Are Tax Avoidance 'Havens' a Bad Thing? Part II

Nicolas Véron says Europe has taken a step forward in requiring European banks to exchange information to crack down on tax evasion.

Steve Weisman: This is Steve Weisman with Nicolas Veron at the Peterson Institute for International Economics, talking about the always popular subject of taxes, tax evasion, in the United States and Europe, by corporations, by individuals. Nicolas, you've just finished saying that the big countries are hypocritical for beating up on the little countries, because everybody does it. But there's a peculiar hypocrisy for Britain, is there not, for lecturing Ireland and other countries about having low tax rates, but tolerating this, as you were saying earlier.

Nicolas Véron: First I think it's inappropriate, as a matter of principle, for a French man to criticize Brits for hypocrisy. I'm not sure I want to follow you there.

Steve Weisman: So let's not use that terminology. Just tell me about the ironic aspects of this.

Nicolas Véron: I think it is ironic that the UK has favorable regime on its territory, and even much more favorable regime, including in terms of secrecy, in the so-called Crown dependencies. Now the Crown dependencies strictly are not part of the European Union. They have their own form of autonomous government, but ultimately they are, as their name suggests, linked to the Crown of England. Their highest court is a privy council, or equivalent arrangements, that make them more than symbolically connected to the United Kingdom.

This includes the Cayman Islands, the British Virgin Islands, Jersey, Guernsey, the Isle of Man—I have to say, don't quiz me on which exactly of those ones are Crown dependencies, or which ones have another label; most of them are Crown dependencies.…

Steve Weisman: Right.

Nicolas Véron: You have all these familiar names in tax haven literature, which are strongly politically connected to the UK. And by the way, this is not unique to the UK; to a certain extent you can say the same of Monaco in the case of France, of the Dutch Antilles in Curacao and the rest in the case of the Netherlands. It's, in a way, a legacy of European and colonial history, but you have this situation which entails a lot of harmony, indeed.

Steve Weisman: Shouldn't we strive for some sort of a global system that curbs this practice? You're saying it's impossible, I think.

Nicolas Véron: Yes. Tax sovereignty is a core area of sovereignty. Basically, it's legitimate in the world of sovereign countries. It's legitimate to compete on tax. The European Union is an exception, because the European Union is based on the pooling of sovereignty, and therefore it makes sense inside the European Union to discuss tax coordination, harmonization, exchange of information, all the stuff that is being discussed. But I don't think this can be applied, to the same extent, to the rest of the world. I think we have to live with tax competition. It's part of life in our current global order.

Now, if we choose to introduce elements of a much more integrated global governance system—and I'm certainly in favor of that in some areas—then we can discuss radical steps. But I don't think that, at this point, the world is ready for pooling of tax sovereignty at the global level.

Steve Weisman: In the European Union, there is discussion, even this week, about greater sharing of information within the banking system. Tell me about that.

Nicolas Véron: Yes. That makes a lot of sense in conjunction with the project to move towards a fiscal union in Europe. You cannot really separate what is happening in the euro zone crisis, both the fiscal tightening, but even more as a prospect of fiscal integration, at least among a critical mass of the European member states, on the one hand. And on the other hand, this breakthrough agreement to share tax information that countries like Luxembourg, or Austria, were absolutely not ready to envision sharing, until a very recent date. I think you see basically, the tectonic shift in Europe from the euro zone crisis, having impact on areas which were perceived as not necessarily directly connected.

Steve Weisman: But what will the sharing of information lead to? It's not going to reduce tax competition. But is it going to reduce or increase prosecution about illicit activities?

Nicolas Véron: Yes. It's going to reduce evasion of national tax in Europe by going to another European country. So basically if you want to evade national tax in Europe, you will have to go outside of Europe, and that's marginally more complicated. Take the case of this French minister. He had an account in Switzerland, and then Switzerland started to be a bit under the spotlight in Europe, and he opened an account in Singapore, right?

Steve Weisman: Was it illegal for him to do those things?

Nicolas Véron: Oh, yes, t start with, he lied about it in the context for…

Steve Weisman: Of course, it's wrong to lie about anything, but is there…?

Nicolas Véron: No, he didn't declare it to the tax authorities the way he should have done. So basically, he evaded tax, and he didn't comply with the French tax law.

Steve Weisman: Why did he set up these foreign accounts? Was the evasion that he allegedly carried out illegal?

Nicolas Véron: I don't think we have the full details of where that money came from and what the specifics were, so I'll be cautious on this. But I think there is little doubt -- I mean he has said it himself, that he did the wrong thing on this space. Now, obviously to come back to our previous topic, the European Union has levers of influence over Switzerland that it doesn't have over Singapore. Basically, what is being considered—the same way as the U.S. did, by the way—is a much more systematic in exchange of tax related information with Switzerland, and has been the case so far.

I personally believe it's a good thing. Of course, where it starts being a potentially bad thing is if it starts encroaching on freedom of individuals, especially in countries, which are not free—sharing tax related information with say, China, or Zimbabwe…

Steve Weisman: Even Russia.

Nicolas Véron: Russia, or Saudi Arabia, or countries which are not free. And here, to not offend anybody, I will just say that I use this vocabulary with reference to the rankings of Freedom House, is something that could be questionable for reasons of human rights and protection of individuals. So where exactly is the boundary of legitimate mandatory exchange of tax information, versus the ones that would raise a different set of issues? I don't know exactly. But I think, among free countries like the U.S., all countries in the European Union, according to Freedom House, with the possible exception of Hungary and Switzerland, I think this is a step forward.

Steve Weisman: Thank you, Nicolas.

Nicolas Véron: Thank you, Steve.