete in international lending and to tap the Euromarket, as they would be unable to afford full-fledged branches abroad and thus were at a disadvantage compared to bigger, more established American banks. By the early 1970s, roughly one hundred such shell branches existed in the Caribbean. Normally these locations were not even staffed by bank personnel; rather, the responsibility of running the shell was contracted out to local trust companies, which were often themselves owned by major international banks. Most of the business showing up on the books of tax haven shell branches was done not locally but in London. American bank branches in London then channeled funds to the Caribbean shell, and "by crediting the transactions to their Caribbean shells, the banks avoid having to pay withholding tax on a substantial part of the business they create in London." No taxes accrued until profits were repatriated to the U.S. head office, "a step that can be postponed almost indefinitely."[75] Once the Federal Reserve Board began permitting American banks to set up shell branches in tax havens, the volume of business booked overseas increased rapidly. "Since the end of 1973, the assets of American bank branches in the Bahamas and Cayman Islands . . .

[73] A similar routing operation was soon established using Switzerland in addition to the Netherlands Antilles, referred to as the Swiss Roundabout. TNA, IR 40/17116, letter, Issuing Houses Association to Bank of England, July 24, 1970, and letter, Issuing Houses Association to Bank of England, June 17, 1970.

[74] TNA, IR 40/17116, Tax Arrangements on Borrowing by United Kingdom Companies from Non-Residents, memo, January 21, 1969; Swiss Roundabout, note, July 11, 1980.

[75] TNA, FCO 44/861, "Taxes No One Collects," *The Economist*, August 25, 1973, clipping.

have increased by more than 150 percent, to 31 percent of the assets of all foreign branches of American banks," the *New York Times* reported. By May 1976, more offshore loans had been recorded by American banks in the Caribbean than in London.[76]

Euromarket business was expanding, and American banks were eager to have their piece of the pie. The problem was that, after a certain point, these banks could no longer rely on traditional sources of demand for loans—with unintended but lasting consequences. When the end of the Bretton Woods system of fixed exchange rates between 1971 and 1973 coincided with the oil shock, the U.S. economy went into recession. With demand for loans sluggish in the United States and much of the Western world, Eurodollars were now lent out increasingly to developing countries, where "the demand for credit, particularly from non-oil-producing deficit countries," remained high.[77] In due course, Eurodollars had "helped puff up the debts of developing countries to a level that many economists consider perilous."[78] The oil crisis and oil price hikes of 1973 left Middle East oil exporters flush with cash. Much of the petrodollar "recycling" that occurred throughout the second half of the 1970s was in fact Euromarket business. Cash-strapped oil-importing developing countries had turned to banks instead of sovereign lenders as previously. The result was the well-known cycle of borrowing and inability to service skyrocketing interest payments on loans. The Latin American debt crisis of the late 1970s and early 1980s, down to the Mexican default of 1982, was fueled not least by Eurodollars, underscoring once more the importance of the offshore economy for major political and economic developments during these decades.

The 1970s debt crisis was only the start of what would become a major restructuring of global finance and the world economy as a whole, one that redounded on national economies at home in the North Atlantic world. What had started out as policies aimed at small developing economies or as limited methods of supporting certain aspects of domestic finance and industry soon grew into a full-fledged remaking of postwar national economic policy. One of the first acts in this process was staged in New York. With the offshore expansion and growth of the Euromarket in the Caribbean and elsewhere, traditional banking centers such as New York lost significant business. The departure of banking business from New York to the Caribbean meant lost tax and other revenue for the state of New York and New York City. The stagnant domestic economy and the turn to offshore finance coexisted with a full-fledged budget crisis that saw New York City on the verge of bankruptcy and a near-default in 1975. In this situation, the city's banks sensed an opportunity for something that many had openly or secretly been demanding for years: why not try to lure some of the offshore business from the Bahamas, the Cayman Islands, London, Panama, and Singapore back onshore by offering to do, in a limited and circumscribed way, what they had been doing "offshore" for decades?

What ensued over the coming years was an example of extending certain elements of deregulation and tax avoidance as practiced across the offshore archipelago to the onshore economy. The *New York Times* was exuberant: "after decades of effort, banks

[76] Ann Crittenden, "Growing Bahamian Loan Activity by US Banks Causes Concern," *New York Times*, March 3, 1977, 69.

[77] Ibid.

[78] Kilborn, "Eurodollar Market Booming in London."

in New York will have won the right to compete directly in the huge, so-called Eurodollar market, the largely unregulated pool of more than $1 trillion dollars—roughly equivalent to the debt of the United States Government—that have departed the American economy."[79] The New York state legislature passed the corresponding measures in 1978. In the spring of 1981, the Federal Reserve Board finally gave its stamp of approval: as of December of that year, banks in New York would be allowed to establish special accounts through which they could do business with foreign customers as if they were "offshore." It is interesting to note the language used to describe the move from offshore to onshore. The *New York Times* and other outlets readily understood that "[t]he opening of New York as a free banking zone will not be an event that will involve laying cornerstones or stringing up bunting."[80] As with so many aspects of archipelago capitalism, it was a feat achieved through the legal implications of certain accounting practices. There would be no separate brick-and-mortar banks to conduct foreign business in some designated corner of Manhattan. The new business would exist on the books, in the form of separately held accounts for onshore and offshore business. Yet observers routinely referred to the setting up of "free banking zones," "free trade zones," and the like. The new facility "would be like duty-free ports," one outlet mused.[81]

"International Banking Facilities" (IBFs), as the new instruments came to be known, would attract banks back by offering what was par for the course in tax havens: IBFs were subject to limited reserve requirements, whereas banks normally have to keep a certain percentage of each deposit in a non-interest-earning account with the Federal Reserve, money that cannot be lent out or put to work otherwise. The longstanding ceiling on the amount of interest that banks were allowed to pay on deposits was also lifted for IBFs. Federal income tax would be applied to any revenue they generated, but state and local taxes were suspended. New York City became, as the *New York Times* stated, a tax haven. Moving offshore onshore came with moderately attenuated privileges, as certain restrictions remained in place.[82]

About six months after the introduction of IBFs in New York, roughly three hundred such "entities" existed on U.S. soil. There had been a "stampede" to establish new units, it was reported, even though the loudly advertised advantages to the local economy had not materialized.[83] In the end, IBFs proved unable to shut down Eurodollar business conducted by American banks in tax havens. Too many other, related and unrelated activities could still be done more cheaply and with less oversight in tax havens to avoid trading limits and other regulations.[84] Yet another reason why tax ha-

[79] Robert A. Bennett, "America's Debut in Offshore Banking," *New York Times*, November 27, 1981, G4.

[80] Ibid.

[81] Caroline Atkinson, "Bank Free-Trade Zones Favored," *Washington Post*, November 20, 1980, B1.

[82] IBFs were not allowed to accept deposits from or make loans to American companies and were designated to deal with foreigners only. IBFs could issue Eurodollar or other loans only to foreign governments, individuals, and corporations, including foreign subsidiaries of U.S. companies. James L. Rowe Jr., "Chase to Open 4 Eurodollar Facilities," *Washington Post*, November 28, 1981, E1; "New York Banks Can Go after Eurodollars," *New York Times*, November 27, 1981, G4; Clyde H. Farnsworth, "Free Banking Zones Authorized as Lure to Foreign Business," *New York Times*, June 10, 1981, A1.

[83] Eduardo Lachica and James Leung, "U.S. Bank Units to Vie for Eurodollars; Hong Kong Tax Dispute Riles Lenders," *Wall Street Journal*, September 18, 1981, 34; Robert A. Bennett, "International Units Achieve Fast Foothold: Banking Zones in U.S. Obtain Fast Acceptance," *New York Times*, May 7, 1982, D1.

[84] Jack A. Blum, "Offshore Money," in Tom Farer, ed., *Transnational Crime in the Americas* (New York, 1999), 59–86, here 79.

vens were never just tax havens alone, and why such definitions are problematic, is that places such as the Cayman Islands and the Bahamas also became important sites for the expansion of the mutual and hedge fund industries. Today the Caymans are the center of the world's hedge fund industry, with 45 percent of all hedge funds registered there. In offshore jurisdictions, the owners of shares in mutual funds were not required to be reported and disclosed. Tax havens, moreover, allowed hedge funds to take on greater risks, as "regulations covering their speculative positions are particularly soft there." Hedge and mutual funds were again instrumental to financialization, and as Piketty would argue, to the rise of inequality.[85]

The crisis of liberal-democratic capitalism that engulfed the North Atlantic world in the 1970s paved the way for the rise of free-market capitalist assumptions and policies that are normally subsumed under the term "neoliberalism." Yet some of these policies had already germinated in the offshore world during the previous three decades. Policies on taxation and regulation—commonly established for the offshore archipelago of tax havens, flags of convenience registries, offshore financial centers, and foreign trade zones—were becoming part of domestic national neoliberal policies by the late 1970s. Starting in the 1970s and 1980s, marginal tax rates on the highest-income groups in most parts of the North Atlantic world were slashed after reaching record highs for several decades beginning in the 1940s.[86] During this same period, regulations on domestic financial industries and markets were relaxed or completely revoked, reducing the difference between onshore and offshore policies here as well. As political scientist Eric Helleiner writes, "competitive pressures" from the Euromarket "promote[d] financial deregulation and liberalization in the 1980s." Heavy bank lobbying led to the abolition of Regulation Q, the old New Deal–era law that had contributed to the growth of offshore banking in

[85] Zucman, *The Hidden Wealth of Nations*, 27. Hedge funds are not available as "over-the-counter" investment products to the ordinary customer. They have to be accessed and used through intermediaries such as investment bankers, who will not only charge a hefty fee but also require a relatively high minimum amount from an investor. On the other hand, hedge funds have been shown to yield considerably higher rates of return over the long run, something close to 10 percent, as opposed to the 5–6 percent for a standard Vanguard fund (as one example) that is required to use at least 40 percent of low-risk (and accordingly lower-yield) bonds, or bank deposits (around 2 percent). Hedge funds thus favor wealthy investors, who then stand to gain even more from their access to such products, as Zucman, *The Hidden Wealth of Nations*, 50, argues. See also Piketty, *Capital in the Twenty-First Century*, 248. On the growth of the offshore fund industry, see NARA, RG 59, FN 11-1 BAH, airgram, American Embassy London to Department of State, March 9, 1965; TNA, FCO 44/861, "A New Stash for Hot Cash," *Time*, January 1, 1973, clipping; N. S. Fieleke, "The Growth of United States Banking Abroad: An Analytical Survey," in Federal Reserve Bank of Boston, ed., *Key Issues in International Banking: Proceedings of a Conference* (Boston, 1977), 9–40, here 20; "Taxes No One Collects." TNA, IR 40/16833, "Caribbean Havens for Investors," *Financial Times*, December 27, 1967, clipping; BEA, OV 121/23, "Avoidance through Tax Havens," note by Inland Revenue, n.d.

[86] Facundo Alvaredo, Anthony B. Atkinson, Thomas Piketty, and Emmanuel Saez, "The Top 1 Percent in International and Historical Perspective," *Journal of Economic Perspectives* 27, no. 3 (2013): 3–20, here 7. The motives and driving forces behind such cuts appear to have varied and require more research. For the U.S. case, Monica Prasad has shown that the Reagan administration's embrace of tax cuts originated in domestic concerns and popular resistance against taxation. Even though Prasad does not put it this starkly, business interests were mostly opposed to these cuts, primarily because the private sector worried that such reductions would decrease their chances of lowering corporate taxes, as the pie could not be shrunk endlessly. Prasad, "The Popular Origins of Neoliberalism in the Reagan Tax Cut of 1981," *Journal of Policy History* 24, no. 3 (2012): 351–383. More research is necessary to establish whether cutting individual tax rates at the top was related to competition from tax havens in the U.S. and other countries.

the first place by limiting interest rates on bank deposits.[87] Historical sociologist Greta Krippner has characterized this as the most important piece of legislation that allowed financialization to fully unfold.[88] In 1984, the 30 percent withholding tax on interest payments to foreign holders of U.S. bonds was removed in the hope of returning Eurobond business to New York. Beginning in 1985, the U.S. Treasury Department permitted foreigners to buy government bonds anonymously, "an opportunity that was especially attractive to those involved in Latin American capital flight" and likely tax evasion.[89]

Other elements of archipelago capitalism moved from offshore to Europe and North America with the rise of neoliberalism, too. In Britain and the United States, Thatcher and Reagan implemented so-called urban enterprise zones for the revitalization of city centers, in explicit reference to previously established overseas foreign trade zones.[90] These foreign trade zones (sometimes referred to as export processing zones or special economic zones) had first appeared in Puerto Rico in 1947. Free zones generally lured investors with cheap and lightly regulated labor, the absence of unions, and little environmental regulation, as well as generous tax holidays. Following Puerto Rico, Panama opened a free trade zone in 1948, and in 1959 Shannon, Ireland, followed.[91] This model of zones for export manufacturing spread to places such as Mexico, Taiwan, and Korea in the 1960s, and to virtually everywhere in the non-Western world in the 1970s.[92] China's economic transformation after 1978 initially rested largely on several such special economic zones, among them most notoriously Shenzhen.[93]

[87] Previously, banks had offered Eurodollar Certificates of Deposit to get around Regulation Q. CDs are fixed-interest-rate time deposits from which funds can be withdrawn not at any moment, as from a regular bank account, but only after a set period of time. Betsy Buttrill White, "Monetary Policy without Regulation Q," *Federal Reserve Bank of New York Quarterly Review*, Winter 1981/1982, 4–8, here 5. See also Helleiner, *States and the Reemergence of Global Finance*, 139, 138.

[88] Krippner, *Capitalizing on Crisis*, 58, 67.

[89] Helleiner, *States and the Reemergence of Global Finance*, 149. I. M. Destler and C. Randall Henning, *Dollar Politics: Exchange Rate Policymaking in the United States* (Washington, D.C., 1989), 29.

[90] On Urban Enterprise Zones, see Sam Wetherell, "Freedom Planned: Enterprise Zones and Urban Non-Planning in Post-War Britain," *Twentieth-Century British History* 27, no. 2 (2016): 266–289.

[91] Thomas E. Lyons, *Report on Proposal to Create a Foreign-Trade Zone (or Free Port) in the Republic of Panama* (Washington, D.C., 1946); Brian Callanan, *Ireland's Shannon Story: Leaders, Visions, and Networks—A Case Study of Local and Regional Development* (Dublin, 2000); Valerie Sweeney, *Shannon Airport: A Unique Story of Survival* (Shannon, 2004). On foreign trade zones generally, see Dara Orenstein, "Foreign-Trade Zones and the Cultural Logic of Frictionless Production," *Radical History Review*, no. 109 (2011): 36–61; Patrick Neveling, "Export Processing Zones, Special Economic Zones, and the Long March of Capitalist Development Policies during the Cold War," in Leslie James and Elisabeth Leake, eds., *Negotiating Independence: New Directions in the History of the Cold War and Decolonization* (London, 2015), 63–84. Puerto Rico's economic reform program of the late 1940s and 1950s was known as "Operation Bootstrap"; A. W. Maldonado, *Teodoro Moscoso and Puerto Rico's Operation Bootstrap* (Gainesville, Fla., 1997). Advocates of 1930s foreign trade zones in the U.S. and in postwar Ireland often saw themselves as in the tradition of early modern and nineteenth-century European free ports. As a helpful recent introduction to the literature on these older European institutions, see Corey Tazzara, "Managing Free Trade in Early Modern Europe: Institutions, Information, and the Free Port of Livorno," *Journal of Modern History* 86, no. 3 (2015): 493–529. But see also Frances Armytage, *The Free Port System in the British West Indies: A Study in Commercial Policy, 1766–1822* (London, 1953). My thanks to Brian DeLay for the Armytage reference.

[92] Neveling, "Export Processing Zones, Special Economic Zones, and the Long March of Capitalist Development Policies during the Cold War."

[93] Limited liability companies might be another example. "The New American Capitalism: Rise of the Distorporation," *The Economist*, October 26, 2013, 29–31; Bennett Harrison, "The Politics and Economics of the Urban Enterprise Zone Proposal: A Critique," *International Journal of Urban and Regional Research* 6, no. 3 (1982): 422–428.

In *The Origins of Totalitarianism*, Hannah Arendt famously argued that the colonial world functioned as a testing ground for certain European and especially German practices of genocide and extermination. While historians have rightly been cautious to fully embrace her argument, Arendt may have gotten it right in another regard: the non-Western world indeed served as a laboratory for certain facets of modernity—for free-market capitalism.[94] In the offshore world, lawyers, accountants, former spies, and diplomats and the business interests they represented created a testing ground and escape valve for certain elements of free-market capitalism beginning in the 1950s and 1960s that would later move to Europe and North America.

The importance of these years also underscores the role that empire and decolonization played in this story. Historians have recently made much of decolonization's impact on metropolitan societies in Europe, of the legacies of empire for understanding European history.[95] Empire and decolonization bore a direct relationship to archipelago capitalism. Leftover sites of empire as well as a number of other, often small territories such as the Channel Islands and Luxembourg helped re-create some of the juridical-political-economic unevenness of the bygone imperial world, allowing individuals and corporations to spread themselves and their assets across multiple tax jurisdictions with varying, sometimes contradictory, tax codes and tax rates. Such advantages of juridico-economic unevenness, moreover, made the movement for a "New International Economic Order" (NIEO) and its strong claims regarding the economic sovereignty of newly independent postcolonial states rooted in a world of strong territorial nation-states such a threatening prospect to advocates of the free market.[96]

Furthermore, some returnees from empire moved their assets to tax havens rather than to assertively taxing welfare states in the metropole, thus contributing to the initial expansion of havens. Many—though not all—tax havens were located in the British Empire, in both former and persisting colonies and dependent territories. Encouraged by local elites and business interests, the low-tax or no-tax regimes that had previously governed these territories were continued and now systematically perfected with the passing of bank secrecy, trust, and other laws. Historians should consider the offshore world and the role it played in the economic transformations of the 1970s as a further legacy of empire. The question of what happened to European assets when Europeans left the colonial world is largely unstudied to date and deserves attention.[97] Much more than historians have acknowledged, decolonization was an economic and financial event of the first order. Sites such as the Caribbean, Singapore, and Panama and their role in the political-economic transformations of the 1970s moreover suggest that it is necessary to rethink the geographies of neoliberalism beyond Britain and the United States.

Yet there is even more of a structural relationship between the offshore world and the post-1970s economic and political order. The offshore Euromarket was an "adventure playground" for certain regulatory and tax regimes that would later be emu-

[94] Hannah Arendt, *The Origins of Totalitarianism* (1951; repr., New York, 2004).

[95] Two exemplary works are Jordanna Bailkin, *The Afterlife of Empire* (Berkeley, Calif., 2012); and Todd Shepard, *The Invention of Decolonization: The Algerian War and the Remaking of France* (Ithaca, N.Y., 2006).

[96] On the NIEO, see Ogle, "State Rights against Private Capital."

[97] The argument about the "decolonization" of assets and their removal from the world of empire can be extended to sites of informal empire in Latin America and the Middle East, as well as U.S. entanglements with Latin America. I will offer an initial assessment of some of these aspects in Ogle, "'Funk Money,'" in progress.

lated in a competitive "race to the bottom" elsewhere.[98] But more than has hitherto been acknowledged, and despite its initially more limited scope, the offshore world contributed to the eventual demise of the mid-century state-based order. States found that the offshore leakages they had tolerated or actively created were increasingly difficult to contain. The relocation of manufacturing and the decline of industry and rise of finance (and the erosion of the postwar consensus between capital and labor) are normally attributed to lower wages, reduced transportation costs, and other savings available in the developing world. The opportunities and incentives offered by tax havens and offshore finance to retain and invest profits abroad instead of remitting such funds was arguably another important but largely ignored cause.[99]

The designers of the Bretton Woods system had not envisioned the emergence of a global financial market unfettered by national regulation and taxation.[100] Theirs was a world economy made up of the sum total of national economies. In some ways, the archipelago of tax havens, flags of convenience registries, offshore financial centers, and foreign trade zones revealed the state-based aspirations of the long mid-century, from the New Deal to the redistributive welfare state to the state-driven top-down modernization politics in the developing world, to have been precisely that: to a certain degree unfinished projects. The state, and more specifically the nation-state, as an economic and social project was perhaps the first and last "true" utopia of the twentieth century, in that it was the only utopia shared by the First, Second, and Third Worlds alike.[101]

It has been argued that beginning in the 1970s, and certainly in the 1980s, states in the North Atlantic world began to act as "competition states." In seeking to adapt to globalization, states reinvented themselves as market actors. Under the embedded liberalism of the postwar decades, states had actively shielded certain elements of society

[98] Helleiner, *States and the Reemergence of Global Finance*, 8.

[99] A classic text making the cheap labor argument is Folker Fröbel, Jürgen Heinrichs, and Otto Kreye, *The New International Division of Labour: Structural Unemployment in Industrial Countries and Industrialisation in Developing Countries*, trans. Pete Burgess (Cambridge, 1980).

[100] In the changed world economy since the 1970s, trade has in fact become less "free" than financial flows. Countries have been more reluctant to liberalize trade than they have been to liberalize financial flows. The difficulty of combining the two was driven home in the U.S. in the 1980s. The combination of slashed tax rates with increased military spending exploded the federal deficit during the Reagan years. Large inflows of foreign capital made it possible to run large deficits. But such inflows also led to protectionist demands as domestic industries faced competition from imports and saw the dollar appreciate. See Eric Helleiner, "Freeing Money: Why Have States Been More Willing to Liberalize Capital Controls Than Trade Barriers?," *Policy Sciences* 27, no. 4 (1994): 299–318, here 313.

[101] This is by no means to say that the nation-state is disappearing or even becoming less important. But the post-1970s nation-state is very different from both the late-nineteenth-century nation-state and the state during the long mid-century from the 1930s to the 1970s, and we have to date no fully compelling analysis of the neoliberal state in the North Atlantic world. On the level of identities and belonging, the nation-state has never lost its importance. Recurring waves of ethnic violence throughout the 1990s and the current resurgence of right-wing populism in Europe and the United States prove the point. On a political-economic-social level, the nation-state remains a container of sorts, while its interiors and bureaucracies have been reorganized beyond recognition since the 1970s. Some interesting initial interventions on this topic have been made by sociologists, in particular: Neil Brenner, *New State Spaces: Urban Government and the Rescaling of Statehood* (Oxford, 2004), has pointed to the reorganization of state space in which regulation is moved from the national to the regional and local levels; Saskia Sassen, *Territory, Authority, Rights: From Medieval to Global Assemblages* (Princeton, N.J., 2006), has pointed to the increasing importance of global mega-cities; and Alasdair Roberts, *The Logic of Discipline: Global Capitalism and the Architecture of Government* (Oxford, 2010), has identified a logic according to which nodes of economic importance and economic decision-making are removed from the "messiness" of popular democracy and its attendant bureaucracy.

from market forces. With the rise of the competition state, rather than taking activities out of the market by decommodifying them, states actively inserted economic activities into the market in order to be more competitive internationally. The privatization of public assets is the first example that comes to mind. Across the archipelago of free-market capitalist islands, states and territories of varying independence inserted themselves, their nationality, into the market by selling the "right" for corporations to carry a flag or acquire legal residency in exchange for a moderate registration fee.[102] Perhaps more unsettling, however, capitalism's archipelago did not emerge only in the 1980s as an attempt to adapt to globalization. It had been a way to adapt to a world of nation-states and state-based projects in the preceding decades, when citizenship, democracy, liberal capitalism, and moderate redistribution were all vested in the nation-state.

[102] Philip G. Cerny, "Paradoxes of the Competition State: The Dynamics of Political Globalization," *Government and Opposition* 32, no. 2 (1997): 251–274, here 259. Atossa Araxia Abrahamian, *The Cosmopolites: The Coming of the Global Citizen* (New York, 2015). For an example of corporations acting as states and not vice versa, see Philip J. Stern, *The Company State: Corporate Sovereignty and the Early Modern Foundation of the British Empire in India* (New York, 2011).

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