

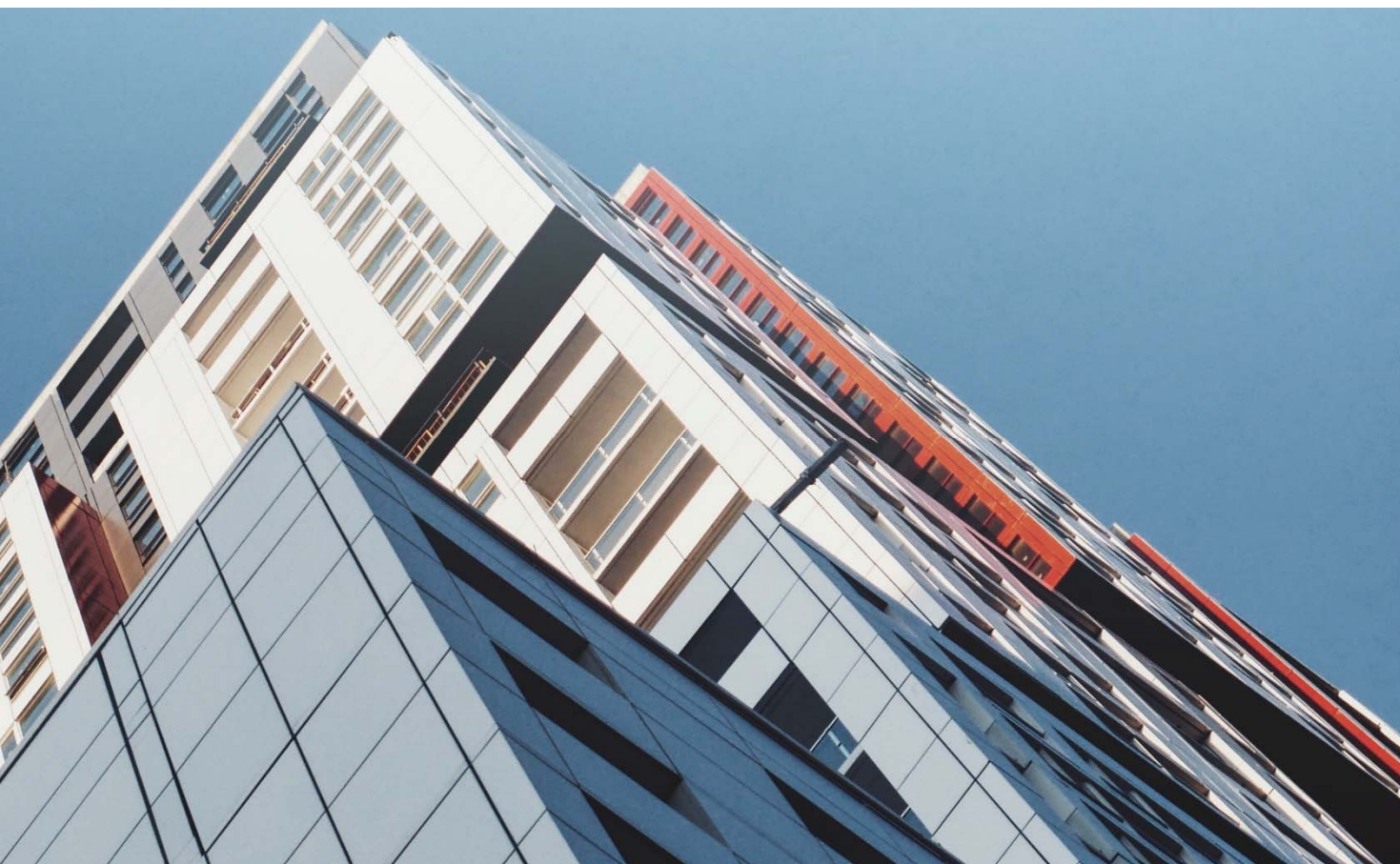


# Killing South Africans in Zurich, London and Bermuda

The Ethical Horrors of Tax Abuse and Corporate and  
State Austerity

Robert O'Brien  
McMaster University, Canada

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## ABOUT US

Austerity and its Alternatives is an international knowledge mobilization project committed to expanding discussions on alternatives to fiscal consolidation and complimentary policies among policy communities and the public. To learn more about our project, please visit [www.altausterity.mcmaster.ca](http://www.altausterity.mcmaster.ca).

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### About the Authors

**Dr. Robert O'Brien** ([obrienr@mcmaster.ca](mailto:obrienr@mcmaster.ca))

Dr. O'Brien is a Professor at McMaster University in the Department of Political Science.

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## Introduction

This short paper<sup>1</sup> makes two major points. Firstly, for the citizens of southern Africa tax abuse inflicts a severe human cost because it simultaneously forces states and enables corporations to follow austerity politics damaging human lives. Secondly, Western financial institutions and regulators bear some of the responsibility for premature deaths in developing countries because the system which facilitates this abuse which has global reach is based in Western financial centres.

## State and Corporate Austerity in South Africa

The notion that tax abuse deprives developing countries of badly needed tax revenues is not controversial. This is a particularly serious problem in Africa as many African states have been on an austerity program in the form of structural adjustment programs for decades while large amounts of capital have been transferred offshore.

Africa loses billions of dollars in revenues annually. Some of this is clearly the illegal movement of money. A High Level Panel set up by the African Union and the UN Economic Commission for Africa to investigate illicit financial flows, estimated that Africa loses US \$50-60 billion per year to illicit financial flows (AU/ECA 2015).

However, a great deal of the tax abuse and outflow of money from developing countries is legal under the present system (Bernards et al 2016). Transfer pricing schemes allow corporations to move profits around the globe to minimize the tax paid in the places where revenues are earned. Companies may be charged large fees for intangible services (legal, marketing) by offshore subsidiaries, for example. In the extractive sector corporations may set long term contracts with raw material suppliers at artificially low prices to minimize tax. An alternative strategy is the transit trade where goods are sold on a stock exchange in a second country before being shipped on to a third country. This transit trade is especially harmful for developing countries but has resulted in Switzerland, despite producing very few commodities in any significant quantity, gradually become one of the largest commodity exporters in the world. In this case, transfer prices are being structured so that profits on trade in commodities are concentrated in the Swiss headquarters far beyond the reach of developing country tax authorities.

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<sup>1</sup> This is a draft, please do not quote or cite.



It is difficult to determine the exact amount of money flowing from developing countries to developed countries via the various forms of tax abuse. At the height of the global financial crisis Christian Aid (2008) issued a report that put the figure at \$160 billion annually. That figure is more than one and a half times the amount of aid flowing to developing countries from rich countries. Continents such as Africa become net creditors to the developed world when these financial flows are considered. In terms of human lives Christian Aid put the cost at 1,000 children dying each day. In response to criticism of its figures Christian Aid conducted further research drawing upon a number of other sources such as the World Bank and OECD and confirmed its original estimate of US 160 billion (Christian Aid 2014)

The Human Development Index which measures ranks countries social welfare by creating a composite index which includes life expectancy, years of schooling and gross national income per capita. South Africa ranks 116th out of 189 places (UNDP 2015, p. 209). Its life expectancy at birth is 57 years (Canada's is 82), median years of schooling is 10 (Canada 13) and GNI per capita (PPP) is \$12, 022 (Canada \$42, 155). More disconcertingly, South Africa's HDI score has only improved by a small degree from 0.621 in 1990 to 0.666 in 2014 (Canada from 0.849 to 0.913). Twenty four years (twenty of which have been post-apartheid) have witnessed only a minor improvement in South Africa's human development.

The South African budget in February 2016 adopted austerity measures in the hope that the country could avoid having its debt downgraded to junk status (Holmes 2016). Buffeted by drought, electricity shortages, high unemployment and social unrest the ANC leadership was unable to deliver a growth budget, fearing the verdict of financial markets. Instead of growth it offered government spending cuts and a civil service freeze. Declaring the country was in a state of economic crisis the Finance Minister insisted that: 'We cannot spend money we do not have. We cannot borrow beyond our ability to repay. Until we ignite growth and generate more revenue we have to be tough on ourselves.' (BBC 2016).

The outflows of money from Africa suggest that there is more money that could be put to use for development. However, instead of being able to harness such funds to 'ignite growth' African governments implement austerity and what the riches flow to northern lands.

However, this paper goes further than arguing that tax abuse feeds state austerity and inflicts massive human cost, to argue that it also imposes a form of corporate austerity which allows corporations to suppress wages.

To see a clear example of this phenomenon we need to go back to South Africa in August 2001. On the 16th of August over thirty striking miners were killed by South African police, many shot in the back. The 'Marikana Massacre' as it came to known eventually claimed 44 lives. It was a complicated event which featured police brutality, corporate intransigence, worker infighting, political intrigue and a breakdown of the South African industrial relations system (Chinguno 2013, Bruce



2015). For our purposes the salient point is that the violence took place against workers involved in a wildcat strike at a South African mine owned by Lonmin plc.

Lonmin mines platinum in South Africa ([www.lonmin.com](http://www.lonmin.com)). As of December 7, 2016, platinum sells for US \$933 an ounce. (For comparison gold sold for \$1,169 an ounce while silver sold for \$16.69 an ounce on the same day.) Lonmin has its registered office headquarters in London and its operational headquarters in Johannesburg. Subsequent investigation of Lonmin's finances as part of the investigation into the Marikana Massacre revealed that the company had engaged in transfer pricing with its operations in Bermuda and London. In particular, it had paid a large sales commission to its Bermuda subsidiary and an almost equally large management fee to a subsidiary in London, Lonmin Management Services (Phago 2015).

A detailed analysis of Lonmin's activity has concluded that had the company not engaged in profit shifting it could have met the demands of the striking miners (Forslund 2015). Had the South African operations kept their money in South Africa, they would have had the economic space to settle the dispute with their workers. There may have been other reasons why they would not want to meet the worker's demands, but the excuse of affordability would have fallen away.

The author of the report on Lonmin's transfer pricing argues (p. 10) argues that such activity has an impact far beyond the tax implications. It also plays a role in the corporate strategy of wage evasion and wage avoidance. In this example Lonmin South Africa portrayed itself as being poorer than it actually was and used this as one of its justifications for not meeting the relatively modest demands of its workforce. Money that would have been spent by the local workforce and supported the local economy in South Africa is instead sent to London and Bermuda. The result is less domestic spending and economic growth in South Africa by its workers to go alongside the austerity of its government.

South Africans face a double austerity squeeze facilitated by a global system of tax abuse. One element of the squeeze involves the public sector which is deprived of revenues for badly needed development projects such as electrification, sanitation, housing and water supplies. The other element is corporations suppressing wages and consumption by pleading poverty and an inability to pay fair wages to their workers.

## Responsibility

Roberto Saviano is an Italian investigative journalist and author who has been living under police protection for over a decade because of his work exposing the Neapolitan Camorra (mafia). In a May 2016 talk he stated:



'If I asked what is the most corrupt place on Earth, you might say it's Afghanistan, maybe Greece, Nigeria, the south of Italy. I would say it is the UK. It's not UK bureaucracy, police, or politics, but what is corrupt is the financial capital. Ninety per cent of the owners of capital in London have their headquarters offshore. Jersey and the Caymans are the access gates to criminal capital in Europe and the UK is the country that allows it.' (Carrier 2016)

This is an unconventional view. Surely, it is the poor and not the rich who are corrupt. Let us take a closer look. The Tax Justice Network (2015) has created a Financial Secrecy Index which 'ranks jurisdictions according to their secrecy and the scale of their offshore financial activities.' Secrecy jurisdictions, more usually called tax havens, 'use secrecy to attract illicit and illegitimate or abusive financial flows.' Switzerland, Hong Kong, the US and Singapore occupy the top four spots on the index. Interestingly, when the British Overseas Territories and Crown Dependencies (e.g. Cayman Islands, Jersey, Bermuda), are added to the UK's total, the UK and its satellite secrecy jurisdiction moves up the table from 15th to 1st place.

South Africa did not create a world of tax havens which facilitate corporate and individual tax abuse. That honour goes to the developed world, primarily the United States and The United Kingdom. However, Canada also plays a role when it facilitates tax abuse by its citizens and corporations. Taking action against Canadian tax abuse is part of a global campaign to end the arrangements which promote government and corporate austerity around the world. Actions in London, Bermuda and Ottawa have a direct impact on lives in other parts of the world. To return to Saviano's words: 'That is why it is important, why it is so crucial for me to talk to you because I want to say: this is about you, this is about your life, this is about your government.'



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