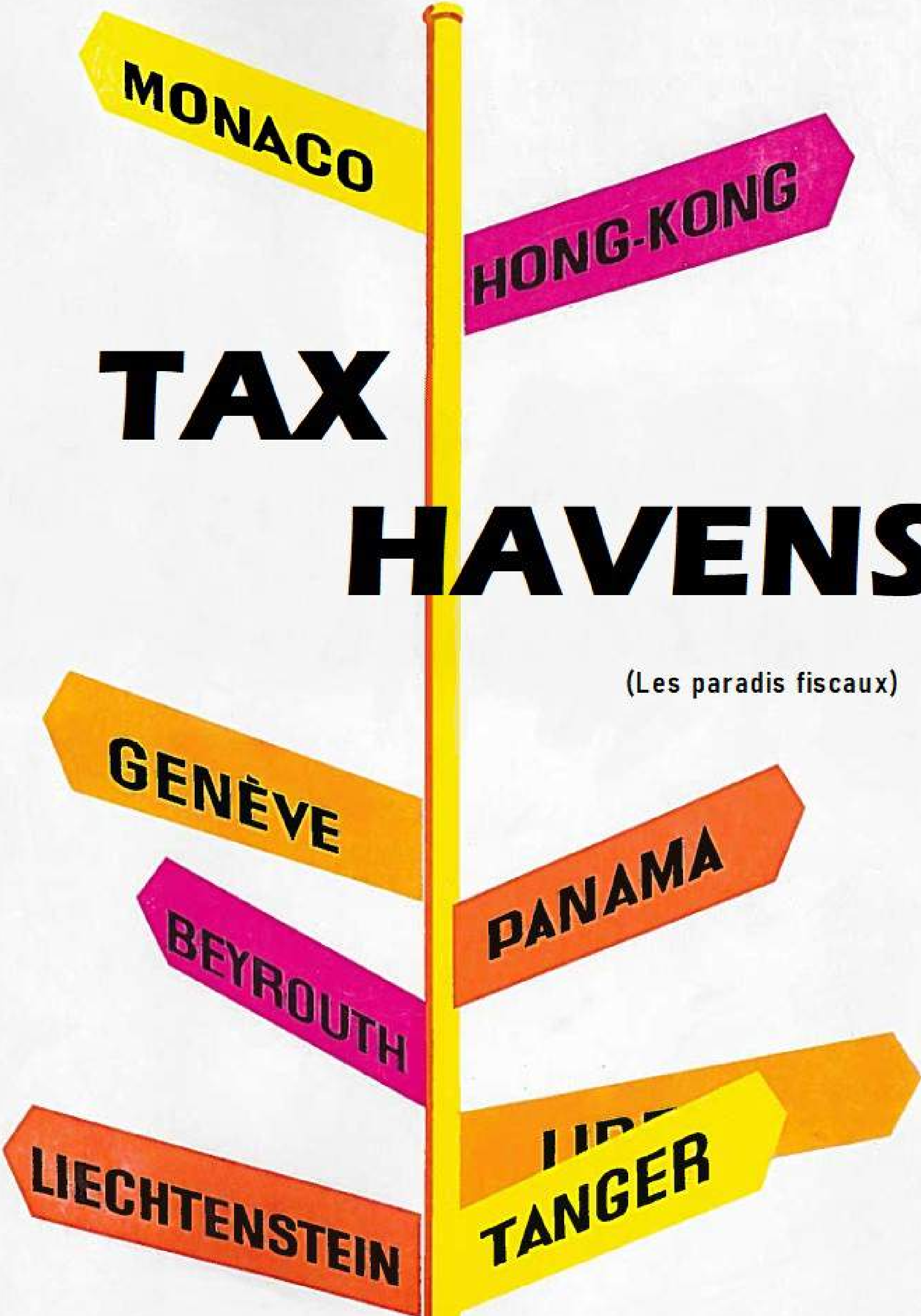
ALAIN VERNAY

TAX HAVENS

(Les paradis fiscaux)



EDITED AND TRANSLATED BY JAMES HOLLIS

TAX HAVENS

"In no case can the relationship between ordinary countries and small financial centres be reduced to that of poacher versus gamekeeper, smugglers against customs, the Special Branch in pursuit of a plant, double agent, or mole. . . . For big countries, these little financial centres provide the escape-valve that makes their legal systems viable. Whenever it suits their purposes, they willingly look the other way, and, in their attitude to tax havens, allow the real and the imaginary to mingle."

Originally published in 1968, French journalist Alain Vernay's account of his voyages to "the shrines and slums of international finance that we call tax havens" is a classic of its genre. Never before available in English, this new edition brings the book to an Anglophone audience for the first time.

Part travelogue in the style of Ian Fleming's *Thrilling Cities*, part groundbreaking socio-economic analysis, Vernay's book transports us back to the swinging sixties, when governments were squeezing their taxpayers until the pips squeaked and it was illegal, in many countries, to own gold or foreign currency. We encounter some memorable characters, from "Tangier's answer to Richard Sorge," to "the twenty-something Irish Rastignac Ronan O'Rahilly." And we learn that although "tax havens do not occupy some kind of hallowed ground," they nevertheless "exercise a strange pull, a sort of mesmerism, even over those who ought to know better." *Plus ça change*, you might think, *plus c'est la même chose*.

A new preface introduces Alain Vernay's life and work, while an annotated bibliography surveys some of the other literature that has since appeared in the field.

ALAIN VERNAY

TAX HAVENS

Edited and translated by
JAMES HOLLIS

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Editor's preface

Alain Vernay, who died in 2015 at the age of ninety-seven, was well qualified to write about the subterranean world of offshore finance. Born Alain Weil, he was the scion of an *haut monde* Parisian family that was amply endowed with capital of both the financial and the cultural variety. His maternal grandfather, Adolphe Schloss, was a successful export agent whose "entrepreneurial spirit," according to an effusive profile published in 1908, was "too vast to specialize exclusively in any particular commodity," and who served as an adviser to the French government on foreign trade.[1] "Not someone who confined himself to business pursuits," Schloss used his wealth to assemble one of France's finest collections of seventeenth-century Dutch and Flemish masters, including works by Rembrandt, van Dyck, and Frans Hals.[2] And Alain's mother, Juliette, who married the eminent academic physician Prosper-Emile Weil, was a well-known connoisseur in her own right, acting as a muse to the "Nabi" artist Edouard Vuillard, who painted Alain as a child.[3] Educated at the fashionable Lycée Janson-de-Sailly and at the ivory tower of French

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[1] Stéphane Carrère, "Express-Portrait: Adolphe Schloss," *La Justice*, 24 October 1908, 1.

[2] Ibid.; Hector Feliciano, *The Lost Museum: The Nazi Conspiracy to Steal the World's Greatest Works of Art* (New York: Basic Books, 1997), 95-102.

[3] Guy Cogeval, *Edouard Vuillard* (New Haven: Yale University Press, 2003), 382-383.

universities, the Ecole Normale Supérieure, the young Vernay's upbringing was very much that of a junior representative of the elite.

His formal education came to an abrupt halt, though, on account of the German invasion of France in the summer of 1940, when he was twenty-one. "A scholar of English literature by calling," the cover notes to the original edition of this book proudly if somewhat ruefully inform us, "he abandoned the university life to join the French Resistance." As a guerrilla of the maquis du Cantal, operating in central France, Vernay would have acquired intimate knowledge of the "alternative, outlaw system of regulation and control" that grew up under the occupation.[4] And as a member of a prominent Jewish family, he also experienced at first hand the brutality of Nazi persecution, with his parents and other relations forced into hiding. His grandfather's celebrated art collection was moved for safekeeping to a remote château in the Corrèze, yet this failed to preserve it from looting, after the family was betrayed to the Gestapo by a retainer in whom they had placed their trust. The entire collection was "confiscated" in 1943 and divided up between the Nazis and the Vichy authorities; fewer than half of the artworks were recovered after the war, and many remain unaccounted for to this day.

"In general," Vernay reflected to an interviewer decades afterwards, "when you delve too deeply into those war years of double agents and cowardice, which were also years of heroes and courage, many things can give you a nasty surprise."[5] He won the Légion d'honneur for his wartime service, and it was a formative experience of a particularly indelible kind, which would affect his character and outlook for the rest of his life. Having initially adopted the surname

[4] Rod Kedward, *In Search of the Maquis: Rural Resistance in Southern France, 1942-1944* (Oxford: Clarendon Press, 1993), 96.

[5] Feliciano, op. cit. at n.2 above, 256.

"Vernay" as a *nom de guerre*, he never reverted to his original identity, eventually changing his name by deed poll in 1954.[6]

Shortly after the Liberation, in 1946, Alain Vernay moved to London to work as a correspondent for the former underground newspaper *Le Franc-Tireur*. He was to spend seven happy years in the British capital, where he met and married a fellow hero of the Resistance, Denise Jacob (elder sister of Simone Veil), who had survived torture by the Gestapo and internment in the concentration camps, and whose mother, father, and brother had all perished at the hands of the Nazis.[7] Their union would endure for sixty-five years, until Denise's death in 2013. While based in London, he left the *Franc-Tireur* in 1948 and joined *Libération*, another paper with its origins in the Resistance, whose politics were firmly of the left. "It was conceived as the French equivalent of the *Daily Herald*," according to one of its founders.[8]

Vernay parted ways with *Libération* in 1953, and this may have been reflective of a rightwards drift in his own political outlook at the time: he later told the British Chancellor of the Exchequer, Denis Healey, that although he had found Healey's reservations about the calibre of the French socialist movement "shocking" in 1946, "I had

[6] This was not altogether unusual: Vernay's colleague Jacques Derogy (né Weitzmann, one of the pioneers of modern investigative journalism in France) was another who kept his Resistance name after the war.

[7] See, e.g., Marie Rameau, *Des femmes en résistance, 1939-1945* (Paris: Autrement, 2008), 54-63.

[8] Jean-Pierre Tuquoi, *Emmanuel d'Astier: La plume et l'épée* (Paris: Arléa, 1987), 205. *Libération* existed from 1941 to 1964 under the editorship of the socialist politician Emmanuel d'Astier de la Vigerie. It is not to be confused with its later namesake, which was founded by Jean-Paul Sartre in 1973.

since changed my mind."[9] There followed a period of freelancing, before he took up the post of financial editor at the business-oriented daily *Les Echos* in 1958. He was still there a decade later when he wrote this book, titled *Les paradis fiscaux* in the original French. By then, Vernay was an established fixture in the world of financial journalism, on first-name terms with bankers, politicians, and administrators on both sides of the Atlantic. He had a brief stint as a presenter on national TV in the second half of 1968, but the following year was hired by France's most conservative broadsheet, *Le Figaro*, to oversee its financial coverage.[10] He would spend the rest of his career with the paper, becoming one of the country's most respected editors. Following his retirement in 1990, he served as an adviser to the French Institute of International Relations founded by his friend Thierry de Montbrial.

When this book first appeared in 1968, it was an immediate success. Sales in France were brisk, spurred by favourable reviews that spanned the political spectrum, from the centre-right *L'Express*, which pronounced that it deserved to be "this year's bestseller," to the Trotskyist *La Gauche*, which found in Vernay's work "a vindication of Marxism."[11] Even the Paris correspondent of the London *Evening*

[9] Archives nationales de France (ANF): 72AJ/2957, Report of parol arbitration proceedings between Alain Vernay and *Libération*, 26 February 1953; Alain Vernay, "Le miracle économique anglais a peut-être commencé," *Le Figaro*, 26-27 June 1976.

[10] Vernay can be seen moderating a debate on the 1968 financial crisis in "Cartes sur table: Les problèmes monétaires," Office de Radiodiffusion-Télévision Française, December 1968.

[11] Vernay received a royalty cheque for 45,000 francs in December 1968 (ANF: 72AJ/2957, Flamand to Vernay, 12 December 1968). The cover price of the book was 19.50, so taking a standard royalty rate of ten percent, at least 20,000 copies would have been sold in the first nine months.

Standard picked up on the buzz, commending this "exceptionally well-written and well-informed volume," which, he quipped, made "a good antidote to the Budget."[12] Within two years, the book had been translated into Dutch, German, Italian, Spanish, and Swedish; and Vernay thus claimed not merely to have coined the everyday expression for a "tax haven" in his native French, but in several other languages as well.[13] In France today, *Les paradis fiscaux* is seen as something of a minor classic, with the TV station BFM Business recently devoting a segment to what it accurately termed "the first bible written on the subject."[14] The book has even been praised by the United Nations, whose special rapporteur appreciated its "colourful

[12] Sam White, "Fast Boat to Paradise," *Evening Standard*, 22 March 1968, 7. Reaction to the book was not, however, uniformly positive. One peevish German jurist was unimpressed with what he called Vernay's "sententious irony," complaining that "the patient work of enlightenment on the part of Liechtenstein's friends in Germany is set back years by this kind of thing": Clemens Amelunxen, "Schwierige Vaterländer: Aspekte der liechtensteinisch-deutschen Beziehungen in Vergangenheit und Gegenwart," in *Liechtenstein Politische Schriften*, Vol. 2 (1973), 57-74, here 66.

[13] Vernay's obituarist credits him with inventing the term *paradis fiscal*: Marie-Laetitia Bonavita, "Disparition: Alain Vernay, pionnier du journalisme économique," *Le Figaro*, 18 August 2015, 13 (link); yet recent research by Sébastien Guex indicates that this attribution is incorrect: "Introduction," in *Tax Evasion and Tax Havens Since the Nineteenth Century*, ed. idem and Hadrien Buclin (Cham: Palgrave, 2023), 1-34, here 28 (link). Guex identifies usages of *paradis fiscal* dating from before World War I, while the corresponding English idiom ("fiscal paradise") goes back to the 1860s, albeit often used in a different sense: see, e.g., *Daily Telegraph*, 16 June 1881, 7. (Such evidence contradicts Nicholas Shaxson's suggestion that *paradis fiscal* "comes from mistranslating 'haven' as 'heaven'": *Treasure Islands: Tax Havens and the Men Who Stole the World* (London: Bodley Head, 2011), 10.) It is uncertain if Vernay knew of these precedents; and though one must be sceptical about recognizing him as the term's inventor, there is no reason to doubt that he was responsible for popularizing it.

[14] "Les livres d'avant et d'ailleurs," BFM Business, 8 April 2016 (link).

and readable touches," at the same time cautioning that it was "not very useful in defining the basic features of tax havens."[15]

All of which makes it puzzling, especially in view of the relative size of the market, that there was never an English edition of this book. There was supposed to have been, because Vernay signed a contract with the British publisher Weidenfeld & Nicolson in 1969. By then, however, he was already caught up in a legal dispute with someone who, ironically, makes only a fleeting appearance in these pages, being mentioned once in a footnote.[16] Tibor Rosenbaum, best remembered today for his putative exploits in Nazi-occupied Budapest, is an enigmatic figure, even in the context of the cast of offbeat characters that we encounter here.[17] By the late 1960s, he was a powerful player who headed the International Credit Bank of Geneva (ICB). The bank was closely associated with Bernie Cornfeld and Investors Overseas Services, and it was understood to be a financial conduit for clandestine supplies of armaments to Israel.[18] Rosenbaum also had a lucrative sideline as one of the principal money launderers for the American Mafia; at least that is what Vernay

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[15] Adolfo Atchabahian, "Tax Havens: The need to neutralize their distorting effects in the international tax context," Report prepared for the United Nations Secretariat ad hoc group of experts on international cooperation in tax matters, 22 October 1997, ST/SG/AC.8/1997/L.11, 2 (link).

[16] Note 6 on pp. 205-206 in this edition.

[17] The hero of the 2014 feature film *Walking with the Enemy* is modelled on Rosenbaum. In their book *Meyer Lansky: Mogul of the Mob* (New York: Paddington, 1979), 272, however, Dennis Eisenberg, Uri Dan, and Eli Landau dismiss Rosenbaum's reputation for wartime heroism as a "romantic myth."

[18] See, e.g., Jacques Derogy, *Israel connection: La première enquête sur la mafia d'Israël* (Paris: Plon, 1980), 70-72; Tom Naylor, *Hot Money and the Politics of Debt* (Toronto: McClelland & Stewart, 1987), 22; Jeffrey Robinson, *The Sink: Terror, Crime and Dirty Money in the Offshore World* (London: Constable, 2003), 41.

alleged, even if he was only repeating verbatim accusations that had previously been made by *Life* magazine in 1967.

Rosenbaum took exception to this portrayal of him, and in mid-1968 his lawyers wrote to Vernay's French publisher (Editions du Seuil) to complain about various purported inaccuracies and to demand that all references to him be expunged from the book. They asserted, among other things, that not only did Rosenbaum *not* travel on an Albanian diplomatic passport, he had "never even set foot in the place"; and they called for Vernay to apologize to their client for any potential detriment that he might have suffered.[19] "Perhaps he ought to mention," they superciliously suggested, "that in relying on an article from *Life* magazine, he had assumed that it was a serious publication that took care to get its facts straight."[20]

There is a strong flavour of over-protestation here, and it would later transpire that what Vernay had reported was in fact substantially true.[21] (He would surely have kicked himself, on the other hand, if he had realized that instead of an Albanian passport, the ICB chairman actually travelled on a Liberian one.[22]) At the time, however, Seuil

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[19] ANF: 72AJ/2957, Klein to Bomsel, 1 July 1968.

[20] Ibid.

[21] Aside from the question of Rosenbaum's nationality, the complaints made by his lawyers centred on the composition of ICB's board of directors and its relations with the Bahamian Bank of World Commerce (BWC). "There has never been any relationship of any description," they insisted, "either now or in the past, between ICB and BWC." This was untrue, as emerged during the 1970 trial for tax evasion of the celebrity attorney and restaurateur Alvin Malnik: Hank Messick, *Lansky* (New York: Putnam, 1971), 248. Large sums of money were passing between the two banks on a regular basis, and while John Pullman (the brains behind BWC) may not formally have been a director of ICB, he lived in Lausanne and assuredly acted in close concert with Rosenbaum.

[22] Rosenbaum was a longstanding friend of William Tubman, serving as general manager of the Swiss-Liberian Finance Corporation and helping to establish the

were anxious to mollify Rosenbaum, and by the autumn of that year they believed that they had reached an acceptable compromise, whereby they undertook "to delete the note to which you object from any future edition or reprint," provided he "waived any action against us in connection with the existing impression."[23] Weidenfeld may not have been aware of these legal issues, therefore, when they initially signed up to publish the book in May 1969. Possibly the first that they heard about them was in August of the same year, when they initialed an addendum to the original contract stipulating that "the note in question shall not appear in the English edition."[24] But the dispute dragged on, with Rosenbaum making further demands, and it was ultimately settled only in the summer of 1970, after Seuil had agreed to pay him 15,000 francs and to suspend sales of the book so that copies that were already in the shops could be withdrawn and corrected.[25] In the meantime, Weidenfeld must have got cold feet. The final item on file is a note in which Seuil express their "hope that the English edition can now go ahead in short order."[26] Yet for one reason or another it never did.

Bank of Liberia in 1955: Elwood Dunn, Amos Beyan, and Carl Burrowes, *Historical Dictionary of Liberia*, 2nd ed. (Lanham, MD: Scarecrow, 2001), 31. He had also been a member of Liberia's delegation to the United Nations, and at one point in the 1950s formally held the post of Liberian ambassador to Austria.

[23] ANF: 72AJ/2957, Bomsel to Flamand, 23 October 1968. Seuil obviously honoured this undertaking, for the note in question does not appear in the Italian or Spanish editions, while in the German edition there is a large blank space and the word *entfällt* ("omitted").

[24] Ibid., Addendum dated 14 August 1969 to the contract of 20 May 1969 between Editions du Seuil and Weidenfeld & Nicolson.

[25] Ibid., Flamand to Vernay, 28 May 1970.

[26] Ibid., Lesschaeve to Vernay, n.d.

Vernay was entitled to feel hard done by as a result of this episode. Whether Rosenbaum ever took similar action against the authors of the original *Life* article is unknown, but their research has since been cited in numerous other places, apparently without legal repercussion.[27] And Vernay would be forgiven if he had experienced a certain sense of *schadenfreude* when—like a fair number of the other characters who appear in this book—Rosenbaum came unstuck not long afterwards.[28] In the spring of 1975, *The New York Times* published a long exposé of the tribulations afflicting ICB, which had "allegedly siphoned off millions of dollars intended for Israel's development."[29] With what Vernay would surely have seen as a rather tedious predictability, "depositors in the ICB discovered that monies on account had been had been transferred to personal trusts of Mr Rosenbaum registered in Liechtenstein," the latter now "said to be insolvent." Meyer Lansky, ever a cautious customer, was "one of the few who somehow got an early warning and withdrew his money from the ICB just before the crash."[30] Others were less fortunate: the managing director of the Israel Corporation, Michael Tzur, received a fifteen-year prison sentence for his part in the ICB scandal, while

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[27] See, e.g., Eisenberg, Dan, and Landau, op. cit. at n.17 above, 273; Naylor, op. cit. at n.18 above, 30; Messick, op. cit. at n.21 above, 249; Alan Block, *Masters of Paradise: Organized Crime and the Internal Revenue Service in The Bahamas* (New Brunswick, NJ: Transaction, 1991), 84.

[28] Perhaps the most bizarre fate was that which befell the foreign exchange broker and CIA front-man Nicholas Deak (note 15 on pages 183-184 below), who was gunned down in his Manhattan office suite in 1985 in what was claimed to be a random attack: Mark Ames and Alexander Zaitchik, "James Bond and the Killer Bag Lady," *Salon*, 2 December 2012 (link).

[29] Clyde Farnsworth, "A Global Bank Tangle and Its Lost Millions," *The New York Times*, 9 April 1975, 8 (link).

[30] Eisenberg, Dan, and Landau, op. cit. at n.17 above, 276.

Tibor Rosenbaum narrowly avoided jail himself, reportedly remaining at large only because he threatened to compromise Israel's security by revealing details about the country's arms procurement methods.[31] One source quoted by *The New York Times* summed him up as "a typical shvitzer . . . a Yiddish term for a person who exudes hot air and can never be pinned down."[32]

It would appear, then, that the planned English edition of Vernay's book was derailed through bad luck. Yet this did not prevent *Les paradis fiscaux* from coming to the attention of the more inquisitive sort of person in the English-speaking world. The deputy chairman of Britain's Inland Revenue authority, for example, ordered a copy in French as soon as it came out.[33] He found it to be something of a damp squib, remarking that it was "not a technical work on tax avoidance or evasion," but rather "a financial journalist's book on financiers and their havens (tax and otherwise)." "There is nothing in it," he concluded, "that we did not already know about the tax system of any country," and as such, "though interesting, the information is not useful."[34]

That was not the last that the British civil service would hear of Alain Vernay, though. Two years later, he requested an interview with the Chancellor of the Exchequer, Labour's Roy Jenkins. Among other things, Vernay wanted to ask the Chancellor whether, in his view, "the flourishing tax havens within the sterling area such as the Channel Islands, Malta, Hong Kong, The Bahamas, Bermuda and the

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[31] Ibid., 277-278.

[32] Farnsworth, op. cit. at n.29 above, 9.

[33] National Archives of the UK (TNA): IR 40/16744, Willis to Johnstone, 29 March 1968.

[34] Ibid., Willis to Draper, May 1968.

Cayman Islands are in fact outposts of the City whose revenue to Britain is greater than their cost."[35] This question raised hackles at the Treasury because, unbeknown to Vernay, the British government was at that very time finalizing a root-and-branch review of its policy towards tax havens in the UK's dependent territories, which had been in the pipeline for almost three years.[36] The topic was a sensitive one, exposing a difference of opinion between the Foreign Office—which was keen to encourage business activities that would allow the dependencies to pay their own way, thus reducing their need for subsidies from the mother country—and the Inland Revenue, who were growing increasingly concerned about the drain that such activities imposed on the British tax base.[37] Vernay had touched a raw nerve and put the Treasury on the defensive.

The Chancellor's advisers knew that "Alain Vernay has taken a close interest in the subject of tax havens." "In his work on 'Les paradis fiscaux'," they informed their boss, "Vernay draws attention to the fact that most of the successful tax havens are located in the sterling area, and speculates whether this may not be a direct or indirect result of official encouragement of international financial operations based on London, and a further manifestation of 'la hégémonie anglo-saxonne'."[38] The safest approach, they told Jenkins,

[35] Ibid., Littler to Ryrie, 11 May 1970.

[36] Ibid., FCO 63/780, "British Dependent Territories and Tax Haven Business," 15 July 1970.

[37] See generally Paul Sagar, John Christensen, and Nick Shaxson, "British Government Attitudes to British Tax Havens: An Examination of Whitehall Responses to the Growth of Tax Havens in British Dependent Territories from 1967-75," in *Tax Justice and the Political Economy of Global Capitalism, 1945 to the Present*, ed. Jeremy Leaman and Attiya Waris (New York: Berghahn, 2013), 107-132.

[38] TNA: IR 40/16744, Littler to Ryrie, 11 May 1970.

was to deny any such insinuation categorically, and to impress upon Vernay that "there has certainly been no official encouragement from the United Kingdom of tax havens." They also recommended that the Chancellor downplay the whole issue by airily asserting that "the impact of tax havens on other countries is often a great deal less than is sometimes assumed."[39]

What is intriguing about this exchange is not so much the prickliness of the Treasury's response—Vernay hadn't actually asked them if there had been any "official encouragement of tax havens"—but the phrasing of their potted synopsis of his book. For although the expression "la hégémonie anglo-saxonne" is presented as if it were a quotation, those words do not in fact appear anywhere here.[40] Nor does Vernay suggest that "most of the successful tax havens are located in the sterling area": out of the nine jurisdictions that he believed were important enough to merit a chapter in their own right, only two were British possessions.[41] So where did the Chancellor's advisers get these ideas? The explanation is that they lifted their synopsis from another source, namely Milton Grundy's book *Tax Havens: A World Survey*, which was first published the year after Vernay's. There, Grundy summarizes *Les paradis fiscaux* as follows: "Vernay notes that the principal tax havens are for the most part under the British flag or under powerful U.S. influence, and advances the intriguing theory that they are part of the mechanism whereby La Wall

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[39] Ibid.

[40] Vernay uses the word "hegemony" only once (p. 162), when he is talking about how "the British banks and trading houses . . . have often dreamt of restoring their own hegemony over Hong Kong's Chinese capitalism."

[41] Hong Kong and The Bahamas. As he points out, however (pp. 155, 230), both of these places were in reality at least semi-detached from the sterling area.

Street and La City impose upon the world 'la hégémonie anglo-saxonne'."[42]

It is easy to see why the Treasury were misled, because Grundy himself appears to be the author of the phrase that he puts in quotation marks. Note, however, that the Treasury decided to add their own layer of gloss: in Grundy's rendering, "the principal tax havens are for the most part under the British flag or under powerful U.S. influence," whereas in the Treasury's version "most of the successful tax havens are located in the sterling area." The meaning of Vernay's original text became distorted through a kind of Chinese whispers. A similar slip occurs in Oliver Stanley's otherwise excellent book *Taxology*, where he states that "Alain Vernay claims to believe that tax havens are essentially an Anglo-Saxon invention, part of the hegemony that the City of London and Wall Street seek to impose on the rest of the world" (a formulation that is even further adrift from Grundy's synopsis, let alone Vernay's original argument).[43] Other authors published in English who have subsequently drawn inspiration from Vernay's work have at least done him the courtesy of reading it.[44]

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[42] *Grundy's Tax Havens: A World Survey*, ed. Milton Grundy, 2nd ed. (London: Sweet & Maxwell, 1972), 6. That Grundy was the source for the Treasury's precis is confirmed by the fact that the recipient of the memo jotted in the margin: "Then they should also include 'La Wall Street'" (TNA: IR 40/16744, Littler to Ryrie, 11 May 1970).

[43] Oliver Stanley, *Taxology: The Perpetual Battle of Wits Between the Inland Revenue and the Taxpayer* (London: Weidenfeld & Nicolson, 1972), 165.

[44] See Nicholas Faith, *Safety in Numbers: The Mysterious World of Swiss Banking* (New York: Viking, 1982), 188-189; Tom Naylor, *Patriots and Profiteers: Economic Warfare, Embargo Busting, and State-Sponsored Crime* (Toronto: McClelland & Stewart, 1999), 23; idem, *Wages of Crime: Black Markets, Illegal Finance, and the Underworld Economy* (Montreal: McGill-Queen's University Press, 2002), 227; Alain Deneault, *Offshore: Tax Havens and the Rule of Global Crime* (New York: New Press, 2011), 159, 162, 172, 180;

Nevertheless, Grundy's summary was the primary channel by which English-speaking readers became aware of the existence of *Les paradis fiscaux*, so it is worth reflecting on how far his synopsis does justice to what Vernay actually said. In the first instance, Vernay does not claim that "the principal tax havens are for the most part under the British flag or under powerful U.S. influence." Of the nine havens that get their own chapter, there are two British ones, and a further two (Liberia and Panama) were "under powerful U.S. influence." The remaining five are French (Monaco), Swiss (Liechtenstein), self-sovereign (Switzerland and Lebanon), or under international administration (Tangier).[45] If we widen the net to include his seven lesser havens and "contenders," four of those were in the sterling area (the Channel Islands, Dubai, Bermuda, and Singapore), while Luxembourg was loosely Belgian, Macao was nominally Portuguese, and the Antilles were Dutch. So out of a total of sixteen, exactly half were in the "Anglo-Saxon" camp.[46] But not all of these havens were of equal importance, and in Vernay's opinion Switzerland was overwhelmingly the most substantial. The Alpine republic was "the chief dancing-master at the eternal waltz of global capital," as he evocatively puts it.[47] Some people believed that Switzerland was

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idem, *Canada, A New Tax Haven: How the Country That Shaped Caribbean Offshore Jurisdictions Is Becoming One Itself* (Vancouver: Talonbooks, 2015), 51-73.

[45] Although by the time that Vernay was writing, Tangier had come under Moroccan control and was defunct.

[46] It is worth noting, on the other hand, that Vernay missed the Cayman Islands altogether in 1968, thereby giving the lie to his over-confident dictum that there was "no such thing as an undiscovered tax haven" (p. 355). He had evidently heard about them by 1970, since they are included in the question that he submitted to Jenkins.

[47] Below, 380.

itself "under powerful U.S. influence," but Vernay's conclusions tend to point in the opposite direction.[48] For a jurisdiction to succeed as a tax haven, he writes, it cannot be "too dependent upon any one country"; the ideal offshore financial centre is a place where "the prerogatives of foreign powers cancel each other out."[49] Hence the sardonic tone that he adopts in his commentary on his own country's policy vis-à-vis Djibouti. Given the French inclination "to share our patrimony by making a gift of our Gallic heritage to all and sundry," he jokes, it was inevitable that "on the only occasion when France deliberately tried to set up a tax haven . . . we made a complete mess of it."[50]

What of the second limb of Grundy's synopsis: does Vernay really think that tax havens are "part of the mechanism whereby Wall Street and the City impose upon the world 'la hégémonie anglo-saxonne'"?[51] Leaving aside the issue of misquotation, it is in fact hard to see how Grundy could have concluded that this was the preponderant theme of the book. Appearing as it did just three months after Jean-Jacques Servan-Schreiber's epoch-making *The American Challenge*—which argued that U.S. corporate culture was "breaking down the political and psychological framework" of European society—it would perhaps have been surprising if *Les paradis fiscaux* had not embodied the same zeitgeist to some degree.[52] Vernay notes,

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[48] Below, 317, 437.

[49] Below, 370, 452.

[50] Below, 417, 420.

[51] It is unclear whether Grundy intends this remark to apply to all tax havens, or only the ones under "Anglo-Saxon" influence.

[52] Jean-Jacques Servan-Schreiber, *The American Challenge* (New York: Atheneum, 1968), xiii. Servan-Schreiber's family founded *Les Echos*, the paper

for example, that the ability of U.S. corporations to accumulate piles of untaxed cash offshore has contributed to "the rise of American economic imperialism"; and he casts a critical eye over the corruption and cynicism involved in "the round-tripping of U.S. aid."[53] Nor is he above the occasional puckish comment at the expense of American pretensions to cultural hegemony, referring to "the so-called 'gringos' who think they can buy everything, the patrimony of other nations not excluded," "whose motto, in The Bahamas as everywhere else, is 'when in Rome, do as the Americans do'," and "who drag their virtue around with them like a disease."[54] It would be unwise to take such gibes too seriously, however, in view of the fact that he enjoyed a warm relationship with senior officials at the U.S. Department of the Treasury, and that his views on economic policy were eagerly sought by the American embassy in Paris.[55]

Vernay also had a somewhat jaded, though by no means outlandish, understanding of the relationship between Britain and the United States. In later writings he observed that the British economy was "embarrassingly dependent" on U.S. investment, and teased that

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for which Vernay wrote from 1958 to 1969, and they continued to own it until 1963.

[53] Below, 437-440. These are scarcely controversial points to make today, when entire books have since been devoted to similar subjects: see, e.g., James Henry, *The Blood Bankers: Tales From the Global Underground Economy* (New York: Four Walls Eight Windows, 2003).

[54] Below, 201, 240, 455.

[55] Princeton University Library, Special Collections: Calendars and Telephone Messages of Paul A. Volcker, Box 21, Item c258, 18 March 1969 ("Alain Vernay is a friend of Mr Petty's from his Paris days"); telegram from the embassy in France to the Department of State, 15 November 1971, in *Foreign Relations of the United States, Vol. III: Foreign Economic Policy, 1969-1972; International Monetary Policy, 1969-1972*, ed. Bruce Duncombe (Washington, DC: U.S. Government Printing Office, 2001), 549.

"the first golden rule, for a Chancellor of the Exchequer, is never to say anything that might upset the Americans, even for a minute."[56] But when it came to the question of tax havens, Vernay believed that Britain and America were poles apart: "in their approach to this issue," he writes, "the two great Anglo-Saxon democracies could hardly be more different."[57] Perhaps naively, he views the United States as the paradigm case of a country "where taxpayers feel a sense of civic responsibility"; and he portrays the U.S. government as conducting "a systematic crusade against tax havens," though he ultimately concedes that it is a rather half-hearted one.[58]

On the other hand, Vernay hypothesizes that "Britain has a particularly tolerant attitude" towards offshore finance, describing the tax havens inside of the sterling area as "an invisible Commonwealth with its command centre in the City."[59] Yet despite characterizing Britain's approach as a "sham," he warns us that "we shouldn't get too hung up on the old adage about British sanctimoniousness."[60] For he regards his own country's policy, that "strange blend of vigilance tempered with restraint," as being no less ambivalent.[61] Vernay's obituarist posits that, because of his time spent living in England and

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[56] Alain Vernay, "La face inacceptable du capitalisme," *Le Figaro*, 17 October 1976, 6; idem, "Le miracle économique anglais a peut-être commencé," *Le Figaro*, 26-27 June 1976.

[57] Below, 404.

[58] Below, 404, 425.

[59] Below, 396, 406. These ideas are often echoed by modern commentators, even if Vernay is seldom given credit for them: see, e.g., Nicholas Shaxson, *The Finance Curse: How Global Finance Is Making Us All Poorer* (London: Bodley Head, 2018), 64.

[60] Below, 396, 447.

[61] Below, 423.

in contrast with most of his countrymen, he actually saw the world through a fundamentally "Anglo-Saxon prism."[62] So although Grundy's framing of the book in terms of fears about "Anglo-Saxon hegemony" is not completely devoid of foundation, it strikes one as falling a good way wide of the mark.

In a broader sense, too, while Vernay is sometimes "caustic," in that he is unimpressed with self-serving justifications, this is not a polemical book after the modern fashion.[63] Vernay may deride some of the things that go on in tax havens because they are tacky and disreputable, but he is not out to lay all of the world's ills at their door. As the United Nations correctly remarked, he "accepts them as part of reality."[64] Indeed, one can go further, and infer that he saw offshore finance as the natural corollary of wholesale state interventionism in the fiscal and monetary sphere. Alain Vernay was far from being a knee-jerk opponent of efforts to "moralize capitalism," as his other writings make clear, yet he was also alive to the dangers inherent in over-regulation and in corporatism.[65] He strove above all "to maintain an attitude of ironical detachment," and for that reason, in spite of the fact that it is now more than half a century old, his book still makes for rewarding reading.[66]

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[62] Bonavita, op. cit. at n.13 above, 13.

[63] The word used by Christian Chavagneux in the BFM Business feature referred to at n.14 above.

[64] Atchabahian, op. cit. at n.15 above, 2.

[65] Alain Vernay, "La face inacceptable du capitalisme," *Le Figaro*, 17 October 1976, 6 ("Whereas in Britain, anything that is not explicitly illegal is allowed, here in France, everything that is not expressly permitted is prohibited").

[66] Below, 143.

Journeys, those magic caskets full of dreamlike promises,
will never again yield up their treasures untarnished.

Tristes Tropiques
CLAUDE LÉVI-STRAUSS

No substance is toxic in itself:
it is the dose that makes the poison.

PARACELSUS
Cited by Dr Reinhardt, CEO of Credit Suisse

Whenever man tries to envisage heaven on earth,
it immediately starts to resemble a veritable hell.

Conversations dans le Loir-et-Cher
PAUL CLAUDEL

Introduction

Tangier; Monaco; Monrovia; Beirut; Hong Kong and Macao; Nassau; Panama; Vaduz; even Zurich and Geneva. The names conjure up the image of a tax paradise, one to which nervous capital, and not just the bolder variety, dreams of escaping some day or other. In that ambrosial realm, taxes are nominal, your secrets are safe, and you can do as you please.

Among the general public, and indeed in the eyes of many experts, these tax havens are seen as the hubs for large-scale black markets: official redistribution centres for dirty money to be passed on under a new label and subject to legal protection, which may be weak in the case of minor financial centres, but is well entrenched when we are dealing with the longer-established ones.

Are we supposed to believe that, because of their loopholes and privileges, these jurisdictions are the headquarters and sanctuary of criminal networks run by individuals who respect no laws except their own? Do tax havens provide any benefits to "ordinary" countries, where the financial and commercial sectors are subservient to industrial production? Should the poorest and least technologically advanced of developing nations use tax breaks to try to improve their circumstances? Does tax avoidance offend against the core values of the United States, as President Kennedy apparently believed in 1962, when he changed the American tax code to bring it under control?

These are some of the questions that the present author asked himself as he visited the shrines and slums of international finance that we call tax havens, sometimes on successive occasions, initially when they were at their zenith and later when they were already in decline. In each of these jurisdictions he learned things about their rivals that he would never have been told on the spot; and, from the similarities and differences in their manifold destinies—now parallel, now intersecting—he began to discern some broader trends. Was it presumptuous of him to think that from his dossier of histories, anecdotes, and analysis he might be able to draw some kind of sketch or blueprint of money's inner workings, of its ultimate relationship with mankind?

However far we travel, we will never get to the bottom of money, because it is always a circular journey. Does this exposé of tax havens lift the lid for us: does it allow us to demystify the everyday financial world where mere mortals, unable to avail themselves of such opportunities, are forced to exist? That would be claiming too much. Nevertheless, the author hopes that he has done his readers a service by shining a bit of light into some dark and shadowy corners.

He has devoted meticulous attention to facts, figures and names, in a sphere that is frequently obscured by being over-sensationalized. Where identifying people might have put them in danger, however, he has resorted to hints and careful understatement.

Moreover he has sought, at all times, to invoke the patronage of logicians, rather than magicians.

A. V.

1. Death of Tangier

An empty sack cannot stand upright.

Poor Richard's Almanack
BENJAMIN FRANKLIN

A direct flight, which left Paris on Mondays, dropped off in Tangier a few hours later its full complement of busy men, who would return the following Friday having leased an apartment or chosen a site and an architect to build a block of flats or a villa, and each of whom would have set up a couple of companies. That was how it was in 1947, 1948, in 1949 and 1950. Heedless of expense, these visitors, most of whom were French, Belgian, Dutch, German, or Swiss, were all moved by the same sentiment: fear, some suffering from it, others ready to exploit it.

The West European strikes of 1947 looked as though they could develop into an insurrection, while an international incident seemed inevitable in 1948, when the commander of the American forces in Europe, General Clay, threatened to send an armoured column through East Germany to break the blockade of Berlin. The outbreak of the Korean War in June 1950, and the bloody clashes between General MacArthur's forces and the Chinese after the crossing of the Yalu at the beginning of 1951, only amplified the widespread apprehension about a new global conflict.

Meanwhile, all over Western Europe, inflation was galloping ahead. When the German finance minister Ludwig Erhard replaced the Reichsmark with the Deutschmark, in 1948, no one on that side of the Rhine foresaw the coming economic miracle. In January of the same year, the French finance minister René Mayer withdrew the five-thousand-franc note and devalued the currency: after that it stood at 214, instead of 119, to the dollar. But that rate only held until October, when Mr Queuille devalued again, as would his successor Mr Petsche, twice, first in March 1949 and again the following September, a week after the thirty percent devaluation of sterling that dragged all of the other European currencies in its wake, apart from the mark and the Swiss franc. In these troubled times, the Marshall Plan seemed no more likely to make up for Europe's dollar deficit, than the Atlantic Pact appeared capable of resisting a surge by the Red Army towards the English Channel and the Mediterranean.

The traditional refuge for frightened money, Switzerland, was too close to the Soviet occupation zone in Austria to provide security for those anticipating World War III. The bankers of Zurich and Geneva, who had facilities and agents in Tangier and thus were not afraid of losing their clients, encouraged them to make their way to the International Zone.

This siren call reached the ear of certain heads of families, whose own parents had earlier, during the "phoney war," prepared civilized bolt-holes for their dependants in Normandy, Île-de-France, or Brittany. Tangier fitted the bill for people who, stung by the experience of the 1940s, wanted to put clear blue water between their money and armed conflict. With a surface area of 210 square kilometres, the International Zone seemed too small to be of concern to an enemy power, whose nuclear kilotons would be wasted on its disparate population of 145,000, which included two hundred American citizens, 7,000 French, 18,000 Spaniards, 95,000 Muslims, and 15,000 Moroccan Jews.

It mattered little that Tangier had been occupied, at one time or another, by the Romans, the Vandals, the Byzantines, the Arabs, the Portuguese, the English, the Moors, and most recently, from 1940 to 1945, by Spain. The armies from Italy, Germany, Britain, and the United States that had landed in North Africa in quick succession all respected the neutrality of the International Zone, which was defined by the Act of Algeciras in 1906, confirmed by the French protectorate of Morocco in 1912, and formalized with the convention of 1923. The timidity shown by these successive conquerors was, in fact, its vital ingredient.

Fruitful imbroglios

Tangier had to be a safe haven, judging by the booming real estate prices, which were even higher than in the rest of Morocco, where Casablanca was the shop window and Tangier the tradesmen's entrance. "Although the International Zone is outside the franc area, it is technically an integral part of Morocco, which is inside the franc area," people told me in Paris. "You can imagine the potential for fruitfully exploiting that imbroglio."

In fact I hadn't thought of much at all before I boarded that Monday plane in the autumn of 1950. Although Antoine Lopez did not take over the management there until a few months later, the hospitality at Tangier airport, which was run by Air France, was already excellent. The compassion felt by the customs men was such that they were only interested in a passenger's intentions, rather than in the contents of his suitcase, placing the chalk mark of liberty even upon those that were stuffed so full with nylon stockings and bottles of perfume that they were practically bursting open. All imports into the Zone were freely permitted, apart from guns and narcotics, while the customs duties were so moderate that they served as a disincentive to concealment or fraud: twelve and a half percent on most products, and seven and a half percent on valuable items such as silks, jewellery, gemstones, and precious metals.[1]

The short ride from the airport into town was instructive. There was no industry in the vicinity of Tangier, other than a single firm that processed seaweed for export to Yugoslavia. Nor was there any agriculture, though there was a neat little forest set aside for the Diplomatic Corps. You saw nothing but scrub, brushwood, and goats. Surrounded by mountainous terrain and lacking natural resources, Tangier inevitably depended on the sea.

Poorly equipped and a long way from major centres of manufacturing or consumption, in the harsh light of day the port of Tangier seemed sleepy and virtually devoid of traffic. There were hardly any big cargo ships and even fewer freighters, but there were several fast motor boats and crudely repainted naval launches,

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[1] Comprising customs duty of five percent or ten percent, plus a special *ad valorem* tax of two and a half percent levied at the same time.

all motionless, as if petrified by the sunbeams, awaiting, no doubt, a clandestine nocturnal excursion.

Tourist leaflets advertising the Zone proclaimed that “Tangier, city of white and blue, more picturesque than Naples or Honolulu, preserves unspoilt the age-old charm of Islamic civilization.” It appeared to me, though, as if it was only the poverty that had kept its timeless Arab character. Women with their legs wrapped in leather descended from the hills, bent at right angles by their burdens, carrying their foul-smelling charcoal to town. In Grand Socco square, Rif peasants dozed on the floor between birdcages and piles of vegetables, and artisans in tattered clothes fought with the flies over their meagre daily ration of crêpes, which were cooked in primitive ovens.

The cityscape was, nevertheless, predominantly European, with the exception of the Kasbah, and even there one house in every three or four had walls decorated with the red and yellow livery of Coca-Cola. Whereas Paris appeared to have sent to Tangier all of the pornographic magazines that it was illegal to sell in France, the Americans had channelled their erotic energies into garish commercial advertisements. Everywhere you looked there were posters of young women, invariably slim, blonde, and semi-naked, vaunting the attractions of American cigarettes, sewing-machines, and radio sets. Boutiques tempted tourists with the dubious tat of Times Square as well as tax-free luxury goods from both the Old and the New Worlds.

What a trite coexistence between destitution and modernity, between the consumer culture and Islam! The Arab kids, like the *sciuscià* after the Allied invasion of Italy, sold ice-creams, chewing gum, and lottery tickets and solicited on behalf of the forty-six brothels that existed in the Zone. The streets of the Spanish quarter resounded to the tones of Radio Seville, which jostled with the jazz of Radio Africa. Both stations were owned by Mr Trémoulet, the Radio Andorra man.

The atmosphere in Tangier was different from that of other Mediterranean ports. It felt tenser, edgier, and perhaps more dangerous for an outsider than Marseilles, Genoa, or even Algiers. When a stranger walked into the packed dining-room of a café in the old town, the hubbub of animated conversation would immediately die down. Away from the major European boulevards, a solitary walker drew disconcerting stares and caught himself wondering testily if he was being followed.

According to my sources, in 1950 there were thirty-five intelligence agencies of various affiliations operating in the International Zone, all of which were fully occupied, most of the time, in keeping tabs on the other thirty-four. Local journalists, then as now unreliable, would canvass new arrivals promising to introduce them to the Rexist, Degrelle, who came over regularly from Malaga, or to Haikowitch of the Abwehr, who was always expected from Tétouan that coming weekend. They would also offer to sell you proof that Israeli agents were getting English sailors drunk and then buying their passports at ludicrous prices to use on missions in the Arab states.

Yet the malaise one sensed in Tangier had deeper causes than these attempts to dramatize a banal and rather ill-kept secret can convey. In the Zone it was not only people who wore masks, but inanimate objects too. The recently-opened Tangier stock exchange, for example, doubled so effectively as a bistro that the uncommon brokers and jobbers, harassed by waiters, couldn't make a market without ordering an aperitif. The Bourse would surely have failed to pay its way otherwise, because people were very reluctant to conduct business in such an official forum. The real financial markets were in the teeming backstreets of the Petit Socco, where itinerant traders, many of them from India, dealt by open outcry in the banknotes of all nations. Hidden away in the alleyways and outbuildings, meanwhile, were commercial organizations whose true character bore little relation to the names that they displayed.

A hundred companies to the drawer

From the opulent frontages of Boulevard Pasteur and Rue Velasquez, the brass plates of limited companies gleamed by the dozen, displaying an alphabet soup of letters followed by the words "& Co," "Ltd," or "Inc." Some opted for bombast: International Transactions Consortium; Worldwide Commercial and Trading Company; Omni-Trading; Tangier World Company. Others gave only the vaguest indications of their origins or purpose: Commercial Union of Indochina and Africa; Holland Morocco Trading Company; Zurich Company of Tangier. Precious few chose clarity. The very air of Tangier seemed to thrum with signals, the meaning of which agonizingly eluded one who had only just arrived, until it dawned upon him that these mysterious signs were no more than a discreet way for the city's professionals to advertise their business services.

The most effective way to plumb these depths was to pay a visit to the local bankers and lawyers, all of whom would try to convince you that the system in Tangier had a claim to be if not original, then at least superior. In Switzerland, Liechtenstein, and Panama, you would be told, governments knew the adage "business is business," and how to say it in every language, but the authorities in Tangier had taken the art of non-government to an unparalleled degree of perfection, by mutually cancelling out rival sovereignties.[2] Here they observed, more than anywhere else, the rigorous eschewal of almost all varieties of taxation, coupled with an unlimited freedom from trade restrictions, the effect of which was maximized by the paper entrepôt regime. As soon as anything was "imported" by a corporation domiciled in Tangier, then it could claim to have originated there, even if it was subsequently "re-exported" without actually coming anywhere near the place.

So setting up a company there was a no-brainer, and there were few formalities involved. As soon as you went to see a specialist, of whom there were plenty in town, he would recommend to you, with the avuncular unflappability of a physician treating a disreputable patient, his standard prescription: to form a company "having as its object any agricultural, industrial, commercial, banking, real estate, or other financial business." Its constitution was drawn up in advance, and all that you had to do was to fill out the blanks on two forms. The first contained the company's

[2] This deadlock was achieved by the Committee of Control, which comprised the Consuls-General of the eight nations charged with "ensuring economic non-discrimination and compliance with the provisions of the Tangier Protocol," each with power of veto. The authority of the official Administrator was constrained by the rival jurisdictions of Spain and the United States, each of which continued to claim capitulatory privileges, and by the Committee's decision to delegate the general oversight of order and the police to representatives from minor powers (Belgium and Holland).

chosen name, a notional figure for share capital, a PO Box number, and the identities of the directors. The second document, signed but undated, was an assignment of the original members' shares to the real owner, whose name thus appeared nowhere in the official records. The attorney supplied the straw men and the registered address, namely in one of his desk drawers that already contained the paperwork for several hundred other holding companies.[3]

He was quick to point out how reasonable the costs were, making flattering comparisons between Tangier and competing jurisdictions, to which he would refer, according to temperament, as "lands of the free," or "of opportunity." To set up a company in the Zone the capital and stamp duties amounted to just 0.25 percent in 1950, while in Switzerland, even in the Canton of Glarus, they reached 1.8 percent, in Luxembourg 0.9 percent, with only Liechtenstein representing marginally better value. Legal and registry fees were lower than anywhere else, as the clerks of Tangier drew up tables to illustrate, and there were effectively zero ongoing costs, whereas they would often be significant in Europe and even more so in the States.

Only devotees of infinitesimal calculus paid any attention to those kinds of details. For the rest, it was enough to know that a Tangier corporation could rapidly increase your wealth, through methods ranging from the rudimentary to the intricate. An Italian pasta-maker, for example, established a subsidiary company, the Tangerine Trust for Superior Spaghetti (TTSS), in which no one

[3] A holding company is a corporation whose business is purely financial and consists in the acquisition and management of participating holdings (i.e. those large enough to secure control) in industrial or commercial operating companies.

was able to prove that it held any shares. From then on, TTSS bought almost all of its parent firm's output practically at cost—no law to force an industrialist to make a large profit if he was happy with a small one—and resold it in the open market, earning a considerable margin in Tangier out of reach of the Italian fisc. Companies in the International Zone were taxed on neither income nor profits; they merely had to pay a derisory licence fee, which never exceeded 25,000 francs throughout this period and was fixed at 10,000 francs for import-export concerns.[4] Naturally, TTSS told the manufacturer to send its spaghetti straight to England, France, or New York, so that it never arrived in Tangier. The subsidiary's only business consisted of issuing invoices and collecting foreign exchange, a hugely lucrative activity in the context of Europe *circa* 1950, as most countries required exporters to surrender at least part of their overseas earnings at the official exchange rate, which was invariably much lower than the unofficial one. Having augmented its income by successfully playing the markets, TTSS then lent its capital back to its Italian founder, obliging that company to make interest payments to Tangier, which were also converted into hard currency. In this way, TTSS became so cash rich that it was able to purchase a substantial shareholding in its own parent company, owning the stock either directly or more discreetly through a Swiss

[4] The level of commercial license fees payable in Tangier was a reflection of the hierarchy of declared earnings: 25,000 francs for banks or bank branches with capital in excess of two million francs, wholesale importers of tobacco or kief, owners of ocean-going ships, and the monopolies in the Zone (the port authority, telephone company, electricity board, etc.); 10,000 francs for those dealing in most other commodities, airlines, and luxury hotels; 8,500 francs for real estate agencies, pawnbrokers, and thrifts; 5,000 francs for the keepers of high-class brothels, lawyers, dentists, and clinical midwives.

intermediary, thereby helping to protect the parent against any threat of nationalization.

The six thousand shell companies established in Tangier between 1948 and 1950 had implemented myriad variations on the aforementioned schemes, of which some people there apparently possessed an encyclopaedic knowledge. But while the inhabitants of Tangier were happy to wax lyrical about the numerous ways that foreigners could take advantage of the Zone's unique attributes, they were rather more tight-lipped when it came to the question of how they personally profited from the system. In Mediterranean countries, secrets are hard to keep, unless they are your own secrets.

The pyramid of rackets

Now it was said, and I later confirmed this elsewhere, that there were three discrete types of wheeler-dealer in the Zone, who certainly complemented one another on a local level, but tapped into separate international networks and interacted with one another on purely professional, and more or less acrimonious, terms. These were the black marketeers, the moneychangers, and, at the summit of the pyramid, the bankers.

In Tangier, those who smuggled Virginia tobacco had long been the quintessential organized criminals, since they took to extremes the logic of cultivating a squeaky-clean image in their dealings within the International Zone, while behaving outside of its confines like reckless desperadoes ready to resort to all kinds of violence. Ostensibly run-of-the-mill traders, they would import

American cigarettes to Tangier for thirty or thirty-five francs per pack, which they could sell for seventy or eighty francs just outside French territorial waters, or a hundred francs upon delivery to dealers in France. The latter would then offer to supply domestic retailers at 130 francs per pack, which was still fifty francs cheaper than if they had sourced them through official channels. These "import-export agents of the high seas," as it said on their business cards, were the most important charterers of boats in the Zone, leasing around a hundred launches and motor yachts either monthly or by the voyage. They must have been clearing significant sums, because they sometimes shifted more than five tonnes of tobacco in one go.

Their favoured haunts were the Bar Venetia in Rue Murillo, which was run by one of Carbone's ex-girlfriends on behalf of Joe Renucci (the most prosperous Corsican gangster in the Mediterranean, who posed as a publisher of light music); and at Dean's Bar, where the Italian-American mob set up shop in 1951, led by Joe Miranda and his two lieutenants, Elliot Forrest and Wesley Priest. Although they tried to bring Chicago methods to the Maghreb, the Americans did not last all that long. They were ultimately seen off by a concerted effort between the other smugglers and the police, after one of their number, Sid Paley, foolishly hijacked the vessel *Combinatie*, which was carrying 26 million cigarettes belonging to a rival gang, thereby setting off a chain of murders in France and Italy. There was a risk that Tangier would get caught in the crossfire, hardly an agreeable prospect for those who depended upon the continuance of the established order.

A glut of American cigarettes was about to hit the European market anyway, and the shrewder operators had already begun to move into the real estate sector, where they could comfortably make an eighteen percent annual return on construct-to-let projects, or even more at times when accommodation was scarce in the Zone. A quirk of the market there was that rents were often payable in gold, and, to ensure that they could pay their rent if the Moroccan franc or the peseta fell in value, civil servants and schoolmasters who were paid in those currencies were forced to speculate in the money markets. They found it difficult to resist this demand on the part of landlords, because mortgage payments were themselves also frequently linked to the gold price. Financial markets were systemically dominant over real markets in Tangier: that is, in fact, one of the iron laws of tax havens.

Inevitably, then, those who dealt in gold and foreign exchange occupied a central position. By 1950, however, they admitted rather wistfully that they were pining for the lost age, 1945 to 1948, when the official gold markets in London and Paris were shut. In those days, Swiss banks were prohibited from making private bullion sales without registering the purchaser's name. All that this meant in practice was that they lost out to three boutique outfits in Zurich, Geneva, and Lausanne that were happy to guarantee anonymity for buyers even though it meant breaking the law. Yet those three sellers could only resolve the problem of procurement, which was actually less of an issue than that of delivery. It was comparatively easy to smuggle five-thousand-franc notes out of France, convert them into dollars in Geneva, albeit at a heavy discount, and use the dollars to buy gold or silver. But it was much harder to get bullion back into France via the traditional closely-watched routes across the Franco-Belgian plain, along the Italian coast, or through the Swiss border region. In-depth checks were commonplace, and the French customs men nigh on incorruptible.

Furtive gold goes by air

For four years, therefore, the safest road from Zurich to Paris lay through Tangier. There, bullion was packed into cannisters and loaded on board aircraft to be dropped by parachute over inland wildernesses, principally (though this only emerged later) the same areas that had once harboured the maquis of the Massif Central. With a difference of 200,000 old francs per 12.5-kilo bar between prices in Zurich and Paris, the margin was wide enough to leave you with enormous profits, even after you had paid for the transport costs. These were at ordinary commercial rates between Switzerland and Tangier, but were far higher from Morocco to France because of the clandestine nature of the routes and their operators. Yet how many surplus light aircraft were available for next to nothing after the war? How many people used to working in the shadows found it difficult to reaccustom themselves to civilian life? And how many decommissioned Axis agents were out there looking for work!

"I was the first," the most secretive and efficient among them told me in perfect French in 1950. The International Zone's answer to Richard Sorge, this man went by the name of George Joseph Hiller, at least he did when he was in Tangier. Hiller sported Swiss nationality, said that he had been born in Macedonia, and claimed to have won both the Légion d'honneur and the Iron Cross on account of his military prowess. He owned several different firms, including the Centre for Economic and Financial Literature, which attracted a sophisticated clientele to the Zone by advertising its facilities in various financial journals. Another of his companies, the Tangier Chamber of Commerce Ltd, had a clever name that was designed to snare common-or-garden visitors, of whom I was one.

"Those three letters, 'Ltd,' are so inconspicuous that you barely notice them. People who come to see me are liable to let the cat out of the bag before they realize that they are not dealing with a public institution," Hiller explained. He was quite prepared to discuss his business in detail, provided that I promised to mention him by name and to describe him as an unscrupulous adventurer. This bald, thick-set man in his fifties, whose ostentatious cynicism contrasted with the appearance of a benign paterfamilias, contended that bad publicity was better than good, and might be worth fifteen letters a day to him from European businessmen.

Hiller asked me to emphasize his superiority over competitors who specialized in sea-borne smuggling.[5] An aeroplane, in his view, was a much better tool for the purpose. He himself had founded two airlines: the first had carried bullion from Angola to

[5] He was willing to acknowledge that Marga d'Andurain had possessed a certain chutzpah, or she would never have been able to run the pearl racket out of a hotel room in Palmyra for so long, and would surely have faced the music over the serial murders by an unknown hit-man (or woman) first of her bogus Muslim husband and then of her actual husband and his nephew, who were killed by dagger and poison respectively. But he said that she had been rash to believe that she could get away with shipping a large cargo of South African gold from Germany to the Mediterranean in her yacht, the *Djeilan*, as some people have claimed ever since her disappearance. It is probable that Marga d'Andurain, who was last seen in November 1948, was assassinated in Tangier, but the exact circumstances remain a mystery to this day.

Tangier at thirty-three percent profit per flight, until he had been forced to "stop working with villains who mixed copper in with the gold." The other firm, which had proved more sustainable, served European countries such as France and Spain.

Hiller wouldn't let me go without taking a handful of flyers "to give to your friends," which read: "Compagnie Auxiliaire de Transports Aériens (Comatra): Code IATA; ABC 6th Bentley. Speed: aircraft ready to go in less than two hours. Security: insurance and licensed pilots. Economical: one- and four-seat planes, modest prices." Hiller went missing a few years later, and I never found out whether, as he claimed, he had in fact undertaken work for one of the big central banks, namely flying in gold coins that had been specially minted to help shore up a certain hard currency that was taking a hammering on Tangier's free market, which was always sensitive to heavy selling.

Even by 1950, though, Hiller was already practically a "has been," thanks to two separate developments that did him and his ilk serious damage. The first was the reopening of the Paris gold market in 1948. From then on, it was legal for French residents to buy, own, and sell bullion, although it remained illegal to import or export it until the beginning of 1967. Yet the market needed supplies, and much more than was obtainable from people breaking open their piggy banks and money boxes. Once you could proceed on the basis that the authorities were more interested in monitoring gold imports than they were in preventing them, then you no longer needed to take a detour through Tangier in order to move precious metals from one side of Lake Geneva to the other.

The second knock-out blow for the gold smugglers came in 1949, when the International Monetary Fund (IMF) agreed that the world's largest gold producer, South Africa, could sell part of its output for industrial purposes and for jewellery at a significant premium over the official price of thirty-five dollars per ounce, which had been fixed in 1934 and was held sacred in Washington. The South Africans, who had previously restricted mining production, proceeded to ship hunks of rudely-fashioned metal, which qualified as "jewellery," to Zurich and other places, and they sent enough of it for the difference between the official price and the black market to fall to twelve percent in March 1950. That was simply not enough of a margin to justify taking the long, scrubby, clandestine path via Tangier.

The great scare of the Korean War a few months later led to a sudden leap in prices and a mood of euphoria in the Zone, where people believed that, although the city had lost its place as a major centre of the gold trade, it could instead become a hoarder's paradise. Tangier had the prerequisite of neutrality, and the U.S. Internal Revenue Service did not try to pressure the banks there into providing information about account holders, as they did in Switzerland's case. That was because Washington was actively opposed to French sovereignty in Morocco, and thus liked to pose as the defender of everybody's economic liberty, rather than merely of its own capitulatory privileges.

The famous establishment in the Rue Velasquez

This role as the strongbox of Western Europe was personified, when I visited in the fall of 1950, by a prodigious and larger-than-life man, Maurice Lagasse, a rubicund colossus who, in the course of an eventful career, had lost one arm, supposedly while shooting pigeons in Tangier. Born in a village in the Aisne to peasant parents and orphaned at a young age, Lagasse found employment as a salesman for the local branch of a major bank sometime before World War I. He earned his first commissions placing Russian bonds with the country folk, a task he seems to have accomplished somewhat too successfully, as he hastily departed the region a few years later before resurfacing in Paris. Rising from clerk through broker to become, from 1925 onwards, the most important gold dealer in the market, he applied with genius the maxim that "a shilling plus a shilling always equals three shillings, somewhere, in a far-off part of the world." He was so good at his job that even the snootiest banker could put up with his bad manners and vulgar speech.

Between 1940 and 1944 Lagasse had the opportunity to prove himself. His tentacles stretched from his office in Paris to the furthest reaches of occupied Europe and as far afield as Spain and Portugal. He moved consignments of bullion like they were chess pieces, and even succeeded in landing the Germans with the gold-backed bonds that had been issued to Hungarian magnates as compensation for the land that they had lost in 1918 (the same securities, ironically, with which Serge Stavisky's name had once been unfortunately associated). Lagasse's network in Spain memorably included a former French country parson, who had been well received in Madrid ever since 1936, when he had saved the Abbot of Montserrat's life by spiriting him across the frontier. A confidant of the Pope's who held at least semi-official French diplomatic credentials, this Rabelaisian character was much revered by the Spanish customs men, who knelt before him to receive a blessing every time he crossed the border.

Lagasse had sufficiently high-level protection during the war that he was able to persuade Franco to part with the gold doubloons that the United States had paid to Spain in respect of their conquest of the Philippines, which he disposed of in Tangier. After the liberation of Paris, Lagasse decided to move to the city permanently, and acquired an establishment in the Rue Velasquez that soon became famous. He enjoyed a decade of prosperity there before returning to France to participate in the official gold market, where he was active in a modest way until his death. His premises in Tangier could be seen from afar thanks to the enormous antenna protruding from the roof, which allowed him to receive news affecting the currency markets in advance of his competitors. Inside, there were cash desks, a foundry for producing the different gold alloys required by his diverse clientele, and a pawnbroker's that lent against jewellery and bullion. There was also an armoured vault in the basement that held numbered deposit boxes, and, needless to say, Lagasse did not ask for identification from the customers to whom he rented them.

Other people imitated his example. As early as May 1947, the Tangerine authorities had the foresight to extend the paper entrepôt regime to bullion deposits, an astute innovation since it treated gold stored in the Zone as being in transit, which meant that you could import it without paying any customs duty. Montevideo and Curaçao were the only other jurisdictions with such generous regulations, except that in those places you had to be non-resident if you wanted to benefit from tax-free bullion storage. Gold imports flooded into Tangier immediately, up from 119 kilograms in 1947 to seven tonnes in 1948, ten and a half tonnes in 1949, thirty-one tonnes in 1950, and, at the peak, almost fifty tonnes in 1951.

The Swiss banks, moreover, were quite content to coordinate this migration to the International Zone. Indeed, they began to issue "certificates for gold in bond in Tangier," either registered or payable to bearer. Before long, some institutions, led by the Tangier International Corporation (partnered with the Michelis Bank of Zurich), were offering "option certificates," which granted an entitlement to buy gold in the future, instead of conferring immediate ownership, and could be traded on the stock exchange. For three dollars twelve and a half cents, or four dollars sixty-two and a half cents, anyone—from lawyers to travel agents, hall porters to scrap metal dealers and market traders—could obtain the right to purchase an ounce of gold at the official price in a month's time, or in six months' time. This left the financier with a healthy profit if prices stayed low, in which case the investors lost their premiums, but also if the gold price went up, because he would hedge himself against that eventuality by making pre-emptive purchases.

Such was the sense of exuberance in Tangier in 1953, despite the general improvement in international relations, that an American bank operating there, First Banking Corporation, believed it could launch a winning product at a premium of a dollar above the official price. This was the Hercules, the first coin in the world that weighed exactly one troy ounce (31.103 grams) and had the same twenty-four-carat fineness as bullion. It almost heralded a democratic capitalism, because an ingot of twelve and a half kilos (400 troy ounces), or even of one kilo (32.15 ounces), was scarcely within everybody’s means, so that the small investor generally had to pay a heavy premium for coins, some thirty percent at that time for Napoleons and forty percent for demi-Napoleons. Yet although it was certified by N. M. Rothschild, the Hercules never took off. Gold dealers adopted a dim view of the initiative; and so did the central banks, because, had it succeeded, they would have been precluded from generating substantial seigniorage profits by adding to the stock of historic coins in periods of high demand, even sometimes backdating ones specially minted.

The London gold market eventually reopened in March 1954, and that was the final straw, since it immediately reclaimed its status as the world’s chief supplier of bullion, the wholesale market where central banks could restock, not to mention the smaller players who served the retail trade. In no time at all, buyers from Montevideo, Beirut, or Macao ceased to have the appetite for Tangerine gold that they had exhibited since the end of the war. It was not that the prices there were any worse (or, for that matter, better) than in Zurich or London, but the air links were inferior and the quantity available was small compared with what London had to offer.

This change of circumstances was neither unforeseen nor especially alarming for the people who really made the weather in the International Zone, namely the big bankers, for they knew that they were still at the helm of a first-rate tax haven, even if their monopolies were gradually being eroded as Europe progressed on its long march towards economic and financial liberalization. Tangier’s significance as a node in the global gold circuit might have faded, but it still had a few tricks up its sleeve.

The mirage of Eurafrica

The Sephardi bankers of very long standing, such as the Pintos, the Abensurs (who represented Britain on the legislative assembly) and the Hassans (who represented Spain); the Ashkenazi bankers whose establishments were comparatively more recent; the French, Swiss, British, and American bankers in the Zone, all were convinced that they were partaking in the birth of "Eurafrica," for which Tangier was the prototype.

How we all, on both sides of the Atlantic, believed in the concept of Eurafrica in 1950, even as Eirik Labonne was raising his prophetic objections! It was part of what drew European and American companies to "African industrial organization zones," known as ZOIAs, which were established straddling the borders of Morocco, Algeria, Tunisia, and Guinea with a view to extracting the mineral riches anticipated to lie beneath the desert, first and foremost oil. Morocco led the way. The Tangier real estate boom of 1950 coincided with the first tower blocks going up in Casablanca, to which capital was flocking, attracted by the lightest taxation in the franc area and the tremendous flexibility of the corporate regulatory regime.[6]

But Tangier could always boast, throughout this period, of laws that were laxer still, of a comprehensive liberalism that meant it was always insinuating itself in commercial relationships between French Morocco and the metropole, no matter what safeguards

[6] A Moroccan company could increase the size of its board of directors without limit, or reduce it to a single director. It could deduct the directors' remuneration, which was not subject to any legal cap, against taxes payable locally. Reciprocal shareholdings between companies were also permitted.

Paris tried to put in place. The French Treasury thought about banning French goods from being transhipped in Tangier, but they abandoned the idea because they correctly surmised that not only would it contravene the trade treaty between the two countries; it would also hamper the French export drive.

The shortcomings of France's exchange control policy in Morocco were fully appreciated in Tangier, not least by the numerous American "businessmen" who based themselves there. They were generally military men who had been discharged *in situ* and had stayed on for the mild Moroccan climate and the friendly tax environment. They had no reason to fear the long arm of the law, for in their case it was administered by the U.S. Consul-General, pursuant to the capitulatory rights that the Americans refused to relinquish, however much the other nations complained.

To import scarce and sought-after American goods to Morocco, to bring in motorcars and tat by the ton for which the Currency Board would not allocate foreign exchange, you had to enter into complex arrangements for the payments to be made indirectly. That was where Tangier came into its own, acting as a central clearing house for these transactions, which resulted in goods that were originally priced in U.S. dollars being delivered to purchasers in Casablanca who had paid for them in Moroccan francs.

Whatever policy the Protectorate implemented, these dodges went on regardless. Morocco actually abolished import licences in March 1948, only to reimpose them the following December. The restrictions were tightened in 1949 when the U.S. State Department seemed willing to cooperate, but had to be relaxed again in 1950 after Washington changed its mind. France ultimately brought the matter to the International Court at The Hague in 1951, and the court returned a somewhat ambiguous verdict in the summer of the following year.[7]

So while the government in Rabat knew who the main characters behind these evasions were, at no point in time did it possess sufficient authority to crack down on them. The modus operandi was invariably as follows. An importer in Casablanca who wished to make payment in francs for purchases of foreign goods would make contact there with the representative of a Tangier bank—the "hinge," as they used to say, of the whole operation—to find out the going rate for dollar financing on standard commercial terms. The answer was always the mid-price on the Paris black market, plus a spread for the bank to reflect costs and risk.

Having struck a deal, the Moroccan importer would remit funds in francs to the agent for the Tangier bank, who would transfer them, perfectly legally, from Casablanca to a correspondent bank in Paris. The Paris bank would be instructed to use the francs to buy black market dollars, and then to transfer the dollars secretly to another correspondent bank in Switzerland. Depending on how the deal was structured, the Swiss bank would either retain the dollar funds, or transfer them to a third correspondent bank in New York. Either way, the buyer would

[7] The judgment of the International Court, dated 27 August 1952, declared that the edict of 30 December 1948, which imposed licensing requirements on American goods but not on French goods, was incompatible with the Act of Algeciras, but the court did not find it necessary to rule on the legality of exchange control as a general issue. The court also held that the regime of capitulations did not extend to the French zone, and it rejected the notion of a special tax exemption for American nationals because that would be contrary to the principle of equal treatment in the economic sphere.

now open a letter of credit with a reputable bank in Casablanca, the seller would dispatch the goods directly from New York to Morocco, and the "hinge" would ensure that the requisite documentation was passed back down the chain. The circle was complete.

This mechanism was, for the most part, pretty reliable, to the chagrin of local craftsmen and industrialists who dreamt of building their business up behind protectionist barriers. It also enabled the Tangier banks to make substantial foreign exchange profits, on top of the various commissions that they charged. One notable trick exploited the Protectorate's legislation permitting free importation of Moroccan banknotes. You were not allowed to take them out of the franc area, but you could buy gold with them in Casablanca, sell the gold in Switzerland, and use the proceeds to buy more Moroccan francs on the black market for sixty or seventy percent of their face value. Then you could repatriate the francs to Morocco and start the cycle again. They didn't close this loophole until five years after the end of French rule.

Eurafrica never came into being; instead the French colonial presence in Morocco fell apart. The liberal technocrats of the fifties may have convinced themselves that they were serving the common good by creating cross-border consortiums in which indigenous entrepreneurs could play a major role. But because they thought in terms of zinc, lead, iron, and oil, and closed their minds to politics, they came to inhabit an abstract world that blinded them to real life. They simply could not comprehend the passionate aspiration of the Moroccan people for independence, including all of the traditional lands of the Sherifian Empire. The exile of Mohammed V, first to Corsica and later Madagascar, in

1953 and 1954.[8] The coronation, followed not long afterwards by the abdication, of Aarafa. The rallying of Glaoui to the Sultan, precipitating his return to Morocco in 1955. And finally French and Spanish recognition of Morocco's independence in the spring of 1956. All of these events foretold the ailing, the agonies, and eventually the death of the Tangier tax haven, even before the International Zone had been reabsorbed into a common system of law. In a unified Morocco, Tangier was never going to be more than a sub-prefecture without a future, at best a summer residence for the royal court.

The Sultan hoped that Tangier would continue to be a safe haven, protecting its users' wealth and thereby contributing to the prosperity of his kingdom, yet this hope was to be in vain. Independent Morocco reaffirmed the city's economic and financial privileges in a charter signed on 16 August 1957, but they would only survive until 17 April 1960, which saw the expiry of a final six-month period of grace. Thereafter, all that remained was a kind of nostalgia for Tangier's golden age, felt most keenly by the poor, whose standard of living sank to unprecedented depths because of the successive exoduses, first of the tax exiles, then of most of the Jewish community, and last of many Spanish nationals, who found that they could now obtain work in their own country or in France.

The new government never gave up on its contradictory vision of turning Tangier into "a free international zone under exclusive Moroccan control," which was how it was described in decrees

[8] The British former double agent on the German staff, Eddie Chapman, who was involved with cigarette smuggling in Tangier at the time, claimed that he had been asked to kidnap the Sultan by a group of rich Arabs, whose names he would not reveal.

promulgated in 1960 and again in October 1962. The authorities will grant commercial licences to Moroccan businessmen who are prepared to register as “international traders,” and these entitle them to make use of bonded warehouses in Tangier from which they can withdraw goods “by permission of the Finance Minister, upon proof of dealing.” Of course that is no good at all, and, while efforts have since been made to modernize Tangier’s harbour and to expand its industrial hinterland, they have basically been a waste of time and money.

Exodus and decline

By the end of the 1950s Tangier was just another Moroccan fishing village, floating around in its civic magnificence, its broad avenues and marble-clad banks, like a once-obese dieter in oversized clothes. After 1955, the city’s nabobs realized that it was only a matter of time before events caught up with them, even if their eclipse would unfold at the pace of a film in slow motion. By then the rot had already set in: Lagasse’s vaults only took in 252 kilograms of gold in 1954, but they lost eleven and a half tonnes in the same year, when the aggregate stock of the paper entrepôt declined by approximately the same amount, to around forty-one tonnes. From then on the rate of withdrawal was precipitous. Property transactions were valued at three billion francs in 1951 but fell to less than 850 million in 1954. The following year, developers began halting the construction of buildings mid-storey. The city’s professional services firms were under no illusion that the relocation of colonial capital from Morocco to southern Spain could keep them going for long. It was pouring into real estate and agricultural opportunities there like an avalanche: the new orange groves would already be bearing fruit by the time their owners were ready to depart.

The extinguishment of Tangier showed that tax havens do not occupy some kind of hallowed ground. Rather they depend for their vocation upon geographical and historical contingencies. A jurisdiction like this prospers as long as its users can take advantage of specific entitlements or anomalies. When those are no longer available, there is nothing to keep them there. The Zone's French speakers went to Monaco or Switzerland, while those figures from Gide, the rich English of the Kasbah, found new havens in the remoter reaches of the sterling area. The black marketeers went to West Africa to compete with the Lebanese for the illicit diamond trade. Indian pedlars crossed the Strait and took over Gibraltar's main drag with their voluble dealings. The currency smugglers were scattered to the four winds.

When the masks fell, it was revealed to the surprise of many in financial circles that a lot of the bankers in Tangier were actually members of Swiss, French, British, or American firms. Until then, most people had assumed that they were arm's length correspondents, but in truth almost everyone in the International Zone owed their loyalties elsewhere. They were commission men. They went back to the mother ship.

The genuine independents packed up their establishments and looked for new homes, although some of the flimsier ones disappeared before they ever arrived. That was the fate of the American and Foreign Bank of Tangier, which announced that it was moving to Panama in 1960, but showed up with four million dollars of its depositors' money having gone missing. The bank's chairman and proprietor, an American named Thomas Stangbye, declared bankruptcy and then went on the lam, surfacing later in West Germany as the agent of a Los Angeles-based oil firm. He told the Moroccan police that he was the victim of his own naivety, as he had been inveigled into buying a bank that was already insolvent. Its previous owner, another American called Herman William Brann, had drained the bank of funds before quitting Tangier in 1958 to set up a new organization in Switzerland. Brann's Swiss bank was later rescued from dire straits when the authorities there forced him to stand down and appointed a competent manager in his stead. He had since gone to ground.

Yet these were only minor blots on Tangier's scutcheon. The real banking aristocracy of the Zone easily found berths in other havens. The Abensurs sent their son Joseph to Geneva in 1951 and subsequently founded the Banque Pariente. The Hassans run a successful bank in the upmarket Rue de la Corraterie. The Pintos, who are also based in Switzerland, have built a commercial and property empire in Spain and France. Banque Mars went to Curaçao. Other, less illustrious institutions have found fortune in Panama.

We too must leave Tangier, which is little more today than an empty conch washed up by the tides of capital, a piece of broken scenery, a crude rebus that you might paint in the style of Tanguy or Chirico, showing the sea shore with its marvellous fine sand, disfigured by a dilapidated boardwalk, overflowing rubbish bins, and empty fag packets.

Are other tax havens so ephemeral? So much under threat?

2. The town where the Prince is no child

There are fortunes that cry "fool" at the honest man.

Journal des Goncourt
EDMOND & JULES DE GONCOURT

"The ferret, it runs, it runs, the ferret of the pretty wood." So, one might say, does skittish capital, which left a Europe torn apart and went to Tangier in the aftermath of World War II. A decade later it began to trickle back again, now reassured of Europe's destiny if still dubious about the quality of her currencies. Ironically this was at the very moment when Europe was confronted with the fact that, beyond the confines of the continent itself, her civilization was on its last legs. The fall of Dien Bien Phu, on 7 May 1954, convinced the key players in colonial business that they urgently needed to get all of their liquid assets out of Indochina, as the criminal element had been doing for some time, with the added incentive that the Indochinese piastre was worth considerably more in Paris than it was in Saigon. The collapse of French rule would mean the end of free currency transfers within the franc area, and people were already becoming anxious about the fate of Tunisia, while Tamanrasset no longer felt as if it could be a suburb of Dunkirk.

What would happen if wild money, never broken to the metropolitan tax yoke, were to slip it and to seek out other unregulated spaces, far from Indochina or the Maghreb? Would Switzerland, as so often before, be the end of the journey? After strengthening over the previous three years, the franc unfortunately lost value again in 1955 and 1956. It was at this point that those in high places hit on the idea of resettling colonial capitalists in the Principality of Monaco, that sliver of the Côte d'Azur a quarter of the size of the Bois de Boulogne, but which possessed the trappings of an independent state. There they would find a Tangerine climate: the same sun, the same tradition of devotion to the service of the idle rich, and the same absence of direct tax.

Muffled echoes of these deliberations reached the Principality, which began to get its hopes up as a result. For throughout the twentieth century, France has repeatedly thwarted the Monegasques in their ambition to turn their little country into a tax haven. Now it is true that shell companies do not take up much space, but it is nevertheless a disadvantage to be the smallest of microstates, particularly when you are fed up with being a kind of half-way house between Tarascon and Gerolstein, and have pretensions to a status somewhere above Tangier's and below that of Switzerland. The Principality of Liechtenstein has a surface area of 160 square kilometres, and even the Republic of San Marino extends to just over sixty square kilometres. Monaco, in contrast, has less than two square kilometres, its size as well as its significance having been whittled away over the course of the centuries.

Tunnelling to create roads and the Paris-Lyon-Méditerranée railway has improved the approach to what was previously an inaccessible rock, whose apex, towering above a natural harbour, commands the only passable route linking the littoral on either side of the Southern Alps. It makes for an impregnable fortress except in the face of a prolonged siege, which usually left its defenders with enough time to pay homage to whomever its latest conqueror happened to be; an allegiance that they would then observe until renewed hostilities between the great powers threw up a fresh opportunity to profit from a reversal of their loyalties.

Thus have the Guelphic family of Grimaldi sustained themselves since 1297. At first, they were allied with Genoa and the Kings of France, until 1524 when they elected for Spanish protection. In 1641 they returned to French suzerainty, a bond that endured down to Napoleon's return from the island of Elba, when Monaco came under the wing of the Kingdom of Sardinia. It was in favour of the latter that the communes of Menton and Roquebrune seceded in 1848, later deciding by plebiscite to annex themselves to France. All that was left for the Grimaldis was a statelet shorn of four-fifths of its territory, comprising the rock and its immediate environs, whose plight is aptly summarized in an old Monegasque dirge:

Son Monaco, suora uno scoglio
Non semino né raccoglio
Eppur mangiar voglio.[1]

[1] "I am Monaco, nuns on a rock / I neither sow nor reap / And yet I want to eat."

The glorious green baize of Monaco

Well, the Principality ate, but it was hard work. Self-sufficiency proved a lot more elusive a goal than independence, which neither the Second Empire nor the Third Republic ever sought to jeopardize. In 1856, Prince Charles III licensed the playing of gambling games that King Louis Philippe had banned in France, thus granting Monaco a winter monopoly of European punters, as well as a chance to outshine the casinos of small German principalities during the summer. It was in 1863 that Monte Carlo's period of glittering success began, when François Blanc, proprietor of the casino at Bad Homburg, was granted a sixty-year lease of the land known as Les Spélugues. Prior to his arrival, the gambling concession had passed through four pairs of hands in the preceding six years.

In 1869, buoyant receipts from the casino allowed Charles III to abolish direct tax in Monaco, through a voluntary renunciation that was subsequently written into the Principality's constitution. So the foundations for a tax haven were laid at an early date, when tax rates were so low across the rest of the continent that it hardly felt as if you had entered the Garden of Eden merely because there was no taxation there at all. But life in Monaco did have a somewhat ethereal quality, on account of the mania for gambling by and among the owners of Europe's great fortunes. Boyars arrived from the steppes with caravans of trunks filled with gold. The English earned their nickname of "milord." Highnesses thronged to the Palais des Jeux built by Garnier. There were fewer than eight hundred Monegasques to officiate their cult, and the humblest tended to their lawns, while the more ambitious were promoted to the green baize and handed their croupier's sticks down through the generations.

In its heyday, between 1864 and 1914—a time when fashions lasted half a century, and the value of the franc didn't fluctuate by a centime—the Principality derived seventy percent of its national income from the outfall of games of chance, owing to its competitive advantage in roulette and wintering billionaires. Those who had bought into the company that ran the casino, Société des Bains de Mer et du Cercle des Etrangers (SBM), from Cardinal Pecci (who became Pope Leo XIII) down to François Blanc, were shown to have been blessed with exceptionally good judgement.[2] By the end of this period, SBM was a soar-away success on the Paris stock exchange.

World War I, which saw France impose a broad-based income tax for the first time, made paupers of many of Monte Carlo's patrons and decimated the Monegasque economy. But other fortunes were being carved out, as was emblematically confirmed in 1923 when Sir Basil Zaharoff, the Greek from Constantinople turned king of European armaments, supplanted François Blanc's son Camille as the head of SBM. The age of Diaghilev and the Dolly Sisters seemed destined to be no less gilded than that of *The Girl from Maxim's*.

Who could have predicted, then, that the casino's contribution to the national income would have dwindled by 1939 to about thirty per cent? That was partly a consequence of the 1929 crisis, of course, but above all it resulted from the decision made by Paris,

[2] François Blanc floated a mere eight thousand out of the thirty thousand shares that made up SBM's initial capital of thirty million francs, keeping the remainder for his wife and himself.

in 1933, to legalize wagering on roulette and *trente et quarante* on French soil. This policy change prompted Italy to extend similar privileges to Venice and San Remo.

From World War I onwards, it was difficult to ignore the potential for French citizens to use the Principality for bad tax purposes, and the treaty of July 1918, whereby France agreed to protect Monaco's sovereign independence, envisaged conventions for the prevention of tax fraud and the effective taxation of foreign nationals. The first such accord was signed in June 1925. It established the rule that, where a French citizen or a foreigner habitually resident in France was entitled to income arising or assets situated in Monaco, then French income tax, wealth tax, and estate duty were chargeable. If you could prove, on the other hand, that you were domiciled or habitually resident in Monaco (and for the latter purpose, it was sufficient to have lived there for a single year), then your income and assets were exempt from French tax.

World War II rapidly cracked this Monegasque veneer over the French tax code, as the authorities there succeeded in picking and choosing which Vichy regulations they applied. They agreed to prohibit transactions in gold, as well as capital exports to countries other than France, but they refused to implement legislation providing for strict control of the banking profession and the registration of securities.

In essence, money was welcome in Monaco regardless of its provenance. From 1940 to 1942, holding companies were formed in haste to conceal fortunes that would be imperilled the day the Germans replaced the Italians and the Gestapo took up residence in the Hôtel de Paris. At the same time, however, suppliers to the Italian army and the Wehrmacht, ostensibly in town for the gambling, were also permitted to set up corporate shells subject to no formalities other than the publication of their fictive statutes in the Official Journal by a professional nominee.[3]

In all cases, their privacy was well protected. For example, the flashiest of Monaco's new seigneurs, Michel Szkolnikoff—whose black market network extended all over France, supplying Germany with metals, machinery, foodstuffs, and pharmaceuticals—held a lavish reception at the Hôtel de Paris to celebrate his first billion. Yet his assets in the Principality, which were supposed to run to hundreds of millions, proved untraceable and irrecoverable, even after the Spanish secret police, who were hot on his heels, having already arraigned him for smuggling jewellery, found his charred remains dumped in a village near Madrid.

With the liberation of Europe, Monaco's established order, or rather disorder, was called into question. The aged Prince Louis II and his advisers had doubtless done their best to preserve Monegasque Jews from deportation, and had even been paying ten pounds a month to members of the Principality's English colony to help with wartime living expenses. After the landings in Provence, Louis's grandson Prince Rainier had joined the Free French forces and had been given the Croix de Guerre. Respectful of all traditions, those of the Kingdom of Navarre as well as of France, General de Gaulle did not wish to see Monaco disappear entirely, not least because its representation on various international bodies provided the French government with additional influence. What

[3] Some 280 such companies are known to have been established by individuals during the war, and this excludes those rumoured have been set up by the Deuxième Bureau in order to protect various French assets.

France *was* determined to do was to wipe this diminutive state off the map of tax havens, wherein the Tangier International Zone was, at that time, looking increasingly conspicuous. Whether they liked it or not, the Monegasque authorities had little choice but to cooperate.

A year in straitjacket at the Liberation

Monaco entered into four main agreements with France in 1945. The first assimilated the Principality to French territory for exchange control purposes and authorized the requisitioning of gold and foreign currency situated there. The second compelled certain Monaco residents to appear before the French tribunals for confiscating illegal war profits, and obliged the local authorities to assist with making enquiries and with liquidating the assets of those found guilty. The third convention extended the French system of price control to the Principality, subject to a list of exceptions agreed between the two governments. Finally, a new tax treaty stipulated that not only would income and assets that French residents held in Monaco be subject to French tax, as in the past; from now on, if a French citizen transferred their domicile to Monaco they would remain liable for five years, rather than one year, from the date of such transfer.

Harsh laws were also passed mandating the compulsory liquidation, by 1 January 1946, of all Monaco companies that did not declare how much they distributed to shareholders by way of dividend, such that profits could be accumulated by straw men who were acting as nominees for French residents. Moreover, all of the stock issued by Monaco corporations since 1 September 1939 was retrospectively deemed to be in the form of registered, as opposed to bearer, shares. There was to be an official review of all company constitutions to ensure that these regulations were complied with. It was a straitjacket!

The mood in Paris quickly changed, however, when it became apparent that with nothing to hold it up except its own inertia, Monaco risked becoming a severe financial drain on the French exchequer while it slowly died of old age. The war profiteers had fled, or had gone into hiding. The English, cooped up at home because they could not obtain enough foreign currency, were staying away from the Riviera. The golden legend, of dynasties succeeding one another down the generations in the *salles privées*, was off-putting to people who had only recently become rich due to the black market. With its heavy ceremonial that involved announcing players upon arrival and watching them like a hawk, every evening at the casino resembled a superannuated waxwork show. It was *Last Year in Marienbad*; more like a bygone decade, really.

So the French attitude became more flexible. In October 1946, the government decided that French stocks and shares owned by people domiciled in the Principality would be exempt from the solidarity tax, provided they had been acquired before 4 June 1945. From 1946 onwards, instead of requisitioning foreign currency and securities held by Monaco residents, the French authorities levied an annual contribution of five million dollars. This in turn was abandoned in 1949, when the government implicitly acknowledged that the value to France of direct investment from the Principality had exceeded the amount of the levy in every year since its inception. Exchange control was relaxed when the official gold market in Paris reopened in 1948. The following year, France agreed not only to a moratorium on overdue tax that the Monegasque authorities should have collected since the war, but also to the abolition of tariffs on trade between the two countries. In place of the previous system, a new tax called the "compensating exit charge" was instituted, at much lower rates: one percent on physical transactions in goods, and five percent on the provision of any kind of service, which included notional transfers of merchandise as well as royalties paid for licensing trademarks, patents, and other intangible assets. Paris also gave up on its attempt to outlaw bearer shares in Monaco companies.

The result of all this moderation was that Monaco found itself endowed, by 1949, with the ideal footings upon which to erect a successful tax haven, namely a legal system that leaked like a sieve. It was against this background, at the end of five turbulent years, that Rainier III finally succeeded his elderly grandfather, at the age of twenty-six. Louis's estate was partitioned equally, with half going to his daughter Princess Charlotte, and the other half to a young actress, Ghislaine, whom he had married in his declining years.

As a result of these testamentary dispositions, Prince Rainier struggled to maintain a lifestyle worthy of his station, in spite of the considerable sovereign privileges that he enjoyed. As head of state he could, for instance, have acquired shares in German companies that had been blacklisted for spoliation at a discount, and resold them for full value in the open market. Or he could have bought Royal Dutch Shell stock at the official exchange rate in London, transferred it to the Paris Bourse, and disposed of it at a fifty percent profit, thanks to an anomaly in the French legislation relating to securities denominated in foreign currencies. But should a prince sully himself by stooping to gimmicks of that nature? Even if he had not been opposed to them in principle, such behaviour would merely have underlined the fact that he had acceded, impecunious, to a weakened throne.

Infancy of a leader

Duc de Valentinois, Marquis des Baux, Comte de Calardez, Baron du Buis, Sire de Matignon, Seigneur de Saint-Rémy, Comte de Torrigni, Baron de Rambye, Baron de la Luthumière, Duc de Mazarin, Baron d'Altkirch, Prince de Château-Bercier, Marquis de Chilly, Baron de Massy, and Marquis de Guiscard: Rainier, the thirty-first Grimaldi prince, had plenty of impressive antecedents but little by way of close family. Raised at the Palace by nannies, tutors, butlers, and servants, he rarely saw his mother Princess Charlotte or his father, Pierre de Polignac, who had long been busy leading separate lives. Meridional in temperament, Rainer did not look back fondly on his schooldays in England and Switzerland. But he had been happy enough at the University of Montpellier, where he had been a visiting student, before "ascending" to Paris, to Sciences Po, where he took a hotchpotch of courses, pursuing them as diligently as the next man.

Passionate, prone to act on impulse, he was as quick to quarrel as to make up. Conscious even among his cronies of the esteem due to his rank, he had difficulty in preserving it, notwithstanding the assistance of Pierre Rey ("papa Rey"), who had been his grandfather's most dependable financial adviser since the 1920s, having begun his career on the Paris Bourse. Ill-tempered as strong men often are, weak ones even more so, Rainier found it hard to hide his feelings. He appreciated, nevertheless, that he would need cunning rather than just brute force in order to get his hands on all of the things that had eluded him for too long, namely money, power, and the respect of people who mattered. To be sure, he had hardly any subjects, barely two thousand out of Monaco's total population of 22,000 (over half of whom were French and a quarter Italian). But his people held towards him the same sentiment that Romans have had for the least popular Pope: he was the only game in town, and the only thing standing between the Monegasques and the imposition of direct tax, because in the absence of a successor, the Principality would revert to France.

Rainier could see that his existing resources were inadequate, despite the fact that the Civil List represented the greater proportion of his country's budget. When he exercised a little imagination, however, he realized that the means to increase his revenues dramatically already lay within his grasp. For no enterprise could legally establish itself in Monaco, and no transaction of consequence, whether physical or incorporeal, was permitted to take place there, without his consent first being sought.

He may have been Prince "by divine right," but his authority was contested. For one thing, the Principality was seething with lawyers and worthies who wanted to transform the National Council from a mere consultative committee of eighteen members into a proper parliament. These Frondeurs were happily divided among themselves. Rainier soon found himself at loggerheads, though, with an external power that controlled most of the formal levers of his administration, and hence could frustrate him in the exercise of government: that is to say, with France. When appointing his Minister of State, for example (the head of the executive who was replaced every three years), the Prince had no choice but to select from a list of three nominees put forward by Paris.[4]

Rainier allowed himself to dream that there would come a day when he could neutralize French interference. He was encouraged in this aspiration by the fact that the French government made inconsistent use of its influence in the wake of General de Gaulle's withdrawal to Colombey-les-Deux-Églises. Were de Gaulle ever to return to power, the Prince had convinced himself that they would be able to reach an understanding, if only he could impress upon the General the similarities between his own position, as an heir to kings who, over the course of a millennium, had built up France, and that of the Grimaldi who had done the same for Monaco, admittedly somewhat more quickly.

As for the Minister of State and other high functionaries, none proved a formidable opponent for long, not because their statutory salaries were augmented with princely treasure, but because they allowed themselves to be seduced by the sunny anarchy of the Principality, the old-world charm of a nineteenth-century court, and the sweetness of life. Prefects who came to Monaco soon felt that they were in Elysian Fields. And as against Paris, the Prince

[4] The French government also had a hand in appointing the police commissioners, the Procurator-General and the president of the Court of Appeal, the director of public security, those responsible for the public registry, the judiciary, foreign affairs, and the commander of the Force Publique.

could rely upon the members of his household, on his private advisers, chaplain, and bodyguard—not to mention, increasingly, upon the aficionados of tax havens—to help him break up court intrigues and foil seditious plots. With them at his side, the throne could lead, with beating drum, its *reconquista* of Monaco from affluent nonentities, the fisc, and the French.

Prince Rainier's Balkan Triple Alliance

In the opening phase of his campaign to turn Monaco into a leading financial centre, which lasted from 1949 to 1955, Rainier allied himself with three gnarled old warriors who had won their spurs in hard, if somewhat questionably-fought battles: Aristotle Onassis, Constantin Liambey, and Charles Michelson. They all came from the Balkans, but their divergent trajectories were only aligned for a brief period, when they altered the course of the Principality's history.

After securing a right of veto over SBM's future strategy in 1950, Rainier was keen for the casino company to be taken on by someone with the gumption to see through the huge financial effort that would be required to return Monte Carlo to the boom times of old.[5] The Prince must have thought that his wish had been granted when, in 1953 and with his blessing, Aristotle Onassis purchased 520,000 out of SBM's 750,000 issued shares. The acquisition,

[5] In exchange for limiting his powers and agreeing not to interfere with day-to-day management, the Prince accepted a payment of fifty million francs and a change in the method of calculating his remuneration, substituting a flat fee of ten per cent of gaming turnover in place of the previous share of profits.

costing a total of two billion francs, was made via some fifty shell companies established for the purpose in the tax haven of Panama. Unfortunately it did not take long for misunderstandings to manifest themselves.

Aristotle Onassis had not come to Monaco to rank as just another tired Zaharoff. He had overcome plenty of obstacles in life since he had fled Smyrna in 1922, at the age of sixteen, after the Turks massacred the rest of his family. Onassis earned his first million dollars importing tobacco to Argentina, before branching out into shipping in the mid-1930s. World War II was the making of him, not least because his vessels, which were chartered to the United States government, sailed under the Panamanian flag. It was not the casino that first piqued Onassis's interest in Monaco, nor for that matter the other properties that SBM owned, which included five hotels and nightclubs that were heavily burdened by the overemployment of elderly Monegasques and the extraction of all sorts of hidden fees. No, what he was really looking for was a suitable tax haven in which to recuperate after things turned sour for him stateside: in October 1953, he was charged with "a conspiracy to defraud the American government," relating to his use of front companies to purchase surplus tankers from the U.S. Maritime Commission shortly after the war. Onassis also hoped that Monaco's red and white banner would one day become a recognized flag of convenience.

Rainier quickly became disillusioned, since the shipping mogul showed little inclination to advance the princely dream of more and better hotels, but seemed to be more interested in promoting his own image by entertaining famous guests at SBM's expense. Monaco was too small to accommodate both the twenty-nine year old sovereign (unmarried, with broad shoulders, a matte complexion, sporty-looking and not very sophisticated) and this man of forty-six whom the tabloids glibly described as silver-haired, with dazzling teeth, houses in Paris, New York, Buenos Aires, and Montevideo, and yachts which were inevitably more luxurious than the Prince's.

Rainier repressed his resentment, nevertheless, until the end of the 1950s, on the advice of a man that he trusted implicitly; the same man, in fact, who had first introduced him to Aristotle Onassis, namely the bullion trader Constantin Liambey. Liambey was a Greek of Romanian extraction who had come to the Côte d'Azur in 1930 and had opened a jeweller's shop in Nice. (His brother Jean Liambey, who later became Constantin's go-between in Paris, was the French agent for Johnson Matthey, one of the big five British gold firms.) In 1937, Liambey set up a precious metals desk in Monte Carlo, which he expanded into a bank after the war. He amassed a great fortune during the troubled period of the occupation, when Monaco was the nexus of a large monetary racket with numerous angles, all conducted under the one watchful eye of the Deuxième Bureau.

After the official gold market in Paris reopened in 1948, Monaco's residents became accustomed to the sight of Maestro Liambey seated in the window of the best restaurant in town, where he would lunch with two telephones on the table so that he never missed out on an opportunity to trade. Rainier already knew how valuable Liambey's counsel could be in urgent matters requiring secrecy and tact, and one of the Prince's first initiatives upon his accession was to appoint Liambey's firm, the Monaco

Banking and Precious Metals Company (Mobanco), as the Principality's deposit bank and broker for official business.

It was through Liambey, too, that Rainier initially became involved with the financing of commercial radio and television, a sector that he believed had great prospects. The Prince had learned to appreciate the political advantages of a twenty percent holding in Radio Monte Carlo during the turbulent time immediately after the war, and he became even more enthusiastic when that most persuasive of promoters, Charles Michelson, visited Monaco in 1947. It was Michelson who had originally hit on the bright idea of broadcasting from the Tangier International Zone in 1939.

Amid a French cabinet crisis in the autumn of 1949, Michelson had managed to secure a licence from the French government to broadcast TV from Monte Carlo. Now all that he needed to do was to construct the necessary transmitters and studios. But this led to a determined onslaught from the Prince, who insisted on being cut in on the deal. Consequently, in 1951, Rainier became a co-investor in the company Images et Son (IES), which was registered in Monaco and had plans, in addition to the TV project, to set up a commercial radio station in the Saar Protectorate called Europe Number One. By the end of 1954, when Télé Monte-Carlo was launched, the principal shareholders in IES—namely Michelson, the Prince, Constantin Liambey, and RBV Radio-Industries, which was responsible for designing the equipment and building the facilities—had sunk up to one and a half billion francs into these ventures. Mobanco, especially, was in up to its neck.

Setback in the war of sound and pictures

Less than a year later, this rather ramshackle enterprise had been supplanted by a far more powerful coalition between the French banking, media, and industrial establishments. Charles Michelson fell victim to a French parliamentary inquiry, which resulted, amid some confusion, in his being banished to Corsica towards the end of 1955. He sold his shares in IES to Mobanco, with the purchase monies left outstanding, shortly beforehand.

The fate of the latter was no less humiliating. The fact was that both Liambey's bank, which was the closest thing that the Principality had to a national bank, and RBV, which stood to lose the most if IES were to fail, had overextended themselves by wandering into the world of TV. They simply had insufficient capital to cope with the losses that you had to be able to absorb in order to get a TV station off the ground in those days.

On 30 June 1955, the day before Europe Number One was supposed to begin broadcasting, a rumour began to spread around Monaco that Mobanco was suffering significant unexpected withdrawals, and, in consequence, was unable to discharge some 300 million francs' worth of invoices that it had agreed to pay on RBV's behalf. The National Council, long envious of Rainier's powers, immediately called for him to sack the four members of his cabinet who were most closely associated with the Radio and TV projects. The Prince acceded to this demand, and, in an attempt to douse the flames, he announced that he was investing an additional 250 million francs in Mobanco, on top of the 900 million he already had on deposit there. Yet despite this public token of his confidence, the withdrawals from the bank continued.

The one person who could have done something to quell the panic, which was Aristotle Onassis, rather pointedly remarked that the whole issue was nothing to do with SBM.

On 11 July, however, when the Minister of State issued a warrant for the arrest of Constantin Liambey, Mr Onassis felt obliged to speak up for his friend. “I believe I am reflecting the general opinion,” he told the newspaper *Le Monde*, “when I say that Liambey had no more than a secondary role in this affair. He is a diligent bookkeeper, and an expert in arbitrage of whose kind there are fewer than ten in the world. He may have been the head of the bank, but he was only following orders.” Orders, eh, but from whom?

The Prince never forgave Onassis for this intervention, and he bitterly resented how the French press hung him out to dry. Mobanco closed its doors on 1 August 1955, whereupon its balance sheet was audited. It emerged that that the bank’s only substantive asset was a thirty-five percent stake in IES, which was basically unsaleable, while on the other side of the ledger, there were liabilities of some 420 million francs. Most of this money was owed to a few “holders of secret accounts,” i.e. people influential enough that no one was ever going to find out who they were.

The Principality returned to comparative calm in November 1955 when a deal was reached involving the buyout of Mobanco by a Parisian firm that planned to turn it into a mortgage lender. This was conditional upon a promise from the Monaco government to reimburse the bank’s depositors within ninety days. Constantin Liambey was released from custody and exiled to his villa at Saint-Jean-Cap-Ferrat, where he died in 1957.

Rainier appeared to be the biggest loser from this debacle, even more so than Charles Michelson, because he was now on the hook for large sums of money and had been forced to lay his prestige on the line. Six weeks after Mobanco's insolvency, events took a turn for the worse when RBV also went bust, with the loss of 2,500 jobs.

The next act in the saga was orchestrated by the French minister of state for national defence, Mr Crouzier, and the finance minister, Mr Pflimlin. The man who rode to RBV's rescue, Sylvain Floirat, had previously managed to put the Bréguet aircraft company back on its feet in 1951, in equally unpromising circumstances. Floirat committed 600 million francs to the bailout of RBV, and subsequently liquidated that company in 1959, when its thirty-two and a half percent stake in IES was acquired by Société Financière de Radiodiffusion (Sofirad), the French state broadcaster. Floirat consolidated his ownership of IES in 1956, meanwhile, by purchasing all of the shares held by Mobanco. He agreed to pay 1.3 billion francs over fifteen years, as well as discharging the 250-million-franc debt that the bank still owed to Charles Michelson.

The net result of these transactions was to leave the Prince with merely a residual interest in IES carrying five percent of the voting rights. Thirty-five percent of the nominal capital, and forty-two percent of the votes, belonged to Sylvain Floirat, while Sofirad had effective control of the company with thirty-two and a half percent of the capital and forty-six percent of the votes.

Rainier's stature in the eyes of the Parisian political elite was less diminished by this hapless caper than you might have imagined. Apparently most of them chalked it up to bad luck. If

Frenchmen of a certain class took one lesson from the aforementioned episode, it was that setting up holding companies in Monaco afforded ample potential for skulduggery. And, thanks to the forbearance of the French fisc, the company formation business there was getting into its stride: the aggregate turnover of Monaco firms was 1.56 billion old francs in 1955, 3.83 billion in 1957, and 64.2 million new francs in 1960.[6]

The consolations of marriage

The magnificent marriage that the Prince contracted in 1956 gave him further cause for good cheer. His new wife, Grace Kelly, was a celebrity admired equally by film directors and by her spiritual advisers for her combination of seriousness and pliability. Their union was not the outcome of some Florentine intrigue got up by a priest, as it has occasionally been made to seem, nor was it a modern version of the tale of Cinderella. In fact, this daughter of a Philadelphia-Irish building magnate, and star of the 1955 Cannes festival, met Rainier after her publicist Georges Cravenne procured an invitation for her to visit the palace.

When she returned to Monaco to wed the Prince on 10 April 1956, accompanied by a retinue of 1,800 journalists, Monaco must have filled more column space in the international press than its own surface area could have accommodated. The Grimaldi palace now became a compulsory place of pilgrimage for American tourists, who could visualize themselves as characters in a novel by Henry James.

[6] One new franc, introduced in 1960, is equivalent to 100 old francs.

The Prince now seemingly believed that, with American support, he could escape from the oppressive tutelage of France. He certainly felt that he could count on the church, because his chaplain, the Reverend Father Francis Tucker, had influence with the Vatican, and his father-in-law, Jack Kelly, had played a part in constructing the big American seminary in Rome. Rainier also had a hunch that he was backed—and who can say?—by the CIA, ever since a young man by the name of Samuel Cummings, who introduced himself as a friend of Allen Dulles, had arrived in Monaco on a temporary visa in 1957. This resourceful individual had stayed on and had established (without informing Paris) a Monaco HQ for Interarmco, the main private supplier of automatic weapons to the Middle East and military aircraft to the Dominican Republic. Last but not least, the Prince was convinced that he had an unqualified endorsement from the U.S. State Department. It was they, after all, who had first placed at his service the youthful Martin Dale, who had been called to the palace from his post as Vice-Consul in Nice to help negotiate the royal couple's prenuptial agreement.

Bit by bit, therefore, Rainier's confidence increased. Paris failed to lift a finger in early 1959 when he dismissed the National Council, which was guilty of dragging its heels over voting through the budget. And a similar apathy greeted the project that he launched the following year, led by Martin Dale, to expand the tax avoidance business in Monaco, hitherto little more than a cottage industry, by attracting a transatlantic clientele. In October 1960, the Principality announced the birth of a new state agency, the Monaco Economic Development Corporation (Medec), which promptly dispatched a deluxe glossy brochure, in a thick metallic cover with an embossed Grimaldi seal, to various American multinationals. In the preface to this document, Rainier explained that Medec's mission was to help them take advantage of Monaco's potential benefits as a base for their business operations in Europe.

Martin Dale was soon appointed head of Medec, and disclosed to the magazine *Newsweek* that he aimed "to attract to Monaco, over the next three years, the top management and commercial staff of between thirty and fifty of the world's largest companies." The first to answer this call was the American maker of mining machinery, Joy Manufacturing Co, whose Monaco office was soon joined by those of Allied Chemical, Johnson & Johnson, the U.S. Tin Corporation, Rust Craft, Grolier, and Alcoa. In the year 1961 alone, Dale's organization issued forty-one new company licences. Bayer developed its drug production in the Principality, and Coca-Cola chose it for a bottling plant.

The real estate sector in Monaco was also taking off. In 1961, the combined value of property transactions there was seventy million new francs, twenty times higher than in 1949. The price per square metre of land in the vicinity of Port Hercule was on a par with the Champs-Elysées. By the end of 1961, total deposits of cash and securities in the Principality had reached one billion new francs, which was split between fifteen banks based in Monaco, five branches of French banks, and four foreign bank branches. Somewhat ironically, Mobanco was by this time under the control of a syndicate that was believed to be linked to Charles Michelson.[7] An army of brass-plate companies, with light industry

[7] It had meanwhile been renamed simply "Société Monégasque de Banque," having dropped the "precious metals" part.

in the vanguard, was expected to arrive at Monaco's borders any day soon.

Amid the euphoria of these "go-go" times, the opportunity seemed ripe for Rainier to rejoin the forgotten battles of yore, to eject Sylvain Floirat and Sofirad, and to seize back control of the broadcasting company IES. The Prince took to the field on 14 January 1962, when he lobbed an official ordinance in his opponents' direction. This bombshell stated that "any law suit relating to a quarter or more of the unlisted shares of a company registered in Monaco will be redressed through the appointment of a court officer; and, if the officer determines that the transaction whereby the defendant acquired the securities was null and void, the plaintiff may call for the return of the said securities."

Five days later, Mobanco brought an action in the Monaco courts for restitution of more than 74,000 IES shares currently held by Sylvain Floirat and Sofirad, pleading "a serious shortfall in the price" at which the bank's administrators had originally disposed of them. This would prove an egregious miscalculation, in a drama that had no hero, but was not to be without its fall guy!

Overnight on 23/24 January, Monaco's Minister of State, Émile Pelletier, acting on instructions from the French government, admonished Rainier and demanded that the ordinance be repealed. The Prince was apoplectic, reminding him that he (Pelletier) had already signed off on the legislation. The Minister merely reiterated that he was not exaggerating when he said that there would be grave consequences for the Principality if Rainier ignored this French ultimatum.

Rainier was rash enough to sack the Minister on the spot, allegedly swearing at him like a trooper as he did so. In his wrath, he actually went as far as to declare himself sorry that he had ever fought in French uniform. Yet neither of those facts, in and of itself, explains the implacable determination that now took root in Paris to give no quarter to the Prince, even after he belatedly saw sense and tore up the offending enactment on 25 January.

If Rainier thought that this would save his skin, he was to be sorely disappointed. On 21 February 1962, the French foreign minister Mr Couve de Murville announced that, in light of recent events, he was inclined to push for a wholesale revision of the treaties governing France's relationship with Monaco in the economic, financial, commercial, and fiscal spheres. It was no empty threat, for the French government swiftly embarked upon a policy review, with the goal of eliminating all of Monaco's tax haven prerogatives.

Ever since General de Gaulle's visit to Monaco in 1960, Rainier had been misinterpreting France's ostensible indifference as a sign of tacit support. He had failed to appreciate the sense of resentment that was building up against him in Paris. The Prince had been agitating, for example, for Monaco to be admitted to the United Nations, but he hardly helped his cause when he blurted out that his country would not be France's puppet. It had apparently slipped his mind that voting against French interests would have been inconsistent with the protection that Monaco enjoyed under the 1918 treaty! At the same time, Rainer was attempting to mobilize foreign support for a Monaco flag of convenience, and even for the development of a free port in the Principality.

The latter proposal would have been equivalent to planting a bomb under the Common Market customs area. It was certainly ill-timed from a diplomatic perspective, because Germany was already up in arms about the abuses of hospitality that were being perpetrated in Liechtenstein and Switzerland, while the Kennedy brothers were in the midst of piloting draconian legislation through Congress to keep U.S. multinationals out of the world's tax havens. In March 1962, Rainier rallied his Monegasque subjects by restoring the National Council. But he was toxic as far as Paris was concerned, and he had scarcely any allies elsewhere, few at least who were prepared to take his side openly.

Seven thousand French tax evaders?

On 4 May 1962, French finance minister Valéry Giscard d'Estaing appeared on national TV to denounce the tax breaks that were being obtained, abusively in his view, by "seven thousand French citizens who have ensconced themselves in Monaco: that is what they claim at any rate." The minister divulged that "I have in my possession four such names, together with their respective tax declarations. One is a stockbroker who earned thirty-six million francs in 1960; the second is a woman who received thirty-five million that year for being a company director; and there are two others, both of whom grossed more than forty million. None of them are currently paying any French tax. Now I consulted the Paris telephone directory—which is a public document—and I discovered that they were all listed there along with their home phone numbers. So I took the liberty of ringing these folks up of an evening, and guess what? Three of our 'Monaco residents' were most assuredly here in Paris last night, as I dare say they are much of the time.[8] Why on earth, I ask you, should such people be exempt from French tax?" The minister went on to say that, in his opinion, it was "absolutely unfathomable and indefensible that foreign companies should benefit from preferential tax treatment, just because they happen to have an office in Monaco. How many actual sales or purchases can they possibly be making there? Their real business, surely, is with us and with the other major countries of Europe."

Enriched by reports from the tax police in Antibes, the French government's files were overflowing with detailed and compromising information. Such-and-such a factory in the Midi sold confectionery at cost to a supposedly independent company in Monaco. The latter put it in boxes and re-exported them to France under its own name, paying no tax in the process apart from the one percent "compensatory exit charge." A spectral Monte Carlo abattoir, which had no physical presence in the Principality apart from a brass plate and a telephone, was notionally slaughtering 10,000 head of livestock every month. A certain Paris weekly (now defunct) paid forty centimes per copy for the right to use its own masthead, which had been registered as a trademark in Monaco immediately before the paper was launched. Despite having no researchers and practically no facilities, the Principality's diminutive pharmaceutical laboratories could boast of having discovered an amazing number of profitable products. The drug giants based in Paris couldn't sell these preparations to

[8] The *Gazette de Monaco* joked a couple of days later that the people the minister had called were "a reputed writer, a well-known filmmaker, a publisher, and a worldly tricoteuse."

French consumers without paying royalties, and were contractually prohibited from making any sales outside of France.

The tax authorities could crack down fairly easily on French firms, and there were many, who were brazen enough to sell their goods to companies in Monaco and immediately buy them back in their own name. But they found it harder to react when products were passed around between different companies; and it was hardly rocket science to export goods to one affiliate in Monaco, then have a second affiliate sell them to the end consumer, thus effectively disguising their original provenance.

Moreover, even though Monaco holding companies were supposed to have been abolished, what one found in their place was a proliferation of so-called “trading” companies. The industrial activities of these firms, which generally consisted in manufacturing obscure products of dubious quality, were really just a cover for their principal business of managing investments.

The French authorities suspected that almost all of the 750 Monaco companies then known to exist were implicated in fraud of one sort or another. Even the ones that had started out fairly respectable had changed hands somewhat too often, so that their paper trails ran into the sand. Furthermore it was clear, or as clear as it could be, that at least a third of the “banks” registered in the Principality had no recognizable business nor indeed their own premises. The time had come to finish them off.

Rainier found, to his dismay, that he could not shed ballast quickly enough. From April 1962 onwards he closed Medec down, sent Martin Dale away, had Mobanco dissolved, encouraged Samuel Cummings to take his activities elsewhere, and forced the Reverend Father Tucker to go into exile. All of which was to no avail, as none of these symptoms of a return to propriety made any impact on the French government. On 11 April, the Quai d'Orsay gave six months' notice that it was revoking all existing trade arrangements with Monaco with effect from 12 October. Unless the Principality agreed before then to harmonize its tax system with the French one, Paris would erect a customs border between the two countries.

The Prince was indignant. He repeatedly expressed the view that, for every fault on Monaco's part, there must be a corresponding failure on the French side, if only because France's own placemen were largely responsible for his country's affairs. "Monaco is not, as the French claim, given over to fraud and tax evasion," he said in an interview that he gave to the *Saturday Evening Post* on 14 July 1962. "What is more, even if that were true, it would be like a little drop of sweat when you compare it with the ocean of fraud that takes place in France, which must be worth billions of francs." Like Tartarin starting out on a cap-hunt, Rainier declared that he and his subjects were prepared to go to extreme lengths before they would yield to French diktats.[9] In this climate of suspicion, every time there were bilateral talks behind closed doors with a view to resolving the impasse, they rapidly broke down.

The French authorities began to tighten the screw. The tax and customs convention of 1951, and the agreement that allowed pharmaceutical products from Monaco to be sold in France, were

[9] In the same interview with the *Saturday Evening Post,* Rainier also revealed: "We are looking at every possibility to assume total independence. We are conducting technical studies into the potential for processing seawater into drinking water. Our food requirements could be met by sea."

both repealed in April. In August, French financial institutions were ordered to terminate their relationships with twenty-six Monaco banks that were henceforth omitted from the whitelist drawn up by the National Credit Board. These steps lent some credibility (not much, in all honesty) to France's declared intention to blockade the frontier, to sever road and rail links, and to cut off Monaco's gas and electricity if Rainier did not give way by 12 October.

Those kinds of measures would doubtless cause chaos: Monaco's main football field had one goal in the Principality, while the other one was in France. The altar of the church of Sacré-Coeur-de-Jesus was in Monaco, but its confessional wasn't. The border ran right down the middle of the Avenue de Beau Soleil. Quixotically, however, the National Council demanded that the Prince appeal to the UN, this troupe of notaries proclaiming, in chorus, their right to die as free men. It was as if the Principality were rehearsing for a Mediterranean rendition of *Passport to Pimlico*!

In the end, the arrival on "D-Day" of half a dozen customs men, wearing oilskins to shield them from the torrential rain, who conducted a few low-key perfunctory inspections, led to nothing more than a brief bottleneck, attributable to crowds of jeering onlookers and a phalanx of self-styled "war correspondents."

A time for penitence

Even so, the timid money ran away. Bayer Laboratories, Coca-Cola, and Princes Pâtés, chastened by their sojourn in Monaco, decamped and took their factories to France. Brussels now became the preferred administrative centre for American companies with business in Europe. Economic activity in Monaco slowed down; the game was not worth the candle.

In December 1962, Rainier repealed the charter granted to Monegasques by Prince Albert in 1911 and promulgated a new, more liberal constitution that conferred greater powers on the National Council and the Minister of State. This move supplied the pretext for a resumption of diplomatic dialogue between Monte Carlo and Paris. On 18 May 1963, after six months of acute crisis, new accords were signed that reaffirmed "the independence and sovereignty of the Principality." In an eschewal of hypocrisy that did credit to both sides, they omitted, in contrast with earlier treaties, to recall "the traditional friendship between the two countries."

From now on, businesses located in Monaco, whatever their legal form and activities, would be subject to tax on profits if their revenues from sources outside of the Principality accounted for more than twenty-five percent of their total income. The rate of tax was set at twenty-five percent on profits arising in 1963, thirty percent for the following year, and thirty-five percent in 1965. It was eventually supposed to rise to forty percent, once the parties were agreed that this step could be taken without damaging Monaco's economy. In practice, for the year 1967 as in 1966, this final increase was postponed.

The benefit of paying forty percent tax on your profits in Monaco, as opposed to fifty percent in France, was not enough to make up for the greater costs of transport, energy, rent, and salaries, which were all higher in the Principality than they were in the Alpes-Maritimes.[10] No company of any significance has redomiciled itself in Monaco since 1963, because the rules for incorporating there are now as strict as they are in France.[11] Even companies established in Monaco before 18 May 1963 were compelled to appear before a six-member regulatory commission. In the first three years of its existence, this body only examined about 200 or possibly 250 out of a total of 768 companies, but it revoked the licences of at least 70 of those.

The agreement of 18 May was no less restrictive in the case of individuals than it was for companies. Exemption from direct tax, from which Monegasque subjects continue to benefit, was no longer available to French citizens unless they had already lived in Monaco for at least five years when the previous arrangements expired on 12 October 1962. In an affront to the principle of non-discrimination between all of the people residing in a state, Frenchmen who lived in Monaco were henceforth classified into three groups:

(i) The aforementioned privileged class;
(ii) People who had arrived in the Principality after 12 October 1962, who were deemed to be fully taxable; and

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[10] Monaco has experienced less rapid population growth than other towns on the Côte d’Azur. From 1946 to 1964, the population of Cannes increased by forty-two percent, whereas Monaco’s only went up by seventeen percent over the same period.

[11] The Monaco government has, however, encouraged the formation of a Company for Real Estate Development in Monaco (Sadim), which counts among its major shareholders Lazard, Credit Suisse, Crédit Lyonnais, and Fiat, and proposes to construct a 220,000 square metre polder in the sea at Fontvielle. The government has taken an option on 150,000 square metres.

(iii) An intermediate category, containing people who had previously been domiciled outside of metropolitan France, and had been habitually resident in Monaco before the relevant date, but for less than five years.

The last group, it was decreed, would be subject to French tax only from 1966 onwards, in respect of income accrued during the year 1965. That gave them enough time to move their capital to Switzerland before the tax hike took effect, although they would meet with considerably more understanding from the tax authorities if they decided to keep it within the French financial system.

The French government did not seem to be concerned that, by acting with such severity towards their own citizens, they might simply be handing free rein to foreign nationals in Monaco. There was a reason for this nonchalance, though, because Rainier had given a solemn undertaking to consult with Paris before he allowed any extra people into the Principality from overseas, and also in relation to the proposed modification of any business conducted by foreigners who were already established there. The meridional tax haven had thrown in the towel.

A lesser man than Rainier would have been disheartened by the seemingly conclusive limitations of sovereignty to which he had submitted. But although the Prince had taken the Road to Canossa, he had not yet beaten a path to the Élysée Palace. Finally, on 21 April 1965, he was invited to the President's table to make his peace. No ministers attended this meeting, and the French civil service, who knew nothing of it until the last minute, feared that de Gaulle might be moved to grant an indulgence to this young prince of ancient lineage. Did Rainier succeed in extracting a half-promise, at least, that Monaco could be let out of the doghouse, and that the Spanish Inquisition would cease?

Your Highness, you have a great deal of courage

For some time, the French cabinet remined in the dark about the outcome of this interview, sensing only that de Gaulle seemed to have been on good form. Rainier believed, on the other hand, that he had got his point across. He let slip a short while afterwards that, when he had laid out his plan to wrest back the one-seventh of his country's wealth that Aristotle Onassis controlled via his ownership of SBM, the President of the Republic had purred: "Your Highness, you have a great deal of courage."

Rainier liked to kid himself, as he memorably informed *The Wall Street Journal* on 16 August 1966, that Aristotle Onassis was "not a businessman, but merely a speculator." That was a serious error of judgement on the Prince's part. Onassis was the world's largest shipowner. His airline, Olympic Airways, was the pride of Greece; his financial problems were well behind him; and his fleet was growing rapidly, with underemployed European shipyards fighting over who would fill his orders. But Rainier was blind to such details. In his own Principality, this sea-billionaire was not his equal! Onassis had more money. Well, he had more time.

So how was the Prince spending his days, apart from in indulging his taste for foreign travel? Having completed his morning "keep-fit" regime, he would summon the palace staff to issue instructions (Princess Grace had zero authority, other than in respect of her ladies-in-waiting and her chambermaid). After an extravagant lunch, he would snooze in an armchair or perhaps inspect his cars, for Rainier was a man of the garage rather than the library. Then he could savour some correspondence from the various bigwigs in France and elsewhere who coveted the Order of St Charles, before ruminating at length on the state of his personal finances in the company of his courtiers. Finally, on those rare evenings when he had not condescended to honour some important gala or another with his presence, Rainier might devote thirty minutes or an hour to government business.

His great preoccupation over the next eighteen months was with ripening the intrigue against Mr Onassis. In this connection, the Prince was fortunate to benefit from the services of a loyal confidant, Claude de Kemoularia. Another crucial ally was the Bank of Paris and the Netherlands (Paribas), which the Prince asked to work out a funding scheme. The bank agreed to guarantee a loan that would subsequently be floated with the consent of the French government.

His rear areas thus secured, Rainier persuaded the National Council to pass legislation placing SBM under state control, effective from 23 June 1966. The edict authorized the creation of 600,000 new shares, which would be subscribed for by the Monaco government in exchange for the sum of forty-three million francs. Simultaneously, the Prince offered to buy the company's existing shareholders out at the price of 79.63 francs per share, which was the average bid-price quoted on the Paris stock exchange between 1 January and 30 April 1966. The offer price was based on a lower estimate of the company's net asset value than the one made by Paribas (which was not disclosed at the time), and it fell a long way short of the 120 francs per share that Onassis had indicated he was able to accept.[12] The tycoon brought a challenge against the law of 23 June 1966 in the Monaco courts, which they rejected in a judgment handed down on 6 March 1967. At that point Onassis decided to jump ship, as he did not wish to become a minority player in the nationalized SBM.

"Nationalized," a term that Rainier himself used in a radio interview on 12 May 1966, is no exaggeration. The Monaco government is today the sole master of SBM's destiny, owning 1.14 million out of its 1.6 million issued shares. And the government would still control the company, even if it decided to sell the shares that formerly belonged to Mr Onassis, which would be a tricky proposition in present circumstances because the nationalization had pushed their price down to fifty francs by January 1968, when they were not exactly hot property on the Paris Bourse.

Who, then, was the victor, and who the victim? Aristotle Onassis, the Prince, or his subjects? Onassis is said to have been glad to get out of Monaco, even if he felt somewhat cheated by the size of his payoff. At the palace, meanwhile, triumphalism reigns: not only is the shipowner's flag no longer fluttering over the harbour, but nor has Rainier ended up in hock to a French financial powerhouse, as he once feared that he might. Although the Monaco Treasury is far from flush with reserves, a projected windfall of a hundred million francs from tourism and real estate developments meant that the Prince could comfortably raise

[12] According to the periodical *Economic and Financial Opinion* (issue dated 16 February 1967), Paribas put the net asset value of SBM at 250 million francs, whereas the price of 79.63 per share offered to existing shareholders corresponded to a valuation of eighty million francs. In 1953, Mr Onassis had acquired his 520,000 shares at an average price of forty francs.

eighty-five million to buy out Onassis, without having to mortgage the country to Paribas or appeal to the baser instincts of French savers.

Does Rainer believe that, like James Bond, "you only live twice"? Is he confident that he can forge a new American alliance in 1968 and that Paris will not rob him of it as they did in 1962? Apparently he envisages Pan American Airways landing their big Boeings—at which airport, by the way?—with hundreds of gamblers from across the Atlantic, who will stay at hotels built by Intercontinental Hotel Corporation. That, at any rate, is the blueprint that he has submitted to a New York advertising agency, which has been commissioned to produce all publicity on behalf of Monaco and SBM, thereby usurping the role of the directorate of tourism. Perhaps the Prince takes his inspiration for these ideas from the new chief executive of SBM, Wilfred Groote, formerly of Intercontinental, or from Marcel Palmaro, SBM's chairman since July 1967, who is also a non-executive director of the bank Lehman Brothers. Yet he would be wise not to put all of his eggs in one basket. American multinationals are far from being neophytes when it comes to making overseas investments, and they like to keep a balanced book of risks all over the globe. Moreover they usually prefer to lease hotels, instead of tying up large sums of capital in construction projects.

"There goes the Prince of Monaco, the only man who ever wins at roulette," laments the disaffected gambler in the Maurice Donnay ballad. In Donnay's time, of course, the prince was yet to acquire his current status as the head of a state-owned leisure company, the indirect successor to François Blanc and Basil Zaharoff. If his ventures go bad, if he finds that he lacks the money to support himself after a mix-up with a French bank, could he perhaps test the loyalty of his 3,000 subjects by asking them to pay income tax for the first time? And if he did attempt to do so, is it not conceivable that they might choose to become citizens of an ordinary French sub-prefecture, rather than propping up an extravagant throne?[13] So far it hasn't come to that.

In fact, Rainer may already have prejudiced any prospect of reintegrating his exiguous state into the motherland. For too long he seemed unable to work out what he wanted. To govern by ruse like some latter-day Florentine prince? To wield the power that comes with owning a radio station? Or to luxuriate in the wealth of a successful real estate promoter, a Swiss banker, or the judicious steward of a minor financial centre? By losing his temper, and by allowing himself to be drawn into scuffles with people whose brilliance he resented because it detracted from his own, the Prince came perilously close to bringing his crown into disrepute. Maybe if the palace had only seen fit to engage a live-in psychoanalyst, Monaco would still be a tax haven now.

The constraints of modesty, humility, and discretion obtrude into international relations, on pain of reprisals from large countries, many of them less and less disposed towards tolerance. Those responsible for protecting the delicate mechanisms of a financial turntable against violent extraneous shocks cannot, in the

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[13] In 1967 the Monaco budget rose to 124.8 million francs, of which 49.9 million was capital expenditure and 74.9 million was current expenditure. Included in the latter category are crown expenses of 7,512,650 francs, but this does not include extraordinary disbursements, for which one must turn to Annex 5.702 of the *Journal de Monaco*. An additional provision of one and a half million francs was attached to the budget in mid-1967 in order to add a new wing to the Grimaldi Palace.

present geopolitical climate, be seen to play the cat's paw. President Tubman understood this only too well when he flew into a paroxysm of rage the day some nincompoop had the temerity to refer to him as the Rainier III of Liberia.

3. Only her flag is liberal

Learn how to sell to buy to resell
Give take give take

You are more beautiful than the sky and the sea
BLAISE CENDRARS

There are two Liberias, maritime and terrestrial, and they have so little in common with each other that one can scarcely speak of them in the same breath. Only maritime Liberia is a model of civility, in that she confers sovereign protection on anyone who places their ship beneath her flag. This policy was devised by a former U.S. Secretary of State in 1948, and it earned enormous profits for the firm that he founded called Stettinius Associates.

Years earlier, the United Fruit Company had begun to use Honduras as a flag of convenience, where it owned everything from the banana plantations, to the port facilities, to its own shipping line. It was in 1922, meanwhile, that a zillionaire trailblazer called W. Averell Harriman first hoisted the flag of Panama on two of his liners, so that he could serve alcohol to American passengers who had had their fill of Prohibition. By

1939, Standard Oil of New Jersey had placed more than two dozen tankers under the Panamanian flag, enabling the company to fuel the British war machine without breaching American neutrality laws, which forbade U.S. citizens from entering the combat zone.

When the Liberian flag began sailing the high seas in 1949, Panama had the fourth-largest fleet in the world (behind those of the United States, Britain, and Norway), weighing in at three million tons. The Liberian fleet overtook Panama's in just five years, reaching four million tons in 1955 and more than ten million tons in 1958. Less than a decade later, it achieved first place, with the lion's share of new registrations. By mid-1967 there were 22.6 million tons of shipping registered in Liberia, compared with 21.7 million tons under the British flag, which currently ranks second.

Since 1958, there have been more oil tankers registered in Liberia than anywhere else, while the number registered in Panama has remained stagnant for the past fifteen years. At the time of writing, forty percent of Liberian-flagged tankers are owned by American companies, forty percent by Greek shipowners, and the remainder by firms of various other nationalities.

Shipowners' rescue

What were they looking for, and what did they find, in Liberia? For American operators, the key desire was to escape the wage demands of U.S. merchant seamen, which were approximately double what sailors earned in traditional seafaring countries; and whatever you might think, Liberia could increasingly count herself as one of those. On a Liberian boat, the men were usually remunerated in classic British fashion, with the captain and engineer being paid much more than their sea-fellows, often by way of a share in the profits of the voyage. That was why they were so highly motivated and so unafraid of danger, sometimes it seemed almost suicidally.

What about the Greek shippers, why are they so keen on Liberia? After all, the Greek government granted them such generous privileges in 1958 that the size of the Greek fleet tripled over the next three years. And there are other, rival flags of convenience, which they are seemingly not so keen on, that can also transform a vessel into a floating tax haven like the fairy godmother turned the pumpkin into a coach; so registering in Liberia is not the only way to ensure that you don't pay any tax, can perform maintenance wherever you wish, rather than being restricted to the home port, and are able to obtain bank loans on favourable terms for building new ships.

Liberia derives one-ninth of its public revenue from its open register, even though the only charges that the state levies on the shipping industry are a registration fee of one dollar and twenty cents per ton, plus an ongoing annual contribution of ten cents per ton. While other jurisdictions have lowered their own rates in an effort to compete, there are two major reasons why Liberia has retained its lead.

First, a ship sailing under the Panamanian flag has to be owned by a Panamanian citizen. That is no big deal because in Panama, as in Liberia, you can set up a corporation with a board of directors composed entirely of non-citizens, and its meetings and records can be held outside of the country. But it is only in Liberia that a vessel can be naturalized in 48 hours *without* it being necessary to convey the title to a local holding company, since it is permissible to use a front company established elsewhere. The purpose of doing so is to make it as difficult as possible for anyone to sue the proprietor if the ship is involved in an accident. The effectiveness of this strategy was amply illustrated by the sinking of the *Torrey Canyon*, which flew the Liberian flag but was operated by a Bermudian company and ultimately belonged to U.S. citizens.

Secondly and more importantly, the Liberians know how to leave well alone when it comes to regulating the maritime sphere. Panama-flagged ships cannot leave port without being cleared by the Panamanian Consul, who is loath to complete his job quickly as he goes to double pay if he can string it out beyond normal working hours. In contrast, the Liberian authorities delegate all administrative and technical issues concerning ships registered in Liberia, wherever they arise, to the New York-based corporation Liberian Services Inc, a subsidiary of the International Trust Company (ITC). ITC's sole business, according to one of its longest-serving employees, is to collect the registration duty of a dollar and twenty cents per ton, to deduct its own fee of thirty-two and a half cents per ton, and to pay the residue to the Liberian government.

Does ITC have to rebate some part of its fee to an official of the Liberian state, such as a minister, or, more likely, to one of President Tubman's friends? I don't know, but the hypothesis would not have struck me as far-fetched while I was there. For I will confess straight away that I was not much taken with the other Liberia, the one that does not sail the seven seas, the real Liberia that lies nestled between Sierra Leone, Guinea, and Ivory Coast. It is minuscule in African terms at 110,000 square kilometres, which is about the size of the State of Pennsylvania or of Holland and Belgium combined. Liberia has a million inhabitants, or possibly two million; so wild is the country's interior that it is hard to be precise. Infant mortality there is seventy percent, there is ninety-two to ninety-five percent illiteracy, and eighty-five percent of the population subsists outside of the formal economy.

The pros and cons of a death sentence in Liberia

Perhaps my perception is fractious and overhasty, not to mention anachronistic and superficial, based as it is on evidence gleaned from books and on the experience of a single trip in 1961. I was unable to make a follow-up visit, because I was condemned to death in Monrovia for publishing an article, somewhat esoteric in nature, on the most effective ways to bribe the Liberian government. There was little useful literature on this topic at the time, and I had hoped that my contribution might help to improve economic relations between France and Liberia and to prevent any untoward misconceptions.

You be the judge. In 1960, the Liberian American-Swedish Minerals Company (Lamco) issued a tender for the construction of a 220-kilometre railway line and an artificial harbour to facilitate the export of iron ore from Mount Nimba. A French company, Grands Travaux de Marseille (GTM) submitted the most competitive bid, offering to complete both projects for forty-five million dollars, and was initially selected. Yet a few months later the Liberian government cancelled the railway contract (ostensibly "to protest against France's nuclear policy") and awarded it instead to the American firm Raymond Concrete, even though their bid was considerably more expensive. The government agreed that GTM could still build the port at Buchanan, but was only prepared to pay fifteen million dollars, which meant that the project would barely wash its face if it was completed to the original specification. There was a notion that suitable stone could be quarried nearer to the construction site, and on that basis, somewhat apprehensively, the French company decided to go ahead. Shortly afterwards, the government moved the contractual goalposts again, and GTM was forced to pull out.

The moral of the tale was that when trying to win business in Liberia, quoting the best price and possessing the right credentials were only going to get you so far. You had to realize that it was also essential to earn the confidence of Liberia's President, William Tubman. The surest way to do that was by approaching his social secretary, Lloyd Whisnant, and offering a generous token of your esteem. To negotiate concerning such an important matter at the level of the finance ministry or the public works department was considered practically an insult to the dignity of the state.

People reminded me that anyone who was condemned to death had the right to seek a pardon from the President, but that was problematic in my case, as no formal sentence had ever been served upon me. I was simply warned, by someone who was in a position to know, that if I ever came back to Monrovia it would be advisable not to touch the coffee unless I made it myself. Or they might have banged me up in a police cell on some pretext or another, "forgotten" to lock the door, and then gunned me down as I attempted to escape.

One would normally have taken this kind of thing for a great joke, but unfortunately Liberia has a reputation for being a place where the authorities do not mess about. As I was leaving, a high-ranking French diplomat hightailed it from his embassy in Monrovia to Robertsfield airport by car (a distance of about sixty kilometres), while I was making my way there in a taxi. He initially claimed that he was only there to ensure that the diplomatic bag got safely onto the plane, but he subsequently admitted that this was merely an excuse, so that he could pretend that he had bumped into me by accident. The real purpose of his journey was to beg me, quite literally, not to write anything offensive about the Liberian government; for if I did, he would immediately be frozen out, as had already happened to the Israeli ambassador in the wake of a disrespectful article by the journalist Yael Dayan. At the very least, the President would cut off his phone for a few months, although he said that was by the by because it hardly ever worked anyway. But it would be a serious problem if Tubman escalated matters by cold-shouldering him from official receptions, since that could undermine wider French diplomatic efforts in Africa.

Being condemned to death does not necessarily make one vindictive. Quite the opposite, in fact; it can engender the kind of fulfilment and gratification that a teacher feels when the class clown comes out with some shining pearl of wisdom. Admittedly, such emotions are seldom experienced until you are a safe distance away. And it is not easy to get out of Liberia.

If you stay in the country for more than forty-eight hours, your entry visa is not valid for exit: you actually need a separate “visa” in order to leave.

The first time you present yourself at the foreign ministry, they will tell you to come back with two photos. The only acceptable pictures are ones taken at exorbitant prices by a tame photographer, who presumably splits the difference with the officials, so you should ask them for his details at the outset to avoid wasting any time. When you return to the ministry, however, they will announce that they have lost your passport and will get back to you as soon as they find it again. At this point, you will be regretting the fact that you forgot to place a ten-dollar bill somewhere among its pages. You are then faced with a choice: do you go away and come back a third time, when you will probably meet the same response, or do you hand them a bottle of whisky? The trouble is that you cannot be sure how they will take the gesture. It may help you or it may not; everything depends upon how much of an inducement they are generally accustomed to receiving.

Having finally escaped from the country, the death sentence rather lost its clout, for no sane person ever had a burning desire to return to Monrovia. What is more, limited though my first-hand experience may be, I believe that I am well able to affirm that Liberia is not, never has been, and never will be the financial hub for West Africa in the way that Lebanon is for the Middle East, Panama is for Latin America, and Hong Kong is for the "third China," i.e. that which owes its allegiance neither to Beijing nor Taipei.

Common sense ought to tell you as much. Yet to say so was apparently contrarian, even heretical, and it can still seem that way today. This sensitivity may be attributed to the persistence of an ill-founded mythos surrounding the country's unique status, the same mindset that led to Liberia being admitted to the UN Security

Council in 1960, as the first African representative in the history of that institution.

Envy of a decolonizing continent

Endowed with the U.S. dollar for her currency, a constitution drafted by the Dean of Harvard, and company laws copied from American precedents, Liberia appeared predestined to become the bridgehead of liberalism in sub-Saharan Africa. That, at least, was the prevailing view in New York. Liberia was this exceptional case, a country that would take lessons in independence from no other, and yet was fiercely loyal to the United States. Unencumbered by any foreign ruler or metropolitan legislature, the Liberians were championing the spirit of Bandung long before the Gold Coast became Ghana, or Guinea severed its financial and political ties with France.

The revolutionary leaders Ahmed Sékou Touré and Kwame Nkrumah, who put their names to the Sanniquellie Declaration along with that of the highly conservative William Tubman in July 1959, had a somewhat romantic perception of him as the nineteenth President of an African Republic who was treated with respect on the international stage. For had Vice President Nixon not done Liberia the honour of an official visit in 1957? More symbolically still, the high priest of decolonization himself, Franklin D. Roosevelt, had visited Monrovia immediately after his stormy meeting with de Gaulle at Casablanca in 1943, in order to pay homage to Liberia's then president, Edwin Barclay, leader of an independent yet obedient and submissive republic.

In the face of this pervasive legend, it was better not to remind oneself of the rather troubling motives that had driven the United States to create Liberia in the first place. What did it matter, at this distance of time, that the expeditions first mounted in the 1820s, ostensibly by idealists, to recover the ancestral birthright of freedmen, had in fact been financed by the plantation owners, whose preoccupation was with preserving the Southern order that had been threatened, since 1808, by the interdiction of slave ships and by the manumissions that were taking place on American soil.[1] One could surely ignore the rather sordid economic considerations that had prompted the original voyages to the insalubrious "Pepper Coast," which no European power had seen fit to wrest from its warlike inhabitants.[2] And it was better to forget that the native Africans had refused to submit to the interlopers, who had subdued them in bloody conflicts that continued until 1915, and who had subjected them to the most degrading treatment—including slavery, forced labour, and deportation—up until the 1930s.

Rather than dwelling on this unsavoury past, political exigency led the leaders of newly-independent African states to make

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[1] The vehicle for this policy was a charitable organization, the American Colonization Society (ACS), founded in 1816 with the active support of James Monroe, who became President of the United States the following year and for whom the Liberian capital was duly named. The ACS financed and oversaw the voyages of thousands of freed slaves, beginning in 1821 and continuing at widely-spaced intervals down to the defeat of the Confederacy and the abolition of slavery in 1865.

[2] The first land was purchased from the chiefs of the Dei and Bassa in exchange for a box of pearls, two casks of tobacco, a barrel of gunpowder, six iron bars, six lengths of blue cloth, three pairs of shoes, a stock of rum, a dozen each of knives, forks and spoons, and ten cooking pots. Fighting between the newcomers, armed with muskets and cannon, and the tribes of the interior, armed with swords and spears, broke out shortly afterwards.

common cause with President Tubman in the interests of liberating the rest of the continent. As Africa's principal beneficiary under the "Point Four" program, he seemed well placed to act as an intercessor in obtaining development aid from Washington. In Western business circles, too, many believed that Liberia was the hot prospect south of the Sahara, a roped-off hunting-ground for American investment, but one in which the wolves of other nations were always keen to poach.

Did that widely-held attitude not grossly overinflate Liberia's prospects as a financial centre, though, especially when one took into account the political and tribal divisions that were endemic in this part of Africa?

Rancour in Conakry

That was certainly my impression as I hotfooted it out of Monrovia and made for Conakry in the spring of 1961. President Sékou Touré did not want me loitering in his country for long; Tubman would apparently have been so incensed if he had learned that I was sheltering there that he might have embargoed Guinea's exports of iron ore from their sector of the mine at Mount Nimba. The railway that Lamco had built ran exclusively on Liberian territory, and there was no other cost-effective way of reaching the coast.

On Conakry's deserted beach, I couldn't help but notice a man of sixty-something seated on the sand, wearing a city suit despite the blazing heat, and dictating, dictating interminably to a buxom secretary in a swimsuit who was lolling at his feet. He looked like that businessman in the advert who rings in from the desert to place an order for office equipment. Later the same evening, beneath the frangipani of the Hôtel de France, the famous Lee Edgar Detwiler, President Tubman's dupe, informed me that he, too, was stranded in Guinea while he waited for Tubman to grant him an audience.

The name was already familiar to me, as Detwiler featured frequently in the press, often referred to by his initials "LED." After amassing a considerable fortune stateside in the field of electricity distribution, this American engineer and financial promoter had roamed from one African capital to another, offering to supply the necessary technical and management expertise for them to develop their mineral resources. In 1953, LED had signed a concession agreement with the Liberian government and had set up the Liberian American Development Company, which later morphed into Lamco. By 1960, however, when the geological surveys that revealed the enormous iron deposits at Mount Nimba were complete, LED had lost his stake the company, having been outmanoeuvred by a Swedish syndicate.

How did that happen? The way LED presented it, he had left the project of his own free will ("I was fed up with wasting my time"). According to him, the only reason that the Swedish firms had originally bought into the venture, in 1954, was to delay it so that they could preserve their own monopoly for as long as possible. The cost of mining high-grade iron ores in Scandinavia was almost ten dollars per ton, whereas similar ores could be obtained in Liberia for around three dollars per ton. Hence the Swedes were determined to limit Lamco's production to a few million tons per annum, even though thirty million tons was easily achievable. They had admitted as much. When the Swedish investors had decided to pick a fight with him, LED had realized that he was better off out.

I could only press LED so far, that night in Conakry. He refused to make any explicit allegations of threats or conspiracy against the steelmaker Grängesbergsbolaget, the lead partner among the Swedish investors, or against its chief executive Bo Hammarskjöld, whose brother Dag had by then acquired a certain notoriety on account of his work for the UN. That, of course, was LED's prerogative. What he did tell me was that he had warned President Tubman about the dangers of getting into bed with the Swedes, but to no avail. Although Tubman was a very intelligent man, he was prone to engage in intrigues for their own sake, and he had a tendency to drop tried-and-tested associates when new candidates appeared who he assumed would be more generous towards him merely because they had deeper pockets. LED promised me, nevertheless, that he would reveal some shocking information concerning Tubman, if the President did not allow him to return to Liberia soon.

I never saw Detwiler again, and I can't be certain at what point his story shaded from fact into fantasy. Sometimes characterized by American journalists as a genius, but sometimes as a buffoon, LED had a brief moment in the international spotlight in July 1960, when Patrice Lumumba granted him exclusive rights to all of the mineral, riparian, and agricultural riches of the former Belgian Congo, including those of Katanga, which had declared itself independent. In return, LED had promised to raise two billion dollars, which he was sadly unable to do, no matter how hard he tried. The concession was revoked. It is thus difficult to explain, even now, why he would have relinquished his interest in Lamco voluntarily. After all, it was the only venture that he had launched in Africa that hadn't fallen flat, and, when production started at Mount Nimba shortly afterwards, the value of the company shot up by some 20,000 percent.

In a large open-air café in Conakry that hosted dancing on Saturdays, I encountered a third source who painted an even bleaker picture of President Tubman and his country than Detwiler or Sékou Touré had done. She was a young Fula barmaid with impeccable bearing, whose job was to promote consumption of the local beer, and, in between a tango and a fox-trot, to spout the latest slogans of the Guinean Democratic Party. Once I had refused this precocious girl of eighteen's demand that I help her choose the fabric for a pretty new dress later in the evening, she forgot about her private sector activities and devoted herself to political discourse. If I recall her exposition correctly, de Gaulle was an evil man, although your ordinary Frenchman was a good enough soul. As for the Liberians, they were all, without exception, "traitors to Negritude who fall into one of two camps: cannibals or shit-eaters; savages or apes."

Top hats and tom-toms

Savages? She should not have been so condescending! For it was not only in Monrovia, but in other West African capitals too, that the local newspapers printed stories about finding the remains of young boys whose "heart, genitals, and the skin from their forehead and hands" had supposedly been "eaten by crocodiles." Nor was it only in Liberia that women and little girls lived in fear of abduction by wise women who coveted their body parts for use as an ingredient in a much sought-after magic potion called *teni*, which was said to be an elixir for everything from fertility to the weather. And there were other jungles, besides those of the Liberian Hinterland, where secret societies (the Poro) inducted boys in the ways of men, and their female equivalent (the Sande) initiated girls into the arts of tattooing, beautification, and traditional medicine that would ready them for marriage.

President Tubman reserved the right to appoint the Grand Masters of the Poro, and thus retained some influence over this religio-legal fraternity, which, even in the towns, constituted a primary, universal, and compulsory education. Yet only the members of a particular tribe knew how to recognize their witchdoctor, the Zo, part priest and part physician, whose identity was never made known to outsiders; and even he was no more than a cipher for the "bush devil," the all-powerful chosen one anointed by the elders, who had to live and die without ever revealing himself.

Had the lawyers who layered one holding company over another, so as to obscure the interlinkage between parent firms and their subsidiaries, found inspiration in these elaborate conceits? Possibly, but most of the tribes, who spoke twenty-eight different languages, still administered justice through ordeal by fire, pepper, and poison. And while it was now a no-no to enslave these "aboriginals who live far from civilized villages" (as the official guidebook primly put it), that was a relatively recent reform. As late as the 1930s, the great-grandchildren of the original American settlers had still been selling their compatriots for twenty-five dollars a head to Spanish planters from the island of Fernando Po.[3]

One need hardly point out that these 20,000 or so descendants of manumitted slaves from the United States, who lorded it over more than a million indigenous people—these "Americo-Liberians," as they somewhat affectedly styled themselves—were not "apes," as the militant barmaid in the Conakry dance hall had offensively suggested. If they called to mind the "Bandar-logs" so memorably penned by Rudyard Kipling, that was not on account of any physical resemblance, but was a function of their immense self-importance and constant paranoia about being under-appreciated. They saw Liberia as a new United States that was filled with barbaric peoples of whom they were afraid. They were perhaps experiencing a paradox akin to that put forward by Pierre Moussa in his book *The USA and the Third World*, where he posits that white Americans, owing to tendencies buried deep in their subconscious minds, feel themselves to be closer to the indigenous people they annihilated than to their European ancestors.

In an analogous but inverted way, the Americo-Liberians identified with Southern gentlemen of the preceding century. They built wooden copies of their former masters' colonial mansions, complete with large verandas. They reconstructed the plantations

[3] Liberia's then Vice President, Allen Yancy, would have been impeached in the wake of the frightening revelations made by the Christy Commission, which submitted its report to the League of Nations in 1930, had it not been for the brilliant defence conducted by his attorney and cousin William Tubman. Yancy and President Charles King were both forced to resign, and it was not until 1947 that King re-entered the political fray, when he became Liberia's ambassador to Washington. He ended his career in Monrovia as legal counsel to the Firestone plantation, allowing him to capitalize on his longstanding connections with the Liberian political scene.

on which they themselves had no memory of having been slaves. The *Elizabeth* and the *Nautilus* were their *Mayflower*; and they had preserved the *droit du seigneur*, a dozen denominations of the protestant religion, and an electric chair imported from America, albeit not the electric current to make it work.

It somewhat tragic that, in this day and age, the Americo-Liberians tend to look down on African Americans as uncultured hooligans who could never rise to their level, while at the same time abhorring most white people as degenerates who ought to treat them with more respect. The Americo-Liberians believe that they have much to teach both of those groups, and about standards first, oh yes! Polite society in Monrovia has not caught on to the salacious syncopated rhythms of jazz. Here they dance quadrilles, waltzes, the “square dances” of Virginia. The Americo-Liberians have *class*.

Professor René Dumont has called attention to the present fashion for African politicians and civil servants to wear a jacket and tie, remarking that it is a neat symbol for the enigmas of decolonization. In Liberia, however, that would be considered thoroughly slovenly! There, a morning coat is *de rigueur*, with a waistcoat and a grey or black top hat, depending on the circumstances and on your social standing. “Top hats” coexist alongside “tom-toms,” as in the title of the classic book by Elizabeth Dearmin Furbay. An Americo-Liberian gentleman would feel dishonoured if his wife was unable to attend a ball wearing elbow-length gloves. For these men are the ruling class here. They are not in industry, they are not in trade, they do not work, but they govern. No foreigner may own land in Liberia, hence they, and they alone, have the power to grant leases, dues, and concessions. In short, they are respectable; and the Liberian police are there to ensure that they are respected.

I am sure in my own mind that these policemen are above harassing foreigners just to make a few bucks. No, I think that when a judge imposes a sixty-five-dollar fine on a European who was arrested for some minor infraction the previous day and who now has the barefaced cheek to appear before his nibs in a grubby shirt, he believes that he is acting in the defence of the national honour. And when President Tubman's outriders fire at motorists who dare to overtake his white Cadillac, or when his sentries fine pedestrians foolish enough to walk past his official residence carrying firewood, they, too, are animated by the same warped fixation with dignity.

President Tubman is the incarnation of the Americo-Liberian cult, in that he personifies their inward dream, their private America. Anyone who insults him, however unintentionally, risks calling into question their existence, their privileges, even, one is tempted to say, their soul. How else does one explain weird incidents such as the following, which cannot be attributed to mere venality. In September 1964, a Dutch pilot was arrested, imprisoned, and knocked about for three days. His crime? To have inadvertently trodden on the red carpet that had been laid out in front of his hotel for some guests that Tubman was due to receive. Thus do the Americo-Liberians work off their angst at being taken for "uncivilized" people (which is the term that, by presidential decree, is now used in place of the word "native," in the same way that politically correct economists refer to poverty in America as "underprivilege"). Yet even extreme measures such as these did not suffice to exorcize their demons.

Disintegration of the Europeans

Liberia's prospects of becoming a proper tax haven were handicapped by the complete sense of demoralization that seemed to afflict the white population there. That by itself is enough, in fact, to explain the country's abject failure to become a financial hub for business in Africa. Europeans went to pieces in the heat and humidity of Monrovia, which reduced pianos to heaps of wood pulp within a few months and cardboard boxes to papier mâché in a matter of days. But the worst thing was the lack of financial privacy.

This was brought home to me when I met with a senior executive of a well-known bank that had cornered the local lending market in Monrovia about fourteen years earlier. He received me slouched in an armchair, his feet on the table, eyes half-shut. Wearily he gestured to me to sit down, and the interview began. What did he think of Liberian banking law? Fine: banks in Liberia did not have to deduct tax from interest they paid. What about the tax system? At worst, you'd pay twenty-three percent on your income, but you could fix that easily enough. How about taxes on holding companies that didn't conduct any business locally? Next to nothing.

I then tried to get him to tell me if it was true that, for the past decade, the head honcho of the illicit gemstone trade in Monrovia had been Simon Simonovitch, a Russian, who bought industrial diamonds smuggled in from Guinea and Sierra Leone by Senegalese, Malian, and Lebanese couriers, before dispatching them via Beirut to the Eastern Bloc. I also enquired whether I was correctly informed that Simonovitch was a boon companion of

President Tubman, who saw fit to ignore the numerous warnings that he received on this front from the American ambassador. To my first question, the banker's answer was "yes"; to the second his response was "no," because Simon Simonovitch was dead.

Noticing that I was disconcerted by his rather curt attitude, my interviewee yelled through to an outer office for Simon Simonovitch's file to be brought in and handed it to me. I browsed through it then and there, while he amused himself by drawing obscene doodles. Leafing through sheaves of credit transfers in favour of Swiss and Lebanese banks, I came across a will in which Simon Simonovitch devolved upon his brother, Ghom, the responsibility for protecting the interests of his two infant sons. Next I found a letter from William Tubman's private secretary stating that the President, profoundly distressed by the death of his friend, had decided to look after the dear little ones by appointing a trusted executor to manage all of the continuing affairs of the unfortunate deceased. Reading this, it dawned upon me, for one thing, how dangerous it could be for a foreign corporation to leave its Liberia representative in post for a protracted period of time. The major groups don't make that mistake, as far as I know.

As you can imagine, those who moved in European business circles in Monrovia pretty soon lost their optimism and their vim. I had proof of this during a reception hosted by the Dean of the Diplomatic Corps, where most of the talk was devoted to backbiting and cautionary tales. People got ill: you couldn't take a drink of water without boiling it first. Many of the dollars circulating in Liberia were counterfeit, and the "diamonds" that various characters who hung around the hotel would offer to sell you on the cheap, claiming to have got them from their cousins who were prospectors in the bush, were almost always fakes imported from Germany. Other auguries abounded. You didn’t want to become one of those jumpy types who starts loosing off pistol shots when he hears the slightest noise at night, but it was certainly advisable to triple-lock your door, and, above all, to pay your nightwatchman better than the would-be robbers (who were as prolific in the city as processionary ants were in the Hinterland). They would undiscerningly pinch republican busts, slippers, jewellery; anything that would serve to embellish their corrugated iron shacks on stilts, which were surrounded by trash-strewn yards. Even down the Champs-Elysées of Monrovia, Ashmun Street and Broad Street, this kind of dwelling was still interspersed with the modern houses and apartment blocks, some of which were so jerry-built that three years’ worth of extortionate rents would easily pay off the construction costs.

Adventurers give way to conglomerates

At the end of the day, however, in spite of all these inconveniences, plenty of people came to Liberia to seek their fortune! Perhaps you had to be an adventurer to succeed. I thought that I had better ask the most prominent Frenchman in the country, old man Picot, to share his wisdom. This guy used to be a butcher in La Villette, and he wasn’t too fussy about who his customers were, otherwise he wouldn’t have skipped France at the end of the war with a ten-million-franc fine hanging over his head. He took up his former trade again in Monrovia, where he was jailed for selling tainted meat to an American firm, but he had enough stashed away to buy his way out, and was now making a go of it in a new career. He ran a bistro called La Bohême, where he always held a few tables back for high-ranking locals, and kept some private rooms in which his friends could wait out any bothersome visits from the police. Old man Picot was above suspicion, or, at any rate, was believed to have friends in high places. He knew how to put up a fight in a tight corner, and his technique for getting rid of unwelcome guests was legendary.

I had an early demonstration of this aptitude when he swiftly dispatched the deputy military attaché of a francophone nation, who had given me a lift up there, clearly hoping to stop awhile in order to indulge his professional taste for gossip. This whippersnapper didn't last two questions from the master of the house. Did he know that the wife of the ambassador of said francophone nation had been trying forever to make an appointment with her hairdresser? Well she wouldn't get one, because she never tipped him enough. And had he heard that the deputy military attaché—a nice boy, he was told—had picked up a girl of just thirteen outside the Pepper Bird the other night? Apparently she had that baby's puke smell that comes from never eating anything other than cassava, so he had told his servants to bathe her regularly and feed her plenty of meat.

My unfortunate companion got the hint; he could hardly leave quickly enough. Old man Picot sat me down with some Beaujolais and a camembert and told me quite categorically that President Tubman wasn't kidding when he claimed that Liberia had an "open door" policy. Anyone who had gone AWOL for one reason or another would find a warm welcome here. It wasn't Tubman's fault if hardly any of them stayed the course, if they squandered their nest-eggs, kicked the bucket, or cut and ran. Journalists were talking out of their backsides when they portrayed Liberia as a hotbed of deplorables. Deserters from the Foreign Legion, fugitive SS men, white Russians, mysterious Romanians, they'd all been there at one time or another, but none of them had liked it enough to stay. Nowadays he only got small fry passing through, like that Portuguese chap who was slumped over the bar, grinning at us inanely.

This individual had been the paymaster of an American base near Bordeaux, until he absconded with 150,000 dollars. The United States called for his extradition. He had promptly declared that he was a political refugee who would only return if the Portuguese ambassador agreed to debate with him in public concerning the plight of black Africans in Angola. By thus elevating himself into something of a national hero, he had managed to avoid justice, because the Americans didn't want to come across as too angry or insistent. But there was no longer much in Liberia for a solitary buccaneer, unless you were talking about diamonds, in which case it was easier, not to mention a lot more lucrative, to work for the Lebanese. Henceforth, Picot said, the era of the sole proprietor was over, for the country was already dominated by multinational groups and conglomerates.

I fear that old man Picot found his thesis corroborated when I declined to accept any more of his generous hospitality and insisted that I must return to my hotel, the Ducor, an overpriced palace that would not look out of place in Nice, where the bell-hops, lift attendants, waiters, and chambermaids appeared to be constantly engaged in a cut-throat competition for tips. These poor souls were paid between thirty-five and fifty cents per day, and the government made sure that they did not ask for anything more. The local investors in this 3.2-million-dollar project were people "close," to use the time-honoured euphemism, to President Tubman. A quarter of the funding came from Chase Manhattan Bank, and much of the remainder from a holding company that the Israeli architect Moshe Mayer had established in Geneva called Mafit Trust Corporation Limited.

President Tubman was determined that the investment outlay should be recouped in just three years and that the hotel should turn a profit thereafter, so he greased the wheels with a couple of unconventional expedients. First, he allowed a million dollars' worth of "essential construction materials" to be imported tax free, including, unaccountably, a significant quantity of malt whisky. Secondly, a few days before the grand opening, he passed a law freezing the wages of the hotel staff. In September 1961, the Ducor's employees went on strike, bringing 15,000 protesters into the streets of Monrovia. Tubman used police to disperse the crowd, and, while he was at it, instituted a state of emergency to guard against "attempted subversion from abroad." Ten days later he pointed the finger at a senior Ghanaian diplomat, whom he kicked out of the country. Finally, to cap things off, he revealed the existence of a "Soviet plot," whose ringleaders, thankfully, he was able to round up within forty-eight hours.

Was the civil order compromised in Liberia? No, it was not. There were no further strikes for another five years, and when protests did break out in 1966 after layoffs in the rubber plantations and hematite mines of the interior, they were swiftly and brutally suppressed by the Liberian National Guard.

The National Guard has a strength of 3,500 men, and President Tubman knows that he need never hesitate to call upon it. That is less because it is under the leadership of his brother, Alex, and more because he has been steadily enlarging the irregular militia forces for two decades now, so as to provide a counterbalance to the full-time guardsmen.[4]

Ubu is not king

Tubman, who has been President of Liberia since 1944, holds the keys to his kingdom firmly in his hand. Originally elected for an eight-year term, he has since increased his majority in elections held every four years. He actually helped to bankroll his opponent's candidacy in the most recent contested election in 1959; and he may even have been one of the mere fifty-five people to vote for this no-hoper, who campaigned with the slogan: "I may not be an angel, but I am the lesser of two evils, a long, long, long way behind President Tubman."

The President, in the sycophantic words of one Liberian newspaper, is "our nation's lodestar." Born into the higher echelons of the Americo-Liberian elite, the son of a former Speaker of the House, he can prove that his ancestors arrived from the United States in 1837. Reputed to possess indigenous blood on his mother's side, Tubman at some stage assumed the middle name "Vacanarat" as a sop to the tribes of the interior, and he defeated

[4] Another notable Tubman family placeman is the President's son, William "Shad" Junior, who was formerly head of Liberia's Congress of Industrial Organizations.

his predecessor, Barclay, partly by advocating a more conciliatory stance towards the natives. As well as being the nominal head of the Poro, he is the country's premier freemason and also controls the appointment of bishops.

Tubman's party, the True Whig Party, has a complete monopoly of political power. All of those employed by the state have to donate two weeks' salary to party funds every year, and a month's salary in an election year. He is a specialist in divide-and-rule, cultivating the support of the indigenous people against the Americo-Liberian aristocracy and vice versa. He is popular with women, reportedly attributing his early election victories to his capacity to mobilize the female vote.

Tubman is fond of cigars, good whisky, good living, and, above all, practical jokes. When he wishes to visit his mistress of an evening, he shuts off all of the streetlamps in the capital, which naturally has the city's chattering classes in hoots over his sense of decorum. Conversely, when he visits his favourite haunt, the Saturday Afternoon Club, to mingle with the forty or so of his countrymen who are rich enough to pay its 700-dollar annual fee, the blue and white towers of its grandiose clubhouse are stunningly illuminated.

President Tubman is also the most important businessman in Liberia. Stakhanovite in his working practices, he crunches accounts as keenly as he consumes police intelligence reports, and he used to tackle his legal briefs with the same alacrity. He alone has the right to sign off on every government disbursement above a certain figure, variously estimated at between two hundred and a thousand dollars. We may assume that his control is even stricter when it comes to receipts.

Is Tubman some kind of African Ubu, then? Definitely not. He doesn't rampage around making heads roll, and nor does he wield the "pump of phynance" to the same degree. His needs are few: a presidential palace to live in, a 463-ton yacht,[5] cocoa and rubber plantations, a zoo, a salary that equates to six percent of the national income. That will do him nicely.

When he does disburse money (another difference from Ubu), Tubman spreads it widely. Some goes to selected Americo-Liberian cronies whom he keeps in thrall with a constant stream of stipends running from free use of government cars, to the grant of commercial monopolies, to a distinctive Liberian take on the "tax holiday": the President can declare that such-and-such a person is exempt from it for a year or two.

Larger sums of government largesse go towards economic development, a campaign into which foreign corporations are willingly drafted, since the conditions are deliberately tailored to suit them. Although he is much less financially demanding than the governments of larger states, President Tubman is skilful when it comes to raising the bidding between firms. Thus, while his fledgling nation was for many years the quasi-fiefdom of a single company, that is no longer the case today. Tubman "got Liberia out of the woods" (if that is not too incongruous an expression, given that about eighty-five percent of the population still lives in them) by making a series of advantageous moves that capitalized upon competition among interested firms that he had himself been instrumental in fostering.

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[5] The flagship of Liberia's navy, this vessel is kept permanently at the ready so that she can quickly weigh anchor if that is ever found necessary.

First came the era of Firestone alone. In 1926, Harvey Firestone obtained a ninety-nine-year lease of up to one million acres, around 3.6 percent of Liberia's entire territory, at a rent of six cents per acre under cultivation.[6] As part of the same deal, a Firestone subsidiary lent the Liberian government five million dollars, repayable over forty years at an interest rate of seven percent and secured on the country's tax revenues.[7] Before World War II, the Harbel plantation—"Har" as in Harvey, "Bel" as in his wife Idabelle—was the only place in the interior of the country where native workers could participate in the money economy. It employed more than 20,000 people, paying them around twenty-five cents a day each. By the end of the war, almost 40,000 acres were in cultivation producing 20,000 tons of rubber, a fifth of all Allied military requirements. Harbel formed a closed universe separate from the rest of the country, with its own police, aerodrome, schools, time zone, and unparalleled access to the outside world. Indeed, the Liberian government found that the most efficient way to communicate with Washington was via Firestone's head office in Akron, Ohio.

The second phase commenced in 1942, when 5,000 U.S. troops landed in Monrovia to help secure the South Atlantic sea routes. The city's inhabitants were dazzled by the sight of the GIs' arsenal, consisting of matches, pencils, pens, packets of chewing-gum, cigarettes, and, most coveted of all, wristwatches. Their presence was far more revolutionary than anyone seems to have appreciated at the time. Tubman, a wily lawyer in the mould of Laval, also

[6] One acre is equivalent to 0.4 hectares.
[7] Only half of the loan was drawn down and, of that half, more than fifty percent was hypothecated to the repayment of existing debts.

experienced something of a revelation, namely that other companies were out there and that they were not afraid of Firestone. Provide them with suitable incentives, and they could act as a counterweight to the overlords of Harbel.

Pursuant to the same insight, in 1944 Tubman persuaded Firestone to distribute free rubber trees to a few hundred Americo-Liberians, so that they could set up their own plantations. By 1951, these farms were collectively producing 2,000 tons of rubber in their own right, with an export value of 2.3 million dollars. It was in the latter year, also, that Tubman enacted Liberia's first income tax. This meant that Harbel was obliged to pay twelve percent on its profits instead of the one percent export duty that had been in place since the 1920s. By 1952, the nation's finances were in good enough shape for the government to repay its remaining indebtedness to Firestone, fifteen years before the final maturity of the loan. The following year they raised the income tax rate to twenty-five percent, without provoking too much hissing.

The Bank of Monrovia (which acts as the government's fiscal depository) ceased to be a Firestone subsidiary in 1955, when it was taken over by First National City Bank of New York. In 1954, meanwhile, Tubman had sufficient self-confidence to negotiate a big rubber concession with Firestone's competitor, B.F. Goodrich. That has not slowed the growth of Harbel's own production, which reached 40,000 tons in 1966, from some 75,000 cultivated acres. Firestone continues to expand the cultivated area by around 1,000 acres every year.[8]

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[8] The Firestone concession envisaged payment of rents on the basis of "cultivated acreage," and this lease has been one of the most profitable in global business history. It enabled American tyre manufacturers to break the

Stettinius loses a bet and his life

Edward Stettinius, who was there at the outset of Liberia's journey towards prosperity in the late 1940s, believed himself to be a man of destiny. Before his untimely death from a heart attack at the age of forty-nine, he tried to turn the country into his personal realm. The son of one of J.P. Morgan's business partners, Stettinius was born in 1900, five years after William Tubman. Their careers paralleled one another, in that each achieved success early: Tubman was a Senator by the time he was twenty-eight and became President at the age of forty-nine; Stettinius was appointed vice president of General Motors aged thirty-one, chairman of U.S. Steel at thirty-eight, and Secretary of State at forty-five. He had as much influence in the White House and at the heart of the Democratic Party as any businessman, and he never asked for more than the proverbial dollar-a-year as the price of his public service. The young scouts whom he sent to Monrovia brought back exciting reports of Liberia's potential. In their assessment, the country was a barbarous Eldorado, containing rubber trees 200 feet tall, streams choked with nuggets of gold, abundant iron deposits, and—although this last prediction proved to be incorrect—the promise of oil.

By 1947, when he decided to stake both his career and his fortune on getting hold of Liberia, Stettinius was already involved in one of the hardest-nosed, best connected, and most secretive

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price-fixing cartel operated by the club of British producers, which, in 1925, had an effective monopoly on Asian rubber production. The cartel had succeeded in raising the price of rubber to one dollar and twenty cents per pound (which is six times its prevailing price forty years later).

business organizations to emerge from the war, namely World Commerce Corporation (WCC).[9] Chartered in Panama, WCC's basic remit was to scour developing countries for the raw materials that were needed for American industrial supremacy. Due to the global dollar shortage, it was sometimes necessary to facilitate the exploitation of these resources by means of convoluted barter transactions, and WCC succeeded in putting together a formidable network of international relationships in the period prior to the return of convertible currencies in 1958.

The Republic of Liberia celebrated its centenary in July 1947, and one American guest at the festivities was Sidney de la Rue,

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[9] Stettinius's membership of WCC reunited him with numerous associates who had cooperated closely for the purpose of furthering the Allied war effort, including but not necessarily limited to the following:

- Joseph Grew, who served as Stettinius's Under Secretary of State;
- Major-General William J. Donovan, head of the Office of Strategic Services (OSS);
- the Canadian tycoon Sir William Stephenson, chairman of the Pressed Steel Company, who was in charge of Britain's intelligence activities in the United States during the war and handled the liaison between OSS and its British counterpart the Special Operations Executive (SOE);
- James D. Mooney, president of Willys-Overland Motors;
- Boyd Hatch, vice president of Atlas Corporation;
- the Mellons of Pittsburgh;
- Transamerica Corporation, owner of Bank of America;
- the Wall Street investment bank Glore Forgan;
- the British merchant bank Robert Benson & Co, whose director Mark Turner was, from 1939, a senior figure in the Ministry of Economic Warfare, responsible for "economic intelligence"; and
- Hambros Bank, whose remarkable chairman Sir Charles Hambro became chief of SOE in May 1942, having previously headed its Scandinavian operation.

For more information about the role of the British figures mentioned here, it is worth referring to E.H. Cookridge, *Inside SOE* (London: Barker, 1966).

who had served as financial adviser to the Liberian government in the 1920s.[10] Acting on behalf of Stettinius Associates, de la Rue persuaded President Tubman to sign a formal charter granting an eighty-year monopoly over all of the country's resources other than rubber. The charter was to be administered by the Liberia Company, a joint venture with three investors: the Liberian government; the Liberian Foundation, Inc (which was supposedly dedicated to "the improvement of the health, education, and training of Liberians"); and a new entity based in the State of Delaware called the Liberian Development Corporation, owned by Stettinius and some of his associates (notably Joseph Grew and Philip Reed, the chairman of General Electric).[11] The company commenced feasibility studies and other preparations at the end of 1947.

Barely two years elapsed before Stettinius succumbed to overwork. By then, he must have been almost as disheartened as the former U.S. Secretary of Defense, James Forrestal, for his backers had gradually deserted him and the Liberia Company was on the verge of insolvency. Stettinius had underestimated the scale of the task ahead, and had bitten off more than he could chew. Too many things had been lacking: a realistic schedule of works, a road system to enable logging in the forests, the right kind of know-how, and the cooperation of Firestone and the six other large American firms that together controlled the free port of

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[10] De la Rue left Liberia to become financial adviser to Haiti in 1928. He was employed by the U.S. State Department during the war, before becoming senior vice president of the Liberia Company.

[11] The government held twenty-five percent of the Liberia Company's stock, the Liberian Foundation held ten percent, and the Liberian Development Corporation held the remainder.

Monrovia—which had been built using lend-lease funds—for as long as the loan remained outstanding. Liberia broke Stettinius as surely as Panama defeated Ferdinand de Lesseps, albeit without the attendant scandal.[12]

President Tubman was not unduly concerned, because Liberia was about to enter the Iron Age. Through the medium of Colonel Lansdell K. Christie, Tubman had managed to secure investment from Republic Steel, the third-largest steelmaker in the United States. Christie was no boy wonder, and he hadn't been born with a silver spoon in his mouth. He was a U.S. army engineer with good technical knowledge and just enough capital behind him, who was driven forward like some character from Conrad by a fanatical impulse to complete any project that he embarked upon. Posted to Liberia during the war, he had realized that there must be significant iron deposits there, as aircraft instruments went haywire when flying over the interior of the country, even at fairly high altitude. As the war drew to a close, Christie set off on foot to search for these ores, and it wasn't long before he found them.

In those days there were no draft animals in Liberia, on account of the tsetse fly, and no roads. In the Hinterland, wagons, barrows, and even the wheel were unknown. Christie crossed three major rivers and fought his way through forests and swamps where, according to local legend, you had to watch out for the Mokele-mbembe, a kind of dinosaur thirty feet long, never yet sighted by

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[12] After Stettinius's death in 1949, his brother-in-law Juan Trippe (the founder of Pan American Airways) took over the Liberia Company and renegotiated its remit, so as to limit the potential for conflict with the firms managing the port. The company still exists, but its sphere of operations is much reduced: it is expressly prohibited, for example, from mining for iron ore.

the white man. After seventy exhausting kilometres, he reached the Bomi Hills, where massive cliff-faces of iron zigzagged across the landscape. The quality of the ores here was in the region of sixty-seven percent, the purest in the world, including anywhere else in Liberia. On his return to Monrovia in August 1945, Christie obtained a concession from Tubman and formed the Liberia Mining Company (LMC). He needed a lot more capital to bring the scheme to fruition, and he eventually found sufficient funds in 1949, when Republic Steel bought a fifty-five percent stake in LMC.[13] The Liberian government has no equity in the venture, but is entitled to fifty percent of the net profits by way of income tax.[14] LMC shipped its first exports of iron ore in 1951, and now produces almost three million tons per annum.

Three further substantial deposits of iron ore were discovered in the mid-1950s, leading to a scramble among prospective investors. The first was at Mano River, where Tubman drew upon his prior knowledge of the somewhat fraught relations between Colonel Christie and Republic Steel to cut a more advantageous deal. He offered LMC just fifteen percent of the equity in the National Iron Ore Company (NIOC), formed in 1958 to manage the concession, while fifty percent would be held by the Liberian government directly. The remaining thirty-five percent went to a new investment fund, Liberian Enterprises Ltd (LEL), which is

[13] Stettinius's Liberia Company acquired a seven percent holding in LMC for 250,000 dollars in 1948. Republic Steel increased its share to 61.57 percent in 1951.

[14] The original concession provided for a royalty of only five cents per ton, but this was renegotiated in 1952 in favour of twenty-five percent income tax for the first five years of operations, thirty-five percent for the next ten years, and fifty percent thereafter.

owned by various private citizens from Liberia and the United States.[15]

President Tubman did not allow this success to go to his head. By then he understood that, to attract the requisite capital to allow his country's mining industry to reach its full potential, he had to adapt the government's demands depending on the nature of the project and the relative power of the foreign firms he was dealing with. Hence, Tubman requested and received fifty percent of the equity in the Deutsche Liberian Mining Company (Delimco), to which he awarded the Bong Range concession in 1958.[16] But the government accepted a smaller stake, just 37.5 percent, in the Lamco joint venture that was set up in 1960 to extract the treasure trove of high-grade ore from Mount Nimba, more difficult to reach as it lies 300 kilometres from the coast. By 1967 the Swedish steelmakers, who own twenty-eight percent, and Bethlehem Steel, which has twenty-five percent, had invested a total of 275 million dollars in the Nimba project.[17]

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[15] Christie established LEL in order to encourage Liberian participation in NIOC. Small investors could borrow eighty percent of the subscription price for the shares, with the loan being repayable out of NIOC's future profits.

[16] The remainder of the Delimco equity is owned by a syndicate of German steelmakers based in the Ruhr (33.75 percent) and by the Italian group Finsinder (16.25 percent). The Bong Range is situated approximately 100 kilometres from Monrovia and contains an estimated 400 million tons of iron ore.

[17] Nimba produced around eight million tons of ore in 1965 and is expected to reach ten million tons by 1968, a comparatively modest rate of growth. Grängesbergsbolaget is the largest of the Swedish investors, with fifteen percent, and also owns the operating company that is managing the project. Gränges and the other Swedish firms pool their interest in Lamco via a holding company called Liberian Iron Ore Ltd, headed by the eminent Scandinavian banker Marc Wallenberg.

For the major purchasers of Liberian iron ore—including Germany, the United States, Italy, Britain, Holland, Belgium, and Sweden—it is very important that the country should remain stable, that William Tubman should preserve his status, and, in due course, that he should be succeeded by someone who will continue with his accommodating policy. To the steelmakers of the industrialized world, Liberia simply represents a monumental lump of iron, and its rulers deserve mollycoddling just as much as the sheikhs, emirs, and kings of the Middle East who control the world's largest known oil reserves.

Anticlimax of the Iron Age

Given the abundance of its natural resources, the Liberian state earns a lot less in cash terms than you might expect. From exports of iron ore valued in 1965 at 113 million dollars, only twelve million dollars was paid in taxes and royalties, contributing twenty-five percent of the national budget. The country's main source of income is still customs duty, which brings in more than either the shipping register or the relatively low effective tax rate on income and profits.

The government does like to spend, on the other hand, and well beyond its means. Liberia is weighed down with debt owed to institutions like the Export-Import Bank of Washington and to numerous foreign corporations.[18] However dependable Tubman's

[18] At one time, the Liberian government reportedly owed twenty million dollars to a single company, Liberian Construction Corporation, which is part of the Moshe Mayer group. Mayer built several buildings in Monrovia,

reputation is, his country now appears to be fighting a losing battle to encourage multinationals to set up shop there. The tax system may be somewhat elastic, but it doesn't seem to be predictable enough for foreign companies to be comfortable with using Monrovia as a base for doing business in neighbouring countries, at least not to the extent that the government can rely on them as a source of income. Liberia is going to need a much more diverse economic base to keep her working-age population occupied, especially when the iron ore mines are fully up and running and there is no longer employment for people on giant construction projects. She will need to raise more revenue from a broader tax base. Will the country be able to hold on to the cachet that is currently associated with its flag, but that even the shortest of stays on dry land serves to dissipate?

President Tubman is the "Father Divine" of a divided nation, which, in the main, admires him and recognizes him as one of its own. Simultaneously a miracle worker and a practical joker, a promoter of the national interest as well as his own self-interest, straightforward in politics but sharp in business, libidinous without being insatiable, a fox as opposed to a megalomaniac, he is a genial tyrant at the height of his powers. But what will become of Liberia when it is no longer "Tubman Land"? The risk is that there will be too many fallen angels tired of playing second fiddle, a surfeit of

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including the new Executive Mansion, on the basis of "prefinancing" arrangements, i.e. on tick. Had it not been for the intervention of the U.S. government and the IMF, the country's excessive debts would have led to a serious economic and social crisis in 1963. The Americans facilitated the rescheduling of Liberia's main obligations over a fifteen-year period, while the Fund entered into a stand-by arrangement on condition that the government ceased to fund capital expenditure with short-term borrowing.

potential heirs whose internecine rivalry he has done little to discourage. When Tubman is gone, there is scope for both ancient tribal hatreds, and clan factionalism among the settler class, to get out of hand. That could lead to a loss of faith on the part of foreign investors, and might in fact trigger an exodus, yet it is hard to predict what the future holds. We may be moving towards a period of destructive conflagration, or it may be that new business opportunities arise as Tubman's grip loosens.

Western firms tend to be bureaucratic and slow to adapt to political change, but Lebanese businessmen already have a spider's web extending from the capital into the Hinterland, where they are mixed up in all kinds of goings-on. It is at least conceivable that, at some point in the future, they will constitute the country's only functioning commercial infrastructure.

The slightest disturbance could be enough to divert this country from the offshore course that the government and the legal profession have been attempting to chart for her. Poverty and superstition may well compel her to renounce her terrestrial ambitions. I rather doubt that Liberia has a future as a tax haven, other than in a maritime sense.

On the country's already crowded coat of arms, alongside the palm tree, the plough, and the enormous ship lurking ominously off the coast, there ought to be an additional image. No, not tom-toms and top hats, which are now a bit out of date, nor the Liberian frog that moos like a cow, but a native bird called the turaco. Blue and red, its colours sparkle in the sun, yet as soon as it rains, they vanish. If you wash a turaco, you are left with nothing but purple-coloured water and a pale, bedraggled, and unattractive bird.

Within a few days, however, by some strange wonder of nature, they regain their sumptuous plumage.

Liberia could be a turaco. And no one, William Tubman included, knows whether she will get lost in the African forests, like those emissaries from Dixie of the last century, who arrived under the banner of the American Colonization Society; or even be captured by some Papageno come from abroad, perhaps from Beirut.

4. Risky safes

The most dangerous of our calculations
are those we call illusions.

Dialogues of the Carmelites
GEORGES BERNANOS

Of all the Arab states, Lebanon is the most open, diverse, sophisticated and welcoming, the richest in ethnicities, religions, and cultures. As much as the country is wedded to its vocation as a tax haven, however, its days as a significant financial centre are now clearly numbered. To any foreign observer, that much is obvious, but few will admit it in Beirut.

Historians may conclude that Lebanon became a financial haven as a result of the first Arab-Israeli war, and ceased to be one because of the third Arab-Israeli war, but that strikes me as too glib. There is no doubt that the birth, followed immediately by the boycott of the State of Israel handed Beirut two big opportunities: first, as a conduit for Iraq's and Syria's trade with the outside world, replacing the port of Haifa; and secondly as a convenient HQ for western multinationals, who were keen to do business throughout the region but wanted to avoid treading on any political banana skins. Undeniably, the arrival of the Palestinian refugees in 1948 was the crucial event that provided Lebanon with the capital, both human and financial, to become "the Switzerland of the Middle East." It would be a mistake, on the other hand, to attribute the waning of the country's fortunes predominantly to the war of 1967.

I say this because at the height of the conflict in June of that year, Beirut was almost implausibly calm. There was an afternoon or two of casual rioting, an incident of arson at the Coca-Cola factory, and a few dozen windows smashed in here and there, but that was about it. The pre-emptive measures that were taken by the government were remarkably effective. These included deploying the army, imposing a twenty-two-hour curfew for five days, censoring the press, and shutting the schools and universities for an early holiday. Moreover, the financial restrictions that were imposed at the same time—such as closing the banks from 5 to 12 June, and limiting withdrawals to a thousand Lebanese lire per person from 12 to 21 June—were not unduly resented.[1] In fact they were generally acknowledged to be the best method of discouraging panic buying, by housewives and speculators alike.

Yet as far as the international financial community was concerned, the death knell had already sounded for the Lebanese banking industry nine months before the 1967 war. Between 15 and 20 October 1966, there had been a moratorium on withdrawals in Lebanon due to the collapse of Intrabank, an affair that reverberated beyond the country of its origin in a way that bore comparison with the downfall of Ivar Kreuger some thirty-five years earlier.

[1] A thousand Lebanese lire is equivalent to approximately 1,500 new francs. These restrictions were gradually lifted over the next five days.

Intrabank's founder and chief executive, Yousef Beidas, had been regarded as practically a demigod, Lebanon's sole exhibit in a financial hall of heroes where David Rockefeller, Henry Ford, and John Paul Getty symbolized the United States; Krupp and Thyssen were there on behalf of Germany; Onassis and Niarchos represented Greece; and the Rothschilds, if somewhat inaccurately, stood for France. Beidas controlled the Port Authority of Beirut, the Lebanon Real Estate Investment Trust, and Middle East Airlines (MEA). He had portfolio holdings in numerous important companies like Radio-Orient. Before it filed for insolvency, his bank held twenty percent of the country's deposits, some 600 million lire, equivalent to all of the paper money then circulating in the country.

Even once he had fled to Brazil, one of the few places that does not have extradition treaties with the rest of the world, Yousef Beidas retained a certain mystique. In January 1967, for example, the American magazine *Life* sent someone down there specially to get his side of the story. Beidas's take on events was apparently that all of the leading politicians, civil servants, and bankers in Lebanon were "bastards and swine!" The demise of Intrabank "was all a well-planned conspiracy," he claimed, organized by "people who hate the sight of me, like Pierre Edde—do you realize, he taught his parrot to say 'down with Beidas!'—and a lot of crooks whose palms I refused to grease, including the Prime Minister, Abdallah Yafi."

Scandal in Lebanon

If there was an element of *schadenfreude* in the way that the Lebanese press blithely reprinted these remarks, they actually seemed fairly tame when you read the full transcript of the interview! This document, at once arrogant, venomous, and pitiful, was distributed samizdat-fashion in Beirut. Forty-eight hours after I arrived there in the spring of 1967, I found that a copy had been placed anonymously in my pigeonhole at the St George Hotel.[2]

Beidas argued that he had paid a heavy price for refusing to donate 300,000 lire to Yafi's campaign funds in early 1966. He also alleged that the Sunni MP Saeb Salam had demanded a loan of three million lire, which Beidas had turned down, and was now threatening to assassinate him if he returned to Beirut, even though he had provided employment for dozens of Salam's relatives over the years. Sami Choucair held a long-term grudge against him, which stemmed from the fact that he had beaten him to the chairmanship of the Port Authority. The American billionaire Daniel Ludwig, who controlled Lebanese International Airways, was desperate to get his hands on Intrabank's majority stake in MEA, which Beidas had been unwilling to sell, even after Ludwig offered him a two-million-dollar backhander. Ludwig had then pressured Chase Manhattan to divest from Intrabank, and Chase had complied because they were afraid of losing Ludwig's business, which kept them ahead of First National City Bank in the financial pecking order. As for the mandarin class, Beidas believed that they envied him for wielding more power than they did. Joseph Oughourlian, the deputy governor of the Bank of Lebanon (BDL),

[2] One gained the impression that Beidas was essentially being candid, although there was a rather mealy-mouthed allusion to a trip that he made to The Bahamas immediately after Intrabank's collapse, presumably to confer with a certain American millionaire and tax expert who had previously set up a Nassau holding company on his behalf.

had once asked him straight out: "What business have you got investing so much money in our country? Nobody asked you to."

The people Yousef Beidas named are certainly well known, and some are quite well respected. Joseph Oughourlian's reputation for probity is famous. Saeb Salam has been Prime Minister four times, and he still has the capacity to mobilize the Arab street. Sami Choucair is one of the most prominent financiers in the Middle East, with decades of experience in Beirut's banking sector. Pierre Edde, the son of the former President, was previously finance minister and is currently in charge of the Lebanese Bankers Association. He is one of the few people in the country with the stamp of a statesman. Even so, when supporters of Beidas—and one found plenty of people still willing to identify as such—argued that his enemies were motivated by sordid aims of greed or revenge, their words were not exactly hard to believe in the temperate moral climate of Beirut, where the high-ups took pride in the fact that nothing could either faze or disgust them.

To take one minor example, the most important narcotics trafficker in the Middle East used to be a Lebanese named Sami Khoury, whose activities were so brazen that he was denounced by the United Nations. He was supposed to have been dead for two years when, in 1967, Princess Muna of Jordan rather embarrassingly bumped into him in the lobby of a London hotel. No one in Lebanon batted an eyelid. Another telling incident occurred in March 1966, when the police received a tip-off that some counterfeiters were conducting their operations from a Maronite church. They raided the church and arrested its priest, who happened to be the Bishop of Baalbek, Abdallah Nujaim. Somewhat incongruously, his pontifical regalia included 150,000 dollars' worth of forged American banknotes and a loaded revolver. Before he could be formally arraigned, Monsignor Nujaim, who had been left unguarded in a ground-floor room of the Phoenicia Hotel, escaped to the airport and boarded a scheduled flight bound for Italy. People in Beirut just quipped: "Obviously, the bishop has gone to Rome to seek the imprimatur."

Why get worked up about this kind of thing, though? For murky waters like these had given rise to some of the most fabulous fortunes in the Middle East, accumulated since the war by traders who were not always wildly discerning about the type of goods that they dealt with, as long as there was a ready market. Weapons, drugs, and antiquities were far from being off limits. Even viewed against that background, however, Intrabank's collapse blew the lid on so much collusion and sharp practice that almost any scurrilous accusation might have been grounded in fact. It initially seemed that the bank had failed on account of incompetence, since it had invested eighty percent of its deposits in illiquid foreign assets, resulting in a serious maturity mismatch. Although the assets were of good quality, the bank could only meet demands for liquidity by rolling its funding over at higher and higher interest rates, which meant that the global spike in the cost of short-term credit in 1966 was catastrophic. Yet as the dust began to settle, it emerged that Intrabank had actually been involved in all kinds of chicanery. An official inquiry, which was repeatedly suspended for one reason or another, gradually revealed that most of the bank's domestic loans had been made to its own directors and other insiders, who had been carefully selected to represent all shades of political opinion and were generally well aware of what they were mixed up in.

And make no mistake, there are many competing political factions in Lebanon. This little country of 10,450 square kilometres is a veritable palimpsest of rival religions and cultures that have superimposed themselves on top of one another in this corner of the Mediterranean over the past 6,000 years. Seldom does Lebanon's population of two million people put its trust in a single statesman. Loyalties are fragmented here to such an extent that leaders are little more than clan chiefs, whose influence is determined by the size of their respective clienteles.

The President of Lebanon—who, as head of state, is meant to be the ultimate fount of authority—cannot effectually impose his own will without failing in his real mission, which is to act as umpire, ensuring that official jobs, from the loftiest to the most humble, are doled out according to a rigidly sectarian quota system.[3] This includes the seats in the legislature, and it is for this reason that the Lebanese Chamber of Deputies has as many members as it does, ninety-nine in total. If France had the same ratio of parliamentarians to population, we would have about 2,500 representatives. To put it bluntly, the people of Lebanon find it hard to agree about anything, apart from their pride in being descended from the Phoenicians, the importance of putting on a good welcome, and their desire to make money. Perhaps that is why, to this day, a third of their young people prefer to emigrate and to seek their fortunes in other parts of the world.

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[3] Thus the President is a Maronite Catholic, the Prime Minister is a Sunni Muslim, and the Speaker of the House is a Shia Muslim. The governor of the BDL is a Maronite, one deputy governor is a Sunni, and the other is an Armenian. In the recruitment of civil servants, confessional quotas are likewise the norm, with each group represented in accordance with its size.

Rise and fall of Yousef Beidas

Yousef Beidas managed to keep a foot in each camp and a finger in every pie, and this even-handed approach gave him great power and influence, more or less unequalled in Lebanon. He had the best-located and the busiest cash desks, and he went on to hoist the Lebanese flag over Intrabank branches in Qatar, Jordan, Sierra Leone, Liberia, Nigeria, Brazil, New York, London, Frankfurt, Geneva, and Rome. After a lot of toing and froing with the Bank of France and the finance ministry, he was eventually given the go-ahead to open a Paris branch in 1962. It was situated just off the lower Champs-Elysées, on a plot he bought for sixty million francs.[4]

David Rockefeller included Beidas among the luminaries whom he invited to Washington for meetings of the IMF, and it was a further testament to his renown when General de Gaulle awarded him the Légion d'honneur in July 1965. Beidas's rise and fall, and in fact every twist and turn in his colourful career, personified Beirut's trajectory as a financial centre. It was all the more symbolic that he should be a refugee, who had arrived in the city in 1948 along with 100,000 other Palestinians looking for asylum. "Symbolic," because one of Lebanon's advantages, up until 1966, was that it provided a haven not only for the oil money and other surplus funds of the Middle East, but also the region's flight capital.

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[4] Beidas had powerful allies in Parisian political circles, and not just among people who had worked in Beirut, whom the press there affectionately referred to as "our ex-Lebanese." MEA was involved in a tie-up with Air France, for instance, and Beidas had also placed an order for Caravelle jets. In 1965, Intrabank acquired an eighty percent interest in the shipyard at La Ciotat, where no French firm had been willing to subsidize a long-overdue refit.

From 1952, for example, when King Farouk was overthrown, to 1956, the year of the Suez debacle, money flowed into Lebanon from Egypt in ever-increasing quantities. The "Egyptianization" of British and French banks mandated by the decrees of 1956 and 1957 gave further impetus to this trend, as did the enactment by the Lebanese parliament of a strict banking secrecy law in 1956. Over the next ten years, every step towards military socialism and anarchy in the Middle East, from Baghdad to Aden, resulted in a new influx of capital to Beirut, accompanied of course by the financial expertise that went with it.

Yousef Beidas was thirty-six when he fled Palestine in 1948, but by then he already had some twenty years of experience in banking. The son of an erudite but hard-up inspector of Orthodox schools from Jerusalem, Beidas learned his trade with Barclays in the 1930s, before joining the Arab Bank founded by Abdulhameed Shoman. He became general manager of the latter in 1945. By the time that the Arab Bank was forced to relocate its headquarters to Jordan, in 1948, it had thirteen branch offices across the region (up from five at the beginning of the decade).

Beidas may well have been the main architect of that expansion, yet he decided to strike out on his own after he arrived in Beirut. With enough capital to tide him over for six months, he gained his initial foothold, as he liked to remind people at the height of his fame, in a rather typically Lebanese fashion, dabbling in "all sorts of business . . . well, nearly all sorts, anyway." In those days, he operated out of makeshift premises, even sometimes working on the floor, when he rented out his office furniture to raise extra income; and apocryphal though that tale may be, it is revealing that Beidas himself was responsible for spreading it.

"The smaller your enterprise, the bigger a name you need." That was Beidas's maxim. The first money changing business he founded, with three friends and a capital of 12,000 lire, bore the impressive-sounding title "International Traders." Three years later, in 1951, they shortened the name to their telex address, "Intra." By then, the firm's partners had parlayed their initial stake into at least 300,000 dollars, which was a lot of money in Beirut at the time, not least because your funds could accrete and proliferate without the inconvenience of appreciable taxation. And there were no financial regulations to speak of, apart from those that the banks deemed it expedient to impose upon themselves.[5]

Beidas thus found that he could capitalize on an exceptionally favourable set of circumstances. There were no restrictions on the convertibility of the Lebanese lira, which meant that it was a natural vehicle for exchanging one foreign currency into another. The commissions that accrued in that line of business themselves helped to stabilize the lira; for even after Intrabank's collapse, the currency still had an eighty-six percent reserve ratio in gold and foreign

[5] There was no central bank in Lebanon until fairly recently. The Code of Money and Credit, which created the BDL, was promulgated on 1 August 1963, but, for the first two years of its existence, the BDL was merely an issuing authority with no effective powers of regulation. Meanwhile the private Bank of Syria and Lebanon (an affiliate of Paribas) retained its own power of issuance until 1 April 1964. Between 1957 and 1963, direct taxes contributed only around a third of the sum raised through indirect taxation, and, in the latter year, the revenue from income tax barely exceeded that generated by the land tax (the difference was in the region of 11.5 million lire). There has been little improvement in the yield since then: by October 1967, so many lawyers in Beirut had significant arrears of income tax that the authorities found it necessary, following eight months of fruitless negotiations, to seal shut the doors of their chambers. Needless to say, this provoked the devil of a row between the finance ministry and the Bar Association.

exchange. With that kind of strength at his disposal, Beidas could easily finance surreptitious gold shipments to neighbouring countries and farther afield. In this manner, he could enrich himself beyond his wildest dreams, without ever needing to stray outside the ambit of Lebanese law.

Belle époque for Beirut's moneychangers

In 1949, many people believed that Mao Zedong was dead set on annexing Hong Kong. That was why Beirut became an important hub for the Asian bullion trade with China and India, breaking the effective monopoly that the British colony had enjoyed since the end of the war. It was at this time that a major Lausanne-based dealer, Bullion Exchange Trading (Bulextra, which is owned by the Banque de l'Indochine), began sending gold to Lebanon, because there was no import duty on bullion and the authorities were not interested in restricting re-exports. During a golden age that lasted five years, until the London market reopened in 1954, Lebanese bullion merchants made out like bandits. They were among the few sellers in the market, and their customers did not have the alternative sources of supply, or even enough information about prices, to keep them honest. From the mid-fifties on, all that it took was a telegram to London to buy bullion at the officially quoted price. But before then, Beirut's middlemen handled around fifty tonnes a year, and took home a thirty percent margin.

How did the logistics work? I heard the ins and the outs from an elderly bullion dealer, a veteran of the game, who remembered that period fondly. He still practises the trade of moneychanger from a kiosk near Martyrs' Square, where the windows—and this may be an allegory—are plastered over with billions of worthless Reichsmarks.

"Beidas and I," he told me, "like all of the others, did at least a quarter of our gold business with neighbouring Arab countries. Back then, there was plenty of money in Syria, Egypt, and Iraq! We had it easy. We never predicted the squeeze on margins that would come in the sixties, which was Swiss Bank Corporation's fault really. They competed so aggressively in the international market that you'll struggle to make anything shipping gold across borders nowadays, and it's been that way since 1966. But back in the day, it was very much a family business here in Beirut. You'd go on foot, with a couple of bearers, to fetch a load from Bulextra, and we paid people who lived near the border to take it to Syria, because they could usually slip in and out without being challenged. In the early fifties, we were sending stuff as far as Bulgaria and the Caucasus, but that got too risky after a while. Even then, the big money was in South and Southeast Asia. I'm afraid you'll find that Beirut is very much out of the loop today.

"Unless you want to pack it in altogether," my interlocutor sighed, "you'll find yourself taking some pretty circuitous routes. If we try to go through Hong Kong, the Chinese dealers will dob us in. You basically have to fly via the Arctic and Japan. Someone told me that a plane with seventeen Lebanese gold-mules on board landed in Anchorage recently. They were crapping themselves as they looked out of the windows, wondering if they would ever make it home from the frozen north. We pay old ladies to do direct runs between Beirut and Bombay, because they can pretend that they're just chaperoning schoolgirls. But they're starting to get greedy, and claiming that they can only do six or seven trips before the customs men get suspicious. A woman in a sari can only hide about thirty-five or forty kilos under there before it starts to look obvious anyway. Take it from me, that's nothing compared with the amounts that we used to ship out to India through the Persian Gulf!

"Until 1955 or thereabouts, we knew people in Kuwait who had boats and were happy to split the profits fifty-fifty. So three or four of us would charter a DC-3 from MEA in Beirut, pack it with twelve and a half-kilo gold bars, and cover them up with a few crates of salad. We'd put the kite down on a dirt airstrip somewhere near the Gulf, and a gang of boys would be waiting to carry the gold on top of their heads to the local foundry. It was just an open-air thing with a charcoal fire, but you could melt down twenty-five kilos an hour, which we'd recast into those little ten-tola ingots for the Asian market.[6] After the kids had gathered up all the fragments that were left scattered in the sand, hardly anything went to waste: not even one percent. Then the stuff would go onto the dhows and we could get it to Karachi in twelve days or Bombay in fifteen. If you did six trips like that, then you made your money back five times over. Compare that with now, when you're lucky if you can earn seven percent after expenses. No wonder the Kuwaitis retired after a few years! Of course they were all stinking rich by then anyway, because the oil had already begun to flow.

"Don't get me started about oil," he declared. "I've set all of my sons up in the jewellery business and I can tell you, they're doing a roaring trade in diamonds at the moment."

That was hardly the end of the story, though. Well, perhaps it was for one old chap in Martyrs' Square, but not for the numerous

[6] Ten tolas is equivalent to 116.6 grams or 3.75 troy ounces.

Lebanese money men like Beidas, who adapted their business as quickly as they could to cater to the modern-day Midases of black gold.

The low-hanging fruit of petrodollars

With each new discovery of crude in the Middle East, Beirut was inundated with royalty payments, which gushed into six hundred major petroleum accounts held with the city's banks.

These hoards grew from one billion to two billion dollars between 1956 and 1966, reaching two and a half billion in 1967. They belonged for the most part to lords of the proud and starveling sands, who led a peripatetic existence around the shores of the Persian Gulf. Their story was always the same, whether they hailed from the vastness of Saudi Arabia (which has six million people and produces 2.8 million barrels of oil per day); from the much smaller Emirate of Kuwait (which produces almost as much oil, 2.5 million barrels a day, but only has 300,000 people); from Bahrain, Qatar, or, for that matter, from the tiny Emirate of Abu Dhabi (which has a population of 50,000, and plans to expand its oil production from the current 380,000 barrels per day to a million barrels a day by 1970). In each case, the king, emir, or sheikh was a Bedouin, the leader of a tribe that was confident of possessing purer bloodlines and sharper swords than any of the other desert peoples who might be foolhardy enough to antagonize them with armed raids, or even to challenge their supremacy.

Too many literary types, fancying that, in the nothingness of the desert, they have touched upon the realm of the absolute, are prone to forget that nomads often follow into battle whoever pays them the most. Yet we should recognize that it was wanderlust and Islamic fundamentalism, rather than mere greed, that accustomed these brave warriors to a life of sacrifice and unending conquest. Alas, under the influence of their Western flunkeys, they have long since been transformed into sedentary plutocrats.

Few indeed are those who can resist the destructive effects of wealth. One can only import so many Iranian hawks with which to hunt the Houbara bustard, and there is a limit even to the number of air-conditioned Cadillacs that a man might wish to purchase (640, in the case of the Emir of Qatar and his sons). Then it was time to build palaces, fountains, paved roads, power stations, and even schools, but the expertise wasn't there.

The sheikhs were traumatized by the breakneck pace of development, and felt a nostalgic sense of resentment towards the Western diplomats and oilmen who treated them like patsies. Lebanon appeared to be the ideal candidate for the role of official intermediary between the corrupt world of the West and the defenders of the true faith. To be sure, the Lebanese were often Christians or heterodox, and invariably mercenary. But they spoke the language of the Prophet and were steeped in centuries of obeisance to Islam. From Libya to Oman, the oil-princes got used to finding a Lebanese at their door offering investment advice, and promising withal to place the whole of Beirut at their disposal for their boundless gratification.

To understand the fascination that Lebanon's capital held for these nouveaux riches from the desert, you need to revisit it travelling westward from the Persian Gulf. During the four months of summer in Kuwait, it seldom falls below thirty degrees Celsius in the shade, while it can reach up to fifty degrees in the sun. Apart from on the island of Bahrain, the palm tree is an exotic species; and flowers are a status symbol because—unlike in *The Ploughman and his Sons*—before you can grow anything, you first have to sink treasure into the soil. What a contrast with Beirut, where the breezes are always fresh and citrus-covered mountains tumble into the sea. Lebanese architects built magnificent concrete and stucco houses for their Gulf Arab clients in the modernist style, topped with TV antennas that put one in mind of the Eiffel Tower. Whole neighbourhoods of skyscrapers built with Saudi and Kuwaiti money began to spring up along the Corniche.

The pace of speculative construction dropped off when the desert Arabs (following in the footsteps of the Lebanese) discovered the amenity of estates on Lake Geneva and properties in London and New York. But there's still no place like Beirut when it comes to showing the respect due to high rank. Nowhere else are singers, showgirls, and bankers so anxious to attend to one's every whim; or at least if they aren't, there are always plenty of eager replacements waiting in line.[7]

You are certainly spoilt for choice when it comes to banks. Before it became something of a liability, the multiplicity of accredited financial institutions in Beirut had long been one of the

[7] On 23 October 1964, *Time* magazine reported that one oil-sheikh had removed his six-million-dollar account from a bank whose hapless representative had failed, the previous evening, to procure for him a particular belly-dancer to whom he had taken a shine. It is also said that when Sheikh Abdullah al-Mubarak of Kuwait—who once had twenty-five million dollars on deposit with Intrabank—fell out with Beidas, he forced the latter to fetch suitcases full of bonds from the strongroom, to check that the full amount was there, and to deliver them to him within twenty-four hours.

city's main attractions. There were five banks there immediately after World War II, forty-five by 1959, and ninety-three at the end of 1966. Lebanese, Arab, French, British, and American banks were the most numerous, but there were also Italian, Dutch, Belgian, Russian, and even Bulgarian ones.[8] These Levantine financiers ranged from buccaneers who immersed themselves in risk like a stuntman shooting the Niagara Falls in a barrel, to uber-cautious types who specialized in putting together complex multi-party transactions.

When Pierre Edde boasted in 1966 that "Beirut was made to handle money in the way that Suez was made to handle ships," only a Jeremiah would have had the heart to disagree. The East's window on the West, and the West's antechamber to the East, Lebanon still shone more brightly that year than Tangier or Monaco had ever done. The country embodied the essence of a tax haven. For one thing, its style of government, which prioritized the maintenance of a stalemate between potentially destabilizing forces, was a model of its kind. Then there were the telltale economic indicators. The gulf between monstrous wealth and utter destitution. The contrast between atrophy in the industrial and agricultural sectors and the mutant outgrowth of financial services, which accounted for sixty percent of the country's national income of three billion lire (the highest in the region outside of the oil-producing states). And the anomaly of a balance of payments that was generally in equilibrium, despite a balance of trade that was heavily in deficit, with the difference being accounted for by "invisible earnings": no misnomer

[8] Under pressure from the authorities, five of the smaller Lebanese banks were in the process of merging in the autumn of 1967, without any firm deadline.

here, where reporting requirements were viewed as an infringement of your human rights.[9]

For the econometrician who wishes to calculate what proportion of Lebanon's GDP derives from transportation, from the several varieties of the entrepôt trade, and from catering for half a million foreigners each year—including Western tourists and business travellers, spendthrift summer guests from the Gulf, and visiting émigrés—data are hard to come by. How much money is remitted annually by the Lebanese diaspora, which numbers 400,000 in the United States, 300,000 in Brazil, 150,000 in Argentina, and more than 75,000 in Africa? Nobody knows.

These imponderables were certainly conducive to all sorts of guesswork, but they never inhibited Lebanon from flourishing as a financial centre; not at any rate until the morning of 15 October 1966, when Intrabank, the keystone of the entire edifice, began to crumble away. The bank was to be reincarnated, almost exactly a year later, in a different guise. This time it would be split up (based on advice from the American consultants Kidder, Peabody & Co) into a new "good bank," with equity of a million dollars; and a "bad bank" formed to manage the old Intrabank's assets, which has 122.5 million dollars of capital. Forty-five percent of the latter company is held by the state and by private Lebanese interests, thirty percent is owned by the Emir of Kuwait, seven percent by Qatar, and most of the remainder by the U.S. agricultural agency Commodity Credit Corporation, which intends to syndicate its share.

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[9] There was a huge gap between Lebanon's exports in 1966 of 300 million lire and her imports of 1.2 billion lire, even when you make an adjustment to reflect the fact that thirteen percent of gold imports effectively "disappear," as their re-export does not show up in the trade statistics.

Five weeks after the launch of the new Intrabank, on 27 November 1967, Yousef Beidas had the misfortune to be apprehended in Lucerne in respect of a parking violation. The whole episode was somewhat farcical. Beidas produced his Brazilian passport and the policeman, who happened to be a polyglot, tried to converse with him in Portuguese. When Beidas proved unable to respond to even the most rudimentary of pleasantries, the cop smelled a rat and arrested him. A subsequent search of his hotel room turned up numerous fake identity documents and (*allegedly*: the Swiss press had a field day with this one) "stolen jewels that still had the price tags on." The Lebanese government unsurprisingly demanded his immediate extradition.

The collapse of Intrabank: making of a drama

How had things arrived at this point? To each his own version of the truth. Having spent the spring of 1967 interviewing a number of players in the drama, as well as various observers, this is mine: in the third quarter of 1966, Beidas ran out of air. Major commitments were coming due in September; and, while doubling Intrabank's equity capital, which had recently risen to 120 million lire, looked good on paper, it failed to improve the bank's liquidity. That was because Beidas was already, by all accounts, on the hook for an equivalent sum, in connection with off-balance sheet investments in real estate.

Beirut is always a hive of rumour. In August 1966, Beidas nevertheless took the risk of sounding out Lebanese President Charles Helou to ascertain whether there was any prospect of the central bank bailing him out. The BDL's governor, Philippe Takla (who was also foreign minister), delegated the case to his deputy, Joseph Oughourlian, to whom he gladly handed responsibility for taking action, or, if he considered it more appropriate, not taking any. Although Oughourlian was the President's brother-in-law, he was something of a figure of fun in the Beirut banking milieu, where people liked to chuckle over a rather fatuous threat that he was once supposed to have uttered: "This town's starting to look like a financial jungle, so let's get cracking and tame the tigers." Few people had less about them of the daredevil ringmaster than this staid and sedulous bureaucrat! Oughourlian was in no hurry to lend money to Intrabank, and he took his time to consult with colleagues over such issues as credit limits and guarantees. By the time news of the bank's precarious situation began to leak out in September, Beidas, who was in Washington for the IMF meeting, was making a last-ditch attempt to obtain American funding.

Between spring and the start of autumn, Intrabank's deposits had already shrunk by fifty million lire, and those in the know could sense the approaching calamity. Major investors like the Kuwaitis were moving their assets out of Lebanon as they looked for higher rates of return. By the end of quarter three, Intrabank had only thirty-two million lire in liquid assets, and that was when the big withdrawals began: fifteen million lire flowed out from 3 to 8 October, and twenty million from the 10th to the 13th, all of it belonging to a handful of oil-sheikhs and other banks. At the eleventh hour, the BDL made available a credit line of fifteen million lire, backed by a pledge of Intrabank's best assets (and thus massively overcollateralized, seeing that the assets were worth sixty million or more). On 14 October 1966, Beirut's small savers flocked to the counters and withdrew 16.3 million lire. On Saturday the 15th, the BDL refused a request for an advance of one and a half million lire, as Intrabank's credit facility was exhausted. The bank had no alternative but to declare itself insolvent.

From around noon that day, the panic that had gripped Intrabank's 48,000 account holders rapidly spread to those who kept their money with other Lebanese banks. The atmosphere in Beirut was feverish. As the red berets of the security forces patrolled the streets, the Cabinet sat in constant session until Sunday morning. It first tried to get Najib Salha, the Druze MP and multimillionaire who was acting as chairman of Intrabank in Beidas's absence, to back the bank with his own money.[10] Late on Saturday night, however, the Cabinet did a U-turn: instead of pushing for an immediate injection of funds, it decided to close all of the banks in Lebanon from Monday to Thursday, to give itself time to inspect Intrabank's books.

The press learned of this plan during Sunday, by which time speculation already abounded. One scenario doing the rounds was that Bank of America was about to step in, increase Intrabank's capital by fifty percent, and guarantee all of its deposits. Another popular theory was that the American tycoon Daniel Ludwig was negotiating to purchase Intrabank's sixty-five percent stake in MEA. The Greek shipowner, Stavros Niarchos, was also said to be sniffing around.[11]

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[10] Salha made his not inconsiderable fortune in Saudi Arabia, where for twenty years, by virtue of his post as Director of Mines and Public Works, he was ideally positioned to milk the kingdom's oil contracts.

[11] Sources in which I had equal trust both confirmed and, on the other hand, categorically denied that Daniel Ludwig had been in Beirut on the evening of 15 October. What we do know is that he offered to buy the MEA shares in

The government batted these rumours away by asserting that it was too early for such offers to be entertained. Chase Manhattan Bank hardly helped matters when it suddenly announced that two million dollars that it was holding in the name of Intrabank's Swiss branch was earmarked as security for a personal loan that it had made to Beidas, and would not be available to the bank's creditors unless he repaid the debt.

On 20 October all of Beirut's banks except Intrabank reopened, after the BDL promised them emergency credit running to hundreds of millions of lire. Forty financial institutions ended up using this facility to some extent, and fourteen were seriously damaged by runs, with one losing forty-five or fifty percent of its deposits in a single day. Things did calm down, however, because depositors were now reassured that their money was there if they wanted it.

Beirut seemingly awaited some kind of a miracle from Beidas, but by this time events were out of his hands. Najib Salha was in the driving seat at Intrabank, and the government's preliminary investigation had indicated that the bank's assets exceeded its liabilities by a factor of three. Taken together, these developments provided the BDL with enough confidence to lend Intrabank fifty million lire, to allow it to reimburse small depositors with up to 5,000 lire in their accounts. (Customers who had between 5,000 and 15,000 lire were also able to benefit, to the extent that there was anything left in the kitty.)

October 1966 for more than their book value, and that he raised his price again in February 1967, when his proposal included lending Intrabank eighty million lire over ten years at five percent interest. Niarchos's offer, which he made in November, was somewhere in between, and envisaged a loan of 100 million lire over five years at six percent interest.

At the beginning of November 1966, the Lebanese establishment began to close ranks against Beidas in earnest. First, the authorities issued a warrant for his arrest, which at this stage was "valid only in Lebanon." Then Saeb Salam launched an excoriating diatribe against him in parliament, subsequently reproduced as a pamphlet. On 18 November, a committee of experts appointed to assess Intrabank's financial position pronounced that there was a shortfall of some forty-three million lire between the value of the bank's assets and its total liabilities. Najib Salha promptly went to Kuwait to look for funds with which to recapitalize the bank. He succeeded in raising fifteen million lire to buy back the collateral held by the BDL, with a further thirty-five million potentially available to stabilize the bank's overseas branches. Yet the government refused to relinquish the collateral, claiming that it needed to wait for an in-depth report into Intrabank's balance sheet that it had commissioned from the British auditors Cooper Brothers.

In early December, Farid Choucair's newspaper *Le Commerce du Levant* published shocking revelations concerning the scale of the malfeasance at Intrabank. The paper did not pull its punches, alleging that irrecoverable loans had been made to secret account holders and that it was impossible to disentangle what belonged to the bank and what was the personal property of Yousef Beidas. The government drew up a fresh arrest warrant, this time global in scope. Beidas, meanwhile, went to ground in Brazil, which was one way of obtaining some breathing space.

On 4 January 1967, Beirut's commercial court played host to an act of theatre, when the presiding judge, Abdel-Baset Ghandour, refused Intrabank a three-month stay of execution, ordered it to be placed into immediate liquidation, and commanded the pre-emptive seizure of property belonging to its managers, directors, and bookkeepers, eight of whom ended up serving jail time.

Those who were still at liberty were stalked by fear. Was Beidas going to disclose the full list of recipients, civilian and military, of his copious payments of baksheesh? Would he now instigate, as he had threatened in the *Life* interview, a scandal of such magnitude as to “shake Lebanon from top to bottom”? We never discovered, so adroit were the government’s next moves to contain the situation. On 16 January 1967, the legislature passed an Act concerning “banks unable to meet their obligations,” which took effect retrospectively from 1 October the previous year and was afterwards dubbed the “Intra Law.” The Intra Law bypassed the jurisdiction of the court and placed the administration of insolvent banks in the hands of a “Management Committee.” The Management Committee had wide-ranging powers, including the authority to rescue the foreign branches of distressed banks (which it used, for instance, to discharge the debts of Intrabank’s French subsidiary, in order to improve the value of its assets when they were eventually disposed of). Under the new law the Committee had six months to comb through Intrabank’s intricate affairs, before making a final recommendation as to whether the bank should be saved or if it would have to be dissolved.

Beidas’s allies could exhale, for the game was not yet lost. Indeed, according to one version of events, they now launched a counter-attack. On 28 February, two comparatively trivial issues affecting the British Bank of the Middle East (BBME, the largest UK-owned bank in the Arab world) caused rumours to spread like wildfire. The first concerned a dishonoured cheque for next to nothing, while the second related to another cheque for a six-figure sum, drawn by the American University of Beirut, which was subject to a routine request for rectification as the signature was illegible.

There was nothing to see here, yet the following morning the BBME was besieged by depositors, some of whom claimed to have been warned anonymously by telephone, in the middle of the night, that the bank was on the brink of suspending payments. What the BBME actually did, with full support from the central bank, was to announce publicly that it would be staying open until everyone who wanted to make a withdrawal had been paid. That necessitated a sixteen-hour shift, during which depositors pulled out around fifty million lire. But by the end of the day, the same money that had been disbursed in the morning was already coming back in again.

The bank's stalwart chairman proclaimed that he had no idea how the rumours had started—although he had alerted the authorities to the risk of an attack of this type a fortnight earlier—and an official inquiry into what was described as an "attempt to subvert national security" failed to get to the bottom of the episode. Can one point the finger at Nasserist elements, motivated by a desire to damage British prestige as well as Beirut's financial status? Or are there more obvious culprits among Beidas's friends, who were looking for revenge against the BBME, not least because one of its directors was the head of the Management Committee? Whoever set this hare running, the fear that it raised was that, far from the "Intra disease" having been successfully contained, there was actually a "Lebanese disease" still waiting to break out. If nothing more, the incident showed that even the most respectable bank in Beirut was worryingly susceptible to a whispering campaign.

Beidas's claim that he was the victim of an establishment plot had lost its credibility in the aftermath of December's revelations, but people now began to concoct ever more elaborate narratives, in which the downfall of Intrabank was attributed to resentful Arab governments that were scheming to undermine Lebanon's reputation; or—for who knew?—to envious foreign bankers who were intent on gaining influence with the country's traditional oil-rich patrons.

The ongoing haemorrhage of capital and its remedies

As nebulous as such theories might have been, they were not always easy to disprove. After all, none of the major American banks considered it beneath them to go from one golf club to another, as Beidas had once gone from tent to tent, in order to drum up business. A couple of U.S. financial institutions were shameless enough to write to their clients advising them to move their money to New York, or, if they insisted on leaving it in Beirut, at least to keep it in dollars instead of lire.

It is tempting to dismiss this as a provocative gesture, but in truth it signified a watershed for the Lebanese financial sector.[12] Following Intrabank's collapse, the proportion of the country's deposit base that was held by foreign banks increased from sixty-six to eighty-five percent. This shift did not occur overnight. Instead, what happened was that the monied Lebanese, who were concerned about the ongoing problems afflicting institutions that were run by people they knew (and whom they did not wish to embarrass), quietly opened parallel accounts with British, French, and American

[12] One deduces, from the fact that a Lebanese banker went as far as to show me photocopies of these letters, that they achieved their desired effect.

banks. They continued to use their accounts with the Lebanese banks to pay expenses, but began to collect receipts through their new accounts at the foreign banks.

In an attempt to stanch this gradual haemorrhage of capital and to restore confidence in the country's financial system, the government enacted a major banking reform bill in May 1967. The essential features of the new regulatory regime are as follows:

- There is a moratorium on setting up any new banks in Beirut for the next ten years;
- Foreign-owned banks are required to invest fifty percent of their equity in Lebanon;[13]
- The government will guarantee all deposits held with Lebanese banks, up to the level of 15,000 lire; and
- A new deposit insurance corporation has been created, with the state providing half of the necessary capital and the banks providing the other half.[14]

In addition, the credit line that the BDL extended to the Lebanese banks during the emergency of October 1966 has been left in place for a further year, to expire in May 1968. The BDL has agreed to apply seventy-five percent of the interest that it receives on such advances towards creating a new sustainability reserve.

Finally, the authorities have established a novel system of financial oversight, consisting of a "Control Commission" that is responsible for day-to-day monitoring, and a "Higher Commission" with the power to intervene where a bank appears to be in

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[13] Since equity shares account for only a small fraction of their overall capital structure, this is not a very onerous obligation.

[14] Through an initial contribution of 100,000 lire each and an annual premium of up to 0.2 percent of their deposits.

difficulty.[15] The idea is that ailing banks can be taken over by specially-formed subsidiaries of the Development Bank for Agriculture, Real Estate, and Industry (BCAIF, which is forty percent state-owned, with the remainder of its capital held by the larger Lebanese banks). The BCAIF, in conjunction with the High Commission and the National Deposit Guarantee Institution, will then administer an orderly realization of the defunct bank's assets and the reimbursement of its depositors.

Caught between their distaste for state interference on the one hand, and their fear of further bank insolvencies on the other, the bankers of Beirut have sided with prudence. Having been reassured by the Higher Commission that no bank will be condemned to liquidation unless its capital is seriously depleted by losses, they have resolved to acclimatize themselves to the new regime. Whatever private reservations they may have had, the Lebanese business community has seen to it that any mutters of discontent are drowned out by enthusiastic cheerleading.

"From the financial point of view, Lebanon is still a child, and children have great tantrums and high fevers. But if they fall ill, it's usually not as serious as it is for an adult, because they soon get better. I'm right, am I not?" These words were spoken to me by one of Beirut's leading bankers, after he had summoned me to his house to help him repair the Dictaphone with which, according to his friends, he recorded all of his private conversations. He didn't beat

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[15] There are six members of the Higher Commission: the governor of the BDL (which is now Elias Sarkis, who has replaced Philippe Takla); one of the BDL's four vice governors; the Director General of the Finance Ministry; a judge with at least ten years' experience approved by the Higher Judicial Council; a representative of the Lebanese Bankers Association; and the chairman of the National Deposit Guarantee Institution.

about the bush. “People need to lighten up! There is no way the government is going to let any more of our banks go under, even the one that everybody knows about but is afraid to mention.” He told me which one he meant before continuing. “The credit supply is returning to normal. A guy who has got 150,000 lire’s worth of savings can give it to ten different members of his family: that way, the whole lot is covered by the government guarantee. Provided their money is safe, people would much rather deal with bankers from their own community than with foreigners. Life can be complicated, you know, and you don’t always want to spell everything out in black and white.

“Another thing I’ll tell you is that the oil-sheikhs are far keener on Lebanese bankers than they are on any others, assuming the terms are the same, because we’ve got that natural obsequiousness. They have only deserted Beirut to some extent recently because they can get two or three hundred basis points more on their money in Britain, the United States, or Japan. Rest assured,” he breezily concluded, “the Harpagons of the Persian Gulf cannot do without Master Jacques here in Lebanon. I can’t foresee a time when those jumped-up Bedouins are not going to need us Phoenicians.”

I remember his attitude striking me, that spring day in 1967, as quite breathtaking in its complacency. You had to have your head shoulder-deep in the sand not to realize that the ascetic potentates of the Gulf were getting increasingly intoxicated by the vapours of international finance. They see the British and the Americans as the real bankers, and they will happily deal with them directly if they are so inclined. The Lebanese, on the other hand, are beginning to look like freeloaders who are living on borrowed time.

The bluff is called

"The one hundred telex lines that we've got now in the Emirate will save us the diversion through Beirut in future. We are plugged into Switzerland, London, and New York and can take our pick," I was told in Kuwait by a young trader of about thirty, Badr al-Mulla, who modestly confessed to be worth only six million—sterling![16] He imports Chryslers by the boatload, a thousand of them a year, chartering the ships himself and selling the cargo before it even comes ashore. Men like him are as comfortable on the floor of a stock exchange in Wall Street or the City as they are in Mayfair, Saint-Tropez, or Miami. They understand all of the comparative advantages of the various modes of investment. For them, Beirut is a second home far more than it is a tax haven.

That is one reason why foreign bankers in Lebanon were already beginning to ask themselves, in mid-1967, whether the only thing that the country had to look forward to, from a financial point of view, was its past. The National Deposit Guarantee Institution is faced with cleaning up a mess that it had no part in creating, yet could easily burn through not merely its limited annual income, but all of the capital that it has been allocated.[17] It is conceivable, of course, that the government has taken a bold gamble that will pay

[16] One pound sterling is equal to approximately twelve French new francs.
[17] Ninety-three banks are contributing 100,000 lire each, providing a capital of 9.3 million lire. The annual premium of 0.15 to 0.2 percent, on deposits of three billion lire, will supply an income of somewhere between four and a half and six million lire. The total losses suffered by Lebanese banks, on the other hand, could run to a hundred million lire, although that figure will be reduced to the extent that failing institutions are recapitalized or acquired by foreign banks.

off! Realistically, however, one senses that, when Intrabank collapsed, it was not just Yousef Beidas's bluff that was called but Beirut's too.

Lebanon never really had sufficient infrastructure to call itself a first-rate financial centre anyway. Sure, there was financial secrecy, and the country had flexible tax laws and plenty of banks. But it was hard to get mortgage credit there, and in fact there was little long-term lending either by way of time deposits or bonds. Moreover, Beirut had no stock exchange worthy of the name: its monthly trading volume, even prior to the 1966 crisis, was never more than a decidedly underwhelming 160,000 lire. The city's most significant handicap, though, was its limited foreign exchange market. There was no problem with scope, as you could convert just about any currency you wished into any other, but the scale was lacking, because you could only do it in fairly small amounts.

If you wanted to sell millions of U.S. dollars or pounds sterling in Beirut, you had to put a call through to Zurich, London, or Paris in order to find a counterparty. Even the trade in gold coins is not what it was. As their margins declined, Lebanese dealers began identifying all prospective purchases as fakes, including coins that they had sold you themselves, on the grounds that the weight was all right but they were of modern manufacture, or some such baloney. It allows them to get away with imposing outrageous haircuts, to the extent that you are lucky if you can cash out for more than seventy percent of a coin's true value.

So Beirut is not the "Switzerland of the Middle East," and I do not believe that it ever will be, no matter how much wealth pours out of the other countries nearby. For Lebanon to play that role, her neighbours would need to observe total respect for both her territorial integrity and her neutrality. Yet they do not. "Neutrality," in this context, has to mean more than just a readiness to provide a refuge for money and talent. It effectively has to encompass an absolute commitment not to take sides in international relations.

For many years, that broader conception of neutrality was a guiding light in Lebanese politics, but it is increasingly under threat from forces within the country as well as from outside. The President tries to demonstrate his country's loyalty to "Arab interests," yet what does that mean, in this world of contradictions? Lebanon cannot afford to alienate the Gulf monarchies (who are opposed to Nasser), since they are the source of the country's general prosperity; and, more specifically, that of the Arab Christians.[18] To pivot towards them and to exhibit outright hostility towards the socialist states would nonetheless carry an even graver risk, namely that of civil war, because the poor Muslims of Beirut, who are the masters of the street, take their orders from Radio Cairo.

The President is thus forced into a constant tacking motion, while the chiefs of the rival clans, which are all armed, denounce his statesmanship as dithering and threaten to take matters into their own hands. Even during a calm period, such as in March and April 1967, you could sense the undertones of suppressed violence all around you. When the Grand Mufti of Lebanon received a rapturous welcome in Cairo, and then the following day Patriarch Meouchi announced that "the Maronite church stands ready to do battle against all forces of subversion, and to drive them into the sea," there were forty-eight hours of palpable tension in Beirut.

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[18] Christians officially make up forty-eight percent of the Lebanese population—in reality it is rather less—but they own seventy or seventy-five percent of the nation's wealth.

A few days after that, a university sit-in in the south of the country culminated in bloody scuffles with the police. An investigation found that the section of the student body from which the violence emanated had been infiltrated by a gang of armed men. Since the incident took place in a Shia-majority region, with religious and political ties to Iran, some ambassadors believed that this was unquestionably an indirect warning from Tehran to Syria not to oppose the rapprochement between Iran and Iraq. Other diplomats, generally better informed, reported that the Lebanese security services had identified, apprehended, and extracted confessions from a unit of the Syrian Social Nationalist Party (SSNP). Whatever actually happened, a policeman who had killed a student was placed under arrest, purely to conciliate popular opinion.

Later the same month, the Beirut dailies ran a story about infighting at the Lebanese Press Union, the trade association for the newspaper barons. The secretary of the Union was indignant that its chairman, Zouhair Osseiran, had received a million lire from Saud al-Saud, the deposed King of Saudi Arabia, in return for whipping up a campaign to dislodge Saud's brother, King Faisal, from the throne. The secretary had no problem with the editorial line, but he thought that it was ungentlemanly of Osseiran to have kept the fee for himself, rather than sharing it out among the organization's members in the customary fashion. What intrigued me about this business was that it was not only the papers supported by Egypt that had printed this propaganda; similar pieces had also been carried by organs that were backed with Saudi and Kuwaiti money.[19] When I discussed the point with Lebanon's most venerable editor, though, he thought that I was being a bit naive. It was hardly beyond the bounds of credibility, he pointed out, that Riyadh was actually behind both sides of this artificial spat, the entire purpose of which was to humiliate Saud by exposing his grubby plotting.

Fifth column and phoney war

However hard a foreign observer tries to avoid unfounded speculation, however carefully he attempts to maintain an attitude of ironical detachment, he can be left in no doubt that what is happening in Lebanon is a "phoney war." The question is whether this state of affairs is going to deteriorate into a civil war, or possibly encourage another country to invade.

Lebanese people will retort that it is precisely because he is a foreigner that the visitor misinterprets the situation: he sees harbingers of an acute crisis, whereas they have learned to live with the symptoms of a chronic disease. "For as long as I can remember, we have had a fifth column among us," Pierre Edde insisted. "It is just that over time, what used to be a tightrope has turned into a thoroughfare."

Some people even claim that, in spite of recent disruptions, there has in fact been a discernible diminuendo in political agitation. And admittedly, the implosion of Intrabank did not produce a

[19] Without the support of foreign embassies, it would have been impossible for several dozen newspapers to subsist in Beirut, none of which had a circulation in excess of two or three thousand.

revolutionary moment to compare with 1961, when the SSNP led an abortive coup d'etat with the support of one faction of the army. It is also worth remembering that the Lebanese conundrum looked very much like spilling over into civil war in 1958, before the Marines of the U.S. Sixth Fleet arrived. The faint-hearted money decamped from Lebanon then, and it stayed away for at least six months. Contrast that with 1966, when it changed hands from Lebanese bankers to foreign ones, but never actually left Beirut.

Nevertheless, it is sometimes difficult to know, when a patient's seizures start to tail off, whether he is on the mend or on the way out. To the extent that there has recently been a consolidation of the status quo in Lebanon, that does not appear to betoken any improvement in the status of the two institutions that are meant to stand above and against the atomization of clan and religion, namely the President and the army. Instead it reflects a general depletion of the country's vital forces, be they in parliament, the press, the universities, or the banking sector.

The current President, Charles Helou, is well read and a fine jurist—he was a star pupil at the Jesuit University in Beirut—but he does not have the authority of his predecessor, General Chehab, who managed to keep the army out of the fray in 1958. When Chehab retired to his hermitage at Jounieh (to which the Lebanese refer as "our Colombey"), he left behind an omnipresent secret police whose tireless efforts blocked the election to parliament of extremists on all sides. Yet despite the demurral of the military, the factions regrouped, reasserted themselves, and impelled a return to the strict practice of distributing posts according to religion. Once more, confessionalism is seen as a solution to the problems of a divided nation. The establishment, with the sole exception of Kamal

Jumblatt, fears above all the formation of a unified Left, and takes it for granted that the poorest Sunni has more in common with a Sunni millionaire than he does with his equally impoverished Shia or Maronite compatriots.[20]

Why do Lebanon's leaders cleave so strongly to these divisions, which stultify Parliament, the government, and the development of the country? "With her vertical confessional structure, Lebanon can ride out any storm: like an openwork raft, she takes on water but doesn't sink, whereas solid horizontal links would immediately render her vulnerable to the powerful squalls of the Middle East." This simile, from one of the foremost authorities on the Arab world, is not without finesse, but, as an outsider, permit me to take it with a pinch of salt. In Beirut, you occasionally feel as though you have been transported back to Cairo or Alexandria immediately before the fall of Farouk; in other words, before the collapse of an order that everyone believed was invincible, until it suddenly proved otherwise.

Perhaps Lebanon's saving grace is that the art of government is fundamentally an exercise in prevarication here. It is arguable that widespread corruption actually contributes to national cohesion, by creating networks of complicity. Leaving aside the Phoenician flair for trade, the pivotal influence in this country's financial future is Nasser. As long as the Egyptian leader continues to find it advantageous for Beirut to function as a "wealth exchanger," and

[20] An hereditary leader of the Druze, a mystic who believes in reincarnation, a grandee who gave away much of his land—if not his industrial assets—Kamal Jumblatt is a Lebanese Mosaddegh who is trying, thus far with rather limited success, to draw towards him both Ba'athist socialists and Nasserite progressives.

exerts himself, as he does at present, to calm his Lebanese acolytes on their regular trips to Cairo, then Lebanon may be able to preserve a niche vocation as a hub for business that would be considered a bit too racy anywhere else. One should not forget, on the other hand, that the Greek junta has designs on usurping the country's regional role.[21]

As iridescent, precious, and fragile as one of the lachrymatories that you find strewn on the ground in her Roman necropolises, Lebanon is no longer in the fullest sense a tax haven, fit to protect foreign money, or indeed Lebanese money. There may be further cycles of impending doom followed by phoenix-like resurrections, but in a few years, or maybe only a few months, she is destined to disappear down the same trap-door that has swallowed other less vulnerable havens.

One side effect of this process is likely to be a new exodus of rich Christians, who, over the last twenty years, and in contrast with their Muslim compatriots, have tended not to leave for distant lands to the same extent that their grandparents did half a century ago. Most of the 1.2 million Lebanese who have chosen to live and to seek their fortunes away from their birthplace now owe their first loyalty to their adopted countries. They revere their ancestral

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[21] On 31 July 1967, the government in Athens promulgated a law to encourage foreign firms that "wish to conduct business in countries other than Greece, especially in the Mediterranean and the Middle East," to establish themselves in Greece. Provided they limit their activities to developing the company's business outside of the country, foreign branch offices do not have to pay any income tax, and are exempt from all other profits taxes or levies. Their employees are entitled to a two-year work permit, a twelve-month tax holiday, and a waiver of customs duty on items that they need to import while they are there, such as automobiles. The Lebanese press has repeatedly sounded warnings about this competition from Greece.

homeland from afar, but they do not necessarily long to return to it. They contribute generously to the Lebanon, yet they rarely if ever do business with the two million people who still live there.

When a tax haven ceases to be the focus of economic, financial, and monetary life for its diaspora, then we may assume that its decline is imminent. For Chinese people in Southeast Asia, on the other hand, Hong Kong continues to fulfil that role admirably.

5. The hundred flowers of gold

The best kind of closed door is the one you can leave unlocked.

Chinese proverb

Imagine a powerful empire whose borders have stretched for a millennium from the Caspian to the Atlantic, and then imagine that the Pointe du Raz, the Île de Sein, and Ushant have for the past century or more been a separate political entity belonging to a country in far-distant Patagonia. Embellish this visualization with a density of population such that if we in France were as tightly packed in, there would be over two billion of us. Then the situation that you have in mind is essentially that of Hong Kong, a British dependency that supports nearly four million people, half of whom are under fifteen, on a territory of a thousand square kilometres. The colony consists of the eighty-square kilometre Hong Kong Island, which Britain annexed under the treaty that ended the First Opium War in 1842; the adjacent Kowloon Peninsula; and the much larger New Territories, which are leased from the People's Republic of China (PRC) pursuant to a contract that will expire in 1997.

Imagine… Yet you would be hard pressed to imagine Hong Kong. It is one of those rare places in the world where there is little point in a traveller who has seen postcards and documentaries poring over them microscopically to check that nothing is missing. The two soaring stone outcrops of Hong Kong and Kowloon, the magnificent harbour that separates them, the other islands scattered like the petals of a giant daisy, the junks, the freighters, the mists, the sampans, the skyscrapers, The Peak. It's all there, and it's all different. For nothing can convey, in any remotely meaningful degree, the sense of profusion, of abundance, of exuberance. Hong Kong is an explosion of colour and life; a perpetual bursting forth of islands from the sea, of sails from ships, of flower girls with tea-rose cheeks out of the neon-tinted night, of fortune out of misery.

Nothing can prepare you for it, and you will never forget the experience. But by the time you finish reading this book, will Hong Kong, as dainty as the polished toenail of a giant, still present the same spectacle? Will it still be the place where the PRC can pursue a New Economic Policy? Will Beijing still need an English garden in order to make its hundred flowers bloom?

Who knows. Things are in flux, and there are so many ways of interpreting *The Little Red Book* that reading it isn't much help. We should instead consult the other bestseller on the bookstalls of Hong Kong, *The Thoughts of Liu Shaoqi*, which contains the following meditation: "No one is ever certain not to be misunderstood. Yet sooner or later misunderstandings will be dispelled. Leave people to speak for a moment and remember the dictum, 'no matter what the storm may bring, sit tight in your fishing boat'." The truth, however, is that this boat has been tossing about.

Judicious acts of violence

The calling into question of the established order began on 1 May 1967 with a strike at a cement factory. It utilized various deliberately restrained gestures of force in the following sequence, none with great success. A disturbance in the poorer parts of Kowloon from 12 to 18 May. Protest marches. Bus fires and attacks on passers-by in Victoria (the main European district on Hong Kong Island) in late May. Rumblings of a general strike at the end of June, combined with a four-day suspension of food exports by the PRC and a refusal to increase the supply of water. Border incidents triggered by the PRC during the summer. A few selective assassinations. And finally bomb scares, not all of them hoaxes, during autumn and winter.

Yet neither the public transport system nor the economic life of the city ground to a halt, and not only did the masses fail to mobilize, they did not even seem particularly inflamed. As a result, the Hong Kong police, which consists of Chinese recruits officered by cool-headed Brits, was able to move from the defensive to the offensive at the beginning of July. They sent SWAT teams equipped with submachine guns and blowtorches to storm trade union offices and godowns, where they found propaganda, bomb-making equipment, and phials filled with acid and urine. Eight weeks after the riots began, the colony's governor, Sir David Trench, was sufficiently relaxed to take the three months' leave that he had scheduled some time previously. For the crucial thing had been accomplished, which was that Britain had not lost face.

Portugal's colony of Macao, which lies sixty kilometres west of Hong Kong on the other side of the Pearl River estuary, trod a different path. There, organized subversion reared its head in December 1966, leading to seven weeks of rioting that killed eight people and injured two hundred. Chinese people living there who were sympathetic to Beijing boycotted European-owned businesses to protest against "police brutality," and their stance was supported by the Guangdong government, which publicly reprimanded the Macanese authorities. On 29 January 1967, Portugal capitulated unconditionally to the PRC's demands, agreeing to apologize to the Chinese community, to compensate the victims, and to punish the offending officers. The Portuguese also undertook to expel Kuomintang agents from their territory and to extradite seven Taiwanese nationals who had been fished from the sea in suspicious circumstances four years earlier.

Outwardly, nothing had changed in Macao except for the fact that the hotels were three-quarters empty. The Australian greyhounds were running their rigged races again, the casinos had reopened, and one of them had even brought Japanese nymphs down from Tokyo for choreographed nudie shows. At the colosseum you could watch dwarf bullfighting, Portuguese-style, with midget toreadors facing off against little calves. Macao's 200,000 Chinese inhabitants were just about able to scrape a living, as they always had, by redoubling their efforts to gratify a dwindling number of tourists. But they no longer knew who was in charge from one day to the next. Was it the Guangdong government, itself split between rival factions of the Red Guards; the radical politicians in the colony; or Beijing's traditional representative there, the gold baron Ho Yin? One way or another, Portugal's authority in Macao had been reduced to a flimsy vestment that the slightest gust of wind might snatch away.

Why, then, was Hong Kong not engulfed by serious unrest in the summer of 1967? How did the British government summon the resolve to ignore several ultimatums from Beijing, when you would have assumed that this was asking for trouble? Perhaps the Chinese government felt no need to stand on its dignity because everything was proceeding according to plan. Maybe Beijing was confident that Hong Kong would soon go the way of Macao but had no interest in accelerating the process, as that would reduce the income that the PRC earned from its dealings with the British colony. Or were the hotheads of Guangzhou stirring things up in Hong Kong without Beijing's authorization, in fact against the latter's desire to preserve the status quo? One can only plead, like Montaigne: "Is it true? I don't know, I'm just telling you what I've heard," even if what one hears is sometimes inconsistent.

Amid this confusion of possibilities, which makes Hong Kong's future unsure, one thing is certain. Nothing terminal occurred there in 1967 because the revolutionary leaders were not supported by the majority of the colony's Chinese population. That much was apparent from the repeated breaking of strikes, the ease with which the authorities were able to make arrests, and the earnest appeal for calm voiced by the students of Hong Kong University.

There are 80,000 homeless people camped out on the rooftops of the city's public housing, while another 100,000 are crammed into the floating village in Aberdeen Harbour. Hong Kong is home to a poverty-stricken population for whom opium is a religion. Yet they did not rise up against the British regime. Many of them are refugees whose parents, if not they themselves, have already endured a worse fate, when they were driven from the mainland by famine and terror in the 1950s. Riches, not revolution, are the heady dream of the Hong Kong Chinese.

Their appetite for risk, their love of gambling, and their faith that something will turn up make them cling to that dream so tightly that there is little real unemployment. Families, nuclear and extended, look after one another, and, despite everything, wages doubled between 1956 and 1965. Hong Kong's 308 trade unions are not a revolutionary force. They are too numerous, have few permanent staff, and are divided in their loyalties between Beijing and Taipei. They can incite disorder, but they find it hard to impose discipline, not least because businesses here tend to be family based.[1] Out of sixty firms surveyed, fifty-eight said that they had lost fewer than two days' output during the worst two months of 1967.

The rich showed no greater desire to leave than the poor, at a time when Muslims were massacring their Chinese compatriots in Indonesia, harassment was mounting in Burma, and the government of Thailand had just decreed that no Hong Kong national could enter the country unless a Thai citizen put up a surety of 10,000 baht (500 U.S. dollars), which would be refunded only against proof that they had left again. While the influx of capital from the rest of southeast

[1] In the traditional craft sector the average number of workers is seven, of whom twenty-one percent are part-time. Among factory-based enterprises the average is forty-one employees, with nine percent working part-time. Only 421 companies employ more than two hundred workers, whereas there are 10,000 firms with fewer than that number. Out of an active workforce of one and a half million, only 131,306 were trade union members in 1966. In the textile industry, a mere two percent of workers are unionized. Men work ten hours a day, seven days a week, and are free to do overtime at higher rates of pay. Women work eight hours a day, six days a week. They get six days' annual holiday, and sick leave at half-pay for a maximum of twelve days per year.

Asia slowed down, outflows from Hong Kong were only 1.9 percent in June and July, with banks losing no more than six percent of their deposits. The colony's 3.7 million Chinese residents were prepared to put their trust in the British regime, its money, and its financial institutions.

This act of faith is not as brave in the short or even in the medium term as it can be made to appear each time the alarm is sounded anew. On balance, and while everything could turn on a dime, Hong Kong's status as a tax haven seems as secure today as it did when I visited the territory in 1965. We should certainly be in no hurry to pronounce the last rites on its behalf, when the world's other offshore centres look drab, hidebound, and unimaginative in comparison.

The advantages of Victorian anachronism

The people of Hong Kong submit to British rule because it is an umbrella beneath which they can pursue business that is commercial in nature, but at the same time political and diplomatic, and in which ends and means are indivisible, an ideology distinctive to this colony. The judicious observance of a hands-off approach has enabled the administration here to endure in spite of the fact that it sticks out like a sore thumb in a rapidly developing Asia. It is as if the British have somehow stopped the clock and are feigning a state of trance-like slumber, impersonating a sleepwalker who cannot be roused. The Raj is gone, yet in Hong Kong you would be forgiven for thinking that Victoria was still on the throne, rather than Elizabeth II, even after you have seen Elizabeth's profile on the coins and stamps. The Labour government, the Foreign Office, and the House of Commons are little more than upstarts and busybodies, bustling about in Westminster and Whitehall, so far away that they might as well be on another planet. The laissez-faire of Adam Smith has taken root here, whereas Butskellite reformism would have crashed and burned. If Hong Kong is reconciled to its colonial status, that is because the false semblance of despotic government by a distant metropolis—in fact largely illusory—has allowed for economical administration, with no parliament, parties, or elections.

Britain has done the colony a favour by importing the common law, since it is the fixed arm from which the Chinese mobile dangles. Justice is blind here, unlike elsewhere in Asia where there is one law for the powerful and another for the weak, making business unpredictable. Moreover, there is enough honesty in the higher reaches of government that it limits small-scale graft lower down the ranks. Eventual recourse to superiors who are incorruptible acts as a prophylactic against excess. With their long experience of Asia, the British have found the knack of blending severity and tolerance in the ideal proportions to allow Hong Kong to capitalize fully on its tax haven role.

For one thing, the currency is reassuringly solid. On Saturday 18 November 1967, when Britain devalued sterling by 14.3 percent, the colonial government's first instinct was to follow suit; so they reduced the value of the Hong Kong dollar by the same proportion. But they soon pulled themselves together, and, the following Tuesday (in a volte-face unprecedented in monetary history), pushed the dollar *back up* by almost ten percent, having belatedly determined that a 5.7 percent devaluation was quite sufficient in their case, given that China, Japan, and Malaysia showed no inclination to replicate the British example. At its new level of 6.06 to the U.S. dollar, the Hong Kong dollar is holding firm on the colony's open foreign exchange market, which is the largest in Asia. It is also the only one where, unlike in Beirut, you can trade any currency you like in almost unlimited volumes. This obviously provides unparalleled opportunities for arbitrage, and everybody takes advantage of them, from the lowliest street dealer to the most sophisticated banker.

Hong Kong is host to a veritable constellation of financial institutions, including ninety-odd banks with a total of 308 branches. They are categorized by the regulator as "foreign," "special," "A1," "A2," or "B," with the classification affecting the permitted level of interest rates. The overall effect is that the smallest local banks are able to offer deposit rates around 150 basis points higher than those payable by the largest international institutions. Thus, alongside the leading lights from Europe and the United States that one encounters in financial centres the world over, there are numerous banks of varying sizes run by Hong Kong Chinese financiers. There are banks specially set up to manage the finances of the *huaqiao* ("overseas Chinese," as they style themselves) in southeast Asia, and there are also "mainland" Chinese banks, which for understandable reasons are not referred to as "communist." Finally, there are the major British-owned banks, which have a separate, semi-official status.

Eight of the "mainland" banks specialize in the costly repatriation of frozen cadavers to the ancestral homeland, and in handling remittances from the Chinese diaspora, which sends some two hundred million dollars a year back to the PRC. The ninth, Bank of China (BOC), is responsible for financing the PRC's external trade. It is a testament to the BOC's prestige that its huge tower—the only one, by the way, that the police would never dare to search—is just a few metres taller than the building immediately next door, which belongs to the Hong Kong and Shanghai Banking Corporation (HSBC).

HSBC, as the name suggests, began its life in the colony and has since become a global presence. It is still one of the official issuers of banknotes here, the others being Chartered Bank and Mercantile Bank. Moreover, as the holder of twenty-seven percent of all the colony's deposits, HSBC practically has the power to decide which local industries are able to raise long-term debt finance and which are not. Most of the other banks in Hong Kong invest at least forty-five percent of their funds overseas, and they largely confine themselves to making short-term loans with their remaining capital.

Although it is easily as superabundant and diversified as the Lebanese financial services industry, Hong Kong's banking sector survived virtually unscathed when it faced the inevitable ordeal that all tax havens must contend with eventually. I speak, of course, of the failure of one or more local institutions, which leads to a run on all of the others, and only serves to strengthen the biggest international players. In this case, the heartache and panic hit in February 1965, appropriately enough at the beginning of the year of the snake, when endless lines of small depositors, including folks who had no home to go to, waited anxiously to withdraw their life savings, down to the last nickel, from five or six local banks that were rumoured to be in difficulty.

You felt as though you were hallucinating when you saw these huddled masses out there on the baking sidewalks for a day and a half or two days at a stretch, the queues extending for several kilometres while motorcycle cops patrolled the streets with a megaphone calling for calm. What mattered, however, was that the crisis never developed beyond that stage. Colporteurs, amahs, rickshaw-pullers, eaters of a bowl of rice a day, all ultimately kept faith with the system. The British banks' willingness to act as a lender of last resort did much to pacify Hong Kong's depositors, and the government did the rest by limiting withdrawals to a hundred dollars per account daily. An announcement that sterling would temporarily constitute alternative legal tender, coupled with the arrival overnight of whole plane-loads of banknotes from London, headed off a looming cash shortage.

While Lebanon created a central bank in 1963 to increase discipline in its banking sector, Beirut has never really escaped from the vortex of mistrust into which it fell in 1966. Hong Kong, on the other hand, which had no intention of establishing a central bank, managed to improve the stability of its financial system in 1964 by investing significant discretionary powers in a single public official, the Commissioner of Banking.[2] The Commissioner has the authority to seize and audit bank books; to assume control of a failing bank, or to instruct someone else to do so; and, after consulting with the government, to allocate public funds for reimbursing depositors. Although the system creaked in 1965, this

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[2] The 1964 Banking Ordinance lays down a minimum capital requirement of five million dollars (increased to ten million in 1967) and a liquidity ratio of twenty-five percent. It restricts the loans that banks are permitted to make to their directors, and prohibits them from investing more than twenty-five percent of their capital in real estate. The ordinance was strengthened in 1967, when a stricter method of calculating the liquidity ratio was introduced (to exclude balances held with other banks), along with the duty to maintain an adequate provision for bad and doubtful debts.

comparatively robust regulatory regime helped to ensure a rapid and orderly recovery. Since then, money has continued to pour into the colony from throughout the region, partly because there are plenty of lucrative investment opportunities here. That is one thing that distinguishes Hong Kong from most other tax havens, where good local assets tend to be scarce.

The unleashing of maritime trade

Hong Kong is no ordinary port, where the entrepôt trade depends in essence upon a legal fiction. Nor is its free port a segregated subdivision of some larger territory, as is the case in Panama or Beirut. Rather, the entire colony is a "free zone" whose unique character has been shaped by the exigencies of history.

In the nineteenth century, Hong Kong was where Indian opium transited to the Middle Kingdom. In the 1930s and 1940s, it provided the Chinese Communist Party with a "base area," as Mao put it, when things got too hot on the mainland. The embargo imposed by the United States because of the Korean War, together with the reopening of the major Chinese ports after the failure of the Nationalist blockade, ensured that the colony gradually lost its traditional role as a conduit for China's economic relations with the rest of the world.

Yet Hong Kong is still one of Asia's busiest ports, and its godowns can accommodate more than one and a half million tons of goods at a time. These facilities are useful for obscuring the provenance and the itinerary of cargos whose consignors would rather remain anonymous, whether bound for mainland China or for the harbours of Vietnam.[3] Certainly there is no other port in Asia that works as hard, as efficiently, or as continuously, for twenty-one hours a day, seven days a week. Nor is there anywhere else that can match Hong Kong's level of sophistication when it comes to the strategic dimension of cross-border trade, whether we are talking about the timing of shipments, the identity of the carrier, the routes they ply, bespoke financial arrangements, or whatever other expedient is called for by the latest twist of the geopolitical kaleidoscope.

Hong Kong exports very little to the mainland, but it imports hundreds of millions of dollars' worth of Chinese products that the PRC would find it difficult to sell to anyone else. These include sixty-eight billion litres of fresh water per year, sand and stone to build the skyscrapers that are creeping up the mountainside, whole rafts of ducks, and tens of thousands of other things that Communist-run emporiums are able to provide more cheaply than the colony's other suppliers. Hong Kong is thus an important consumer market, with total imports in the region of ten million tons per annum. It is also increasingly an industrial powerhouse, despite the fact that manual labour here is less badly remunerated than it is in South Korea, Taiwan, or Macao (or even, according to some economists, in Portugal). The textile industry was the earliest to develop, but the colony now also exports high-tech goods to the First World, often manufactured according to the latest Western designs.

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[3] William Macomber, the U.S. Assistant Secretary of State for Congressional Relations, told the House Committee on Foreign Affairs in August 1967 that out of thirty-nine "free world ships" that arrived in North Vietnamese ports during the first six months of that year, at least thirty-one flew the British red ensign and were registered in Hong Kong, but were "believed to be under the control of Communist Chinese interests."

In Hong Kong you will find a consummate privacy, which extends not only to your business activities but also to your way of life. Zurich and Geneva harbour just a single race of gnomes, whereas this colony is home to many different peoples, who hail from disparate horizons and rub along together without ever really mixing. Each community follows its own time-honoured traditions, knowledge of which demarcates them from the other groups. If you wanted to map every last headwater in a commercial catchment area that stretches from the Pacific Rim to the Indian Ocean, then you would need to be initiated into all of these circles. Yet that would be impossible, for it would require you to have spent the last thirty years in Hong Kong, Shanghai, Guangzhou, and Macao, all at the same time.

In Shanghai, because the "taipans" (the leading lights of the British business establishment in Hong Kong) mostly relocated here from the Bund in 1948 and 1949, bringing with them their capital and their best people. The bankers who left Shanghai had intimate links both with the City of London and with the Chinatowns of San Francisco and New York.

In Guangzhou, too, because it saw a mass exodus of workers and small business owners in the same period. They went downriver to Hong Kong along with dozens of "towkays" (the big cheeses among the indigenous business elite), many of whom had made their fortunes during long periods spent living in Indonesia or Singapore.

And you would naturally need to have spent plenty of time not merely in Hong Kong itself, but also in Macao. For one should keep in mind that, while Hong Kong was occupied by the Japanese from 1941 to 1945, Macao largely escaped that ordeal, thanks to Portuguese neutrality. Some 9,000 British subjects found refuge there and the experience of those years helps to explain why, to this day, Britain treats a select group of Chinese families with such respect and indulgence.

In anatomizing the higher reaches of Hong Kong society today, you have to appreciate the sense of solidarity that developed among the British civilians who were interned in Stanley Camp. But you also need to go further back in history, and explore the connections that were forged over generations between the main British firms, such as Jardine Matheson and Butterfield & Swire, and the local entrepreneurs whose influence originally derived from their role as compradors, a Portuguese word that translates as "buyer," but is better understood in terms of a trusted intermediary who is somehow both servant and master simultaneously. The comprador, and he alone, had the right set of skills to assess the credibility of prospective Asian business partners, to predict local demand, and to avoid the pitfalls of oral contracts that, once entered into, could not easily be rescinded.

Although the comprador dynasties have long since struck out on their own, they have never completely severed their historic ties. Sometimes allies, sometimes rivals of the British, they have their own networks of commercial relationships and their own banks, which are able to borrow and lend at higher rates than others and can thus justify taking on more risk, notably in the real estate sector. The British banks and trading houses, which have little choice but to cooperate with these native businessmen yet nevertheless resent their competition, have often dreamt of restoring their own hegemony over Hong Kong's Chinese capitalism. One way of doing that is by encouraging family firms to go public and float themselves on the stock exchange, as is common practice in Europe, particularly at times when money is tight. But it may be that less kid-glove methods are occasionally employed as well.

Some people claimed that the problems suffered in 1965 by Hang Seng Bank, the largest of Hong Kong's "domestic" banks, had to be seen through that lens. There were rumours that the bank was in difficulty during the wider panic in February, although it had a thirty percent liquidity ratio at that time. Then it became the sole victim of a fresh crisis in April, which it only survived by selling fifty-one percent of its equity to the most powerful of the British banks, HSBC. Cui bono? That was how most European and American bankers in the colony seemed to interpret this episode, yet they were envious of British financial supremacy there, and may have jumped to conclusions without sufficiently appreciating the subtleties of life in the Far East.

The exquisite manoeuvrings of the Ho family

It was through researching the history of Hang Seng Bank that I began to grasp what really underlies Hong Kong's strength as an offshore financial centre. Small as it appears on the surface, the colony has underground linkages that extend a long, long way beyond its frontiers. See what you make of my efforts to pursue the various paths down which this insight led me.

Hang Seng Bank started out in 1933 as a modest *yinhao* ("money shop") and prospered in the run-up to World War II as gold flooded into Hong Kong from Shanghai and other mainland centres. Its success was attributable to the hard work and talent of several members of the extended Ho clan from Panyu in southern

Guangdong. The founder and present chairman of the bank, Ho Sin Hang (also known as S.H. Ho), came from humble origins but is now a pillar of the British order, despite the fact that he speaks barely a word of English. Some say that his great influence stems from his links with various Triad Societies, and who knows, they may be onto something. It was under Ho Sin Hang's leadership, in any case, that Hang Seng Bank achieved the distinction, by the early 1960s, of holding ten percent of all of Hong Kong's deposits, which was more than all of the continental European and American banks combined.

Ho Sin Hang did not accomplish this by himself, though; he was ably assisted by another Ho—Ho Tim—who also hails from Panyu. Ho Tim joined Hang Seng Bank at its inception and now holds the position of vice chairman. After the Japanese invasion of Hong Kong, the bank's founders and staff sought asylum in Macao, where they kept the business going for the next four years. There they were joined by Ho Tim's half-brother Ho Yin, a fellow refugee from Hong Kong who chose to remain in Macao at the war's end. Now uncrowned king of the Portuguese colony, he owns five hotels, three banks, two newspapers, and most of the public transportation network. Ho Yin is the acknowledged leader of the Chinese community in Macao, whose interests he represents in the Political Consultative Conference of the PRC, and is effectively Beijing's eyes and ears in the colony. He combines his political responsibilities with a parallel role, which is equally sensitive, as the head of the gold syndicate.

Both Ho Yin and Hang Seng Bank, who are still closely connected, owed their wartime good fortune to the gold trade, and specifically to their cosy relationship with Pedro Lobo, the Eurasian director of Macao's Bureau of Economic Services. Lobo's official position provided him with the perfect vantage point from which to oversee all of Macao's grey market business, including the casinos and "houses of ill fame" for which the city was celebrated and, above all, bullion smuggling, which was worth fifty million dollars a year. Ho Yin became Lobo's number two in the bullion business, succeeding to his crown upon the latter's death in 1965. In the late 1940s, they profited from the tremendous demand for gold and foreign exchange that resulted from rampant inflation and the debasement of the Chinese currency, which contributed to the downfall of the Nationalist government. And that was also the principal business of Hang Seng Bank, until it began to expand into the United States, the Philippines, and Indonesia in the early 1950s.

Despite moving its headquarters back to Hong Kong after the war, Hang Seng retained a foothold in Macao, where Ho Yin had by then established his own financial infrastructure, based on the Tai Fung and Seng Heng *yinhaos*. Ho Yin cultivated lucrative connections not only in the world of bullion but also of Macao's other major industry, namely gambling. His partner in the latter field was Fu Tak Yam, whose Tai Heng company had held the casino concession since 1937. The legendary Fu, who had briefly served jail time as a young man, was always armed to the teeth, partly because he had a penchant for keeping his dinner guests on their toes by practising his aim with a handgun under the table. The other reason was that he had lost almost a million dollars and one of his earlobes during an earlier kidnapping, and now surrounded his house with barbed wire and bodyguards for fear of abduction. By the mid-1960s, Fu, Ho Yin, and their associates (including Chan, the king of firecrackers, and Wu the match magnate) were behind the "canidrome" that hosted Macao's greyhound racing. This was something of a consolation prize, however, for they had lost their previous hold on casino gambling when the concession came up for renewal in 1961.

That was because they were ruthlessly outbid by yet another Ho, this time no relation, though whose heritage is arguably more illustrious. Stanley Ho is the grand-nephew of Sir Robert Ho Tung, Jardine Matheson's most remarkable comprador, reputed to have been the richest man in Hong Kong by the time he was thirty-five. Stanley also worked for Pedro Lobo during the war, and now presides over a business empire, licit as well as illicit, spanning both sides of the Pearl River. I was keen to interview him, but it took me a while to track down his address. The French banker I initially consulted couldn't find it, but in the end I struck it lucky and managed to get hold of his agent. It turned out that Stanley Ho lived in a penthouse at the top of a skyscraper that happened to belong to Hang Seng Bank. He received me with exquisite courtesy, explaining to me at some length in perfect English that he wasn't really interested in getting involved with banking. Yes, he invested in gambling ventures, but only because he saw them as a good complement to his main business, which was tourism and real estate development.

One thing you notice about Hong Kong is that the houses are built at strange angles to each other, since evil spirits supposedly travel in straight lines and you can never have too many mirrors and curved surfaces to deflect them. A similar philosophy pervades social and commercial relationships. It would be short-sighted to assume that the enemy of your friend could never be of any use to you, because those categories might easily be inverted in the not too distant future. What is more, if they were, that would not necessarily imply that any definitive rupture had taken place. Hong Kong is a great big turntable, and the political combinations that are feasible at any particular time largely depend upon the financial interests at stake.[4] To tell the story about the chameleon that died of exhaustion after walking across a tartan rug is considered the height of bad manners here, where chameleons always prosper.

The triopoly dispatches, Macao receives

What, then, can you do in this Asian tax haven better than you can anywhere else? Well, the colony is the global centre of a particular commercial activity that has both legitimate and illegitimate aspects and depends for its pay-off on compensating financial flows taking place in a certain other, ostensibly unrelated, business. To be somewhat less cryptic, Hong Kong is the "regulator," in all senses of the word, that controls the delivery of gold to large Asian populations who have a permanent appetite for it. As we will see, when people talk about "dispatching" bullion, they mean more than simply sending it out. You also have to find a practicable way for your customers to pay for it.

[4] In December 1964, for example, General Cheng Yi-ming, Chiang Kai-shek's intelligence supremo in Macao, defected to Beijing, taking with him the names of a hundred Taiwanese and U.S. agents who were active on the mainland. It transpired that Cheng was not a new Sorge, who had secretly been working for the other side all along. Rather, he had lost all of the money that Taipei had given him by playing in Macao's private rooms against gamblers who he thought were textile moguls from Hong Kong, but were actually Maoist operatives. When they threatened him with denunciation, Cheng, who had no remaining funds to stake on a final throw of the dice, decided that the prospect of a new life in the PRC was not so unappealing after all.

They say that in the land of the blind, the one-eyed man is king, but I gradually realized that if anything, in this instance, it was the other way around. This Asiatic odyssey, I felt, deserved its Ulysses, or one would achieve no more than meekly venturing into shady byways. The epic commences when fine gold is imported into Hong Kong "in transit." As a result of official licensing arrangements, there are three firms that have an effective monopoly on this trade, and they no longer engage in active competition, having decided around fifteen years ago that maintaining a reasonable margin was more important than trying to maximize their individual market share.

Among this trio (the "triopoly," as they are referred to in Hong Kong) there are two senior partners of roughly equal size. The first, Mount Trading Company, is a subsidiary of Samuel Montagu & Co, one of the big five bullion banks that meet in the City of London every weekday morning to fix the price of gold.[5] The second,

[5] By long-established tradition, the "fixing" takes place at 10.30 am in the St Swithin's Lane offices of N.M. Rothschild & Sons, the English branch of the banking dynasty, which acts as broker for the Bank of England. There is a room set aside for this purpose, modern in style but decorated with antique paintings, where each desk is equipped with a telephone and a miniature Union Jack (which its occupant raises when he is conferring with his trading colleagues back at base). The fixing is crucial, since it establishes the price at which the Bank of England, acting as agent for the Reserve Bank of South Africa, is willing to satisfy market demand. This price then serves as a benchmark for the numerous transactions that will be concluded by phone throughout the rest of the day and into the evening. The big five consists of: N.M. Rothschild; Sharps Pixley; Johnson Matthey (whose hallmark is currently in vogue with the oil-sheikhs); Samuel Montagu (the most influential in terms of moving the market); and Mocatta & Goldsmid (the longest-established bullion bank, which became a wholly-owned subsidiary of

Premex, is owned by Bulextra, the Swiss firm that we encountered earlier in Beirut, which in turn is controlled by the Banque de l'Indochine. Premex has done extremely well for itself in Hong Kong, thanks to the brilliance of its French chief, who possesses a little of the Oriental genius, not least in his mathematical acumen. He appreciates how a Chinese trader constantly calculates without anticipating a particular outcome, how he factors in all probabilities until events take an unforeseen turn to which he immediately readjusts himself, and how he only talks about gold if he wants tin, or tin if he wants opium.

Unlike the other two, the third importer, Commercial Investment Company, operates exclusively in Hong Kong. It is essentially the alter ego of its founder, Pier Gino Calcina, the only European comprador I chanced to meet, whose energy is prodigious considering his advanced years and declining health. “Old Cal,” as he is known throughout the East, arrived in Tianjin in 1917 on a mission to deliver airframes. Although he was strapped for cash, he decided to demobilize himself *in situ*, obtaining his first job on the recommendation of a lady he met by chance one day on the beach. From unglamorous beginnings working as the most junior trader for HSBC, his skill and determination soon saw him promoted to be the bank's sole representative on the Shanghai gold exchange. With the retreat to Hong Kong in 1949, Old Cal became involved in investment and speculation of all varieties, not just currencies and bullion, but everything from bulk commodities to U.S. stocks and shares.

Hambros Bank in 1957). Mocatta recently acquired a forty percent stake in the Commercial Investment Company, to which reference is made below.

When it arrives in Hong Kong, gold is only worth fifty cents more (if that) than the price set in London, and the triopoly needs to move it on quickly, because the colony's legislation only permits bullion to be imported "in transit" if it is earmarked for re-export to countries that do not have exchange controls. For reasons that remain obscure, Macao has always been excluded from the Bretton Woods rules, even though Portugal joined the IMF in 1961. And the beauty of it is that Macao can be reached from Hong Kong in twenty minutes, using flying boats that originate (like Old Cal) from Italy. The Portuguese territory thus finds itself in the highly advantageous position of being able to take in as much of Hong Kong's gold as it can stomach, subject to no legal impediment whatsoever.

In return for a payment to the local authorities of two U.S. dollars per ounce, 12.5-kilo gold bars sent to Macao are cloaked with invisibility.[6] This twice-weekly miracle is performed by Ho Yin and his second-in-command, Y.C. Liang. For once they have deposited the bullion in the vaults of the Cambista Seng Heng, apparently no one ever sees it again. Macao is not a big place, only twenty square kilometres, but nobody seems to know where these large ingots disappear to. No one will admit to melting them down into smaller bars weighing six or twelve taels, more convenient for the minor-league hoarder, or beating them out into flat sheets that are easily concealed amid cargos of copper or zinc.[7] Nor can anyone say whether the bullion is then loaded onto rickety-looking fishing junks with patched sails and powerful hidden motors, which are so heavily protected that neither Beijing's gunboats nor the pirates of the South China Sea would ever dare to molest them.

[6] As at 1 July 1964; I understand that the fee is now considerably higher.
[7] One tael is equivalent to 37.8 grams.

A high proportion of this gold undoubtedly makes the short journey back to Hong Kong, although this leg of the operation is not entirely risk free. The customs men, who are supposed to police illegal imports, seemingly adhere to a kind of moral code, or rule of the game, that necessitates their making at least occasional seizures. *The Economist* recently estimated that a quarter of contraband gold shipments are lost in this fashion, but that may well be an over-estimate. If you can land the gold without mishap, however, then you are sitting pretty, because, in a quirk that strikes the observer as somewhat arbitrary, the Hong Kong regulations introduced in 1953 permit an open market in gold that is less than 0.950 fine. Gold of 0.945 purity (i.e. 22.7 karat) is thus freely quoted on the Chinese-run Gold and Silver Exchange, where it commands a premium of up to five U.S. dollars over the London price, with the exact level dependent upon expectations of future currency debasement and the vehemence with which Beijing is rattling its sabres at any given time.[8]

Way stations on the road to India

There is no need to content yourself with such a modest profit, though! For in a further triumph of casuistry, the colony's regulations state that bullion "owned by a non-resident" may legally be exported to any destination whatsoever without producing an import license. And an ounce of gold is worth ten or twelve dollars more in India, the ultimate destination for most smuggled bullion,

[8] In January 1968 the premium was slightly more than five dollars.

which swallows up to two million ounces of it per year. Centuries of religious fervour, and four decades of continual inflation, have surrounded gold with a doubly sacred aura, contributing to a price breakout that has since been exacerbated by numerous devaluations of the rupee and by the closure of the official market.

When a poor Indian farmer gathers a good harvest, or an artisan finds work, his first thought is to buy a gold ring. If Lady Luck continues to smile on him then he will buy a second and a third, and, if things carry on in this vein, he might even consider taking a wife. With the next favourable turn of fortune's wheel, he can trade his gold rings in for an earring; in fact he may be able to afford a pair. But if he loses his means of subsistence before he is ready to make the next step up to a bracelet, then he can always trade the earrings back in for rings again. This coming-and-going persists throughout his life.

India contains over five hundred million people who, according to the experts, buy 250 tonnes of gold every year (which still works out at less than half a gram each). Yet if gold demand among Indians and, to a lesser extent, Pakistanis is practically unlimited, their means of paying for it, on the other hand, are not. As a technical matter, this means that the clandestine suppliers—who have to pay for bullion in dollars—need to swap out any local currency that they receive before they can restock. In practice, this involves getting rid of it at huge discounts, ideally without the cash ever leaving its country of origin. The haircut ranges from ten percent on the Thai baht to eighty-five percent or more on the Indian and Indonesian rupees.

Hong Kong, capital of the "third China," beholden to neither Beijing nor Taipei, is the clearing house *par excellence* for these transactions, since her network of dealers is almost as numerous as the community of overseas Chinese is in southeast Asia. At the beginning of the 1960s, that already encompassed about 12.6 million people, making up five percent of the population. They are prominent in trade, despite ongoing discrimination and periodic pogroms that encourage them to deposit about two hundred million dollars of their savings in Hong Kong every year, which they consider it too risky to invest where they live.[9]

The existence of this diaspora is the ace in Hong Kong's pack, the vital link that enables the colony's Chinese middlemen to procure the cashflows that their customers need in order to slake their thirst for gold. In the case of India alone, that must amount to 375 million dollars every year. The diversion of part of the military and civilian aid received by members of the SEATO bloc can only supply a limited and variable proportion, at best, of southeast Asia's constant demand for U.S. currency. What, then, is being sold for dollars by this not yet industrialized corner of the globe: what natural commodity is both comparatively plentiful in these latitudes yet sufficiently scarce as to be worth around thirty-five dollars an ounce. Indian sandalwood? Well, all right, except that there is nowhere near enough demand. How about rhinoceros horn, which is ground up for use in traditional Asian medicine? Yes, but the supply of that is negligible. Opium. Opium is the only credible candidate.

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[9] The three million Han Chinese in Indonesia prior to the massacres reportedly owned ninety percent of the retail sector there, in a country of a hundred million. In the Philippines, Chinese people make up only 1.1 percent of the population, yet silver extracted from the country's mines leaves covertly for Hong Kong in boats of 5,000 or 6,000 tons. Then consider that the population of Cambodia is seven percent Chinese, in Thailand eleven percent, thirty-seven percent in Malaysia, and seventy-five percent in Singapore!

The Asian equation between gold and opium

Eighteen hundred to 2,000 tonnes of poppies harvested in the Chinese province of Yunnan, on the neighbouring high plateau of northern Burma, in Thailand, Laos, and, principally, in India; as against between 260 and 320 tonnes of gold coming in from overseas. There, without question, you have the definitive equation, the $E=mc^2$, that allows you to solve this Asian enigma.[10]

It took me some time to cotton onto this and even longer to persuade myself that I wasn't barking up the wrong tree, because the two worlds, of bullion on the one hand and drugs on the other, seem at first glance to be so disparate that you hardly think to connect them. The first supply chain starts in South Africa and Fort Knox and proceeds via the official exchange markets of the free world, which are controlled by central bank governors who are not exactly known for their beatnik proclivities. Gold is siphoned off by smugglers using banks based in offshore financial centres, and they ensure that it gets through to humble surreptitious savers who have the misfortune to live in countries with restrictive regulations.

The second chain begins in the poppy fields grown by peasants in remote regions devoid of other resources, and ends with the drug users of the world's major cities, after passing through the hands of

[10] The figure of 1,800 to 2,000 tonnes comes from those responsible for combating the drug traffic in Bangkok and Hong Kong. They were quite unequivocal about it. The Permanent Central Narcotics Board, for its part, estimated in 1967 that the annual quantity of contraband opium available worldwide had fallen from 2,000 to 1,200 tonnes since 1962 (including Turkish and Mexican supplies but excluding those from the Chinese provinces of Liaoning and Jilin). Twelve hundred tonnes is enough for 12 billion therapeutic doses of morphine or 24 billion hits of heroin.

organized criminals who, somewhere along the way, refine the opium into morphine and heroin. There is a frightening symmetry between the starving villagers of India and the junkie of New York's Bowery district, both of whom suffer cruelly to satisfy their separate cravings. This is not merely an idle daydream, either, because both of these illegal trades ebb and flow on the same tide of capital.

A tax haven but also a kind of nirvana, to judge from the ubiquity of its opium dens, it is no coincidence that Hong Kong occupies a pivotal position at the nexus of both industries. Born out of the British desire to break the Canton System and to evade the Chinese prohibition on "foreign mud" from India, it is something of an historical irony that, a century later, Hong Kong takes opium from China and southeast Asia and distributes it to other parts of the world where the demand is now greater. To some extent that means Europe, but above all the stuff ends up in the United States, whether it is dispatched directly to San Francisco and other Californian ports, or is sent out on treks along the old Silk Road before passing through Calcutta or Bombay, Djibouti or Athens, Genoa or Marseilles, and eventually arriving in New Orleans and New York.

According to the fascinating account by David Lyle that appeared in the March 1966 issue of *Esquire* magazine, there are ninety-three thousand heroin addicts in the United States, whose habit costs them on average fourteen dollars a day. That adds up to a currency outflow of nearly half a billion dollars per annum, much of which ultimately ends up being used to buy bullion. From that perspective, the substitution of home-made LSD and barbiturates can almost start to look like a quick fix for the U.S. balance of payments crisis.

As Hong Kong is contributing to that crisis, isn't she asking for trouble from the Americans? Not really, because they are well aware that the colony is not the only place that performs this Janus-like role. Most of the opium that is grown in the southeast Asian uplands travels south through Laos and Thailand, along trails guarded by the last remnants of the Kuomintang in the Shan Highlands and by the Montagnards of central Vietnam. Both of these groups have received American backing, which has been sufficiently generous that the price of second-hand assault rifles has taken a nosedive across the entire region.

There are a number of alternative routes, too, for bullion to reach south and southeast Asia. In 1966, for example, the gold market in Vientiane saw a slightly higher throughput than Hong Kong's did, while the Emirate of Dubai had a trading volume to match that of Hong Kong, Macao, and Vientiane combined!

The challengers: Vientiane and Dubai

The unfolding story of these two challengers defines a limit to Hong Kong's ascendancy. In a nutshell, the colony's pre-eminence will continue as long as Vientiane and Dubai have to rely upon others in order to obtain dollars in exchange for gold. In Vientiane's case, the assistance comes directly from Washington, while Dubai depends on Hong Kong's own southeast Asian network.

Vientiane is currently supplying Asia's demand for bullion at the most competitive prices. That is because Prince Souvanna Phouma is now one of Washington's "good guys." To help prop up his regime, the Americans created a stabilization fund for the Lao kip in

1964, with contributions from Britain, France, Australia, and Japan. This had the desired effect of suppressing inflation, without resorting to the imposition of exchange controls. The donor countries positively encouraged the Lao government to increase its gold imports, because the purchase tax on bullion, which rose from three percent to five percent in May 1964, was one of the few sources of income available to mitigate the country's growing budget deficit. By 1966, Laos was importing a tonne of gold each week, up from thirty-six tonnes for the whole of 1965 and eleven tonnes in 1964. The gold purchase tax has since been increased to eight and a half percent, and it accounted for two-fifths of the government's revenue in 1967.

Bullion is transported from London to Bangkok by commercial airliner and ferried up to Vientiane in smaller planes belonging to Thai Airways and Royal Air Lao. These flights are sufficiently frequent that an order placed with the Vientiane branch of the Banque de l'Indochine will normally be filled within three days. Delivery generally takes place on the airport apron at nightfall.

The dusk is convenient for masking the transfer of much of this gold onto light aircraft that will carry it to its ultimate destination, where it will be dropped by parachute or landed on makeshift airstrips.[11] The Lao government probably has little idea where the

[11] Many of the pilots flying these backstairs routes fought in the Indochina War or otherwise have an interesting past. Henri Dericourt, for example, was a famous aerial acrobat before being recruited by SOE during World War II, when he was single-handedly responsible for twenty percent of its successful exfiltrations from occupied France (or so it is said). At the end of the war, Dericourt joined Air France, but was detained at Croydon Aerodrome in April 1946 after 6.8 kilos of gold and nine kilos of platinum were found in his baggage. He was released after paying a fine, and then re-arrested in France

bullion ends up, and doesn't much care, because it makes no difference to them whether gold travels back to Thailand and then on to India, or is taken directly to South Vietnam. Until it devalued the piaster in June 1966, the Saigon government had a comparatively liberal attitude towards gold imports anyway, allowing travellers to bring in up to half a kilogram each. As a quid pro quo for devaluing, however, Saigon obtained the IMF's permission to sell a "small amount" of gold itself, supposedly for jewellery. Since the government could acquire bullion from the Federal Reserve at the official price, whereas the retail value in Saigon was around fifty dollars an ounce, this trade yielded a forty-two percent profit, on an estimated 20,000 ounces of gold per week. From that point on, it was in Saigon's interest to suppress gold imports, which accordingly went underground.

Vientiane's importance as a bullion hub has therefore increased in recent times, yet there can be no certainty that this trend will continue. After all, the city of Kuching near the western tip of Borneo saw a flurry of gold exports in 1961, but the business petered out as suddenly as it had arisen. If some respected American journalist were to draw attention to the fact that it is the United States itself that is priming the pump of this "immoral and profligate trade," then that could well be enough to curtail the supply of funds to Laos. In 1966, remember, there was a brief panic in Washington when the press reported that 500,000 dollars a week was finding its way from

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later that year on suspicion of aiding the enemy during the war. Acquitted of that charge in June 1948, Dericourt immediately emigrated to the Far East. He was reported missing in Laos on 20 November 1962, though some believe that he may still be alive.

Saigon to Hanoi via Hong Kong and Beirut (although that story, of course, turned out to be false).

Dubai, on the other hand, is flying under the radar at the moment, but it struck me in 1967 as having better long-term prospects as a bullion centre, if only because its customer base is not made up of debtors and vassals of the United States, at least not to the same extent as that of Laos. An oasis encircled by desert in the eastern part of the Arabian Peninsula near the mouth of the Persian Gulf, Dubai, whose creek resembles a kind of Bedouin Venice, is the capital of a sleepy little emirate of 4,000 square kilometres. Its seafaring heritage has given rise to a cosmopolitan populace of 60,000, including Bahrainis, Gulf Arabs, Indians, Iranians, Pakistanis, and Palestinians, although the Chinese are notable only by their absence. Unlike the other emirs of the Pirate Coast, Dubai's ruler, the wise, liberal, monogamous and cunning Sheikh Rashid, does not disdain trade and is well on his way to being a merchant prince. Among the hundreds of large teak dhows with technicolour sails that are moored bow-to-bow along the length of the town's waterways, there are some equipped with Rolls-Royce engines that can reach a speed of sixteen knots. You would struggle to tell the difference, however, between these gold-transporting vessels and the rest of the Indian fishing fleets amid which they often conceal themselves.[12]

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[12] The gold-smugglers tend to join up with the fishing fleets off Goa, Surat or Ratnagiri. The Indian government sent an agent to Dubai to try to get early warning of their departures, but his mission was not a success. His cover was blown almost immediately, and after that he was constantly being fed disinformation. But it is hard to see how he could have achieved much anyway, given that the smugglers are as thick as thieves with the Indian customs men.

The dhows ship about 110 tonnes of gold a year to India and Pakistan, making ten-day round trips; and that does not include a further twenty million dollars' worth of Swiss watches, of which Dubai is the world's second-largest importer (they are usually labelled for customs purposes as "household utensils," an accurate if somewhat unflattering description). To make sure that the crew returns home without delay, their families are not allowed to leave town for the duration of the voyage. The same boats take pilgrims to Mecca for the haj, squatting on the deck in their hundreds. Since mid-1965 they have also been handling shipments of dull, rough, thirty-kilo silver bars, which one sees piled on the sand or on wooden pallets at Dubai airport, awaiting dispatch to Europe.

There are seven major gold barons in Dubai, observant Muslims whose forefathers once practised piracy and pearl fishing, both of which have had their day. Sheikh Rashid has been keen to promote the bullion trade while he waits for oil to start flowing from the offshore fields beneath the waters bordering Abu Dhabi. According to his shrewd adviser, Mohammed Al Tajir—whom I interviewed on the terrace beside his glass-bottomed swimming pool, which played piped muzak while you swam—"gold dealing will soon be more important than all of the other business that takes place along the Pirate Coast."

Other sources in Dubai told me that the dealers could expect to make a ninety-four percent return on their capital in one year, assuming their boats made two trips a month to India and Pakistan. These journeys are only possible for nine months of the year, due to the monsoon.[13] If a profit margin of just over five percent per voyage seems underwhelming, when one considers that the differential in the gold price at either end is more like forty or fifty percent, that is because the costs of the operation are substantial. In the first instance, there are the banking charges. Dubai dealers usually purchase gold on credit from the Emirate's main banks; and they are dependent on the same banks to cash the dollar wire transfers that they eventually receive, which are sent to accounts with code names like "Duck 14" or "Scimitar 22."[14] But the major expenses are incurred in employing an agent in India, who himself will have a number of subcontractors. He is the one who has to retrieve the gold, which is usually left in a pre-arranged hiding place on an offshore rock or submerged near the coast. He then has the responsibility of obtaining the best price from the local dealers, of exchanging Indian rupees for U.S. dollars, and of remitting the funds to Dubai. And for the latter two steps, he almost inevitably turns to

[13] The monsoon season begins slightly later in Pakistan than it does in India, which means that there is a significant transit trade via the former during the lag period.

[14] Fifty percent of these transactions pass through the British Bank of the Middle East, the oldest financial institution in the region, whose predominance stems from its affiliation with HSBC. The Bank of Dubai, which was set up by six of the seven local gold dealers in conjunction with Mohammed Al Tajir (and, since 1967, is five percent owned by Bank of America) has thirty-five percent of the market. The remainder is split between First National City Bank (which opened a branch in the heart of the souks in 1965, and now handles around ten percent of the Emirate's business), and the Bank of Oman (which was recently established by the seventh gold-merchant—who decided that he wanted a bank of his own—with funding from the Ottoman Bank). The other major British and American banks, and a handful of French ones, seem to confine themselves to sending their most adventurous executives out to Dubai from time to time, either to solicit deposits or to buy silver bullion from India.

Hong Kong, as it is the only place where you can dispose of large amounts of all of the world's currencies.

So Hong Kong again ends up being the final relay in a truly global circuit. It is not the only financial centre in Asia, but it is unquestionably the most important one, not least because it also serves as a major hub for physical trade. Thus far, neither Beijing's squeeze at the frontier, nor the agitations emanating from Guangzhou, have succeeded in dethroning the colony from its paramount position. Perhaps the greatest threat to Hong Kong's survival and growth is that one player or other in the great power game will over-estimate the benefit that its adversary derives from Britain's Far Eastern outpost. Listen to Beijing, and you might come away with the impression that it is Hong Kong by itself that sustains the average Briton in his affluent lifestyle. London, on the other hand, is monumentally confident that China will never be able to wean itself off the foreign exchange that it earns through the colony, which amounted in 1966 to 750 million dollars, or approximately thirty percent of the PRC's export revenue.

For the time being, Hong Kong can draw strength from the fact that the preservation of its current status is in everybody's interest. Yet that is also a potential fault-line, in the sense that Beijing's forbearance is contingent, to some extent, on the colony remaining the *ne plus ultra* among Asian offshore centres. It is not difficult to see how, at a time of revolutionary anarchical decentralization on the mainland, Hong Kong's attractions could begin to pale. Yet even were the colony to lose its crown, the wiser heads dictating the PRC's policy need little convincing of the advantages that stem from having such a tremendous concentration of overseas Chinese right on the doorstep, with their potpourri of financial and commercial activities. And to alienate these *huaqiao* would be to hand a gift to Beijing's sworn enemies in Taipei, who would gladly embrace the opportunity to strengthen their own regional influence.

As for the British attitude, you will find virtually no dissent in either political party about the necessity of holding on to Hong Kong. The colony is the City of London's favourite playground east of Suez; and it helps to maintain the value of the pound, partly through its own accumulated sterling balances and partly by absorbing some of the surplus arising from oil sales by the smaller states of the Persian Gulf, which indirectly finances the gold trade among other things. Hong Kong also provides Beijing with a ready supply of sterling area currencies that are used to buy industrial and agricultural goods from the British Commonwealth.

What, finally, is the view from Washington? The United States certainly feels the need to inoculate American visitors against the accidental purchase of Chinese products, ever a hazard, from jades to toupees! Subject to that proviso, the Americans have been reconciled to the continuation of British rule in Hong Kong since the end of the Chinese Civil War, especially as its separateness is a thorn in Beijing's side. In more concrete terms, and of particular significance in present circumstances, the territory hosts the most useful listening post anywhere on the east Asian land-mass. Some American experts claim, to boot, that monitoring clandestine currency movements is the next best thing to possessing a crystal ball.[15]

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[15] I cannot be as precise on this score as I would wish, for fear of putting people's lives in danger, so I will confine myself to citing the most flamboyant, but also the most impressive, of these American specialists, namely the naturalized Hungarian economist Nicholas L. Deak. Deak worked for the

For all of those reasons, the Hong Kong financial centre, which combines the solidity of gold with the elastic properties of a spider's web, seems destined to live on for a good while yet; as long, in fact, as my own rather unscientific law of offshore finance continues to hold good, which is that every continent needs a proper tax haven, even, as we are about to see, well-heeled North America.

League of Nations before emigrating to the United States in 1939, where he founded the foreign exchange firm Deak & Co, which acquired the Perera Company in 1954. Deak-Perera now manages a network of banks, foreign exchange houses, and bullion traders with outlets all over the world, from Hong Kong to Honolulu and Beirut to Zurich. Far from remaining tight-lipped about his former life as an OSS agent who parachuted into the Burmese jungle during World War II, Deak (now in his sixties and a multimillionaire) has volunteered much information about his past activities and present-day success. In 1964, for example, he told *Time* magazine that, shortly before the People's Liberation Army's incursion over the Himalayas in 1962, his agents in Hong Kong and Beirut had sold millions of Indian rupees to people working for Beijing. Deak also noted that the renewed offensives by the Pathet Lao in the same year were preceded by a sudden surge in demand for the Lao kip.

6. The Bay Street Boys have broken the bank

Pirates, breezes, lulls, and rocks.

LA FONTAINE

America was discovered on 12 October 1492, at two o'clock in the morning, when the *Santa Maria*'s lookout spied, by the light of the moon, the land that Christopher Columbus named San Salvador. It is one of seventeen inhabited islands, along with 700 cays and 2,300 skerries, which make up the British archipelago of The Bahamas, spread out over 1,700 kilometres between Florida's Atlantic roads and the eastern end of Cuba.[1]

Since the seventeenth century, this colony, today largely self-governing, has been a forward operating base by means of which the Old World extracts its tithe from the New. It lives the good life whenever Americans are at each other's throats, but has to tighten

[1] The sixteen other principal island groups are Andros, Abaco, Grand Bahama, Bimini, the Berry Islands, Spanish Wells, Eleuthera, New Providence, Cat Island, Exuma, Rum Cay, Long Island, Crooked Island, Mayaguana, Inagua, and the Turks and Caicos Islands (the last of which is technically a separate colony, although it shares the same Governor).

its belt again as soon as they make peace, when Bahamians are forced to fall back on their limited natural resources. For trouble on the continent has always been a boon to The Bahamas. The American colonists' rebellion against George III resulted in the flight to the island of New Providence of 8,000 loyalists accompanied by their slaves, the latter of whose descendants now make up eighty-five percent of the population. A century later the Civil War spewed forth huge fortunes, which were quickly squandered, from blockade runners that carried Southern cotton on their outbound voyage and on the return leg brought fresh supplies of British arms. The profits were even greater, and were more evenly distributed among the islands, when the Bahamians became rum-runners between 1919 and 1933, supplying almost all of Florida's and the rest of the southern states' demand for that and other liquors.

World War II brought a renewed prosperity as it gave The Bahamas airfields, harbours, and garrisons to feed, and also the Duke of Windsor as the colony's fifty-sixth Governor. Edward and Mrs Simpson at Nassau: that's a lot prettier, a lot more soul-stirring, than Rainier III and Miss Kelly in Monaco. It's *Berenice* rewritten by Hollywood, this time with a happy ending. Americans love hanging out in the kind of place that royalty does—especially an ex-king with the added bonus of an American wife—and there you have the germ of the Bahamian tourist industry. But it wouldn't have taken off as quickly as it did if the Bahamians hadn't realized that, while they could no longer profit from Prohibition, they could certainly exploit to their gain the prohibition of profit, which was what was effectively being imposed on individuals and companies via fiscal and financial stringency in Britain and the United States.

This new tax haven was to grow all the better by pretending to rent out nothing except its natural charms. Even the screen James Bond, loyal subject of the Queen that he is, never lets on that The Bahamas are an international financial centre. Villains who plot to undermine the West might go there to spend their money and enjoy the holiday of a lifetime, but they keep their gold, and ponder their black designs, in Switzerland or Tangier.

You don't hear much talk about The Bahamas in the City of London, yet those who are in the know appreciate that these islands attract enthusiasts of high finance as well as big-game fishing; that they are fertile breeding grounds for shell companies, over and above possessing incomparable stocks of cetaceans. Ask a British bank about the handy facilities on offer in The Bahamas and you will be told elliptically that there is "no income tax, no capital gains tax, no betterment levy on property developments," but that if you want to know more, then you had better address yourself to its agent in Nassau.

Babbitt in Nassau

Well, so be it. When my plane touched down in the colony's capital after circling the island of New Providence a couple of times, it struck me as strongly reminiscent of small-town America, like Zenith in Sinclair Lewis's *Babbitt* with its crowded main street, Bay Street (which, by itself, seems to contain all of the island's boutiques, apartment blocks, and private banks), and its beaches for everyman. Like Macbeth seeing great Burnham Wood come to high Dunsinane Hill, when you first arrive your field of vision is filled with a *tableau vivant* of florid swimming caps and straw hats, such as one might find in the lobby of the Waldorf Astoria or any other hotel in the Fifty States that is known for hosting conventions of female psychoanalysts, realtors, and the American Dental Association.

Holidaymakers clad in T-shirts and Bermuda shorts file past in serried ranks with cameras slung about their necks. A white plastic nosepiece for your shades—which is as de rigueur for Americans as those masks that commuters wear to protect themselves from the smog seem to be in Tokyo—provides a stark contrast with the lobster-like complexion occasioned by the first hint of sun. To the accompaniment of a cheery babble made up of every Yankee accent you can think of, punctuated at intervals by the dulcet tones of Québécois, American families advance, elbow-to-elbow, bearing picnic baskets that often contain four or five bottles of booze. But why not, for you could hardly fail to be enticed by the big-character posters in all of the shop windows, bidding you to save by spending. "Only $28.50, so you save $20.73 when purchasing five bottles of tax-free French liquor." "Spend $19.25, get $11.70 off when you buy our gin."

Another American current also sweeps across the always-heaving Bay Street, without ever coming into contact with the first. The second wave is made up of College Boys and College Girls who arrive in their thousands for the two- to three-week "spring break," with barely enough money in their pockets to eat their heads off for two or three days. Wearing matching shirts and blue jeans neatly frayed above the knee, these young men and women saunter about, come to a halt, eye each other up, converse emphatically, split off into groups, and subsequently get back together again. You might assume that they were enacting a purely hedonistic ritual, yet each sundown they confront a collective problem, namely that of cramming as many mixed pairs as possible into hotel rooms retained for two but often occupied by eight, ten, or twelve people. Those unable to find berths sleep clustered on the sand of a nearby beach, where their campfires burn until dawn without the authorities ever hassling them.

High above the beach in "Over-the-Hill," where most of Nassau's black residents live, the island's solitary nightspot, The Conch, stays open late into the night. It plays host to voluptuous chanteuses from Haiti, undocumented migrants who live in wooden shebangs nearby. In the murky atmosphere of The Conch's interior it was difficult to make them out with any degree of precision. Only the peroxide tresses of American co-eds caught the light, as raucous strains reverberated through the gloom.

Those responsible for keeping order are relaxed about all of this because, as one of them put it to me: "You have to remember that in ten or fifteen years' time, these hard up boys and girls are going to be rich middle-aged Americans, who'll come back to The Bahamas, having made their fortunes, in search of their misspent youth."

They will then join the tsunami of spenders and purchase, in their turn, some 164 dollars' worth (that's the average per tourist) of perfume, liquor, tortoiseshell knick-knacks, postage stamps with Queen Elizabeth's head against the backdrop of an ibis for threepence, or in a setting of little fishes for a shilling; as well as

Bahamian banknotes, including, specifically as a collector's item, one for three dollars, which does not exist in the United States.

It's manna from heaven. While the local population increased from 80,000 in 1950 to 140,000 in 1965, the number of tourists went up from 45,000 per season to 720,000 over the same period, and it hit 900,000 in 1967. The million mark should be surpassed this year, thanks to the breakneck speed of hotel building and the multiplication of "boatels." A cross between a chain motel and a cruise ship, these sail out from Miami or Palm Beach for three days at a time. Service, apart from that provided by the jazz band, is reduced to its most basic rudiments.

But surely, The Bahamas is supposed to be a nature reserve for the big beasts of the financial world. Isn't this affluent proletariat of small-time Americans in danger of driving them away? Not as long as the flood of tourists is carefully guided into narrow channels, and is prevented from deviating out of them by the insurmountable wall of unaffordability. There are two gated communities for millionaires on New Providence. The first, at Cable Beach, was established by Sir Harry Oakes, the king of the Canadian mining industry who moved to Nassau in 1934 and died there in 1943, when his own son-in-law went on trial for murdering him, only to be acquitted of the crime. The second, Lyford Cay, was set up after the war by the influential Canadian financier Edward Plunket Taylor, whose Argus Corporation owns several of his country's largest companies, including Massey Ferguson, Canadian Breweries, the St Lawrence Corporation, and Dominion Stores.

When hermits become developers

Outside of those barricaded enclosures, however, New Providence, with its 95,000 inhabitants, is little more than an overcrowded gangplank. To get to know The Bahamas better, it is always worth taking a boat, if only for a few minutes on your way to Paradise Island, that sliver of land on the opposite side of Nassau harbour whose development epitomizes that of the rest of this ritzy little financial centre.

Since the late 1930s, Hog Island, as it was then known, had been the property of the controversial Swedish industrialist Dr Axel Wenner-Gren, who designed the Electrolux vacuum cleaner and the Alweg train and never ceased to amaze his peers with his unorthodox investments. He founded the Bank of The Bahamas in 1939 to take advantage of the colony's relaxed regulations, but it was seized by the Bahamian government in 1942 when Wenner-Gren was blacklisted for his perceived Nazi sympathies. Unfazed, he acquired control of Mexico's telephone network in 1947, selling out in 1953 shortly before the peso was devalued. The following year he became the principal investor in Bochumer Verein, the giant steelworks complex on the Ruhr. By 1960, when Wenner-Gren left The Bahamas for the last time, he was already heavily involved in his final and most ambitious project, a billion-dollar scheme to develop the Rocky Mountain Trench in British Columbia. He was quite content, therefore, to receive eleven million dollars for Hog Island from Huntington Hartford, the luckless heir to the world's largest grocery empire, the Great Atlantic & Pacific Tea Company.

At forty-eight years of age, Hunt Hartford was fed up with being dismissed as just another "dreamer with a cheque-book." He had bankrolled the liberal newspaper *PM* until it folded in 1948, and subsequently ran a moderately successful agency touting fashion mannequins (although he was not as self-consciously prurient as Hugh Heffner of *Playboy*). He had also sunk money into a vacation colony for penurious artists, a Broadway play, and a Hollywood theatre, all of which had done nothing apart from to accentuate his feelings of frustration and disillusionment. With Paradise Island, as he now renamed it, Hartford was therefore determined "to make a profit for once like anyone else."

Within four years, he had spent upwards of twenty million dollars on building the Ocean Club, a kind of boarding house for billionaires with only fifty rooms, and in otherwise beautifying the island. At this point he was forced to face the facts, which were that he was never going to recoup his investment unless he could obtain a licence to open a casino. In 1964, Hartford approached the Bahamian authorities with an offer: if they granted him the appropriate permit, then he would construct a larger hotel and, if necessary, outsource the management to an experienced operator. But he was wasting his time, as he had already alienated the powers that be with a series of professional and political gaffes, notably by retaining the "wrong" firm of attorneys and by donating fifteen thousand dollars to the opposition Progressive Liberal Party (PLP). So Hartford bowed out gracefully in 1966, selling seventy-five percent of Paradise Island to an ironmongery chain in need of diversification called the Mary Carter Paint Company (MCP) for twelve and a half million dollars.

Curiously, MCP had no trouble at all in securing a gambling licence, but then they had wisely retained a heavyweight lawyer, Sir Stafford Sands, who also happened to be the minister of finance and tourism in the Bahamian government. Sir Stafford was already acting for a man named Wallace Groves, co-founder of the company Bahamas Amusements Limited (BAL, of which we will hear more below), and he engineered an alliance between BAL and MCP to buy out Nassau's sleepy little casino, the Bahamian Club, whose licence was then swiftly transferred to Paradise Island. Groves acquired a four-ninths share in the new resort, which was to have 700 rooms, as well as the right to manage its casino; but there was still plenty of meat left on the bone for MCP. The Bahamas is a tax haven, after all, where hotels are treated as favourably as any other corporation, paying no tax on their income or profits. Indeed, they benefit from significant privileges as a sector, including an exemption from customs duty for all of their imports.

Those who used to appreciate Paradise Island for its serene tranquillity will henceforth have to go further afield to find their tropical Thelema. There are "island clubs," for example, whose owners are known only to each other and to the authorities. The government is perfectly happy to sell private islets (or, more often, to lease them for ninety-nine years after the English fashion) to plutocrats who want to play Robinson Crusoe Bahamian-style, i.e. with enough Man Fridays to make up a functioning household. F. Scott Fitzgerald, who wrote: "Let me tell you about the very rich. They are different from you and me," never saw The Bahamas. Ernest Hemingway, who scoffed in return: "Yes, they have more money," came here to engage in kamikaze fishing trips for various species, and defeated the boxing champion of Bimini, now an old black Magus with white hair and beard who has never forgotten it.

In these semi-deserted isles, served only by specially chartered seaplanes, the scenery is breathtaking, the airs always light, the sea a faultless palette of turquoise, lapis lazuli, and liquid emerald. What does it matter, to people who have no need to count the pennies, that they are obliged to mount an expensive expedition each time fresh provisions are required? And who cares if you can't watch TV? For in The Bahamas, to live well is at the same time to make a sound investment.

The cost of sun and space in these islands has never ceased to escalate since the 1930s, when the pioneer of the Bahamian property market, Harold Christie, lured Sir Harry Oakes to the colony. In Oakes's case, it was probably the promise of freedom from inheritance taxes that was the major draw. These days, in the same way that art dealers, when valuing famous paintings, refer to the prices of previous old masters that have come to market, so the big estate agents here keep an obsessive watch on sales. They are in constant communication with dozens of American millionaires who belong to the exclusive golf clubs on the island of Eleuthera; and they hire staff—some of whom have entries in Debrett—to liaise with the select group of British subjects who are fortunate enough to be in a position to swap the high-tax regime of the United Kingdom for the low-tax regime of The Bahamas, without even leaving the sterling area. In 1962, the British law was changed so that real estate situated abroad became subject to inheritance tax, where it had hitherto been exempt. But this new rule did not apply if you were non-domiciled, which meant that if you left Britain for good, then your liability to estate duty would still be limited to whatever property you possessed in the United Kingdom.

This legislative amendment encouraged the emigration of rich elderly British people to The Bahamas, and the colony has also seen an influx of American and Canadian greybeards.[2] They came here to retire, but, though they may have planned to get away from it all, they often ended up dipping their toes back into the business world. While claiming to be fully occupied with leisure activities, they were actually aping the example of James Rand (the founder of Remington Rand), or the heirs to the Parker Pen fortune, by gathering salt and setting up model farms. Other exiles drew upon their own fantasies of escape as a way to snare the gentleman tourist. And once high-born hermits started turning developer, the middle classes were sure to follow. From London to Zurich and from Alaska to Florida, Bahamian acreage is now being snapped

[2] It is no coincidence that the two biggest landowners in New Providence are Canadians, because Ottawa will grant those who move to The Bahamas non-resident status provided they give up their Canadian homes, club memberships, and company directorships. Once they are non-resident, they can spend up to 182 days a year in Canada. Canadians living in The Bahamas pay no tax on Bahamian-source income and only fifteen percent withholding tax on Canadian-source income. Moreover, they may benefit from a reduced fifteen percent rate on U.S.-source income (instead of the headline thirty percent) by virtue of the U.S./Canada double taxation convention, if they receive the income through a company that is incorporated in Canada but resident in The Bahamas (although companies formed in Canada after 26 April 1965 are deemed to be Canadian resident). Where inheritance taxes are concerned, the estates of Canadians who die domiciled in The Bahamas are subject to varying rates of tax depending on the Province, but only on Canadian-situs assets. If the deceased took the precaution of transferring his Canadian assets to a Bahamian corporation, however, no inheritance tax is payable, as the company continues to exist notwithstanding the death of one of its shareholders.

up blind by ordinary investors who can pay by monthly instalment for the right to build on it in a couple of years' time, or, if that's not long enough, whenever they finally have the cash to pay it a visit.

Grand Bahamian manna

This effort at promoting the colony on the international stage has been directed above all towards Grand Bahama, the closest large island to Florida, only a thirty-five minute flight from Miami. The fate of the other islands hinges, to some extent, upon that of Grand Bahama, which, in turn, is dependent on the fortunes of its irascible and secretive overlord, Wallace Groves, whose authority there has endured through wind and tide. It was during World War II, when he was in his early forties, that Groves contrived to relocate to The Bahamas after the Securities and Exchange Commission (SEC) cut short his brilliant career on Wall Street by condemning him to two years in federal prison for mail fraud. This hiccup (which did not, however, disbar him from receiving a seven-line entry in the 1965 edition of *Who's Who in America*) has only recently faded from memory.

The relationship between Wallace Groves and The Bahamas had begun in the 1930s, when he developed Little Whale Cay in the Berry Islands into his private Shangri-La. After the war, he acquired the Abaco Lumber Company and set about denuding Grand Bahama, which then had about 3,000 inhabitants, of much of its native pine forest. By the mid-1950s, with almost twenty years' residence and business experience in the islands, Groves had the ear of the colonial administration and benefited from the unreserved support of Stafford Sands, who had not yet then been knighted but was already the most influential attorney in Nassau. In August 1955, Sands procured the signing of what was practically a private treaty between the Bahamian government and the Grand Bahama Port Authority, a commercial corporation chartered by Groves. The Hawksbill Creek Agreement, which ran for ninety-nine years, granted the Port Authority 50,000 acres—about fifteen percent of Grand Bahama's total area—for which Groves paid two dollars and eighty cents per acre.[3] The centrepiece of the development was the construction of an artificial harbour capable of handling ships of up to 80,000 deadweight tons, the largest that were able to pass through the Panama Canal. The Port Authority assumed responsibility for "encouraging the establishment of factories and other industrial undertakings," while the government agreed that the leased area would have the status of a free zone for the duration of the agreement. Enterprises establishing themselves there would be given a thirty-year holiday from various forms of taxation, including property rates and taxes on earnings, and the Port Authority was allocated other quasi-governmental powers such as the right to levy harbour dues and control of immigration.

Although constructing the port, imaginatively christened "Freeport," took almost four years and cost 5.6 million dollars, Wallace Groves did not have to lay out a penny of his own money. For these works were taken in hand by a man who shared Groves's

[3] The price per acre in 1960, when the Port Authority granted 1,000 acres to the Tamarind Development Company, was estimated at 2,800 dollars, and the land is worth much more than that today, whether it has been zoned for residential development or is subject to a commercial lease from the Port Authority.

passion for innovation and for all things maritime, namely Daniel Keith Ludwig. Born in 1897 to poor parents in an overgrown village by the side of Lake Michigan, Ludwig discovered his calling very young. Legend has it that he earned his first seventy-five dollars at the age of nine, by hiring out a motor dinghy that had previously been wrecked and that he had restored to working order on his own initiative.

Sixty years later, Daniel Ludwig is the second-largest individual owner of shipping in the world, surpassed only by Aristotle Onassis.[4] In fact, he deliberately ceded first place to the latter so that he could diversify into other areas of business, such as oil in the United States and Panama, airlines in the Middle East, and real estate projects in various countries. It was in the 1930s that Ludwig shook up the world of shipping finance by persuading banks to accept as collateral not only the vessels themselves, but also the charter agreements that he entered into with operators. This allowed him to borrow larger sums in order to convert dry cargo ships, which were surplus to requirements on account of the worldwide slump, into the tankers for which there was growing

[4] According to a study by Sun Oil, acknowledged as an authority in this sphere, the biggest tanker fleets in the world as at 1 January 1966 were as follows. Among private investors: first, Aristotle Onassis, with 58 vessels totalling 2.1 million tons (mostly flying the Liberian flag); second, Daniel Ludwig with 27 vessels totalling 1.4 million tons. Among state- or publicly-held corporations: first, Standard Oil of New Jersey, with 142 vessels and 4.9 million tons (of which 43, totalling 1.4 million tons, are registered in Panama with the rest flying the flags of 15 different nations); second, Royal Dutch Shell, with 117 vessels and 2.7 million tons (sailing under nine flags including those of Bermuda and The Bahamas); third, British Petroleum (88 vessels and 2.5 million tons); fourth, Gulf Oil (57 vessels and 1.8 million tons). Three other American firms (Mobil Oil, Texaco, and Tidewater Oil) have fleets totalling more than a million tons.

demand from oil companies. The firm he founded, National Bulk Carriers (NBC), has also been at the cutting edge of shipbuilding technology. During World War II, it constructed the first vessels that were entirely welded, dispensing with rivets and thus effecting significant savings of time and money.

In 1951, NBC leased a portion of the huge former Imperial dockyard at Kure from the Japanese government, at the very reasonable rent of 8,400 dollars a year plus a promise to use local labour and raw materials. This lease was due for renewal in 1961, and, by funding the construction of a deep-water port on Grand Bahama, Daniel Ludwig was deliberately sending a message to the Japanese authorities: if they asked for too much in the forthcoming negotiations, then he would move his shipbuilding operation to Hawksbill Creek instead. In the event, that proved unnecessary, and in 1962 Ludwig sold the harbour-front section of his Freeport tract to the world's largest steelmaker, United States Steel, which was sufficiently impressed with the tax regime and the local limestone to pour fifty million dollars into constructing a high-tech cement plant.

To stimulate the industrial development called for by the Hawksbill Creek Agreement, Wallace Groves turned to the emeritus Vice Consul Martin Dale, whom we encountered earlier in his capacity of dashing adviser to Prince Rainier and who claimed to have attracted more than 140 million dollars of investment to Monaco. Dale took on the role of public relations man for the Port Authority in 1964, but he has thus far failed to live up to his reputation. The only other firm to have followed U.S. Steel's example by conducting manufacturing operations in Freeport is the California-based drug maker Syntex Laboratories.

By the early 1960s, however, industrialization had already begun to take a back seat to other avenues of economic development. The Port Authority's initial accomplishments were impressive enough for the government to enter into a supplemental agreement with Wallace Groves in 1960, greatly increasing the size of the leased area—which eventually comprised some 230 square miles, more than forty percent of the island—and expanding the scope of its activities. Groves agreed that, by the end of 1963, he would "complete the construction of first-class de luxe resort hotel accommodation of not less than 200 bedrooms" in the barren sandy scrubland east of Freeport. If this was a challenging brief, then Groves was fortunate in that he possessed a talent for picking suitable partners. He also had the gift, which is rarer, of knowing when to break with them so as to maximize his own freedom of action. In this instance, the two men with whom he allied himself could hardly have been more different from one another, either in character or in terms of the resources that they commanded.

The first was Jack Hayward, whose father, Sir Charles (the founder of the British industrial conglomerate Firth Cleveland), had acquired a twenty-five percent stake in the Port Authority for 2.8 million dollars in 1956. Jack Hayward is a forty-five year old patriot who might have stepped straight off the page of one of Rudyard Kipling's novels. Having spent the early part of his career in India, South Africa, and New York, he first came to the islands on holiday, but was captivated by Grand Bahama's potential and decided to base himself in Freeport. He believes that the island's population could well increase from its present level of around 20,000 to 100,000 or more, and he is determined to keep the place British. Hence he proudly displays the Union Jack everywhere, including on a London taxi that he imported from the mother country at vast expense. He was gracious enough to give me a guided tour, with him driving while I sat in the back, easily overhauling fast American GTs as he swore blind to me that the motor hadn't been "breathed on." It is thanks to Hayward that double-decker buses, red pillar boxes, and traditional English pubs strike an exotic note here, without being so outlandish as to alienate trippers from the United States, whose motto, in The Bahamas as everywhere else, is "when in Rome, do as the Americans do."

If anybody was well qualified to make sure that they had the facilities to do exactly that, then it was the other man whom Wallace Groves recruited, the Canadian promoter Louis Chesler, a twenty-two-stone satrap who counted as many members of the Mafia among his friends as he did ministers and moguls, and who had veered throughout his career between triumph and disaster. Born in 1913, the son of a cobbler, Lou Chesler was moonlighting on the Toronto Stock Exchange while he was still at university, but he struggled to pay the rent in 1942. The following year he struck it lucky with a series of judicious investments in various mining enterprises, and, by 1946, he was reputedly worth a million dollars (although some say that Chesler, always a heavy gambler, was on his uppers again a short while later). He formed or acquired a number of companies including Lorado Uranium Mines to exploit discoveries of the radioactive metal in Canada in the early 1950s, and he was also associated with Robert B. Anderson's firm, Ventures Ltd, from which Anderson resigned in 1957 when President Eisenhower made him Secretary of the Treasury.

By then, Chesler's focus had already shifted southwards, to Florida, where in 1958 he joined forces with the Mackle brothers, builders of the upscale resort town of Key Biscayne, to launch the General Development Corporation (GDC). GDC specialized in marketing Florida real estate to blue-collar northerners who dreamed of spending their retirement in sunnier climes, and so alluring did this prospect prove that, within two years, the company was worth fifty million dollars. Chesler soon fell out with the Mackles, who suspected him of manipulating the price of GDC's stock. In 1959, he stood down from his role as chairman of GDC in favour of Gardner Cowles (the publisher of *Look* magazine), although he remained a major investor. Having previously been instrumental in creating the "happening" filmmaker, Seven Arts Productions, which was established in 1958 and has produced movies such as *Lolita*, Chesler decided to concentrate on motion pictures.

After being introduced to Chesler by Stafford Sands in 1961, Wallace Groves lost no time in persuading the Canadian to put up half of the funds for a new company, the Grand Bahama Development Corporation (known as Devco), which would construct the hotel referred to in the 1960 agreement and otherwise promote tourism in and around Freeport. The Port Authority contributed 100,000 acres of land, while Chesler invested a total of twelve million dollars, part of it sourced from Lorado Mines and part from Seven Arts. Around eight million went on building the Lucayan Beach Hotel, designed by the American architect A. Herbert Mathes and intended to be "more sumptuous than any in Miami." That was all well and good, but it was always going to be difficult for any hotel to justify such an exorbitant outlay. In 1963, while it was still half-finished, Devco sold the Lucayan Beach to another Canadian, Allen S. Manus, who leased it to a group of German financiers before declaring himself bankrupt in 1965. It was fortunate for all concerned, however, that the plans for the hotel included 2,000 square metres of empty floor space, which was originally set aside for "squash courts," yet was subsequently found to have the perfect dimensions for accommodating a giant casino.

Conflict among pioneers

Opened amid fanfare on 11 January 1964, the Monte Carlo Room at the Lucayan Beach took less than five months to make its first million dollars, and soon established a track record as the world's most profitable casino. Much of the credit for this success must go to Lou Chesler, for it was he, in conjunction with Wallace Groves, who set up a separate company, Bahamas Amusements Limited (BAL, the same company that we encountered above in connection with Paradise Island), which retained the right to operate the casino following the sale of the hotel in 1963. And it was Chesler who supplied the necessary pizzazz to get the business up and running, by calling upon his innumerable contacts in the crepuscular world of American gambling. Sadly for him, his association with the Monte Carlo was not to last for long after its inauguration, an event that marked a new chapter in the development of Grand Bahama, but, simultaneously, set two unavoidable conflicts in motion.

The first was between Chesler and Groves, for whom the Canadian had outlived his usefulness once BAL had secured a "certificate of exemption" from the colony's normally strict gambling laws in April 1963. The circumstances surrounding the grant of this licence led the British government to appoint a Commission of Inquiry in 1967, as mentioned below. For present purposes, it is sufficient to note that, as a result of considerable exertions on the part of Stafford Sands, BAL obtained the right to operate an unlimited number of casinos on Grand Bahama Island for a period of ten years.[5] The casino operations were not initially subject to any taxation, although the colonial legislature passed an Act in 1964 requiring payment of a flat fee of 286,000 dollars per casino per annum, which was increased to a million dollars in 1967.

As a condition of granting the licence, the authorities had insisted on a pre-emption clause stating that, if either Groves or Chesler decided to sell his BAL shares, then the government had a right of first refusal at par value. Groves presumably reminded Chesler of this provision when, in 1965, the Canadian offered to buy him out for seventeen million dollars. In the end, it was Chesler who was forced to move on; he had exhausted the patience of his colleagues at Seven Arts, who first demanded his resignation and subsequently began to divest from Grand Bahama. Lou

[5] The Commission of Inquiry found that Sir Stafford Sands (who was knighted in 1964) had received a total of 1.8 million dollars from the Port Authority from 1961 to 1966, 200,000 of which related to his work on obtaining the certificate of exemption. "The enormity of the fee demanded and the speed and manner with which payment was effected, coupled with every circumstance of his handling of this application, leave us in no doubt that he was selling his services primarily as an influential Member of the Executive Council and not as a lawyer," the Commission concluded.

Chesler remained a presence in the life of the colony, but henceforth Groves had near-absolute authority in Freeport.

The second battle, which is still raging, pits law enforcement agencies on both sides of the Florida Strait against the mavens of what one American writer has called “the green felt jungle.” In October 1966, in the first of a series of articles that won two of its journalists the 1967 Pulitzer Prize, *The Wall Street Journal* revealed the seedy underside of “Las Vegas East,” as it dubbed the Bahamian gambling scene. It was revealed that the everyday management and control of the Monte Carlo Room had been entrusted to three American professionals, namely Max Courtney (also known as Morris Schmertzler), Frank Ritter (alias “Red” Reed), and Charles Brudner, all of whom were wanted by the U.S. authorities for tax evasion. Worse, they were believed to be in the employ of Meyer Lansky, the sole non-Catholic and non-Sicilian representative on the governing body of the National Crime Syndicate. Mingling with the tourists, mobsters weighed down with questionable cash would arrive in Freeport by air, perform a circuit of the casino, and leave the following morning for Nassau to deposit their now-untraceable dollars with a private bank. From there, the money found its way into a numbered account at a local commercial bank, before being spirited away to an undisclosed destination in Switzerland.[6]

[6] The reputable U.S. weekly *Life* was also onto this story, which it covered in its issues dated 3 February, 1 September, and 8 September 1967 as part of an ongoing investigation into the prevalence of the Cosa Nostra in American society. One article detailed the modus operandi of Meyer Lansky, who is the mastermind behind the “skimming” of Nevada casino profits before they are declared for tax and the subsequent laundering of the proceeds. Another included a sketch map depicting the routes that money takes from casinos in

When these revelations first began to appear, they were of little concern to the promoters of Grand Bahama, for by the mid-1960s the island was booming. Devco chalked up forty million dollars in land sales for 1966 alone, and Freeport was increasing in popularity as a tourist destination, with more than 250,000 visitors in 1967. The most influential private equity investor in the United States, Charles Allen, who had owned a 12.5 percent stake in Devco ever since its inception, was building the Syntex pharmaceutical plant at Hawksbill Creek. And Daniel Ludwig, another man who had backed Grand Bahama from the outset, was in the process of adding significantly to its amenity, almost as an act of philanthropy. Ludwig had agreed with Groves in 1962 that he would construct a planned community in downtown Freeport comprising two hotels with a total of 800 rooms, an eighteen-hole golf course, an auditorium, and a luxury housing estate. He kept

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Las Vegas and Freeport to Miami and onwards to Switzerland. *Life* named the principal interstate couriers as Ida Devine (the "bagwoman in a mink coat," wife of the Nevada racketeer Irving "Niggy" Devine) and Benjamin Sigelbaum, who co-owned the Serv-U vending machine business with Bobby Baker (a protégé of Lyndon Johnson and secretary to the Democratic majority in the United States Senate). The magazine further alleged that the funds ended up at the International Credit Bank (ICB) in Geneva, after passing through two Bahamian banks, namely Atlas Bank (an ICB subsidiary) and the Bank of World Commerce (BWC). ICB's chairman is one Tibor Rosenbaum, who travels on an Albanian diplomatic passport. In 1965, the bank's directors included Ed Levinson (of the Fremont casino in Nevada, another business partner of Bobby Baker's) and John Pullman, an American banker who once served time in prison, later became a Canadian citizen, and now lives in Switzerland. The "economic adviser" to the bank is Sylvain Ferdmann, a noted Swiss economist who, according to *Life*, is listed by the U.S. authorities as a "fugitive." BWC, meanwhile, has on its board Levinson, Sigelbaum, and Irving Devine; John Pullman was formerly its chairman and remains a director.

his word, and the first elements of this complex opened in early 1965.

From Ludwig's perspective, the most appealing aspects of the project were, first, the right to build one of the largest casinos in the Western Hemisphere, three times the size of the Monte Carlo Room, designed in cartoon-Moorish style and named El Casino. I saw this hideous edifice emerging from the ground when I visited in 1966, alongside the romantic ramparts of Ludwig's second great prize, the so-called "International Bazaar." Here the minarets of an Arab mosque jostle with the turrets of a Japanese pagoda, which in turn is cheek by jowl with a Mexican hacienda. The idea is that an American tourist can shop first in an Oriental market, strolling down a Hong Kong street accompanied by the crackle of Chinese bangers, then, in a single stride, be purchasing Mexican silverware to the tune of a mariachi band, before turning a corner and finding himself in a Venetian square where Murano glass is being blown. All of the merchandise is cheaper than if you had bought it where it was manufactured, by virtue of export incentives in the producer countries and the absence of any tax or duty at the point of sale.

Before either of these attractions was open, however, Wallace Groves had presented Ludwig with two unpleasant realities. In the first instance, BAL had a monopoly on gambling in Freeport by virtue of the licence obtained in 1963, and, if El Casino was ever going to admit any punters, then that would be under BAL's management, not Ludwig's. Secondly, his plans for the International Bazaar had alienated important commercial interests in Nassau who were demanding a cut of the action. While it may seem grotesque that Ludwig should have been browbeaten into relinquishing his ambitions (the pursuit of which had already set him back by millions of dollars) in return for nothing more than an extra 150 acres of virgin land, it would appear that he had little choice! Villas, flats, clinics, hotels, and grocery stores were springing up on Grand Bahama like nobody's business, and the banks, legal practices, and international accounting firms weren't far behind. But there was no satisfactory mechanism for resolving disputes. In effect, Groves and his acolytes *were* the law in Freeport, and you couldn't live or work there without their say-so.

The filibusters' descendants rule the roost

How was this unprecedented devolution of authority allowed to occur? There was only one group with the capacity to have implemented it, namely the people that everyone refers to as the "Bay Street Boys," who held power without interruption until the general election of 1967. If you can avoid getting side-tracked by Bay Street's colourful scene, it should not take you too long to spot these pillars of the white establishment.

Look in the smart shopfronts. There you will see a portly merchant and his wife standing impassively behind the counter while their black assistants scurry about industriously. Now you might take their semblance of decorum (which can verge on ill-concealed haughtiness) for the vanity of an arriviste trader who, with his mansion, gin palace, and private plane, thinks himself quite the gentleman. Yet that would be a serious misestimation. If these *bourgeois gentilhommes* are Mamamouchis, then it is in a kingdom where Mamamouchis sit at the top of the pile, sustained both by their own resolve and by the ghosts of their ancestors.

The Bay Street Boys are acutely conscious of being both the direct heirs of the men who kept America drinking throughout the 1920s, and, at the same time, the bona fide descendants of the pirates who ruled Nassau for two hundred years. Some are the great-great-grandchildren of professional wreckers, who were once officially licensed, and remained active even after the first lighthouses were constructed, by terrorizing or bribing their keepers.[7] The modern masters of Bay Street are proud, for example, to salute the memory of Bruce S. Bethel, doyen of Bahamian bootleggers. Based in Bimini, he owned a concrete freighter called the SS *Sapona*, originally laid down in World War I and later the property of Carl G. Fisher, who created Miami Beach. The *Sapona* made an ideal floating warehouse for liquor until she ran aground on a reef during a hurricane in 1926, where she can still be seen to this day.

Bruce Bethel supposedly died penniless, but his family part-owns the *Guardian*, one of Nassau's two dailies, along with plenty of real estate and the largest of the town's ten major duty-free stores. Out of fifteen ministers in the Cabinet that left office in 1967, two were Bethels: one Leader of the House and the other minister of works. And theirs is far from being a unique case. Quite the contrary, for behind the counters of the big *négociants*, and behind the desks of estate agents and solicitors, you could practically sense the prestige conferred by a seat in the elected House of Assembly, or perhaps a place in the appointed Senate;

[7] In 1853, there were still 300 accredited wreckers in The Bahamas, who employed 3,000 people to pillage the sixty or so ships that foundered there every year.

and even a ministerial portfolio, if the firm's turnover was impressive enough and its owner had a good head for business.

One found numerous examples of the government's readiness to call upon relevant expertise when I was there in 1966. The premiership, for instance, was held by the colony's most important civil engineering contractor, Sir Roland Symonette. Symonette had diverse business interests, some of which he delegated to his son, Bobby (who, incidentally, was also Speaker of the House, having been educated at MIT in the United States). In another good example, the owner of Bahamas Airways oversaw the department charged with regulating the aviation industry. At the apex, however, holding both the finance and the tourism brief, was the undisputed leader of the Bay Street Boys, Sir Stafford Sands. The foremost man of law in Nassau, he was also the chief organizer of the United Bahamian Party (UBP), which he established to help preserve Bay Street's monopoly on power when party politics arrived in the islands in the 1950s. Sir Stafford was trusted counsel to the American bank Chase Manhattan and the British bank Barclays, he was the Bahamian representative and a director of the Royal Bank of Canada, and he owned an insurance company, a chain of greengrocers, and a duty-free business.

Back-benchers were no less fully occupied than the ministers were. Out of thirty-eight members of the House of Assembly, the key legislative body, thirty-three were businessmen, among them six white and four black lawyers, who were just as influential on the opposition benches as they were on the government ones. The PLP, which formed the official opposition until 1967, has been led since 1956 by the black barrister Lynden Pindling. The election held in January 1967 did not lead to any radical shakeup in the composition of the House. Nonetheless, on this occasion, the result was a dead heat, with the UBP and the PLP each winning eighteen seats. The PLP was able to form a government for the first time after Pindling successfully neutralized the two remaining independent members, offering one a ministerial brief while the other became Speaker of the House.

Nowhere in the New World (and this remains true today) will big investors find lawmakers who are better disposed towards them or keener to be of service. Yet I came away with the impression that there was a growing sense of unease among the high command in Nassau in the summer of 1966. It was as if the penny were gradually beginning to drop, that the same "anything goes" attitude that had kindled their prosperity was also bound to throw up one scandal after another; and that, in the fullness of time, this would bring the wrath of the United States down upon them.

The vices and virtues of the system

The Securities and Exchange Commission has been taking a keen interest in The Bahamas since 1965, when it began to uncover a range of criminal activity implicating the financial community there. The failure of the Brighton National Bank (of Denver, Colorado) in January of that year provided a flavour of the kind of practices involved. The fruit of an odd marriage between a captain of industry and a counterfeiter, this bank had invested in various fraudulent securities, including unregistered time deposit certificates issued by Lords Bank and Trust Company of Nassau. Upon investigation, Lords Bank turned out to have no account holders, no capital, no office, no telephone, in fact nothing but a Bahamian PO Box number.

Another example concerned a flurry of puzzling buy orders received by forty-one separate New York brokers on the same morning in June 1965. Some of the orders were for blue-chip American stocks, but a larger number related to companies connected with the Atlantic Acceptance Corporation, a Canadian credit firm that was on the brink of insolvency. Its problems stemmed, ironically, from its decision to lend eleven million dollars to Allen Manus to buy the Lucayan Beach Hotel. In each case, the instructions were on the letterhead of "Sasoon's Far Eastern Trust Ltd, PO Box 804, Nassau, Bahamas," a company that proved to have even less substance than Lords Bank, as it did not exist at all.

One broker (Loeb, Rhoades & Co, which counts Robert B. Anderson among its partners) smelt a rat and sounded the alarm. For one thing, it was not customary for buy orders to be accompanied by a cheque for 100,000 dollars, because payment is usually made only upon settlement. For another thing, the name of the purported purchaser was suspiciously similar to that of Sir Victor Sassoon, whose family is hardly unknown in banking circles. Indeed, many of the other brokers, failing to spot the missing "s," simply assumed that they were dealing with an affiliate of the Bahamian bank E.D. Sassoon (PO Box 1046), or of the Bank of Nassau (PO Box 176), which are owned by Sir Victor's widow and by other members of his family.

Incidents like these exposed the fact that it was dangerously easy for renegade financiers to abuse the privileges afforded by Bahamian banking and company law. The basic rules relating to companies dated from 1866, while the most recent statute dealing with banks had been enacted in 1909. Anyone could describe themselves as a "bank," and you could set one up by mail, with the entire process costing no more than five or six hundred dollars. A Bahamian company had to have at least five shareholders, but they could be of any nationality, and might well be straw men for the real owner, who chose to remain anonymous. The only other requirements were to state the company's purpose, to name its registered office, and to stipulate how much share capital it had. In the latter instance five dollars was considered adequate.

In view of the negative publicity engendered by the SEC's investigations, the Bay Street Boys decided to launch a pre-emptive strike in October 1965, by passing new legislation regulating banks and "trust companies" (which are firms that administer financial assets on behalf of their owners, including providing fund management services). The new law requires all banks and trust companies based in The Bahamas to be licensed by the minister of finance, who may refuse to issue a licence "whenever he considers it to be in the public interest." From 1965 onwards, no unlicensed institution has been permitted to describe itself as a "bank, trust, trust company, trust corporation, savings or savings and loan, or any of their derivatives in English or in any other language." At the same time, the legislature gave the Currency Board responsibility for maintaining "a general review of banking practice in the colony," with initial enquiries commencing forthwith.

Before the commencement of this exercise, there were 400 Bahamian corporations that called themselves banks and fifty-five claiming to be trust companies. Within a year, twenty-seven were forced to shut up shop, while 150 had been "invited to change their names." Just over a hundred companies decided not to appear before the Board at all and quietly vanished, seeing this as preferable to disclosing any details about their activities. A similar number of files are still awaiting examination. The SEC has kept up the pressure by updating its "Foreign Restricted List," which contains companies whose securities have been distributed in the United States in violation of the 1933 Securities Act, to include Bahamian issuers.[8]

Once the hunt for dodgy banks and trust companies is over, The Bahamas will still, nevertheless, have a sizeable financial infrastructure. And believe it or not, the very private little banks that straddle Nassau and Beirut, Nassau and Hong Kong, Nassau and Monrovia, or Nassau and Switzerland are not indispensable components of the system either. No, the rainmakers here are the subsidiaries and branches of some of the best-known financial institutions in the United Kingdom and Canada, albeit that they operate largely without interference from head office. The Canadians arrived first, at the beginning of the century, while the Brits have been here since the early fifties. Over the past decade they have been joined by big American hitters like Chase Manhattan, First National City Bank, and Bank of America (BOA). Perhaps the most unusual organization to have set up shop in Nassau recently is the World Banking Corporation (WBC), a cosmopolitan joint venture that is the brainchild of former U.S.

[8] Until the end of the 1965 fiscal year, this list was known as the "Canadian Restricted List." As at 30 September 1967, there were thirty companies on the list: eighteen Canadian, four Bahamian, seven Panamanian, and one British Honduran.

Treasury Secretary Robert B. Anderson. Formed in 1963, WBC is a coalition of thirteen banks, sovereign wealth funds, and private investors whose assets, in aggregate, must exceed twenty-five billion dollars.[9] The enterprise is housed in a former pied-à-terre of Axel Wenner-Gren's, and its remit (as WBC's annual report discloses, in the fine language that seems to be the preserve of classical tragedy and British financial documents) is "to concern itself, in particular, with complex one-off cross-border transactions." WBC may one day be a global player in its own right, if Anderson is correct in his belief that there is a niche in the global financial architecture that is waiting to be filled by a loose confederation of banks cooperating through a common board of management. As yet, however, the concept remains unproven.

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[9] The original consortium members were:

- BOA, which put up the lion's share of WBC's initial capital;
- Robert B. Anderson;
- Banca Commerciale Italiana;
- Bank of Tokyo;
- Banque Lambert, from Belgium;
- Banque Nationale pour le Commerce et l'Industrie (which has since become BNP);
- Dr Agustin Batista, who used to own the largest bank in Havana;
- Commerzbank AG;
- the Dutch group Van Lanschot;
- J. Clifford Folger, formerly U.S. ambassador to Brussels, who is chairman of Folger, Nolan & Co;
- the Kuwait Investment Company, which is largely owned by the Emir of Kuwait; and
- Skandinaviska Banken.

In early 1967, Toronto Dominion Bank (TDB) joined the consortium. Between them, BOA and TDB hold three-quarters of WBC's capital; the remainder is shared between Mr Anderson and the other partners.

All of the respectable banks in Nassau, not to mention the other ones, claim to offer a broad range of bespoke financial services, such as "the facilitation of corporate restructurings for overseas firms by altering the relationship between parent and subsidiary through the interposition of a Bahamian legal entity." What's that all about, then? One catches oblique glimpses, here and there, of the benefits that routing financial flows through The Bahamas can bring. Chief among them is the avoidance of United States tax on profits derived from non-U.S. sources, which relies on the intermediate Bahamian holding company not paying any dividends. Nassau's most outré speciality is the "trust," a vehicle used by conscientious dynasts to ensure the optimal inheritance of their fortunes.[10] The trust income may be accumulated for the whole of the "perpetuity period," often expressed as "21 years from the death of the last survivor of all the descendants of King George V now living." Short of an epidemic in Buckingham Palace, that

[10] The declaration of a Bahamian trust will not necessarily cross the radar of the U.S. Internal Revenue Service, nor that of the Inland Revenue in the UK, because these are essentially private instruments, which do not need to be registered. The Bahamas is, however, part of the sterling area, and the trustees are therefore obliged to seek a determination of the trust's residence status for exchange control purposes. If the trust was settled by a resident of the "scheduled territories," then it will be a resident trust, subject to the entire panoply of exchange control regulations administered by the Currency Board, which acts under the supervision of the Bank of England. If, on the other hand, the settlor of the trust resides outside of the sterling area, then the trust will be non-resident, in which case the regulations are much less onerous. The main use of Bahamian trusts is to transmit property to children or grandchildren. But an American attorney will also counsel his amorous seventy year-old client, who is about to take a new wife aged twenty, first to transfer some proportion of his assets to the shelter of a Bahamian trust. In that way, should they divorce, his beloved will receive only half of their joint estate, excluding the assets earlier placed into trust.

ought to provide an appreciable margin of comfort, given that the heirs to the British Crown never fly on the same aeroplane.

It is difficult, frankly, for an outsider to drill into the detail of all of this with much greater precision. If you really wished to grasp the finer points then you would need a law degree, for starters, and you would also want to put the proverbial wet towel around your head as you thrashed your way through the pamphlet authored by Stafford Sands and Sidney R. Pine, *Tax and Business Benefits Offered By The Bahamas*, or some other authoritative legal publication that analysed Bahamian jurisprudence in tandem with British law, or that of the United States, since the crux of the matter varies from country to country.

Even if you were fully clued up, though, how confident could you be that this intricately-assembled legal maze would be enough to keep you one step ahead of the tax authorities, or of anyone else with designs on your hard-won capital? That was one of the questions that I put in June 1966 to the minister of finance and tourism, Sir Stafford Sands, CBE,[11] who received me at his chambers in Bay Street, seated behind a long convent table covered, from end to end, with bundles of legal papers.

A dressing-down from Sir Stafford

Take a balloon resembling Paul-Henri Spaak and inflate it, inflate it, inflate it some more, squeezing it widthways until it's a good six inches taller than him, but still considerably fatter. If you envisage the resulting character being played, with much bonhomie, by

[11] "Commander of the British Empire" (a high honour).

Orson Welles, then you will be not altogether surprised when you meet Sir Stafford. In his shirt sleeves, waistcoat unbuttoned, eyes half closed behind thick tortoiseshell glasses, he exudes the same authority that the banker Laffitte must have done in his offices and at court, endowed with the natural ease of a man who doesn't need to tell you—because it is known the world over—how many international businesses he has represented before his government, and how often he has represented his government in international business. He was waiting for me, guard apparently lowered, willing to countenance anything except my wasting his time.

Sir Stafford immediately cut to the chase: "The Americans have every reason to be relaxed about the situation in The Bahamas, and they are. For every dollar that an American tourist spends in our islands, we Bahamians send two dollars to the United States, because most of what we consume is imported from there. I'm not prepared to go into detail, but you can take it from me that the American government is perfectly justified in feeling grateful to The Bahamas." Grateful? For what?

Was it for providing a protected habitat for billionaires, a species threatened with extinction elsewhere? Or for illustrating the superiority of the market economy, right in Cuba's back yard? For hosting a radar tracking station on San Salvador, in the shadow of the competing crosses that three equally stubborn eggheads have erected to mark the site of Columbus's first landing in the New World? Or for allowing the Americans to build a submarine Canaveral beneath the coral of Andros, comprising three deep-water test ranges, thus enabling the U.S. Navy to evaluate the effectiveness of its maritime weaponry? Was it to any or all of this that Sir Stafford was alluding? He just stonewalled me.

So I tried another tack: what did he have to say about the grievances that one heard voiced in Nassau about the slow pace of development in The Bahamas? Weren't they an indictment of his term in office? With a guy as slippery as this, you couldn't mince your words. So I spelt these common complaints out for Sir Stafford and he, unhurriedly but without hesitation, threw them all back at me. "People love to criticize, don't they, harping on about our lacklustre agriculture and industry and our overgrown service sector. What a load of twaddle! We've got full employment, which is more than you can say for anywhere else around here, because we've grown the tourist trade by 1,890 percent over the last fifteen years. It's bringing in a hundred million dollars a year now, and, as in Florida or on the Côte d'Azur, you are bound to need services for immigrants, retirees, and visitors. The size of our reserves is a state secret, but I can tell you that, from 1950 onwards, The Bahamas has made a net contribution to the sterling pool, because we always set money aside. There were two years when I had to present a budget that was in deficit, but I made sure that over the next two years, I restored it to surplus. And I didn't have much of a problem in doing that, because we won't put up with futile or extravagant expenditure here. The Bahamas is run like a family company, by men who know about managing a business, which is exactly the way that it ought to be."

On this point Sir Stafford was categorical: "Our country is too small for us to be thinking about paying Members of Parliament or ministers, even if it was only to make them dollar-a-year men like in Washington. Bahamians who take on public office must do so for its own sake, and they should treat it as a part-time occupation. That's the nub of it, because as soon as they start neglecting their own affairs, they'll go to the dogs, and then they won't be of any use to anyone. The day you turn politics into a licensed profession, you'll only get second-class men. At the moment, you've got to be first rate, because each of us treats his brief as a personal responsibility, and we haven't got a lot of loafers and lackeys padding the payroll. The Bahamas has a very efficient government, because we have always regarded the figure of fifty million dollars as setting a ceiling on our budget. If it ever gets to 120 million then we'll be finished, I mean we might as well resign and surrender to the dead hand of bureaucracy. And it's not as if we couldn't afford to, because our growth rate is 16.5 percent and a lot of other countries would give their eyeteeth to have our credit rating."

Irritated perhaps by the half-smile that I was trying to keep from my lips, Sir Stafford proceeded to dot his i's and cross his t's. "You think The Bahamas is unpopular in certain quarters? Maybe we are. What else would you expect, when people can get tax breaks here that other countries aren't prepared to give them? We couldn't give a damn about the envy and resentment that you hear expressed towards The Bahamas! The only thing that we're interested in is preserving our reputation for integrity and professionalism."

Displayed prominently on Sir Stafford's desk were two photographs warmly inscribed for him by John F. Kennedy and Harold Macmillan to commemorate their historic meeting at Nassau in 1962, which he had helped to host. He shot an involuntary glance towards them as he leapt to his feet to deliver these parting words: "Now look here, my boy, I won't have anyone casting aspersions against the honour or the good name of The

Bahamas, or they'll have me to answer to. Need I say more? I think you catch my drift."

How sustainable in reality, though, was Sir Stafford's style of government by bluster? To find out, I was keen to talk to the leader of the opposition, Lynden Pindling, but a number of Bahamian journalists—who, even at three o'clock in the morning, would only criticize the Bay Street Boys under their breath—considered this an inopportune, potentially even a dangerous move. Seven months before he became premier, no one to whom I spoke in Nassau believed that Pindling had the slightest chance of winning a majority.

Indeed, some of them tried to persuade me that he himself had no such expectation, and that his real agenda was to enlarge his client base among the large white-run firms by defending them against the allegations made in *The Wall Street Journal* about "gambling and the Mob." Others claimed that his only goal was to bolster his credibility with the "little man" by turning the House of Assembly into a laughing stock. At semi-annual intervals, in a comedy of violence that had all of the formalized artifice of a wrestling match, his supporters would convene in Rawson Square. An hour later, right on cue, a black MP would emerge from the door of the parliament building escorted by four policemen, who had been instructed to expel him from the chamber for insulting the Speaker's dignity by refusing to pipe down at the end of his allotted time. This role usually fell to Milo Butler, the morbidly obese proprietor of a chain of funeral parlours. The gracile Pindling, for his part, was famed for having once hurled the golden mace, hallowed emblem of parliament, out of the window. Since its aureate hue was nothing more than ormolu, the dramatic effect was heightened when it smashed to smithereens.

"Some of the black leaders are actually Reds," one of the Nassau papers had opined of that incident. It was a risible take on events, and Lynden Pindling was laughing about it as he welcomed me into the charming pale pink colonial-style house that adjoined his barrister's chambers. He was rumoured to be making fifty or sixty thousand dollars a year, one-tenth of which he donated to Anglican causes. A great conversationalist who somehow managed to remain discreet, never distant but always rarefied, at once intimate and inscrutable, like a big tame bird smoothing his plumage, Lynden Pindling was comfortably at home in the worlds of politics and business, and refreshingly free of the rather stuffy refinement that is the trademark of the London legal profession. For it was to London that his father, a poor immigrant from Jamaica who became a prosperous Nassau grocer and horse-breeder, had sent him to study.

At the age of thirty-five, Lynden Pindling was afraid of nothing, either in the present or the future. "You will not be misquoting me if you state that, in my opinion, we should expect more from our ministers than we do from our MPs. It is particularly regrettable that Sir Stafford should place the interests of one of his clients, BAL, above those of a government in which he is the most prominent figure. I find it outrageous that we're collecting less than 300,000 dollars a year from them, when they're making something like eight million. We ought to be demanding a cut of the profits as they do in other countries."

"For expressing that view in the House," he continued sorrowfully, "I was accused of every crime, every imbecility that you can think of. They even said that I was hell-bent on taxing offshore companies, when I know as well as anybody does that we need them to need us. If the people decide that they want me as their premier, then the only thing that I'm likely to demand from our numerous banks is that they start lending money to the locals so that they can buy houses, and stop behaving like loan-sharks when it comes to personal credit. We need to do more for the education system, especially when you consider that a fifth of our population is under the age of four. And there has to be some kind of provision for social security, too, because all you get at the moment are old age pensions, and they are barely enough to live on."

With a programme this moderate, how could Lynden Pindling be regarded as the undisputed leader of the black majority, the face of the struggle against entrenched white power? He explained that "the real segregation in The Bahamas isn't between black people and white people, it's between poor people and rich people. What we in the PLP are aiming for is to make more of them rich and fewer of them poor, but the Bay Street Boys couldn't care less about anybody apart from themselves."

As I was preparing to take my leave, Pindling pressed into my hands a copy of a speech that he had delivered to the UN Special Committee on Decolonization in 1965, in which he argued that "the political system of The Bahamas lends itself to corruption and abuse, or, at any rate, to the perception of corruption and abuse."

The racketeers and the transition to majority rule

In December 1966, Lynden Pindling travelled to London to urge the British Colonial Secretary to launch an inquiry into collusion between the hoods of the Freeport gaming tables and the upper reaches of the Bahamian power structure. The British press, scandalized at that time by the way that organized crime was insinuating itself into the London scene, excitedly reiterated this demand. They reported unequivocally (omitting even the standard insincere disclaimers) that Meyer Lansky's chokehold on the casinos of The Bahamas was no less absolute than it had been in Cuba before the revolution.

Sensing that any such investigation could quickly slip out of the Bay Street Boys' control, the Bahamian premier, Sir Roland Symonette, decided to take a high-stakes gamble of his own. He asked the Governor to dissolve the House of Assembly, called a snap election, and announced that the verdict of the Bahamian people would determine the shape of any future inquiry. But the gamble backfired, for black women in particular, who had only been enfranchised five years earlier and were instinctively God-fearing and puritanical, transferred their allegiance *en bloc* to the PLP.

After he emerged as the victor in mid-January 1967, Pindling's first policy announcements were that the state would now fund secondary education for all Bahamians—in previous budgets, the sums available for education had been less than those allocated to promoting tourism—and that MPs were in future to receive a salary. In what may have been a calculated gesture of goodwill, a number of Bahamian banks decided that the time was ripe for them to plunge into the local mortgage market. Little else has changed in the interim, except that the tax on casinos was raised to a million dollars per annum in June 1967, whereupon the Monte Carlo Room closed its doors in protest. Fortunately, El Casino had just opened for business and was ready to take up the slack. The three stooges, Courtney, Ritter, and Brudner, had already left the islands in January, having secured an enviable severance deal from BAL. They were to be paid a total of 2.1 million dollars over the next ten years, in consideration for "the company's right to use the reports that these gentlemen have compiled concerning the creditworthiness of various American high rollers."

The details of their redundancy package were among the facts that emerged during forty-five days of hearings before the Commission of Inquiry into the Operation of the Business of Casinos in Freeport and Nassau, which was appointed in March 1967 and was chaired by a former Deputy Commissioner of the Metropolitan Police. The Commission heard evidence from fifty-four witnesses before releasing a highly critical report the following November. All was laid bare, the Bay Street Boys' dirty laundry conspicuously aired. We learned of the conflicts of interest, with half of the Cabinet seemingly on some kind of retainer or "consultancy agreement" from BAL; and of the cronyism, whereby other members of the government had been awarded lucrative contracts that were within the company's gift.

Embarrassingly for Pindling, however, the PLP did not escape censure either. The Commission noted that he and his party had been the beneficiaries of "help in kind" provided by one Michael McLaney, an important Lansky linkman who used to run the Casino Internacional in Havana and co-owns the Carousel Club in

Las Vegas. McLaney had spent around sixty thousand dollars on supplying transportation for the PLP's election campaign, including a helicopter, a single-engined Cessna, a DC-3, and a powerboat named the *White Hawk*. Pindling "was adamant that there was no undertaking given either by himself or other party members for any gambling concession, either before the election or subsequently, to Mr McLaney or his associates." But the Commission considered it "unfortunate" that Pindling had accepted assistance from McLaney, whom they described as "a thoroughly dangerous person who is likely to do nothing but harm to The Bahamas."

Further information about the relationship between Lynden Pindling and Mike McLaney emerged during the course of public administrative proceedings brought by the SEC in mid-1967 against McLaney and a man called Lewis Colasurdo, erstwhile president of Crescent Corporation, a company listed on the New York Stock Exchange. The case concerned a blueberry plantation that had been passed back and forth between various companies controlled by Colasurdo, including Crescent. The end result, according to the SEC, was that one of Colasurdo's companies, Pakco, had acquired a majority stake in Crescent "by the use of Crescent's own money." Pakco later sold the shares at a 1.6-million-dollar profit. At one stage in this "series of sham transactions," McLaney had nominally held title to the blueberry patch for a period of three weeks.

How did Pindling's name get drawn into in this complex fraud investigation? One aspect of Colasurdo's defence was that the money extracted from Crescent had not gone directly into his own pocket, but had been used as security for a two-million-dollar loan from a Bahamian company named Six M's Limited. The SEC argued that Six M's was "merely a corporate shell" that had been set up specifically to participate in the scheme. Pindling, who had acted as the company's chairman, knew about the transactions in which Six M's was involved and had been paid 700 dollars for his services. More damaging for the Bahamian premier was Colasurdo's attempt to substantiate the "loan" from Six M's by asserting that he had paid 127,000 dollars in used notes to Pindling in person, which he claimed was "interest," "at an out-of-the-way hotel bar in Miami."

Pindling wasn't going to take this lying down. He immediately denied that the rendezvous had ever taken place, and declared that he would happily authorize all documentation relating to Six M's to be released into the public domain, since he had nothing to hide. He pointed out that his role as "chairman" of Six M's was purely honorific, because all that he did was to implement the instructions of the company's hidden hand, namely an associate of Colasurdo's called Bud Whorl. Faced with this rebuttal, Colasurdo changed his tune, lamely telling the SEC that his "previous statement was in error," on account of the fact that he had "downed too many Quaaludes before giving evidence." The man he had mistaken for Pindling in a Miami bar, he belatedly realized, was the notorious con artist Pedro Torres.

One might have thought that the Bahamian professional class would be up in arms over Pindling's breach of the colony's code of *omertà*, but in fact they greeted it with equanimity. At this turning point in history, it was understandable that the premier should choose to throw a bone to the chasing pack. The occasional ad hoc sacrifice might well, in the long run, be conducive to the preservation of their traditional way of life. Six months after his accession to power, the smart money seemed to be on Lynden Pindling's Bahamas continuing to be a safe financial haven for the foreseeable future. Certainly the head of one major Canadian bank, which had been a big supporter of the Bay Street Boys, was no longer ruing their demise. Given the colony's demographics there was no harm, as far as he was concerned, in the superficial "changing of the guard that has taken place, with a bunch of white sophists being replaced by some equally well-qualified black ones."

By that juncture, Sir Stafford Sands had fled to Spain, following in the footsteps of such notables as Ramfis Trujillo, Mohamed Khider, and Moise Tshombe. In July 1967, aged just fifty-three, he resigned his seat in the House of Assembly, and bade farewell to his magnificent estate on the lake at Waterloo, to go into exile. The new mood among investors did not pass unnoticed by the UBP, which put up a black candidate at the resulting by-election held in the Nassau City constituency. Cleophas Adderley campaigned on a platform of reassuring prospective tourists at a time when the closure of the Monte Carlo Room was threatening to drive them away, and he easily increased his predecessor's majority.

Are the Bay Street Boys all washed up, or will they try to stage a comeback? People who are better placed than I am to judge of such things believe that it wouldn't make any difference if they did, and that's not just their natural cynicism showing through. This colony's fate does not really depend on which parliamentary party holds power. Nor, in the final analysis, is its future contingent on purported rivalries between different groups of gangsters. Some have suggested, for example, that the disclosures that brought down the Bay Street Boys were motivated by a faction fight within the Mafia, and were aimed at dislodging Meyer Lansky both from the casinos of The Bahamas and from his role as the predominant investment manager for the Cosa Nostra.[12] Thus far, however, neither eventuality has come to pass, and Lansky shows no inclination to throw in the towel, in spite of his age (he's sixty-four), his ulcers, and the fact that he is reputedly worth between two and three hundred million dollars. We are talking, after all, about the man who acted as a go-between for the American government in its dealings with Lucky Luciano (who supposedly persuaded the Mafia to cooperate with the Allied landings in Sicily). About the man who was responsible for Batista's return to Cuba in 1952. And about the man who monopolized the casinos, the cathouses, and the drug smuggling of Havana, laundering the proceeds by building some of the biggest hotels and apartment houses in Miami.

At the end of the day, although a succession crisis in the Mafia would doubtless leave its mark on the Bahamian gambling industry, there appears to be little risk of its fundamentally disrupting the colony's social order, which the successful transition

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[12] Meyer Lansky has been referred to as "the mob's accountant," and he unquestionably holds significant sway when it comes to determining the channels through which criminal earnings are recycled into legitimate businesses. Do not underestimate the responsibility that attaches to that job. According to Lansky himself (as reported by *Life* on 8 September 1967), the Mafia is "bigger than U.S. Steel," a company that has 5.64 billion dollars in assets and made a 250-million-dollar profit in 1966. The British press sometimes characterizes Lansky as the boss of the East Coast (specifically Florida) gangs, which are engaged in a turf war with the Nevada faction, but I have never found that take on the situation to be very persuasive.

to majority rule has confirmed as being remarkably stable. What is more, since Senator Kefauver died in 1963, there has been less of an appetite in American political circles to treat the habits of professional gamblers as though they were an affair of state. Washington can't get too het up about The Bahamas offering "specialized financial services" without there being a knock-on effect concerning its own activities in neighbouring Caribbean states. In a poor and potentially explosive region that contains both Cuba and Haiti, the U.S. government is seemingly content, as it was in Sir Stafford's time, for these islands to live a charmed life under the Jolly Roger. It doesn't really matter whether ultimate responsibility for them lies notionally with the United Kingdom, or whether Canada decides to make a bid to step into British shoes, as she has attempted to do once before, and as Pindling is said to be open to, presumably on the basis that Canadian tutelage would be even less exacting.

In the aftermath of the 1967 devaluation of sterling, the Bahamian Currency Board effectively de-linked the Bahamian dollar from the pound and pegged it to the U.S. dollar instead. When one considers the geographical position of The Bahamas, though, wouldn't it make sense for them to go the whole hog, to leave the sterling area, and to join the "dollar zone"? The obvious place to look for an answer to that question is Panama.

7. Canal of secrets

War, trade, and piracy are an indivisible trinity.

GOETHE

For many of us French, there's something a bit fishy about Panama. Companies incorporated there instinctively arouse our suspicion, yet it is as well to remember that, whenever you buy quoted shares in the Swiss processed food giant Nestlé, you are also acquiring a unit of stock in its "stapled" Panamanian subsidiary, Unilac Inc, which the firm set up in 1936 to act as a holding company for its interests in the Western Hemisphere. Until 1962, the famous drug manufacturer from Basel, Hoffmann-La Roche, had a similar dual-company structure involving a Panamanian entity called Sapac Corporation, which handled most of its business outside of continental Europe.[1]

[1] Roche originally established Sapac in Liechtenstein in 1926 and moved the company to Panama in 1938. In 1962 Sapac's registration was changed to New Brunswick, Canada, while its head office was transferred to Montevideo.

These commendations from the Swiss tax haven to the Panamanian one don't seem to count for very much. To the average French chief exec—as to a dilettante man of letters—Panama is known only as the place that destroyed the one whom Victor Hugo and Léon Gambetta dubbed "the greatest Frenchman," namely the hero of Suez, Ferdinand de Lesseps.[2] For the radical Right, in the shape of Edouard Drumont and Alphonse Daudet, the Panama affair embodied the worst kind of republican and parliamentary corruption.

But for another current of French opinion, to wit, that shaped by the struggle against fascism and by the Resistance, Panama evokes the name of Bunau-Varilla, the family that owned the newspaper *Le Matin*. In 1885, aged just twenty-six, Philippe, the younger of the Bunau-Varilla brothers, became chief engineer of the canal company founded by Lesseps. He was instrumental in the company's subsequent takeover by the American government, and served as the fledgling Panamanian republic's first ambassador to the United States. After returning to France, he lost a leg at Verdun and was appointed a Grand Officer of the Légion d'honneur. Maurice, on the other hand, who was three years older than Philippe, was responsible for turning *Le Matin* into the most servile organ of collaborationism when France was occupied by the Nazis during World War II.

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[2] In 1879, at the age of seventy-three, Lesseps decided to try to recapture his glory by driving a canal through the Panamanian isthmus at sea level. By 1893, he had frittered away around one and a half billion francs in the pursuit of this chimera, much of it raised from small investors. The canal company went into liquidation, and Lesseps was sentenced to a prison term for bribing numerous politicians into supplying state aid to keep it afloat. Reprieved on account of his advanced age and poor health, he died not long afterwards.

Panama's standing in diplomatic circles is still tarnished by the somewhat ignominious circumstances of the country's birth. Latin American nations tend, rather simplistically, to regard Panama's secession from Colombia as the naked hijacking of a patriotic cause by "Yankee" economic interests, implemented by means of gunboat diplomacy and graft. Yet we should acknowledge that Philippe Bunau-Varilla genuinely identified with what he saw as a sincere Panamanian yearning for self-determination. And it was he, as much as anyone, who orchestrated the conspiracy that finally led to the independence of Colombia's Isthmian province, which had been in the offing for decades.

Having been forewarned in October 1903 that the United States was sending a warship, the *Nashville*, to keep watch off the coast of Colón, Bunau-Varilla personally put up 25,000 dollars for the purpose of neutralizing Colombia's military presence in Panama. A good proportion of this sum went to General Huertas, commander of the garrison in Panama City, who was persuaded to join the rebels. On 2 November, the Colombian ship *Cartagena* arrived in Colón carrying reinforcements, but the American superintendent of the railroad, Colonel Shaler, tricked their commanding officers into travelling to Panama City, where they were arrested by Huertas. Meanwhile, a detachment of U.S. Marines landed at Colón, and the young officer who had been left in charge of the Colombian troops there accepted a bribe to withdraw. In the evening of 3 November 1903, the revolutionary junta proclaimed the creation of the Republic of Panama, and three days later the new country received recognition from the United States. Bunau-Varilla, already in Washington, now assumed the role of Panama's "Envoy Extraordinary and Minister

Plenipotentiary." Within a fortnight, he and U.S. Secretary of State John Hay had negotiated and signed the fateful treaty that ceded jurisdiction over the Canal Zone to the United States in perpetuity, including full responsibility for governing and protecting it.[3]

In a sense, however, to focus narrowly on the vicissitudes of 1903, when the achievement of independence was followed almost immediately by the effective surrender of sovereignty, is to miss the point. The scars left by that year's events were merely the most recent evidence of a tragedy endured over several centuries by this territory, whose strategic site at the crossroads of intercontinental trade has led it to be carved up by interlopers time and again. The great cleft of the interoceanic canal was written in the stars, for what France began in 1881 and the Americans eventually finished in 1914, with some 27,500 souls having perished in the process, had been dreamed of and even legislated for by the Emperor Charles V as long ago as 1534.

Panama's destiny of trade and tragedy

The location of the Iberian ports of departure, the winds, and the currents meant that Panama was inevitably the point where lost Castilian mariners, sailing westwards blindly, made impact with the Spanish Main. After the Greater Antilles (Cuba, Hispaniola, Jamaica, and Puerto Rico), the isthmus was a prime target for

[3] The Hay–Bunau-Varilla Treaty of 1903 has since been supplemented by numerous other treaties between the two countries, of which the most significant are the Hull–Alfaro Treaty of 1936 and the Remon–Eisenhower Treaty of 1955.

conquistadors. These armed entrepreneurs bankrolled their own expeditions to the New World under licence from the King of Spain, in the hope that he would subsequently make them governors of the lands that they conquered. One might draw a comparison with the way that, in our own time, go-getting young American bankers who are keen to climb the greasy pole will jet off and open new branches in far-flung corners of the world.

Seeking to make a quick buck by dispossessing the indigenous inhabitants of their wealth, wave after wave of *adelantados* ("invaders") preyed upon Panama's defenceless coast, that "S" beaten flat lying horizontally from west to east with its head resting on what is now Costa Rica and its feet on present-day Colombia. In a wink of fate's eye, the first landfall in 1501 was made by Rodrigo de Bastidas, a notary from Seville and thus the spiritual ancestor of all of Panama City's numerous lawyers. Twelve years later, Vasco Núñez de Balboa finally accomplished the difficult journey to the other side of the isthmus, which is only eighty kilometres wide at its narrowest point, and reached a new ocean, the Pacific. From the second quarter of the sixteenth century onwards, Panama was an important hub for business in South America.

Following Francisco Pizarro's conquest of the Inca Empire, which was largely complete by the early 1540s, the transhipment of valuable goods from Peru became the stock-in-trade of Panama's military capitalists. Native conscripts bore the gold and other spoils of war through inhospitable jungles to the Caribbean side, where they themselves were impounded to be sold into slavery on Hispaniola. Ships plied the long Atlantic crossing from Spain carrying the necessities for colonization, and returned loaded with the luxuries so highly valued in Europe. Thus did Panama enter the modern era, the age of trade.

Thus also, however, began the time of tragedy. Balboa lost his head, Pizarro was assassinated in a palace coup at Lima, and the indigenous population was virtually annihilated by massacres, disease, and enslavement. Bands of escaped Africans known as Maroons ran amok in the forests of the interior and allied themselves with the English buccaneers who repeatedly raided the isthmus. Sir Francis Drake famously captured a Spanish mule train near Nombre de Dios in 1573, and died of dysentery contracted during a failed attempt to take Panama City in 1595. Sir Henry Morgan went one better than his illustrious predecessor in 1671, when he sacked the regional capital and razed it to the ground.

Violence and suffering have consistently punctuated Panama's history. After the discovery of the California placers in 1848, prospective gold-miners from the eastern part of the United States found that, as perilous as it was to traverse the isthmus, it was actually less dangerous than trying to cross the Mojave desert or running the gauntlet with the bellicose Native Americans of the Great Basin. There were so many "forty-niners" who wanted to make this journey that an American shipping magnate, William H. Aspinwall, considered it worth building a railway across Panama from north to south, roughly along the line of the Chagres River. Having obtained the Colombian government's permission, it took him five and a half years to complete this project, which went eight times over its initial budget and, with the loss of up to 10,000 lives, must surely hold the world record for the deadliest railroad per kilometre of track laid.

Further carnage ensued, as noted above, during the three decades that it took to dig the canal. The new waterway held the promise of infinite gains from trade, yet now, only half a century since its completion, it has become a major choke point in the global sea routes. At some point, inevitably, a larger and more modern canal across Central America will be required, although it need not necessarily be in the same location. Whichever site is chosen, however, the disruption to Panama's economy, and thus to its political stability, is likely to be severe. I am not sure that this tax haven, which is of comparatively recent vintage, would be able to survive such an ordeal.

While it is natural for the mind to wander, no one has the right to formulate predictions on the basis of purely retrospective evidence. So I shall expunge the preceding words as one might wipe clean a blackboard, with sweeping strokes, and write afresh, this time employing the radical methodology of a bare recital of pertinent statistics. If you include the 1,400 square kilometres of the Canal Zone, the Republic of Panama has a land area of 75,400 square kilometres, about one-seventh of the size of France. Seventy-six percent of its territory is still covered with virgin forest. It has the smallest population among all of the independent states in Latin America, approximately 1.3 million in 1966. The country is around forty percent urbanized, and some 350,000 people live in Panama City alone.

Sixty percent of the labour force (which, according to the official measure, includes "everybody aged ten or over who is capable of working") is employed in agriculture, about thirty percent in the service sector, and less than ten percent in manufacturing. GDP per capita, at around seven hundred dollars, is almost the highest in the region, second only to Venezuela. But the country's wealth is very unevenly distributed, and there is extreme poverty among the Amerindians and Afro-Panamanians who together make up ninety percent of the population. Adult illiteracy hovers around the twenty-five percent mark overall. At the other end of the spectrum, financial capital and political power are heavily concentrated in the hands of a few rich white families. One eighth of the country's productive land is owned by a mere sixty-one people.

Panama has a president elected by universal suffrage to serve a four-year term, who appoints a cabinet of seven ministers. There are nine provincial governors and sixty-three municipal mayors. The National Assembly consists of forty-two members, with a preponderance of businessmen; indeed, one might almost say that the country's major employers are represented there in proportion to their revenue. Panama is home to fifteen or so recognized banks, dozens of unlicensed financial institutions, and anywhere between 15,000 and 150,000 holding companies (the imprecision of this estimate tells you how difficult it apparently is to count them). The country can also boast the world's ninth-largest merchant fleet, and, at Tocumen near Panama City, the seventh-busiest international airport in terms of the volume of freight that it handles.[4]

[4] The Panamanian fleet amounted to approximately eight million deadweight tons by the end of 1967. Judging by their moorings and their fishing-grounds, some 239 small ships, displacing a total of 12,376 tons, have a genuine link with Panama. The only Panamanian thing about the rest of the fleet is its flag.

The rustling of dollars

Although the sun had long since set by the time my flight landed, the heat still caught you in the throat. Disorderly queues formed. Big blond Americans (who looked as if they should have been in uniform despite the fact that they were actually wearing mufti) stepped forward out of turn, beckoned through by identikit compatriots of theirs who were seemingly keen to ensure them swift egress. The hour was late, but whole Panamanian families, comprising a wife and several kiddies with the chauffeur in tow, had turned out to welcome home their breadwinners, swarthy jet-setters who, with their heavy dark glasses, pearly-white teeth, and wry smiles, reminded one of Aristotle Onassis. There is no reason to suppose, let me hasten to add, that Onassis ever visited any of the fifty Panamanian companies that once held his interest in the Casino de Monte-Carlo. Native porters who, seen in profile, resembled Mayan gods either juggled with the insubstantial clobber carried by new arrivals, or bent their backs to the weighty baggage of those who were departing this most lightly taxed of American republics.

As the limo-taxi carried him through the dark night along an avenue lined with palm trees, the traveller felt clammily enveloped, as though he were driving inside a gargantuan greenhouse. He could always break the spell, however, by imagining the coolness that awaited him in all of Panama City's best hotels and office buildings, producible on demand by the rustling of dollars. Sorry, I mean balboas! One has to admire the Panamanian government's understated swagger in giving their currency this evocative name, even if it is only silver and copper coins that bear the head of the decapitated governor.

The Republic of Panama has been in a de facto currency union with the United States since 1904. Hence, the only notes that are acceptable here are American ones. That was the first piece of advice dispensed to me by my voluble taxi driver, who was conscious of being presumed by a foreign visitor to be a man of the world. If your accent gives you away as European, you will immediately be made privy to the torrent of resentment that Panamanians feel towards the Americans, the so-called "gringos" who think they can buy everything, the patrimony of other nations not excluded. If the passenger reveals that he is French, meanwhile—and I've experienced this elsewhere—he will hear declaimed with emotion, even fervour: "de Gaulle, France, de Gaulle, de Gaulle, Paris," usually followed by "Pig Alley . . . ah, Pig Alley." There will then come an offer to transport you without delay to a cosmopolitan bawdy house in town, where the brothel-keeper is a Frenchwoman much revered, if I understood this correctly, for having the charms of a Queen of Tahiti.

You realize straight away, therefore, that in Panama revolutionary verbalizing is merely part and parcel of the pursuit of lucre. You needn't fear, as you might in Manilla or even in Rio, that you won't arrive at your hotel in one piece, and there is ample opportunity to acclimatize yourself as you wend your way through the capital's urban sprawl. Deforested countryside gives way to row upon row of decrepit hovels juxtaposed with the odd tower block, until you find yourself in a brightly illuminated tropical plaza fringed with boutiques and luxury villas, overshadowed by the skyscrapers of Chase Manhattan Bank, the Hilton, and the

Intercontinental. Then there is the Old Quarter, a warren of ramshackle colonial buildings with Indians loitering in the doorways, motionless and forbidding, watching out for who knows what. The square outside the Grand International Hotel is occupied by market stalls with fluorescent signs and cut-price merchandise reminiscent of Memphis or Tampico. You can't walk fifty metres at night without bumping into troopers from the Panamanian National Guard. Armed with revolvers and nightsticks, they stand in pairs at the entrances to the dimly-lit side streets and will explain to you (in "Spanglish") that there are "bad men, close by, got knives."

Do not be misled by this semblance of First World affluence. In fact, you are advised not to venture off the beaten track after dusk. Unemployment in Panama City approaches fifteen percent, while in Colón, at the other end of the canal, it is closer to thirty percent. According to an official of the Inter-American Development Bank, whose lucidity I had no cause to doubt even though he spent long evenings medicating his homesickness with whiskey, outside of the towns the Amerindians live a subsistence lifestyle, earning less than fifty dollars a year. Vacationers who stop over for four or five days never appreciate the extent of the hardship here, not least because it costs them so little to take a taxi, and it's so hot, that they seldom walk anywhere.

New investment since the 1964 riots

Apart from the occasional disturbance at the university, calm has reigned in Panama ever since the confrontation of January 1964, which left twenty-one dead and 300 wounded on the Panamanian side, with an additional three dead and fifty injured in the Canal Zone. The trouble began when some teenagers from Panama City marched to the town of Balboa, inside the zone, to protest against the fact that the American high school there was flying the Stars and Stripes by itself, without simultaneously displaying the Panamanian flag. This was contrary to an undertaking first given by Eisenhower in 1960, and subsequently endorsed by Kennedy, that the two flags must either be flown together or not at all. A scuffle ensued between the high school pupils and the Panamanian youths, with each accusing the other of damaging their respective flags. Within a few hours, serious unrest broke out in Panama City and in Colón. Rioters set alight hundreds of cars and trashed the premises of U.S. corporations including Pan American Airways and Chase Manhattan Bank, while the police fired thousands of rounds into the crowd, making liberal use of tear gas. The following day, President Chiari telephoned President Johnson to inform him that Panama was suspending diplomatic relations with the United States.

It was not until the beginning of April that, after adopting the most conciliatory approach imaginable, Johnson managed to persuade his opposite number to resume the normal dialogue. In the meantime, the National Guard had swiftly restored order in Panama under the direction of its commander, Colonel Vallarino, who subsequently played a pivotal role in the 1964 presidential election and was promoted to general in 1966. In a republic that lacks an official army, Vallarino is unquestionably the most influential figure in the country, with 3,750 internal security troops serving under him. He is also rumoured to be one of Panama's richest men, thanks to a tithe that he extracts from all organized nocturnal activities, with the possible exception of gambling.

Such “risk capital” as saw fit to flee the isthmus in January 1964 was back again within six months, but in practice there was no mass exodus anyway. A few projects got cancelled for reasons that were unrelated to the violence: a joint venture between two American trade unions to invest 8.75 million dollars in Panama was reportedly pulled at the end of 1963, for example, because the U.S. government went back on an earlier commitment to guarantee the investment under its foreign aid program.[5] But other capitalists didn’t need to rely on that kind of protection, and foreign money continued to buoy up the country’s agricultural and real estate sectors, contributing to a very respectable growth rate of nearly six and a half percent. United Fruit dominates the Bocas del Toro province, where it has its own company towns, airstrips, canal, and port, from which seven million bunches of bananas are exported every year. Dutch investment has helped to ramp up groundnut production. From 1960 onwards, meanwhile, our friend Daniel Ludwig spent ten million dollars planting 800,000 orange trees on a single estate of 4,000 hectares, which is to all other citrus farms as are the gardens of Versailles to that of a modest country priest. He didn’t stop there, either.

Through his company Citricos de Chiriquí, into which he has pumped a further thirteen million dollars, Ludwig now controls Panama’s incipient fruit juice industry. In conjunction with Continental Oil, he also co-owns the refinery at Bahía Las Minas near Colón that cost thirty million dollars to build and currently processes 88,000 barrels of Venezuelan crude per day. Nothing

[5] See *The New York Times* (U.S. edition) of 17 December 1963.

bears more convincing witness to this country's productivity than the eagerness of perhaps the world's greatest connoisseur of tax havens to invest such significant sums here; not least because Ludwig's sole recreation, as he nears the end of a life lived with a remarkable degree of asceticism, is to augment a fortune that some believe exceeds a billion dollars.

The Republic of Panama undoubtedly has great advantages as a destination for capital when compared with the rest of Latin America. Its economy is, to all intents and purposes, fully dollarized, hence it is practically impossible for the government to resort to printing money. The country's underdevelopment has not arrived at that indefinable tipping point into abject poverty. The local market is reasonably efficient, and the balance of payments is broadly in equilibrium, despite the fact that imports of goods are five times higher than exports, thanks to the flattering effect of "invisibles." Yet one has to ask whether opportunities the like of which Daniel Ludwig has so ingeniously capitalized upon are still available to others who might wish to emulate his example.

I began to have doubts about that when I happened to stroll past Panama City's only major bookshop and spotted, displayed slap-bang in the middle of the window, a slim volume with a white cover titled *Income Tax Law of the Republic of Panama, as amended by Law No. 9 of December 23, 1964, in Spanish and English*. This enactment provides that, from 1965, Panamanian residents are subject to tax on income originating in Panama at steeply progressive rates: five percent on the first 5,000 dollars, rising in steady increments of five percentage points up to a maximum of forty-five percent on incomes in excess of 500,000 dollars.[6] With rates like those, did Panama really have any business calling itself a tax haven?

Nocturnal encounter with an attorney at the Aquarium Bar

I received an unequivocal "yes" in response to this question from one of Panama's leading lawyers. A mercurial character, he claims to have survived occupation by both the Germans and the Russians as a young man, and to have seen active service in the cold war in Europe before emigrating to Panama City, where he has been practising now for a decade. Apparently he is one of the few attorneys based there who can visit the United States on a regular basis without attracting unwanted attention from the Internal Revenue Service (IRS). At his suggestion, we met in the dark and crowded Aquarium Bar of the Hilton, where a pianist tinkled the ivories at a small keyboard, which played through huge speakers sited in alcoves above the dance floor. A stream of ever-changing reflections, gold, green, pink, and purple, flickered across the faces of some of the most attractive-looking people I had seen in Central America.

My interlocutor had already changed both his Christian name and his surname at least once since I had first made contact with him. Tonight he was "Simon." His take on the situation was clear enough, in any event: "Except in cases where the Panamanian authorities had previously promised companies that specific incentives would be available, they have been enforcing the new

[6] These are the rates applicable to companies; individuals pay forty-six percent on incomes above 200,000 dollars.

tax rates on Panama-source income rigorously. There was a big jump in income tax receipts in the 1966 fiscal year, more than seven million balboas, and they are up again by almost five million balboas for 1967. What is equally important is that having ‘grown-up’ tax rates makes us look good in the eyes of the United States government. But the fact is that the increases have very little impact on American multinationals, because to the extent that their subsidiaries in Panama pay more tax here, the parent company can deduct it against the ‘controlled foreign corporation’ charge that they are now liable for back home. The total amount of tax doesn’t change; it is just that more is paid in Panama and less in the United States.

“Furthermore,” he continued, “although the 1964 law raised the taxes that companies pay on income that they earn here in Panama, it is actually helpful in other respects. In effect, the authorities have stated as a categorical rule that the tax base is territorial, and that they are not interested in taxing people on their foreign earnings. The tax code now explicitly spells out, for instance, that certain kinds of activity conducted by employees who are physically present in Panama, such as directing overseas operations, are not treated as giving rise to Panamanian-source income. So no, all things considered, I don’t believe that the changes made in 1964 have harmed our competitive position.

“Bear in mind that for every foreigner who plans to conduct some sort of real business in Panama, there are at least a hundred who are only interested in creating an offshore holding company, and never intend to set foot here. Some of them are so ignorant of our country and our language that they write ridiculous things in their annual reports like ‘the Panamanian board held its AGM in apartado 18,' or whatever the number is. That would be quite a feat, even for a shell company with only three directors, because 'apartado' doesn't mean 'suite,' it means 'PO Box'! Frankly you are just asking for trouble with the IRS if you can't be bothered to get the little details right, and those guys keep a close eye on what's happening here, I can tell you. We get plenty of their agents coming to Panama City, and it's not always easy to spot them, as they rarely send the same man twice."

I wondered if there might be some of the taxman's spies among us that very evening, because every time the electric organ ceased to emit its cheesy Nachtmusik, Simon would tail off. Was he worried about the fat bald chap at the next table wearing mirrored sunglasses, who was yawning ostentatiously but looked as though he was wide awake? No, apparently he was a kind of PR man for the canal company, who was paid to keep visiting journalists sweet, and also took it upon himself to monitor the comings and goings of the expatriate community. How about the Errol Flynn type at the bar who had been shooting us a hostile glance whenever he could bear to take his eyes off the almost absurdly shapely girls standing on either side of him? No, he was a ship's captain who had once had the decidedly cushy gig of boat-sitting a big yacht for its American owner, who was hardly ever there. Simon had bribed him into going on joy-rides around the bay in the evenings, which had eventually landed the skipper in hot water with his employer.

I must admit that I got the distinct impression at this point that Simon was having me on. It wasn't that his story was entirely implausible (I mean the face fitted, at a push), but there are plenty of charlatans out there and you develop a nose for them after a while. I hadn't come to Panama to play the game of truth, although it is an obligatory and rather tiresome feature of the foreign correspondent's métier.

Simon did appear, on the other hand, to be extremely knowledgeable on the subject of holding companies, and it generally pays to defer to an expert when you are attempting to get the lowdown. What was the recipe for corporate camouflage that people seemed to keep so close to their chests? How easy is it to kit yourself out with a new Panamanian identity? According to Simon, there is very little to it. You simply fill out a memorandum of association that states the company's name, its objects, and its nominal or authorized capital, expressed in any currency of your choosing. The authorized capital stock of a Panama corporation does not have to be fully subscribed or paid up. You need three directors, but they do not have to be shareholders, nor is it necessary for them to be Panamanian citizens. In practice they are often provided for a yearly fee by local management firms. Every Panama company must also have a resident agent whose address is entered in the public registry. That is essentially it. I asked about the duties imposed upon corporations, but Simon gave me a quizzical smirk. Aside from a minute book and a stock register book, which can be kept outside of the country, the company is not obliged to maintain any records. It does not need a commercial licence unless it physically conducts business in Panama, and it can trade, hold meetings, open bank accounts, and draw up its financial statements anywhere it likes. As far as the authorities are concerned, that is none of their business.

I wasn't exactly beside myself with excitement at hearing about this apathetic approach to regulation, and Simon was annoyed by my lack of enthusiasm, although he chose to interpret it to mean that I had already been “got at” by practitioners in other tax havens. Who had been telling me that Panama couldn’t cut the mustard: was it the gnomes of Geneva, or perhaps the denizens of Curaçao? “The Netherlands Antilles need to get over themselves,” he spluttered, overcome with emotion. “Sure, they had a good thing going on there until Kennedy came along, because of the incredibly generous tax treaty that they had with the United States. The maximum tax that you would pay on dividends from American companies was 17.55 percent, and on interest or royalties it was only three percent. But to qualify for the most favourable treatment now, you either have to own at least twenty-five percent of the U.S. company’s stock, and meet various other conditions, or the Antillean holding company has to be owned by people who live in Holland. And in order to claim the relief, you have to put all of your cards on the table with the tax authorities, which is disgraceful. You can’t really compare the fiscal climate in Aruba and Curaçao with what we’ve got here in Panama.

“As for The Bahamas, well, the Bay Street Boys like to strut about as if they’ve got everyone else licked, but you’ll forgive me if I dismiss that for what it is, sheer braggadocio! The Bahamas is in the sterling area, so if you establish a company or a trust there then it has to be checked out by the Currency Board, which effectively means by the Bank of England, before you can do anything with it. Does that sound appealing to you? All right, you can send money there from Britain, and they’ll let you convert it into dollars if you’re lucky, although you’ll get hammered by the ‘investment premium.’ They can’t even seem to decide whether to keep the Bahamian dollar at par with the American one, which is another needless risk. Contrast that with Panama, where you might as well be in the United States, except that there are none of the drawbacks. Say you're an institutional investor who is planning on opening a bank in Panama City. You'll have better market access than you would if you ran it from New York, and a lot more leeway over how you manage your business, because we don't force you to keep six percent of your deposits in a blocked account with the Federal Reserve, and you aren't subject to Regulation Q, which caps the level of interest that you can pay on deposits."

Drawing our conversation to a close, Simon predicted that "it won't be long until the vast majority of the Fortune 500 are represented in Panama in one way or another. A lot of them are already using the Colón Free Zone on the Caribbean side, where there are 200 scheduled freight services a month. And we've got sixteen airlines operating out of Tocumen airport, with twenty flights to international destinations every day, which gives you an idea of how well connected we are."

Goodbye, Tropics

Shortly after World War II, the Panamanian government sought advice from Thomas E. Lyons, an official of the U.S. Department of Commerce and a noted authority on the theory and practice of free ports, who was instrumental in the design of the Colón Free Zone. It was initiated by special legislation in 1948 and became fully operational five years later. The free zone is a major asset of the Panama tax haven, handling around 300 million dollars' worth of goods in 1966, up from fourteen and a half million in 1953. Its success is hardly surprising in view of Colón's uniquely favourable location, at the intersection between the sea lanes that run up and down both sides of the Americas and the trans-oceanic trade routes linking the Western Hemisphere with Europe, Asia, and Australia. The Colón Free Zone is poised to become the crux of commerce in Latin America, a region of 240 million people who collectively import some twelve billion dollars' worth of goods every year.

The free zone is forty-five minutes by car from Panama City, a journey that takes the traveller through forested uplands where the soundscape is so enchanting that he feels as if he must be hearing echoes of a hidden Styx or Lethe. At the roadside, Amerindian youngsters tend to collections of elegant birdcages containing hummingbirds and parrots, just as children in the Île-de-France might proffer one bouquets of lily of the valley. Upon arrival in Colón, however, you are immediately struck by the appearance of a metropolis that has seen better days, and is ostensibly mired in poverty. There are banks here, and of course the refinery some fifteen kilometres away, but the forty hectares of the free zone are a world apart from the city proper. A sealed enclave patrolled by security guards, it occupies the narrow neck of land that separates Manzanillo Bay from the Port of Cristóbal, which is the best deep-water harbour in Latin America. Within its curtilage there are almost sixty warehouses, many of them displaying the logos of companies that are household names in the United States. Accompany me on a tour of one of them; it doesn't really matter which, for they are all basically similar. To cross the threshold is to say "goodbye, Tropics!"

Inside these air-conditioned hangars, light music wafts around like oversweet syrup, and graceful hostesses conduct prospective buyers around exhibition rooms housing demonstration models of an impressive array of consumer products. Peickard & Kardonski, for example, specializes in Japanese electronic gizmos of all varieties, which can be examined and tested before orders are filled from the stockrooms out back. Pfizer, Schering, Sandoz, and others have factories here, where pharmaceutical ingredients are stored in bulk, ready to produce drugs on demand at short notice. Manufacturers based in the zone can take advantage of workers who are as fluent in English as they are in Spanish, but who receive only half of the equivalent wages paid to their counterparts in the United States.

Using Colón as a logistical hub dramatically cuts the time that it takes for products to reach many destinations in Latin America, compared with dispatching them directly from U.S. depositories or from further afield. Most of the region's major population centres are less than a week's sail away, and the ability to send small consignments by air via Tocumen, without their having to be released from bond, allows retailers in other parts of the region to reduce the amount of stock that they need to keep on hand. That is of considerable benefit in terms of freeing up capital, especially as nominal interest rates tend to be high in South America, a by-product of persistent struggles with inflation, and merchants often have to put up collateral that exceeds the present value of the goods that they intend to import.[7] The majority of merchandise currently arrives in the zone and leaves again by sea, but an increasing

[7] This phenomenon afflicts the countries of the Southern Cone worse than others. Since 1960, average annual inflation has been twenty-three percent in Argentina, twenty-five percent in Chile, forty-six percent in Brazil and fifty percent in Uruguay.

proportion is exported by air and the government has ambitious plans to modernize Tocumen and to increase its capacity.

The Panamanian government has kept the promises that it originally made to lure large companies to the free zone, and has created a veritable business heaven. To begin with, there are no import or export duties on anything brought into or taken out of the zone, unless it is released onto the market in Panama. Secondly, there are significant incentives in respect of corporate income tax. Only the profit from sales to Panamanian customers is fully taxable. Where goods are imported into the free zone and subsequently re-exported, the income is subject to a special tax regime based on the old (pre-1964) rates, reduced by a ninety percent discount. The net effect is that the top tax rate (for profits in excess of a million dollars) is a mere 3.4 percent, and this applies regardless of the amount of value that is added by processing within the zone itself, which is estimated on average at thirty percent of the final sales price. Some companies have entered into advance agreements with the government to protect themselves against future tax increases. So-called "triangular indent sales," involving merchandise that is shipped directly from an overseas producer to a consumer in a third country, with only the negotiations and paperwork being handled in the free zone, are treated as not giving rise to any taxable income at all. Finally, there are generous exemptions and abatements from other applicable taxes, including property rates and municipal contributions.

Thanks to this welcoming environment, there are presently around 300 international corporations operating in the Colón Free Zone, of which approximately seventy percent by turnover are from the United States. The remainder comprises companies of diverse nationalities: Australia, Brazil, Britain, Colombia, Germany, Italy, Japan, Lebanon, Mexico, the Scandinavian countries, and Switzerland. They utilize the zone for a variety of purposes such as stock management, distance selling, and the dissemination of promotional material throughout Latin America. Many of them also use Panama as a regional financial and administrative hub, and some manage their interests in up to eighteen other countries through a Panamanian holding company. The directors of the agency responsible for the free zone (which has a liaison office on Park Avenue in Manhattan) like to quote from a statement by the Gillette Company, in which the famous razor manufacturer claims to have “financed two major overseas production facilities, as well as our expansion in South Africa, with the additional profits generated by our subsidiary in Colón.”

Most of the countries of South and Central America have strongly protectionist trade policies, a legacy of the vogue for “import-substitution industrialization” that swept through this part of the world in the 1940s and 1950s. There is a heavy dependence throughout the region on indirect taxation, which accounts for sixty percent of the public revenue in Argentina and up to seventy-five percent in Brazil. Average tariff rates in Latin America are the highest the world, while imports of numerous products are subject to strict quotas or even banned outright, with the result that local manufacturers enjoy effective monopolies and consumer prices are significantly greater than in Europe or the United States.[8] Quotas

[8] The average import tariff is around sixty percent in Mexico, 110 percent in Colombia, 130 percent in Argentina, 140 percent in Chile, and 170 percent in

and seasonal restrictions also affect the agricultural, forestry, and fishing sectors, either for conservation reasons or to limit the import of competing produce. Capital controls, meanwhile, are as pervasive a feature of life in this region as they are in the major European economies.

The Colón Free Zone plays a role in mitigating the effects of these policies. Critics argue that it is a magnet for smuggling, and there is doubtless a certain quantity of "leakage," not just to neighbouring countries but into Panama's own customs territory and that of the U.S.-administered Canal Zone. Alongside the perennial favourites, cigarettes and liquor, this trade encompasses less obvious candidates for smuggling like imported transistor radios (which are subject to a 340 percent tariff in Chile, for example). The ability to store merchandise in bond permits producers to maximize the opportunities available during brief import or export windows for heavily-regulated commodities. Goods in bond can also serve as collateral for loans, so that exchange control regimes may be indirectly circumvented by purchasing products in one local currency and borrowing against them in another.

Some people paint a more sensationalist picture of the way that the Colón–Tocumen corridor functions. According to them, it is the focal point for Latin America's darkest dealings, as well as a funnel for flight capital illicitly leaving the region. This narrative has a certain intuitive plausibility. Banking secrecy is certainly sacrosanct in Panama, under a 1959 law that explicitly protects numbered accounts, and that protection is resented as an anomaly

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Brazil. In Chile, a pair of trousers costs fifty-two percent more than it would in the United States, while a bicycle is four times more expensive.

in those parts of the world where it can seem as if a determined kidnapper could easily compile a list of prospective targets with estimates of their bank balances that were accurate to the nearest hundred dollars.

I have to confess, on the other hand, that I found little evidence to substantiate the more lurid tales I heard. Nor is it obvious to me why traffickers would go to the trouble of taking a detour through Colón, when more straightforward routes are available. The illegal exports of atomic materials that were exposed by a Brazilian parliamentary commission in 1956, for example, were flown directly to secret airfields in the southern United States. And while cocaine is produced in abundance in Bolivia and Colombia, as far as I could ascertain the only supplies of the drug to enter Panama are brought in to satisfy local demand. Anyone who has been to Marseille will find it hard to view Colón as one of the must-see attractions on the global narcotics trail.

More surprisingly, even the "tourist coffee" lark seems largely to pass Panama by. Ever since the International Coffee Organization began enforcing quotas in order to maintain a target price for this commodity in 1963, there has been a brisk trade in diverting coffee originally exported to "non-quota" markets (such as Lebanon) to the major consuming countries where it fetches a higher price. This racket, which the organization claims is worth fifty million dollars a year, is centred on Hamburg, where the coffee arrives double-bagged. The outer sack bearing the name of the purported destination is then removed, and the inner one is stamped with the name of a German firm before being sold on at a large profit.[9]

Perhaps it is not so surprising that the produce of Central and South America should be of small importance to the Colón Free Zone, when one reminds oneself of its basic business model. Ninety percent of imports entering the zone come from Europe, the United States, and Asia, while up to eighty percent of re-exports are destined for consumers in Latin America and the Caribbean (including Panama's own domestic market), with Colombia being the largest single customer. Goods moving in the other direction account for only a tiny fraction of the contribution that the free zone makes to Panama's GDP, which is estimated to be in the region of thirty million dollars.

Impressive as it is, that figure is dwarfed by the income that the country earns from supplying goods and services to the Americans who live in the Canal Zone. Indeed, if you were to redraw the map of Panama along economic lines, then the whole of the rest of its territory would be scarcely any larger than that of the free zone and the Canal Zone combined.

Travelling from Colón back to the capital, the road skirts the chain-link fence, running for its entire length, that separates the Canal Zone from Panama proper. Even when you are too far away to make out the characteristic criss-cross pattern, you can still see the dividing line, marked by a subtle difference in the vegetation, similar to the way that a perceptible border runs through the valley

[9] Hamburg appears to have a quasi-monopoly on the huge quantity of coffee exported from Colombia in excess of quota limits, but a proportion of the produce of other countries like Guatemala is transhipped in other ports such as Tangier.

between Israel and Jordan. Suddenly, in the middle of the open countryside, plants and trees of all species seem to bow to the strictures of some landscape architect. In the outskirts of Panama City, one passes through a kind of Aubervilliers reimagined as a garden suburb, resembling a gigantic Bagatelle board peppered with neat villas and identical terracotta-coloured bungalows. The town of Balboa looks like a recently finished film set specially built for the production of an all-American story. You won't see many uniforms here, although bona fide Panamanians are even thinner on the ground.

George Orwell once remarked that there is nothing to prevent the average British railwayman from taking tea at the Ritz or the Savoy. The Canal Zone, likewise, is nominally open to all Panamanian citizens, but only visitors from overseas are actually welcome, and American guests are made a particular fuss of, recognized for the proprietors of this home away from home that they are. There is a statue of Ferdinand de Lesseps somewhere inside the headquarters of the canal administration, in an out-of-the-way location inaccessible to the public, and there is a full-length portrait of the man in the dining room of the Hilton, where the menu is in French and the prices are eye-watering. Yet tourist guides never refer to Lesseps, nor to his abandoned project, even when you're standing right on top of it. There's justice for you!

The United States bought out the canal company, assets and liabilities, for forty million dollars in 1904. Over the next ten years, they spent another 350 million dollars on finishing the job, and, from that time on—and somebody ought to apprise French schoolchildren of this fact—the sole heroes here would be Americans. The physician William Gorgas, who vanquished yellow fever and malaria. Colonel David Gaillard, who organized the blasting of a twelve-kilometre-long cut through the rocky ridge of Culebra. And John Stevens, George Goethals, and the other engineers who created the artificial Gatun Lake by building a great earthwork dam across the mouth of the Chagres River, along which invaders had frequently sailed over the centuries.

This history is never far from the minds of those responsible for managing the Panama Canal Company, which, in theory at least, is an independent corporation with its own budget, albeit that its sole shareholder is the United States Secretary of the Army.[10] The canal company earned eighty-two million dollars from toll charges in the fiscal year ended 30 June 1967. Somewhat bizarrely, these are still levied at the original rates set in 1914: ninety cents per ton for merchant boats, seventy-two cents per ton for unladen vessels, and fifty cents per ton for "other floating craft," including U.S. warships. On the other side of the ledger, the company's charter obliges it not merely to "recover all costs of operation of its facilities," but also "to pay into the U.S. Treasury the net costs of the Canal Zone Government" (presently around

[10] In practice, the separation between the Canal Zone Government, which exercises civil power in the American colony, and the Panama Canal Company, which runs the canal, is very largely a matter of form. They do draw up separate accounts, but these are presented together in a joint annual report, which notes that the two bodies "are closely related in mission, organization, and operations." The Governor of the Canal Zone, who is invariably a general officer appointed by the Secretary of the Army, also serves as president of the canal company. Wearing his first hat, he oversees the municipal administration of the Canal Zone, including health, education, the police, and the fire brigade. In his other capacity, he is responsible for "the efficient operation and maintenance of the Panama Canal as well as the conduct of business-type activities incident to operations of the Canal and of the Canal Zone government."

twenty-two million dollars a year), and to “reimburse the Treasury for annuity payments to the Republic of Panama under the convention of 1903.” That leaves a net annual income of around twenty-five million dollars.

Out of that sum, however, the company has “to pay interest to the U.S. Treasury on the net direct investment of the U.S. government in the company,” which amounted to some twelve million dollars in the last fiscal year. Any remaining profits that are not required for the company’s own purposes “are to be returned to the Treasury as repayment of capital.” In this fashion, the American government is gradually recouping both the original costs of constructing the canal, and the additional capital expenditure that has been incurred ever since it opened, the running total of which currently stands at around 330 million dollars. The way the canal administration sees it, Panama owes the United States this money, and it also owes them a debt of gratitude as eternal as their ownership of the canal is.

Thanks to the American presence, their spokesmen can boast, life expectancy in Panama is sixty-two years of age, whereas it is forty-six in Colombia and thirty-seven in Guatemala. You find that sort of statistic cited over and again in the *Panama Canal Review*, the official organ of the administration, which has separate editions in English and Spanish. What do the Panamanians have to complain about, is the attitude, when they are making almost a hundred million dollars a year out of the Canal Zone? Any American diplomat worth his salt has the breakdown of that figure off pat:

(i) Income earned by Republic residents employed in the Canal Zone: 43.2 million dollars;

(ii) Expenditures in Republic by Canal Zone households and businesses: 33.2 million;
(iii) Expenditures in Republic by U.S. government agencies: 14.4 million;
(iv) Pensions paid to former employees of the company on account of retirement or disability: 3.5 million;
(v) Yearly annuity paid to the Panamanian government: 1.93 million.[11]

And they will often mention also, because they hate to leave anything out, the subventions “in kind” that the company makes, for example by selling purified water to Panama City at a loss, or by maintaining a leper colony in the Canal Zone, ninety-five percent of whose residents are not from the United States.

This inventorizing gets right up the nose of Panama’s national leaders, who say that it puts them in mind of Scrooge. As far as they are concerned, the annuity that the Americans pay for occupying the Canal Zone is no more than an insulting act of almsgiving (they will point out that it equates to about fifty minutes’ flying time in Vietnam). They claim that a lot of the money that the company counts as “expenditures in Republic” is actually spent on acquiring duty-free products in the Colón Free Zone, which is of marginal benefit to Panama. Some five million dollars relates to purchases of petrol from the Ludwig/Continental refinery.

Many of these leaders have the United States to thank for their own wealth and influence, so it would be perverse to accuse them of being “anti-American.” Panama’s current president, Marco

[11] The level of the annuity was last reviewed in 1955. From 1903 to 1936 it was 250,000 dollars, and from 1936 to 1955 it was 430,000 dollars.

Robles, is a former insurance broker and assistant manager of the Banco Nacional. The minister of trade and industry is an executive on furlough from Chase Manhattan. The finance minister, foreign minister, and minister of the interior are all powerful landowners and businessmen in their own right. Yet they are united in calling for an increase in the canal tolls and a revision of the annuity arrangements. By their reckoning, the canal saved the 13,000 vessels that passed through it last year, carrying more than ninety million tons of cargo, between 150 million and 160 million dollars in freight costs.[12] They believe that the yawning discrepancy between the above figure, and the pittance that their country presently receives, proves beyond argument that Panama is being robbed of the fruit of her only substantive asset.

Another sore point in relations between Panama and the United States concerns the privileges afforded the "Zonians," the 20,000 or so American civilians who live in the Canal Zone, some of whose families have been there for generations. For these *pieds noirs*, the canal itself is not the be all and end all; the important thing is the strip of territory eight kilometres wide on either side, with its towns, its schools, its theatres, cinemas, law courts, and beach, which they are determined shall remain forever American. They do not aid their cause by living a lifestyle akin to that of the

[12] The greatest savings are for ships travelling between the east and west coasts of the United States, for whom transit via the canal knocks some 8,000 nautical miles (15,000 kilometres) off the journey, reducing the sailing time by more than a fortnight. According to my very rough calculations, something like 270,000 ships went through the canal in its first fifty years of existence, carrying well in excess of a billion tons of cargo. If that is anywhere near accurate then the accumulated debt that the world owes to Panama must be astronomical.

whites in Johannesburg or Salisbury (they are paid four times as much as their Panamanian neighbours, and twenty-five percent more than their compatriots stateside); and by acting as if they are above the law in abusing the "commissaries" that exist throughout the Canal Zone. A commissary is a company store, similar to the NAAFIs and PXs that cater to the occupying troops in Germany, where the Zonians can buy all manner of subsidized goods that are considerably more expensive in the Republic. There is a lively black market in commissary produce on the Panamanian side of the fence, and this has been a bugbear of the native merchant class ever since the canal was built.

Besides the Zonians, there are at any one time at least 10,000 American servicemen and their dependants stationed in the Canal Zone, which serves as the headquarters of "Southcom" (U.S. Southern Command), created in 1963 from the former Caribbean Command. Their presence here arouses passionate resentment. State-controlled newspapers argue, sometimes forcefully, that nothing in any of the treaties entitles the United States to maintain permanent bases on the isthmus, and that the Panamanian government only authorized their construction in 1942 on the understanding that they would be removed a year after the war's end. Meanwhile, the government continues to pressure the U.S. State Department, behind the scenes, into meeting Panamanian aspirations for greater recognition of their titular sovereignty and for a larger share of the canal receipts.

If concessions are not forthcoming in the near future, then the May 1968 presidential election may well witness the defeat of the establishment candidate, David Samudio, and the triumph of the supreme nationalist demagogue, the rich and paranoid Arnulfo

Arias.[13] Arias has served as president twice before, first in 1941 and again from 1949 to 1951. On both occasions he was removed in a police coup, and his supporters allege that he only lost the 1964 election because of widespread vote-rigging by his opponents. From the security of his coffee plantation in the province of Chiriquí, he likes to whip up the masses by promising to stick it to the "gringos." Some observers argue that Arias has mellowed with age (he is now in his mid-sixties), but others believe that he has never abandoned his authoritarian tendencies and warn that, if elected, he would attempt to expropriate foreign capital in the country. For what it is worth, his personal astrologer has reportedly advised him that the stars are in his favour in 1968, just as they foretold his defeat in 1964.

These, then, are the leitmotifs of Panama's relationship with the United States, which sometimes seems like an endless process of negotiating revisions to the treaties that take years to ratify and end up satisfying neither side. The latest round of talks has been ongoing since President Johnson began his second term of office in 1965, although it was supposed to have been concluded by the end of 1966.

New treaties and transisthmian breakthrough

The man whom Johnson placed in charge of the negotiations is a figure who should be familiar to us by now, namely the tax haven

[13] Samudio has been finance minister since 1964, and President Robles's decision to nominate him as his successor has split the governing coalition, with four of the eight parties defecting to the Arias camp.

expert Robert B. Anderson. Anderson was in no hurry to reach an agreement with the Panamanian oligarchy, because he knew that they were so at odds with one another that they would find it hard to unite in support of even the most far-reaching concessions on his part. So he played for time throughout 1966 and into the middle of 1967, which did the White House no harm in domestic political terms, as isthmian affairs are almost as contentious in the United States as they are in Panama itself.

There are three main groups with vested interests in preserving different aspects of the status quo. First, there is a vocal lobby that agitates on behalf of the Zonians and resists any measure that smacks of Panamanian intrusion into their civil or economic prerogatives. Secondly, there are the large shipping firms and their customers, who are naturally anxious to keep freight rates as low as possible, and chunter in discontent at any mention of raising tolls. And thirdly there is the Pentagon, which works hand in glove with the arms lobby in exhibiting implacable hostility towards the notion of scaling back the American military presence in the Canal Zone. If the United States is serious about achieving a durable settlement with the Panamanians, one that is not going to be unpicked every few years, then at least one of these interest groups will have to be sold out in order to fortify the others. I can't see the military backing down, and my money is on the *pieds noirs* being the sacrificial victims, rather than the shippers.

At the same time as proclaiming his willingness to revise the treaties, President Johnson also announced in December 1964 that the United States intended to conduct research into the best site for a new canal across Central America at sea level, one "more suited to present-day demands." This was both a delaying tactic and a veiled threat, as only two of the four routes under consideration are on Panamanian territory, the first along the line of the present canal and the second across the eastern province of Darien. The third and fourth routes bypass the country altogether, either by making use of Lake Nicaragua and then following the Costa Rican border to the Caribbean, or by cutting across the residual portion of the isthmus that lies within Colombia, between the Gulf of Uraba and the Pacific Ocean.

While no final decision is scheduled to be made until the 1970s, the case for a new canal is compelling. The existing one is in danger of outliving its utility because ships are continually increasing in size, and although vessels of up to 80,000 deadweight tons are able to pass through the canal unladen, they are limited to carrying around 50,000 tons of cargo due to draft restrictions in the locks. By way of comparison, the biggest supertankers and bulk carriers presently afloat are in the region of 200,000 deadweight tons, and if ships of this size—not to mention the even larger vessels that are planned by some Japanese yards—are ever to be accommodated, then a deeper canal, without locks, is the only realistic way forward. In practical terms, that rules out the Nicaraguan and Colombian routes, so the true choice is between expanding the current canal using traditional methods, with an estimated price tag of two to three billion dollars, and the speculative scheme that has been floated under the auspices of "Project Plowshare" to blast a new canal through the deserted Darien region using hundreds of nuclear charges, which might conceivably work out cheaper, but raises a variety of other imponderables.

At the time of writing, the nuclear option is still on the table, but the consensus in the United States seems to be in favour of improving the existing canal. All of the alternative routes would require the construction of new port infrastructure on both the Pacific and the Caribbean sides, which would make white elephants of both the Colón Free Zone and Tocumen airport, currently the leading facilities in the region. Perhaps more importantly, moving the canal would further diminish the rationale for Southcom's continued sojourn in Panama, already a political hot potato, and the U.S. high command can be certain that no other country in Latin America would permit them to be stationed on its soil. The irony is that, for all the sound and fury occasioned by Southcom's occupation of the Canal Zone, it is arguably the decisive factor that assures the maximum of prosperity, and a modicum of peace and stability, to the Panamanian tax haven.

The operative elements of the U.S. military presence are deeply hidden from public view. Above ground in the Canal Zone the atmosphere resembles that of an Ivy League campus, with grand buildings spread out over manicured parkland. Tourists, and even visiting diplomats, would never suspect that beneath their feet lies a labyrinth of offices, bunkers, and caves that is rumoured to contain a stockpile of nuclear warheads. Inside Ancon Hill there is a secret war room like something out of *Dr Strangelove*, where Southcom pulls the strings of its Latin American network, which comprises Pentagon delegations in seventeen countries and is largely immune from oversight by the State Department. Despite his self-deprecating demeanour, Southcom's chief, the four-star general Robert W. Porter, is conscious of being the last of the proconsuls, a MacArthur for the contemporary age. The gravity of his mission, to ensure "the attainment of Free World and U.S. national policies in the Western Hemisphere," weighs heavily upon his shoulders. According to certain experts whom I consulted in Panama City, General Porter's strategy is somewhat one-dimensional, consisting as it does in backing to the hilt the power and prestige of his military brethren throughout the region. He is on record as stating that "Latin America is highly susceptible to Communist exploitation," and believes that "the military establishment is the single strongest cohesive force to guarantee stability and thwart Communist aggression."

One form that this backing takes is overt military intervention. The U.S. invasion of the Dominican Republic in 1965 was planned and directed by Southcom. Another favoured method is "black ops" (clandestine, deniable support for counterinsurgency efforts across the region), of which one beneficiary has been René Barrientos of Bolivia. The Canberras that tracked Che Guevara to his remote hideout in the Department of Santa Cruz flew out of Howard Field in the Canal Zone, while the Bolivian rangers who killed him in October 1967 were trained by an officer of the Green Berets working under Porter's command. Not all of Southcom's activities are of this "kinetic" variety; some are more in the nature of public relations, as for example when it dispatches disaster relief teams to help deal with famines, floods, and so forth.

Yet by far the steadiest—and, from the U.S. point of view, most valuable—line of aid is provided in the form of military education. Along with subsidized arms exports, this is the main plank of the Military Assistance Program to Latin America. Every year some 1,500 officers from across the region pass through the School of the Americas at Fort Gulick near Colón, where the instructors do their best to instil a sense of hemispheric fraternity, in the interests of forging "an inter-American front against subversion." Alumni of the school are cultivated relentlessly by General Porter and his staff, who have set their hearts on training and equipping people of other nations to act in what Southcom considers to be the U.S. national interest. From their perspective, it is vital that Panamanian patriotism should not spoil the party, and that the Republic of Panama should continue to be known, by the incurious at any rate, as an illuminated showcase of Latino-Yanqui friendship.

It is in that context that one must interpret the three draft treaties initialled by Presidents Johnson and Robles in June 1967. The first treaty would replace those of 1903, 1936, and 1955. It would explicitly recognize Panama's sovereignty over the Canal Zone, abolish the existing Canal Zone Government, and create a "Joint Administration" composed of U.S. and Panamanian representatives, which would take over responsibility for supervising and operating the canal. The derisory annuity payments would cease, and Panama would become entitled to a direct share of toll receipts, increasing from seventeen cents per ton at the outset to twenty-two cents per ton after five years. This arrangement would have netted the Panamanian government around twenty million dollars in fiscal year 1967, without the tolls themselves needing to rise. The second treaty would regularize the status of U.S. forces based on Panamanian soil, including Southcom and the School of the Americas. The third treaty governs the potential construction, management, and financing of a new sea-level canal, on which the United States wishes to take a twenty-year option. None of these treaties would endure indefinitely; the existing canal would be turned over to Panama within thirty years, and any new canal would become fully Panamanian by 2067 at the latest.

The Americans believe that the proposed treaties, taken together, are generous in their treatment of Panamanian interests and represent the maximum that the United States is prepared to concede. But President Robles, whose authority has waned as he approaches the end of his term, did not even deem them worth submitting to the National Assembly for ratification. With the election campaign in full swing, politicians of all stripes have been vying with one another to denigrate the draft agreements and to raise additional demands of their own. Clearly nothing will now be ratified this side of May, and after that, who knows? If the victor is able to mobilize support for the drafts, or to secure cosmetic amendments to them, then all well and good. If he is not, he may find that his period in office is a short one.

Regardless of the outcome of the election, and indeed of the rising tide of nationalist feeling, three things seem set to remain the same for a good while yet: Panama's truncated sovereignty over the Canal Zone; the American military presence there; and the profitability of the country's vocation as a tax haven. The U.S. Treasury would look a bit silly chasing around after Panamanian shell companies, when it is widely suspected that the American government uses them for the furtherance of its own more hush-hush endeavours in the region. And, if there *are* nukes hidden under Ancon Hill, regulators stateside will not make themselves popular if they start poking around under the bonnet too much.

It is a fair bet, therefore, that the Republic of Panama will continue to be an entrepôt of international capitalism at least as long as it is watched over by the Templars of Southern Command. It is, to the letter, a tax haven "in the shadow of the sword." The havens of Liechtenstein and Switzerland, on the other hand, appear to have nothing better with which to protect their secrets than a few rusty old daggers.

8. Impenetrable Anstalts

You know where it comes from;
You know what it's for.

Ruy Blas
VICTOR HUGO

It is imperative to be able to talk about money when you need to.
Silence is a kind of hypocrisy then.

Fortnightly Notebooks
CHARLES PÉGUY

When Stalin's daughter, Svetlana Alliluyeva, walked into the U.S. embassy in New Delhi in March 1967 and demanded political asylum, the Americans sent her first to Geneva, before exfiltrating her to the United States. When it came to the question, on the other hand, of how to avoid tax on the millions of dollars that her memoir *Twenty Letters to a Friend* was forecast to earn, her experienced American attorney made sure that he founded a

Liechtenstein firm, Copex Anstalt, to hold the copyright prior to the book's publication later that year.

In the same month, Maurice de Forest, Count de Bendern, was discombobulated upon being informed by the Swiss bank to which he had entrusted one of his celebrated old masters, *The Flute Player* by Frans Hals, that it had disappeared from their vault and been substituted with "a worthless canvas of similar dimensions." The painting resurfaced in the left luggage office of Geneva station a fortnight later, but not before London's beau monde had discovered, much to its surprise, that this wealthy British philanthropist of eighty-eight (Eton, Christ Church, and a one-time member of the House of Commons) had been a citizen of Liechtenstein for the previous thirty-five years.

In the summer of 1966, a scandal shook the United Kingdom when the Fire, Auto, and Marine Insurance Company went bankrupt, leaving 400,000 British motorists with no insurance cover. The company had been the victim of a complex fraud perpetrated by the Sri Lankan conman Emil Savundra, who used a bogus Liechtenstein bank called Merchants Finance Trust to siphon off several hundred thousand pounds of policy-holders' premiums. Savundra made a memorable television appearance in which he defied the authorities to bring him to book, and, although he is currently on trial for false accounting and other offences, to date none of the missing money has been found.

When the British government first became concerned about "pirate" broadcasting in 1964—a subject into which we will delve in chapter ten below—they encountered difficulties in identifying the true owners of the miscreant ships. The *Mi Amigo*, from which Radio Atlanta made its transmissions, flew the flag of Panama but was chartered by a Liechtenstein firm, Atlantic Services Anstalt; while the *Fredericia*, home to its rival station Radio Caroline, was also operated by a company based in Vaduz.

When, in the same year, the CIA decided to take the battle to the Simba rebels in the former Belgian Congo, they faced a number of logistical hurdles, not the least of which was how to disguise their support for the ragtag band of mercenaries that the country's prime minister, Moise Tshombe, had recruited using contacts left over from his time as leader of the secessionist Republic of Katanga. To this end, as revealed by Henry Tanner of *The New York Times* in 1967, the CIA set up a Liechtenstein body called Wigmo Anstalt (supposedly an acronym of "Western International Ground Maintenance Organization"), which sourced aircraft, pilots, and technicians for an unofficial air force, while pretending to be performing contract work for the Congolese government.

Having been deposed by Colonel Joseph Mobutu in November 1965, Tshombe was living in apparently comfortable exile in Spain when his private jet was hijacked en route from Ibiza to Palma on 30 June 1967. The hijacker, Francis Bodenan—who to my certain knowledge was working for *la piscine* in Tangier in the mid-fifties, when Antoine Lopez was keeping shop there under Air France cover and Jo Attia was making a horlicks out of running the local Action Service—forced the plane to land at an Algerian military airfield, whereupon Tshombe was abducted and thrown into the prison where he has languished ever since.[1] The Principality of

[1] *La piscine* is a metonym for the French counter-espionage service SDECE (its headquarters is next door to a swimming pool). Francis Bodenan has also worked for two other intelligence agencies, and spent nearly ten years in a French jail for killing two of his business associates.

Liechtenstein figured in this rather squalid affair from two separate angles. In the first instance, the Hawker Siddeley 125 involved in the incident was on lease to a Liechtenstein entity with the innocuous-sounding name of Sedefi, established in 1966.[2] There is uncertainty surrounding this firm; some sources assert that Tshombe himself was Sedefi's principal shareholder, whereas others claim that the company was a CIA proprietary and a subsidiary of Wigmo. Secondly, the real estate deal that had lured Tshombe to Ibiza in the first place reportedly concerned property belonging to a Vaduz corporation. Whether this was Sedefi or a different company is unclear, although we do know that Sedefi has since been dissolved. In any event, the prospective transaction was seemingly attractive enough for Moise Tshombe to have been carrying more than 200,000 dollars in French and Belgian currency.

Thus, like a leaping fish that glistens for a moment in the sunlight before being lost again beneath the waves, do we sporadically catch a glimpse of Liechtenstein's modus operandi. The rest of the time this little country is obscured by the bulk, which is huge in comparison, of its more famous Swiss neighbour.

How significant are Liechtenstein's 160 square kilometres, next to Switzerland's 41,000? And how important are the Principality's 20,000 residents, when one considers that the Swiss population is now over six million? Not very. For most people with business in Zurich or Geneva, Liechtenstein is the outhouse of the Swiss Confederation, a facility not normally made available to

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[2] Société d'Etudes et de Documentation Economique et Financière Internationales ("Company for Studying and Documenting International Economics and Finance").

an occasional caller. If, like me, you have a hunch that this might make whatever goes on in there all the more revealing of the national character, then I shall simply mention this by way of warning: you will meet with a cold, blank stare if you suggest anything like that to someone Swiss.

The semi-independence of Liechtenstein

Liechtenstein certainly has its own institutions of government, which are neatly laid out in a single document. "The Principality is a constitutional, hereditary monarchy on a democratic and parliamentary basis: the power of the State is inherent in and issues from the Prince Regnant and the People." Liechtenstein is a state, then, or so we are told, with its own national colours (red and blue) and its own quaint coat of arms, which are also those of the princely house. In the final analysis, that state would appear to be sovereign. Liechtenstein has never applied to join the UN, nor the League of Nations in earlier times, although she does send in statistical returns like any member country. On the other hand, the Principality has been a party to the Statute of the International Court of Justice since 1949, and is a full member of the Universal Postal Union and the League of Red Cross Societies.

So far, so good. Yet since 1919, Switzerland has been in complete charge of the Principality's foreign relations! The only way that Liechtenstein gets a say at meetings of the European Free Trade Association, for example, is by relying on her big brother to speak up for her. In 1920, the then Prince Regnant abandoned the Austrian krone and adopted the Swiss franc as the official currency, and in 1923 the Principality entered into a customs union with the Confederation. The Swiss Federal Council hasn't read its Musset carefully enough, however, for it has forgotten that "a door must be kept open or shut," and this has led it to acquiesce in all sorts of half-measures. Liechtenstein is not subject to Swiss law; it still applies the Austrian civil code of 1812, without any of the modifications made since 1938. The tax system in Liechtenstein is different from the Confederation's, so the Principality is excluded from all of Switzerland's double taxation conventions. Moreover, Liechtenstein has reserved the right, in principle, to mint its own gold coins, and, while Switzerland is responsible for its postal system, the Principality still issues separate stamps.

Perhaps most importantly, the two countries have different cultures and traditions. Throughout its history, the Principality has been essentially Germanic. What is now the territory of Liechtenstein was apportioned to Louis the German under the Treaty of Verdun in 843 AD and raised to Imperial immediacy as the County of Vaduz in 1396. It was to be elevated still further, but not until its Swabian overlords had gone bust, in 1696, and been stripped of their lands by the Emperor. Three years later, the honorary Prince Hans Adam I, of Liechtenstein Castle in Lower Austria, bought the Lordship of Schellenberg, and by 1712 he had also purchased the County of Vaduz. Finally, in 1719, the two territories were merged and turned into a principality, which became the 343rd *Reichsstand* or member of the Imperial Diet.

The Principality of Liechtenstein was included in the Confederation of the Rhine established by Napoleon in 1806, and participated in the German Confederation that superseded it in 1815. From the early eighteenth century onwards, however, the territory always fell within the Viennese orbit. The Princes of Liechtenstein lived at the Austrian Court and served the Emperor with élan, sometimes in the capacity of diplomat and at others as soldier. The famous general Joseph Wenzel, for example, organized the Empress Maria Theresa's artillery when Louis XV's army was routed at the battle of Piacenza, while Johann I commanded the Austrian cavalry at Austerlitz and helped to negotiate the Peace of Pressburg with Napoleon. It was not until the *Anschluss*, in 1938, that the Prince of Liechtenstein considered it politic to establish a permanent residence at Vaduz Castle. His ancestors had always preferred their two palaces in Vienna, six châteaux in the Austrian countryside—which still belong to the incumbent Prince Regnant, Franz Joseph II—or any of a dozen estates in Czechoslovakia, which alas were forfeited after World War II.

Until recently, the national anthem of Liechtenstein, composed in the 1850s and sung to the tune of "God Save the Queen," ran as follows:

> High on the German Rhine
> Lies Liechtenstein, resting
> On Alpine heights.
> This beloved homeland
> Within the German fatherland
> Was chosen for us
> By God's wise hand.
>
> Long live Liechtenstein
> Blossoming on the German Rhine,
> Fortunate and faithful!

Long live the Prince of the Land,
Long live our fatherland,
Through bonds of brotherly love
United and free!

In 1963 the Prince saw fit, in his wisdom, to institute a new and more "inclusive" anthem that plays down the country's Teutonic heritage. As amended, the first verse now runs:

High on the young Rhine
Lies Liechtenstein, resting
On Alpine heights.
This beloved homeland
Our dear fatherland
Was chosen for us
By God's wise hand.

A democratic Ruritania

By 1914, Liechtenstein had been without an army for almost half a century, having disbanded her diminutive military force in 1868 following a less than glorious showing in the Austro-Prussian War.[3] The Principality was thus quick to declare neutrality, but struggled to convince the Allied powers to respect this decision, on account of its historic ties with Austria. Immediately after World

[3] Legend has it that a Liechtenstein contingent was sent to guard the Brenner Pass. The unit saw no action but was accompanied, on its return, by an Austrian officer who was curious to see the country: "eighty men went to war and eighty-one came back," the Austrian is said to have quipped.

War I, the Liechtensteiners sought to place their bellicose past behind them once and for all, and the Swiss were glad to welcome them into the fold. Judging by the casual cruelty with which the Swiss press now seizes upon any opportunity to lampoon their neighbour, perhaps they wish that they hadn't! In 1967, for instance, Franz Joseph II was forced to sell the most valuable painting in his collection, Leonardo's *Ginevra de' Benci*. The *Geneva Tribune* couldn't resist reminding its readers that "the Prince isn't poor—in fact, he's loaded—but he managed to blow twelve million francs on an M&A deal that went sour; if only he hadn't gone and mixed himself up in things that were over his head."[4] Prince Emmanuel of Liechtenstein's recent attempt to help the Third World with his organization "Earth and Fatherland" provoked derisive sniggers in Bern about "the Baden-Powell of Vaduz."

In the autumn of 1966, Franz Joseph's first cousin once removed, Prince Albrecht, married a Finnish fashion model whom he had met in New York while doing an internship with a bank there. The Swiss papers were happy to denounce the French and German tabloids for making a meal out of this morganatic union, and, worse still, for muddling up the groom with the heir to the throne, Hans Adam. At the same time, however, Swiss journalists felt compelled to ensure that their readers were kept fully informed by revealing, somewhat gratuitously, that "Franz Joseph is livid, and has ardently reproached the boy's father, Prince Johannes,

[4] According to the newspaper's Liechtenstein correspondent, this transaction involved the takeover of a small Vaduz fine engineering business that employed a dozen people by a larger manufacturer of nails, bolts, and fixings with 600 workers.

whose misunderstanding with the customs authorities a few years back concerning some smuggled watches has never quite been forgotten."

It does not exactly fill one with confidence to read that the Swiss-Liechtenstein Association, founded in 1966 to cement amicable relations between the two countries, "has decided not to hold an international Expo in the Principality in 1969, because we have more urgent problems to deal with." Maybe Switzerland believes that her relationship with Liechtenstein is more akin to that of France and Monaco than to the one between Hong Kong and Macao. Perhaps the Confederation is deliberately acting out a tribute, and not a particularly sophisticated one, to *The Plague-Stricken Animals*, with Liechtenstein in the role of the ass. I had to go and see for myself.

As soon as you get there, you merely have to glance around you for it to be obvious that this microstate only continues to exist because it is protected by a larger country. Apart from the Basel-Vienna-Belgrade, transcontinental express trains usually pass through the Principality without stopping, which only takes them a few minutes. At night-time, a motorist who was pressing on could easily arrive at the Austrian border without realizing that he had ever left Switzerland and crossed into Liechtenstein. There is no frontier post and no customs control, as import duties are collected by Switzerland on the Liechtenstein treasury's behalf, and then disbursed in proportion to their respective populations. By day, you know that you are approaching the capital when you drive through a tunnel that cost six million Swiss francs to build. You will be accompanied by the echo of Alpine cowbells, as the main purpose of this construction is to allow the herds of beige cattle that one sees everywhere, all over the roads, to commute more easily between the Rhine and Samina Valleys.

Liechtenstein is a Lilliputian nation that makes the most of its bucolic landscape and plays upon the richness of its folklore. After Holland, Belgium, Luxembourg, Germany, Switzerland, and Austria, it is the bonus seventh country that travel agents claim you can do in six days flat. So every summer, 140,000 tourists visit Vaduz and gawp at its inhabitants, who graciously fulfil their roles in the eternal pageant of this pocket monarchy. With veal sausages sizzling at open-air stalls, it is as if *White Horse Inn* and one of the *Sissi* films were both showing simultaneously. And not without a degree of confusion, because the place has something of a dual character. It seems torn between the bluff egalitarianism of a chip-shop democracy and the airs and graces of a Ruritania.

There is plenty of stage-setting for the latter, with a citadel, a suzerain, and a ruling family that boasts more living members than any other monogamous realm (I place the Gulf monarchies in a separate category for obvious reasons). Brits like to joke that Liechtenstein has more princes of the blood, seventy-three, than the number of square miles that its territory covers, whereas at least in their own case you have 4,750 square miles to explore before you risk bumping into one. Unlike some other noble houses, the Liechtensteins do not generally find it expedient to restrict the award of courtesy titles, possibly because that could impinge upon the collectable stamp business, which is a big one, with more than 150 unique designs issued since the first ones were printed in 1912.

Even when they are attending yacht parties with the kings of Greek shipping, the Liechtenstein royals are seldom seen to smile, conscious presumably of their pedigree, unbroken since the seventeenth century, of their status, and of their wealth. This dynasty has always exhibited a notable aptitude for commerce, beginning in the reign of Hans Adam I (1684-1712), known as Hans Adam the Rich, who paid a total of 400,000 guilders for title to the Principality, which equates to about two and a half million dollars today. That no-nonsense attitude may explain why the Duke of Edinburgh, a hard-bitten pupil of Dr Kurt Hahn and no great respecter of crowned heads, chose to spend his 1964 Christmas vacation in Liechtenstein, at the risk of encouraging the kind of irreverent person who frequented “The Establishment” nightclub to make predictable gibes about the moribund bloodlines of Europe.

One member of the Bilderberg Group—and I find this even more telling—recently expressed himself unable to decide whom he admired more: Prince Bernhard of the Netherlands (who co-founded the organization) for his skill as an investor; or the multi-talented Franz Joseph II, who combines the role of industrial magnate with those of successful viticulturist and high financier. Franz Joseph’s first cousin twice removed, Johann II (known as John the Good), who reigned from 1858 to 1929, also demonstrated a remarkable felicity in financial matters. His was the momentous decision to pivot away from Austria and towards Switzerland in the early 1920s, and his preference for Swiss banks over the Creditanstalt most likely saved his country from ruin. In addition to a democratic constitution, he was able to offer his subjects schools, hospitals, and sanitation out of his own pocket; and, after more than seventy years on the throne, he died better loved than that other long-reigning monarch, Louis XIV, who never stopped warring for long enough to give his worn out troops a bit of much-needed rest and recuperation.

A wise superintendent, the Prince Regnant

One of the Principality's main attractions is Vaduz Castle, whose massive ramparts jut out above the town, sombre and monastic. It is especially picturesque after dark, accentuated by floodlights. The princely family lives there, so its gates are always firmly shut, but one can observe from outside that there is not a stone, not a belfry or a gable, that was left untouched during the reconstruction carried out in the early twentieth century by Egon Rheinberger, the Viollet-le-Duc of Liechtenstein.[5] The castle has about 125 rooms, many of them richly decorated with antique furniture, tapestries, suits of armour, and rare books. It also has twenty bathrooms and a lift providing access to the climate-controlled cellar, where the core works in a priceless collection of art are kept under lock and key. No one who is not in the Prince's entourage knows exactly how many paintings lie here, but there are thought to be around 1,300, including twenty-seven Rubens, twenty van Dycks, three Rembrandts, a Raphael, and numerous works by Frans Hals, Bruegel, Tiepolo, and Titian. Estimates of the collection's value vary between sixty million and 180 million dollars.

At the foot of the castle you will find the tiny National Museum, which displays a few of the less important pictures from

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[5] Rheinberger also rebuilt the equally romantic Burg Gutenberg in Balzers, and significantly remodelled his own childhood home, the Red House in Mitteldorf.

the collection and sells reproductions of the best-known pieces. Unfortunately, the Prince does not always keep the curator abreast of his dealings, so that postcards are sometimes still on sale long after the original has gone. In 1952, the Liechtenstein authorities commissioned a postage stamp depicting Botticelli's celebrated *Madonna della Loggia*, which caused Franz Joseph some embarrassment, as he had sold it several years earlier to Mario Crespi, the proprietor of *Corriere della Sera*. The government vowed that this should never recur, and subsequent commemorative stamps have stuck to vernacular subjects.

If Liechtenstein's ruler evinces a certain appetite for mystery, which in turn permeates the Principality as a whole, then that should not altogether surprise us. His Serene Highness has learned the hard way how unprofitable it can be to speak too freely. Some of the paintings that he owns are so coveted throughout the globe that merely musing on their potential availability can move the market. For the past decade, the Prince has employed the services of the prosperous Hungarian art expert Joseph Farago, who came to Vaduz from Budapest in 1958 with a false-bottomed suitcase and impeccable references. In November 1965, Farago announced to the world's press that Franz Joseph had decided to retire from the international art trade and to preserve intact the rest of the collection that his ancestors had built up over the preceding 350 years. That being so, the Prince intended to turn down the six million dollars that the American grocery tycoon Norton Simon had offered him for Leonardo's *Portrait of Ginevra de' Benci*, sometimes referred to as "the *Mona Lisa* without the smile." When Washington's National Gallery of Art acquired the same painting in the spring of 1967 for a sum that hasn't been confirmed, but has been reported as representing 3,500 dollars per square centimetre, Franz Joseph's subjects hadn't the heart to find fault with him.[6]

Indeed, Liechtensteiners are grateful to the Prince for regenerating the country over the last twenty years largely from his own resources, and for costing a good deal less than he brings in. His Civil List stipend is only 200,000 Swiss francs a year, which works out at a modest eleven francs and ten rappen per head. But no one could accuse the Prince of being profligate in any case. Apparently he regarded Princess Gina's birthday celebrations as the height of extravagance, even though the climax was a ten-minute fireworks display that Etablissements Ruggieri would have been ashamed to put on for Bastille Day in the humblest French village. The locals took note of the fact that the Crown Prince's nuptials—he married a young Austrian countess named Marie Kinsky in July 1967—were not treated as an excuse for outrageous pomp. And they like the way that Franz Joseph's two ceremonial Mercedes exhibit the patina of age (the Princess, by the way, has a Renault).

That is more than can be said for the shiny new Jaguar driven by the richest souvenir-seller in Vaduz, Baron Eduard von Falz-Fein, who was born in Ukraine on a landed estate that was twice the size, or so he claims, of his adopted nation. When you buy something in one of his shops, Baron von Falz-Fein will offer to embellish your passport with a "visa" of his own design, to make up for the absence of border formalities. His most popular keepsakes are postcards, ashtrays, pipes, knives, silk squares

[6] The picture measures thirty-eight centimetres by thirty-seven, so 3,500 dollars per square centimetre puts the price just shy of five million dollars (or about twenty-one and a half million Swiss francs).

printed with the national emblem, and above all thousands upon thousands of postage stamps, the proceeds of which account for about five million francs out of the annual state budget of forty million.

The Prince has ordained that not an inch of the capital should be closed to trade, and amid the agglomeration of hotels, garages, and department stores, you could be forgiven if you missed the smart three-storey chalet that houses the government offices. Here, conveniently arranged under one roof, you will find the executive, the legislature, the register office, the national archives, and, in the basement, the country's only jail, where bibbers who have overindulged themselves on Vaduz cider are locked up for the night to cool off.

Autocratic rule tends to be bad for secretive business, and one of Liechtenstein's merits is that the Crown has deigned to share power so widely that there's nothing much left for anybody. Laws are normally passed by the Diet, which convenes periodically, but they may be vetoed by the Prince or indeed by the people, if they can assemble the requisite 600 citizens and call for a referendum.[7] In the main, however, Liechtensteiners are content to leave the business of statecraft to the Prime Minister, who is the leader of the largest party, and his deputy premier, who is the leader of the second-largest. If (and this hasn't happened for the last thirty years) there were to be a change of majority in the Diet, the only

[7] In the Diet, laws generally have to be approved by an absolute majority of at least two-thirds of the statutory number of representatives (which is fifteen, so you need six votes). Where an amendment to the constitution is concerned, there is a "supermajority" requirement: either a unanimous vote of the members present, or a majority of three-quarters of the members present at two successive sittings.

effect would be to invert the order of precedence within the collegial government. All of the representatives have more or less identical viewpoints in any case, and sometimes refer to themselves facetiously as the eight reds and seven yellows.

Should a member of the public have a grievance to raise with the authorities, all that he need do is to knock on the door whenever he likes; it is unnecessary to make an appointment. By and large, though, the citizens of this Alpine fiefdom aren't interested in politics. There is enough work to go round, and, while Liechtenstein's GDP per capita was only about sixty percent of Switzerland's in 1946, the Principality caught up with its larger neighbour in 1961. Today, the only European country that enjoys a higher standard of living is Sweden.

The paydirt of catering to the Germans

Over time, Liechtenstein has perfected the art of giving service with a knowing smile, and has turned it into a lucrative industry. As Hong Kong is basically a haven for the more circumspect among the overseas Chinese, so the Principality's primary specialism is the concealment of German business, and, not infrequently, its owners. This tradition dates back to the era of the Weimar Republic, when the country was living in reduced circumstances following the collapse of the Austro-Hungarian Empire, and was dependent upon remittances from those of its citizens who could find seasonal work in Switzerland. It was then that a far-sighted lawyer from Vaduz, Dr Wilhelm Beck (who was also the main champion of the customs union) made the acquaintance of a Berlin attorney by the name of Dr Heinrich Kuntze, who had need of a reliable juridical formula in a discreet place that could serve to insulate large German capitalists from runaway inflation in the aftermath of World War I. Guided by Dr Kuntze's requirements and specifications, Dr Beck designed a custom jurisprudence around the *Sitzgesellschaft*, or "domiciliary company," whose demi-centenary will, presumably, be marked with a commemorative stamp issue in 1976.[8]

One of the great scientific breakthroughs of the inter-war period was the production of oil from coal using the liquefaction process invented by the German chemist Friedrich Bergius. In 1925, Bergius sold his patents for coal hydrogenation to the chemicals giant IG Farben, which, in the late 1920s, formed a partnership with the Standard Oil Company of New Jersey to commercialize the invention. By 1931, the Anglo-Dutch oil major Royal Dutch Shell was keen to get in on the act, and in that year Standard and Royal Dutch created what amounted to an international cartel to regulate the use of the hydrogenation patents worldwide. The cartel agreement was supposed to remain a secret, but it emerged during the course of an antitrust investigation conducted by the U.S. Department of Justice in 1942 that the vehicle that the oil firms had chosen to formalize the arrangements was a Liechtenstein *Sitzgesellschaft* called the International

[8] Dr Beck also had the bright idea of licensing a syndicate of German firms to produce Liechtenstein's postage stamps, but it committed so many abuses that he was eventually forced to cancel the contract.

Hydrogenation Patents Company (IHP).[9] Still, the Principality could hardly be held responsible for this lapse of confidentiality.

Liechtenstein's culpability was arguably greater in the case of Friedrich Nottebohm, who was born in Germany but had lived in Guatemala for thirty-four years by the time that the Principality decided to confer citizenship upon him in October 1939. Nottebohm's treatment had admittedly been shabby: after the Americans entered the war in 1941, the Guatemalan authorities confiscated all of his property, valued at six and half million Swiss francs, and deported him to the United States where he spent three years in an internment camp. Liechtenstein may well have felt that it owed the man a moral obligation to seek compensation from the Guatemalan government on his behalf. Yet by filing suit with the International Court in 1951, the Principality upped the ante to the point where it risked calling into question the effectiveness of acquiring tax haven citizenship as a general matter. Nottebohm had never lived in Liechtenstein (although he did make his home there after the Americans eventually released him), and his claim to be recognized as a national of that country rested on a financial transaction. He had paid a total of 37,500 Swiss francs as an

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[9] See part seven of the *Hearings before the United States Senate Committee on Patents*, Seventy-Seventh Congress, Second Session, July 31 and August 3 and 4, 1942. The hearings, chaired by Senator Homer T. Bone, revealed that IHP was a fifty-fifty joint venture between the Batavian Petroleum Company (a Royal Dutch subsidiary) and a second Liechtenstein corporation, the International Company (referred to as "Vaduz" in the cartel agreements), which was wholly owned by Standard Oil and held, *inter alia*, some of its interests in Latin America. IHP acquired the hydrogenation patents from the Standard-IG Company (a U.S. corporation that belonged eighty percent to Standard and twenty percent to IG), and licensed them to other cartel participants including the British conglomerate Imperial Chemical Industries.

upfront fee, had deposited an additional 30,000 francs by way of security, and had agreed to pay 1,000 francs a year on an ongoing basis in the form of a naturalization levy. In those circumstances, Guatemala was not bound to respect the validity of his citizenship, at least that is what the court held by eleven votes to three in April 1955.[10] While international jurists grumbled about the anomalies to which this ruling gave rise, the Nottebohm cause célèbre obviously attracted publicity of a type that the Principality would rather have done without.

Apart from that embarrassing episode, however, Liechtenstein has seldom failed in its vocation of quietly sheltering the Germans. There are a couple of dozen manufacturing businesses here, the largest of which were all established by foreigners anxious to be accorded the rare privilege of citizenship. The Prince extended his protection to Dr Adolf Schneider, for example, an aeronautical engineer wanted by the Russians who rode his bicycle all the way

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[10] The operative passage of the judgment read as follows: "These facts clearly establish, on the one hand, the absence of any bond of attachment between Nottebohm and Liechtenstein and, on the other hand, the existence of a long-standing and close connection between him and Guatemala, a link which his naturalization in no way weakened. . . . Naturalization was asked for not so much for the purpose of obtaining a legal recognition of Nottebohm's membership in fact in the population of Liechtenstein, as it was to enable him to substitute for his status as a national of a belligerent State that of a national of a neutral State, with the sole aim of thus coming within the protection of Liechtenstein but not of becoming wedded to its traditions, its interests, its way of life or of assuming the obligations—other than fiscal obligations—and exercising the rights pertaining to the status thus acquired. Guatemala is under no obligation to recognize a nationality granted in such circumstances. Liechtenstein consequently is not entitled to extend its protection to Nottebohm vis-à-vis Guatemala and its claim must, for this reason, be held to be inadmissible."

from Berlin to Vaduz to go into hiding. He took over a local company called Ramco and expanded it into the formidable business now known as Ivoclar Vivadent, which produces 75,000 false teeth a day in twenty sizes and sixteen shades ranging from the pearliest white to jet black, supposedly fashionable in Thailand. In the case of Contina, a manufacturer of mechanical calculators, the primary capital investment came from Franz Joseph's brother, Prince Heinrich, who was intrigued by the clever little "Curta" that the Austrian technician Curt Herzstark had designed while he was incarcerated in Buchenwald. With the encouragement of the royal family, this Mauren-based firm has since diversified into other product lines including precision optics.

Liechtenstein has three major banks, all of which are members of the Swiss Bankers Association, a distinction that is by no means extended to every bank in Switzerland. The oldest among them, Liechtensteine Landesbank, functions as the country's central bank, although it is subordinate to the Swiss National Bank in questions of monetary policy. The newest, Verwaltungs- und Privatbank AG, grew out of the largest trust company in Vaduz and caters to private clients. The third, Bank in Liechtenstein (BIL), which is also the largest, was founded by the Anglo-Austrian Bank in 1920 but has been controlled by the Princely House since 1930. In 1951, Franz Joseph appointed the Berlin lawyer Adolf Ratjen to chair its board of directors, and BIL has subsequently gone from strength to strength. Once a niche player that specialized in facilitating the creation of holding companies, it is now a full-service commercial bank on an international scale. Ratjen remains at the helm, and two of the Prince's brothers, Karl Alfred and Ulrich, function as his right- and left-hand men.

Thanks largely to Ratjen's efforts, the Principality has become the linchpin in some of the most sophisticated transactions carried out by American multinationals on this side of the pond over the last twenty years. If Franz Joseph owes his position as one of the ten richest men in Europe to anyone, it is to this distinguished late middle-aged gentleman, whose name is unknown to the press and whose biography has yet to be written. Adolf Ratjen first won the Prince's undying gratitude and respect during the last days of the Third Reich, when, due to the strings that he was able to pull on account of his senior role in German military intelligence, Ratjen was instrumental in evacuating the Princely art collection from Vienna. With the Russians poised to enter the city, he commandeered a Wehrmacht convoy and, by following a roundabout route through Moravia and the Salzkammergut in Upper Austria, was able to get the paintings to the Island of Mainau on Lake Constance, where they were hidden in a crypt. Franz Joseph later moved them to Liechtenstein via Switzerland.

Adolf Ratjen now lives in the mountains near Vaduz and never leaves the Principality. He successfully fought for the right of lawyers here not to have to put on view, as they do in The Bahamas and Jersey, a polished brass nameplate for every last company that originates in their offices. Indeed, the Liechtenstein government has for some time discouraged this practice, which it regards as conforming to a disreputable stereotype. It's a wise policy, when you appreciate how few buildings there are in Vaduz, apart from the castle, that have big enough facades to accommodate even the initials of all of the companies that purport to reside there. If you are naive enough to ask for an exact number, people in Liechtenstein will tell you that there are between twelve and fourteen thousand holding companies registered in the Principality. The authorities in Bonn, on the other hand, believe that there are twenty thousand, but of course they can't prove it.

Sixteen species of body corporate

In truth, the precise figure is neither here nor there, for the salient fact is that in Liechtenstein's fertile soil there flourish, in the shade of the pine forests and of 35,000 fruit trees, at least sixteen varieties of business organization, several of which cannot be brought to bloom anywhere else. These are the ones that I succeeded in enumerating:[11]

(i) the association (*Verein*);
(ii) the public limited company (*Aktiengesellschaft*);
(iii) the partnership limited by shares (*Kommanditaktiengesellschaft*);
(iv) the company limited by units (*Anteilsgesellschaft*);
(v) the limited liability company (*Gesellschaft mit beschränkter Haftung*);
(vi) the cooperative society (*Genossenschaft*);
(vii) the establishment (*Anstalt*);
(viii) the foundation (*Stiftung*);[12]

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[11] The long and abstruse list set out below is distilled from a twenty-page summary produced by Liechtenstein's leading attorney, Dr Bruno B. Guggi, on behalf of the General Trust Company, a private firm in Vaduz.

[12] A foundation benefits from separate legal personality, but its corporate status does not depend upon its being disclosed in the public register. Undisclosed foundations are said to be very popular. The Liechtenstein Stiftung is in some respects comparable to a Curaçao *Stichting*, except that the Netherlands Antilles does not permit the creation of foundations other than for a public purpose, which means they are only allowed to make distributions of a charitable nature.

(ix) the one-man company (*Einmanngesellschaft*);
(x) the establishment-like corporation (*Anstaltsähnliche Körperschaft*);
(xi) the unregistered partnership (*Einfache Gesellschaft*);
(xii) the general partnership (*Kollektivgesellschaft*);
(xiii) the limited partnership (*Kommanditgesellschaft*);
(xiv) the silent partnership (*Stille Gesellschaft*);
(xv) trusteeship (*Treuhänderschaft*);[13] and
(xvi) the trust enterprise (*Treuunternehmen*).

Only the ten lawyers currently practising in the Principality, and a handful of the more erudite professional trust administrators, would even pretend to understand all of the possibilities that this efflorescence lays open. Most of their clients couldn't give two hoots anyway! As they freely admit in Vaduz, for a neophyte, nine times out of ten, it is enough to be told: "it's an Anstalt you're after." The *Industrial Courier* once percipiently joked that "the very mention of the name makes people go starry-eyed." Among fashion-conscious plutocrats, the Liechtenstein Anstalt, which has no direct competitor in any other jurisdiction, is the last word in corporate chic.[14]

An Anstalt—conventionally translated as "establishment," but to which connoisseurs always refer by its German name—is an organ of limited liability that advances the cause of limitless unreliability. It has no shareholders, because it has no shares, its capital (minimum 20,000 Swiss francs) being indivisible. Its board

[13] Trusts do not need to be registered, and secret trusts are a common method of evading the forced heirship laws that exist in many civil law countries.
[14] In Germany, Austria, and Switzerland, the Anstalt is a public law concept; Liechtenstein is alone in enabling the formation of private law Anstalts.

of directors may legally consist of a single person.[15] Lest that be thought an onerous burden for one man to bear, never fear, for it is not generally necessary for the directors to do any actual directing. Rather, it is the founder of the Anstalt, the *éminence grise*, who constitutes the "supreme authority" of the organization. He alone has the power to hire and fire the directors, to choose what happens to the net profit, to change the establishment's purpose, and to liquidate or dissolve it.

The founder of the Anstalt, on paper at least, will typically be an attorney such as Dr Guggi, but he will transfer his rights to the real founder, i.e. the person who puts up the capital, immediately after the Anstalt is formed. Because he acts through an amanuensis, there is no reason why the identity of the real founder need ever become a matter of public record, and the transfer form is often left blank, so that only the attorney and his client understand the true position. Another feature of the Anstalt, which further thickens the smokescreen that it emits, is that although it has "beneficiaries," a bit like under a trust, they do not have to be identified in the public articles of association.[16] Rather they may be appointed by the founder under "bylaws," which he can alter at any time with a mere stroke of his pen.

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[15] The Law on Persons and Companies of 20 January 1926 provides that the directors of an Anstalt "may consist of one or more natural or legal persons or companies." Hence, a Liechtenstein trust company or law firm is frequently appointed to act in this capacity.

[16] The beneficiaries are those entitled to the net income from the Anstalt's assets. Technically speaking, they have no ownership interest in whatever underlying property the Anstalt holds. Yet the founder is often named as a beneficiary—indeed, he may well be the only beneficiary—and it is always open to him, as founder, to terminate the Anstalt and to reclaim its assets for himself.

Thus, while an Anstalt does need to be registered, incorporating one leaves a very light documentary footprint. Furthermore, if it is a "domiciliary Anstalt," meaning that it only conducts business outside of Liechtenstein, then there is no requirement for news of its founding to appear in any official journal; instead, it suffices for the information to be pasted up on the court notice board for a week. If you try to raise any enquiries with those who are responsible for keeping the records, they will give you a look implying that you have just committed the grossest of indecencies. The Liechtenstein fisc, and I'm not kidding here, has never attempted to audit the accounts of an Anstalt, not even once.

Perhaps that shouldn't really surprise us, though, when you consider the rock-bottom rates of tax that these organizations are liable for. To set up an Anstalt, there is a capital duty of two percent, plus registration fees adding up to approximately 580 Swiss francs. After that, it is only Anstalts carrying on trading activities within Liechtenstein that have to pay any taxes on profits. The annual tax charge on a "domiciliary" Anstalt is a flat 0.1 percent of its capital and reserves, with a minimum of 1,000 francs per annum.[17]

Liechtenstein's official budget for 1966 shows an income of five and a half million Swiss francs from holding companies of all types. But according to the people who are best-placed to know, namely the tailors of Vaduz—who'll run you up a nice suit of

[17] One might imagine that the computation of "reserves," which are frequently held outside of the country, would be somewhat contentious, at least in principle; but the authorities in Vaduz seem content to rely, without exception, on the directors' honesty.

camouflage for half the price of a mink coat—the effective contribution that holding companies make to the country's economy is at least twice that much, more in the region of twelve million francs. On top of the taxes that these companies pay, one should also keep in mind the fees earned by law firms and trust administrators for filing all of the paperwork, additional management charges for forwarding mail and suchlike, the boost to the country's postal revenues, and the profits from running three dozen telex machines, which are used by about thirty multinational corporations to arrange for the issuing of invoices from an address in the Principality or the conclusion of commercial contracts there.

In June 1963, the legislature enacted three relatively significant amendments to Liechtenstein's tax and company code. First, it is no longer possible for corporate bodies to enter into advance agreements with the government that set in stone the amount of tax that they will have to pay for up to thirty years into the future, although agreements made prior to 4 June 1963 still remain valid.[18] The functionaries who used to negotiate those deals now have lots of other work to do, however, thanks to the second legislative change, which amended the Law on Persons and Companies to provide that "at least one member of the administration of a body corporate . . . must be domiciled in Liechtenstein." As a result, even smaller practitioners are being paid to sit on two or three hundred boards, and the larger players have accumulated thousands of directorships. There are plenty to go around, and they provide a nice sideline for the butcher, the baker, or the candlestick maker in Vaduz, Mauren, Schaan, and the other municipalities. It is not an

[18] This change was regarded as outrageous in Vaduz, inevitable in Bern, and irrelevant everywhere else.

especially demanding occupation; the most that you might be expected to do is to swear before the registrar that the corporate moniker chosen by the latest blow-in doesn't already belong to somebody else. Put bluntly, you are renting out your personal details to go on the documents.

Thirdly, having for many years had no minimum capital requirements for companies, since 1963 the minimum capital has been set at 50,000 Swiss francs for PLCs, 25,000 francs for private companies, and 20,000 francs for Anstalts, foundations, and trusts. The new provisions also require that the capital "must be fully paid up or contributed." There are seemingly few restrictions, however, on the uses to which that capital may subsequently be put, and a loan back to the founder of an Anstalt, for example, is considered perfectly acceptable. So it is still possible to participate in the incorporation game here whether you're in funds or not, as you can arrive in Vaduz, take out a bridging loan from a local bank, capitalize an Anstalt, borrow the money back from the Anstalt, and use that cash to repay the original bank loan. In this respect, also, the new rules have created profitable ancillary work for the town's professional classes.[19]

[19] One should mention, for the sake of completeness, that it was also in June 1963 that reserves were first required to be taken into account for the purposes of the 0.1 percent tax on "capital and reserves," referred to above (which was previously a tax on "capital" only). But the well-advised know how to mitigate the effect of this change, and it seems to have made little difference in practice.

Teutonic presence

There isn't a statistician in the world who could place a value on the collective benefit that the Principality's clients derive from its system of corporate law, or even tell you who the most substantial customers are, though between a third and a half are believed to be German. You only ever learn their identities after a time lag, if their hidden presence fortuitously ripples or ricochets into your field of vision. Who would ever have heard of the Liechtenstein company "Credo," for example, or of the key role that it appears to have played in the early stages of West German rearmament, if it had not been for a brief comment in the Swiss press in September 1953: "The Federal Council has made a conscientious decision that it will no longer allow armaments manufactured in Switzerland to be exported to Germany. The immediate effect of this ruling is to put the kibosh on an order for ten million francs' worth of anti-aircraft cannon that Hispano-Suiza had agreed to supply to the West German coastguard."

Quick as a flash, a shadowy outfit called Octogon Trust of Schaan, which hadn't even been mentioned in the article, issued a protective press release: "Our firm, which has a commercial relationship with Hispano-Suiza of Geneva, has not as at the present time undertaken any transactions or negotiations for transactions involving weapons of war. We have not been paid any retainer either directly or indirectly. We have not conducted any research into the armaments sector. We have not handled, and do not currently possess, any foreign capital, secret accounts, or hidden funds. Our firm has nothing to do with the company 'Credo,' headquartered in Liechtenstein. We are not in contact with its general manager Hans Klein, nor have we spoken to the engineer Friedrich Geist or to Dr Hjalmar Schacht." The story was swiftly buried.

Similarly, not until the death of Professor Ernst Heinkel, in 1958, was it revealed that the eminent aircraft-maker had held his patents and other intellectual property in Vaduz, and that the money that he earned from the Egyptian government had been paid to a Liechtenstein Anstalt. From time to time, some great scandal erupts and fleetingly lays part of the scene open to view, like a projector beam piercing the darkness. Thus did we discover, for instance, that the family of the Dominican dictator Rafael Trujillo had found it expedient to set up three Liechtenstein entities (Renavio Anstalt, Vetania Trust, and Noida Trust), apparently in order to lubricate discussions with their Swiss bankers.

Liechtenstein's clientele essentially comprises three categories of people: there is the financial aristocracy of international corporations; there are soldiers of fortune such as those mentioned above; and there is a veritable mob of middling millionaires, who are recruited by the burgeoning tax avoidance industry. In a fascinating exposé published in May 1963, *Der Spiegel* named some of Principality's most energetic promoters in Germany, including Dr Anton Gantner, who owns a trust company in Vaduz, and Prince Rudolf of Hohenlohe-Langenburg, who is based in Munich.[20]

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[20] Gantner was formerly an officer of the Wehrmacht and emigrated from Berlin to Vaduz in 1948, presumably so as better to be able to service his less mobile clients. Prince Rudolf runs a company called Braun Real Estate & Financial Services out of an apartment block in Munich's university district, and maintains a close liaison with the Vaduz brokerage firm Interkapital. According to *Der Spiegel*, Interkapital employs the daughter of

On the wall of a suburban office block in Mauren, a plaque bearing the words "Rudolf Münemann Finanzierungs-Anstalt" announces the presence of Germany's most celebrated patron of the Liechtenstein tax haven. The son of a struggling textile-merchant, and grandson of a factory worker, Rudolf Münemann started a debt collection agency in 1928 when he was twenty years old. From the 1930s onwards, he pioneered the practice of maturity transformation or "revolving loans," which entailed matching industrial concerns that were thirsty for long-term credit with institutional investors who could only lend short-term. By facing in both directions, borrowing short and lending long, Münemann was able to take full advantage of the interest rate differential. Instead of being driven to the wall by the Ruhr titans when they launched their comeback in the 1950s—as most of the new money thrown up by the German miracle was—"the Revolver," as the press like to call him, grew so rich that his private fortune was estimated at forty-two million marks in 1965, which is about ten million dollars.

The West German establishment disdained him, for listing four numbers in the telephone directory (one for each of his carphones); for the ostentatious yacht that he kept on the Starnberger See; and for divulging that he belonged to the members-only Munich strip joint "Madam" (whose reputation is legendary). They did their utmost to put him out of business. But Münemann retaliated, bringing an antitrust lawsuit against the Association of German Banks in 1959, and sponsoring the Free Democratic Party to fight his corner in the Bundestag, where lobbyists for the big banks were

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Liechtenstein's leading judge, who makes sure that all relevant formalities are handled expeditiously.

trying to pass special tax legislation aimed at bringing him down. In the late fifties and early sixties he embarked upon a spree of acquisitions, which included the remnants of the Hugo Stinnes industrial empire as well as several banks. He also made increasing use of his Liechtenstein redoubt, informing a journalist in 1963 that he was managing sufficient funds through his Mauren-based Anstalt to make him the third-largest foreign investor in the country.

In the spring of 1964, Münemann sensed a change in the way that the wind was blowing. His business model relied on regular refinancing of his short-term obligations, and the cost of money was rising. So he trimmed his sails, selling fifty-two percent of his main banking vehicle, Investitions- und Handelsbank AG, to the State of Hesse for fifteen million dollars. Later the same year, he disposed of his interest in Bau- und Handelsbank AG, which is based in Berlin and Cologne, to members of the former princely house of Fürstenberg and an "unnamed Swiss firm." In both cases, the sales proceeds flowed into the Rudolf Münemann Finanzierungs-Anstalt, thereby saving its founder millions in tax. The Revolver assured friend and foe alike that he was far from ready to retire, and he remains active in the fields of credit guarantee insurance, plant and equipment leasing, and the construction of supermarkets.

There are signs that the Principality is growing weary of the German influx. When the Swabian textile magnate Fidel Götz, whose son was living in Liechtenstein, asked for permission to open a bank in Vaduz, the government turned him down. Götz considered, not irrationally, that the steadfast reputation of his "Charmor" line of ladies' underclothes, not to mention his conspicuous piety, ought to stand him in good stead to conserve his countrymen's deposits. But Adolf Ratjen and the rest of the Prince's council believed that it would be prudent to let things cool down for a while, particularly in view of the discomfiture that they had experienced due to the antics of Hans Herbert Blatzheim, the millionaire restaurateur and professional blabbermouth, who is married to Magda Schneider and plays daddy to Romy. Blatzheim set up three holding companies in the Principality in 1962: Uniterra, Tursos Anstalt, and Blatzheim Stiftung. In an interview that he subsequently gave at his home on Lake Lugano, he compared Liechtenstein favourably with other tax havens, praised Franz Joseph II for being a copper-bottomed wealth preserver, and gave thanks that he could "finally get my hands on all of my money," having bade the Fatherland farewell.

The lead in the glass

Liechtensteiners much prefer clients who know how to keep their mouths shut, such as the major-league British corporation that became the Principality's first important foreign customer in the mid-1920s, but has never stirred up the slightest eddy of controversy in the forty-two years that it has been operating there.[21] The Swiss are prepared to let a certain amount slide for the sake of a quiet life, even though this means that they occasionally get

[21] This company is so reticent about advertising its Liechtenstein connection that I had difficulty in identifying it. One source told me that it was a famous manufacturer of semi-synthetic fibres, while another insisted that it was a large firm of bookmakers that had diversified some years ago into mail-order retail.

drawn into international disputes or unpleasantness. Such was the case in 1967, when the Axel Springer group was reported to be in negotiations with the Liechtenstein authorities to launch a commercial radio station, which would be one-third owned by the Princely House.[22] Vaduz understands, at the same time, that Bern will not condone any more incidents like the one that occurred with Friedrich Nottebohm. And the Liechtenstein government has made on average only one grant of naturalization per year since 1950, probably for that reason.

If you are lucky enough to be one of the chosen ones, however, then it could have a seriously beneficial effect on your tax bill. The Americans assert the right to tax U.S. citizens on their worldwide income, whether they live in the United States or not, while the equally eccentric British do more or less the opposite, permitting individuals who reside in the UK but are not "domiciled" there to pay no tax on their foreign earnings.[23] As a result, there are people who are prepared to suffer indignities that they would not normally be willing to countenance, in view of their wealth, for a chance of obtaining the coveted prize of Liechtenstein

[22] Bern issued a forceful reminder to Vaduz in September 1967 that "the Liechtenstein government has no power to undertake unilateral action in the communications sphere, as the agreement between our two countries expressly reserves such matters to the federal authorities." The Principality promptly denied that the talks had ever taken place.

[23] Domicile, in this context, is a curious common law concept that means neither habitual residence nor citizenship, but depends on the subjective question of whether a person "intends" to remain in a place permanently. It also affects liability to inheritance tax in some jurisdictions, notably those within the British orbit.

citizenship.[24] The process is arduous, and five years of prior residence in the country is a sine qua non. As the official *Documentary Handbook to the Principality of Liechtenstein* helpfully summarizes, the remaining steps are as follows:

> The applicant first of all makes application to one of the communes for admission to citizenship, after having produced the evidence required by law. The communal council places the application before the Communal Assembly. To be accepted the application requires only a simple majority of votes among the assembled citizens of the commune provided that over half those entitled to vote are present at the Assembly. After acceptance by the commune the application goes to the Government. After examination of the Case in accordance with the law, the Government presents the application to the Diet. If the Diet approves it the Government then makes its recommendation to the Prince, who alone has the privilege of conferring citizenship. . . . Preceding the confirmation of citizenship, the Government or an approved public office examines the relationship of the applicant to his former homeland as well as his personal and family circumstances. Should these relationships and circumstances be such that the granting of citizenship might prove disadvantageous to the State then naturalization is impossible.

Assuming you can jump through all of those hoops, you will still have to pay for the privilege. I am told that the going rate remains roughly the same as it was in Nottebohm's time. Don't bother applying unless you are able to demonstrate that you will never be a burden on your adopted country, and it helps to be of an age

[24] Acquiring a new nationality does not necessarily entail losing whatever citizenship you previously possessed, but most countries will strip a person of citizenhood if he becomes a national of another state.

where you are unlikely to contribute to any further growth of the population.[25]

Liechtenstein's population has been growing, though, by approximately 500 residents per year over the past decade. Even if you can't (or don't want to) become a citizen, the attractions of living here are plain enough. Wealth tax is levied at the basic rate of 0.7 per mille, while the standard rate of income tax is two percent. If you were rich enough to attract the maximum surcharges at both state and local level, then the top rate of tax on income would still only be 12.6 percent, and on capital 0.63 percent.[26] Contrast that with Switzerland, which, contrary perhaps to popular perceptions, practically has First-World tax rates, at least insofar as its own citizens are concerned. They vary from canton to canton, but the top rate in the larger cantons is around thirty percent on income and one percent on capital. In view of this discrepancy, the federal government understandably takes a rather dim view of Swiss residents who up sticks and move to the Principality.

This New Year's Eve, when Franz Joseph II and Princess Gina indulge in the local tradition of *Bleigießen* (molybdomancy), reading each other's fortunes by pouring spoons containing molten lead into glasses of ice water, what will be foretokened by the

[25] There is apparently an unwritten custom that applicants must wait until one of the Prince's existing subjects dies before their patience can be rewarded… If they're still alive, that is.

[26] Individuals who reside in the country without performing any "gainful activity" there, and who live on income accruing to them from abroad, may elect for an alternative tax treatment known as "pensioner tax," whereby they pay twelve percent on the amount of their expenditure in Liechtenstein, which is generally assessed as five times the rental value of their dwelling.

crazy shapes that the metal so abruptly takes on? You could understand it if the princely couple saw fit to lay superstition aside and to drink a toast to the future. There's certainly nothing here to make you worry about a war, a coup d'état, or some other kind of upheaval. Nor, for that matter, is there any indication of a desire for novelty among the country's easy-going inhabitants, who seem deeply satisfied with their lot.

To what extent will the self-denying ordinance under which Liechtenstein now appears to be living—within reason, it's true—help to protect the Principality against unwelcome attentions from the more fiscally exacting nations of the world? The Liechtensteiners believe they are enough of a niche operator that they need not take too seriously the brief outbursts of anger that emanate from next door. That's just the Swiss knowingly playing the innocent, for the purpose of enhancing their own prestige. The way the top brass here views things, attorneys in Geneva and Zurich wouldn't be advising their clients to set up Liechtenstein Anstalts, or offering to create domiciliary companies while-you-wait, if they had to hold their noses every time they received a missive bearing the letterhead of Vaduz, Mauren, or Schaan. They can't see why that position ought to change any time soon, and if they are correct in that assumption then their business model is eminently sustainable.

You have to wonder, as well, how far Switzerland's role—and, if we're being honest about it, her reputation—is really all that different. Seen from abroad, Zurich and Geneva can also resemble bubbling cauldrons of financial mystery and scandal! Is one forced to conclude, in the words of Verlaine: "now 'twas the same, and then a different air"?

9. Cross of gold and Red Cross

God should not suffer for the stupidity of the priest.

Epistles
VOLTAIRE

When cars can think, your Rolls-Royce will suffer
from angst rather more than your taxis will.

Untitled Passages
HENRI MICHAUX

"All roads lead to Rome," wrote G. K. Chesterton, "which is one reason why many people never get there." There is no self-evident logic dictating that all financial roads should lead to Zurich and Geneva, yet the empirical data allow us to observe that they do; and this is never truer than in the case of money that has been driven out of other tax havens by a variety of hazards. Whether the immediate cause is military or political ferment, a financial crisis or a real estate crash, Switzerland is always there, ready to act as the refuge of refuges. Unlike her rivals and imitators, this Alpine haven is largely immune to exterior pressures, for the aggregate resources controlled by her banks are so large as to be of systemic importance to the international money markets. Amounting to several billion dollars, and widely dispersed throughout the Western world, the latent threat that these funds could be withdrawn or redeployed acts as a powerful deterrent to other governments who might wish to pry into her customers' affairs. Hitler never attempted to impinge upon Switzerland's armed neutrality during World War II, not least because the country owns the Gotthard Tunnel, through which all direct rail traffic between Germany and Italy had to pass. Today, Switzerland is at the centre of an equally important network of underground channels through which which money needs to flow, and no major nation can run the risk of their becoming blocked.

You could say that money is like a fish in water here, since it can both lose itself and find its sustenance. Some such thought was presumably in the mind of Aleksei Poskonov, head of the State Bank of the Soviet Union, when, in 1966, he authorized the establishment of a subsidiary in Zurich, Wozchod Handelsbank AG, to help to sell the output of Russia's gold mines and to facilitate East-West transactions. Rumour has it that the Chinese government is contemplating a similar move, despite having all of the facilities of Hong Kong at its disposal. Switzerland is the only state that has never imposed any restrictions on the convertibility of its currency, nor attempted to stop people taking money out of the country, even as the rest of the globe was entering into cloistered segregation in the immediate post-war years.[1] It therefore holds an irresistible fascination for capitalists, who are doubly haunted, by the spectre of expropriation in the developing world, and by the frustrating prospect of being under an effective embargo in the industrialized nations while their governments desperately try to instate something resembling a sound balance of payments.

So investors can have confidence that they will be able to get their money out of the Swiss Confederation when they need to, but what is just as important is that its purchasing power ought to remain undiminished as long as it's there. Switzerland has no external sovereign debt, and her currency is not at risk of being debased in the crucible of geopolitical events. By law, the Swiss National Bank (SNB) has to maintain the ratio of its gold reserves to Swiss francs in circulation at no less than forty percent.[2] In practice the ratio is much higher than that and may well exceed one hundred percent. But the Swiss franc is not a significant reserve currency, nor has it ever been a major medium for the settlement of international trade. That is an advantage, because it means that the franc can't be swept away in a stampede and is as solid as a rock. More than a healthy current account position (it was restored to equilibrium in 1966 after five years in deficit), the strength of the currency derives from the country's political stability. It may sound like a paradox, but one can say without fear of contradiction that this stability thrives on the deep linguistic, religious, and

[1] The Swiss National Bank did impose various measures of exchange control in the late 1940s, yet these were aimed not at preventing money from leaving Switzerland, but at stopping too much of it from coming in.
[2] One Swiss franc is equivalent to 1.136 French new francs.

almost tribal divisions between Switzerland's twenty-two cantons, all of which willingly embrace the federal system as a means of preserving their particularity.[3]

A well-tempered charity

The perennial search for compromise between divergent interests, and the constantly-evolving coalition of minorities that crystallizes unpredictably on the occasion of each election or referendum; these factors impose neutrality on Switzerland to the extent that it has become second nature. You may rest assured that it is a profitable one. Belligerents who are knocking seven bells out of one another are always prepared to let Switzerland take care of their finances, in the knowledge that she will do so with complete impartiality. There is little sense in their taking umbrage if it transpires that she is also servicing the other side.

The Swiss cross of gold (the Vreneli) and the Red Cross ought to shine with equal lustre on the country's coat of arms.[4] Switzerland is a hospital for sick money, which comes here to seek the respite and care that will speed its convalescence, so that it can make a fresh start. Swiss banks are like physicians' surgeries: they're expensive, exclusive, and exceptionally well-equipped. And there is no shortage of banks here, with one for every 1,200

[3] "Some aspects of the Swiss mode of government," according to the historian Herbert Lüthy, "are perhaps more readily intelligible to a Congolese, with his attachment to his village, than they are to Frenchmen raised in the belief that the State is singular and indivisible."
[4] The Vreneli or "Swiss Miss" has a face value of twenty francs and is "one nine fine," containing 5.807 grams of pure gold.

inhabitants. Their combined balance sheet, in 1966, stood at some one hundred billion Swiss francs, almost double the national income. Of course you wouldn't expect to find any trace, at ground level, of the enormous deposits that they take in. A fortiori, there is no way of quantifying the total value of the assets owned by the numerous financial and industrial holding companies that are registered here.

Breathless fugitives and persecutors on their days off, treasurers of rich nations and dignitaries from poor nations, all of them inevitably make their way to Switzerland sooner or later. Whenever risk capital suddenly deserts a financial centre, whenever the equipoise of the Western monetary system seems to teeter, central bank governors convene in the relaxing atmosphere of the Bank for International Settlements in Basel—in preference to the IMF in Washington or the Group of Ten in Paris—where the resuscitation of whichever reserve currency looks dangerously weak is then miraculously effectuated. The Swiss climate is conducive to difficult procedures, such as the one that permitted Intrabank of Geneva to remain open for business after all of the bank's other branches had closed their doors.

With each rescue operation, however, Switzerland accumulates capital that is composed in equal measure of confidence and resentment. The expatriate money that the country harbours represents a heresy, in the eyes of a creed that would stamp out freebooting. For it has evaded the rule of the strongest. It is an outlaw from their relentless justice. This evasion is begrudged all the more intensely, in view of the fact that its pay-off is enjoyable immediately in the form of banknotes and gold. The Huguenots who fled the *Ancien Régime*, and the other exiles who have followed them down the years, did not arrive with empty hands.

No one doubts for a moment that the Swiss give generously towards the alleviation poverty in the Third World. Yet when circumstance obliges them to limit their hospitality, as for example during World War II, it is distressed millionaires who tend to be the primary recipients of sanctuary. This choice is explicable less by reference to self-interest, and more as the product of a sense of kinship. The Swiss welcome people who, like them, are sufficiently thrifty and farsighted as to be able to give an unqualified assurance that they will never be a drain on the country's resources. Voltaire, that clever businessman and financier, liked his exile in Geneva well enough to sign his letters "The Swiss Voltaire," although he eventually decamped to a village eight kilometres away on the French side of the border to escape the censoriousness of the town fathers. Nevertheless, he felt a lot more at home in Swiss society than did that penurious moralizer, Jean-Jacques Rousseau, who proclaimed himself a "Citizen of Geneva," but proceeded to drop an unforgiveable clanger by describing his hosts as the noblest of noble savages.

When the Brits are feeling sentimental, they take their kids to a petting zoo where they can feed the baby bears, the infant monkeys, the foals, and the lambs. But when the Swiss want to warm the cockles of their hearts, what better way than to watch their own progeny nourishing their little accounts at some grand and dependable counting-house, where the tellers are on hand once a week, on Thursdays, to begin the process of civic education by preserving the young from the temptations of a fragile piggy bank.

Like any other country, Switzerland harbours its fair share of delinquents, swindlers, and rogues. Yet there is no such thing as a Swiss playboy. In vain will you scour the local press for sightings of that mythical species. The only specimens that come close invariably turn out to be French or German barons, whose comparatively recent grants of naturalization have thus far failed to endow them with the dour habits of their new compatriots. Between 1948 and 1965, the amount Swiss citizens salted away annually "octupled," as they would say in Geneva, from 440 million francs to some three and a half billion. By 1966, there were 150 passbooks and deposit certificates for every hundred residents.

The whole populace grows anxious, even today, if the country appears to be living beyond its means. Hence there was a collective frisson of delight in April 1967, when the Federal Statistics Bureau announced that the value of foreign assets held by Swiss people had increased by three billion dollars over the previous five years, and now amounted to 1,702 dollars per person. In contrast, the foreign assets held by American citizens only ran to 315 dollars a head, though there are obviously a lot more of them. Bern loves reminding people that, over the past decade, the investment that has flowed to the United States and West Germany from Switzerland, whatever its ultimate source, has been equal to that coming from all other nations combined.

"The whole world, I believe," wrote Jean-Baptiste Colbert, "would do well to recognize that it is solely and simply the abundance of money within a state that is determinative of its power and grandeur." Colbertism is out of fashion nowadays, apart from in Switzerland, where, carrying his logic to its limit, they think that a country's prestige depends not merely upon how much capital it *owns,* but on how much it manages. From the foregoing premise, the authorities will smoothly segue into reminding you that this pool of expatriate funds allows the Swiss to lend to, and thereby "to serve . . . the international community."

Admirers and detractors of the Swiss

It's a well-polished act, but you don't have to be a dyed-in-the-wool sceptic for the protestations of Switzerland's leaders to strike you as being somewhat Pharisaic. In various foreign capitals the Confederation is regarded as a place—in fact, *the* place—where they're just happy "to get their hands on the loot," and couldn't care less about its provenance. That was certainly the view of the impetuous British foreign secretary, George Brown, who, in November 1964, assigned responsibility for a sterling crisis to those he dubbed "the faceless gnomes of Zurich." This caused thousands of Englishmen to reach for their dictionaries, where they found the following definition: "gnome—one of a race of diminutive spirits fabled to inhabit the interior of the earth and to be the guardians of its treasures."

Much inconvenienced by this fairy-tale discourtesy, Prime Minister Harold Wilson hastened to mollify the Swiss National Bank, which, *pace* Brown, was lending significant sums to the Bank of England in order to support the pound. But Brown's remark went global. It fell on receptive ears, for the ground had already been prepared by, among others, the former U.S. ambassador to Switzerland Henry Taylor, who in 1958 had publicly shamed the Confederation "for enabling the Communists to funnel a million dollars a week through here for the benefit of spies, saboteurs, and black marketeers operating in the West." The State Department apologized for his remark straight away, and they have had to make similar soothing noises on other occasions when inappropriate language has been employed, although with the dollar's present struggles those have become few and far between. Even so, some court or committee, somewhere in the United States, seems permanently to be inquiring into the close connection between the Swiss banks and American organized crime.

The prevailing view in Paris is, if anything, the reverse. Such is the Confederation's lust for dollars, people mutter, that it has become little more than a hireling of the United States. "Switzerland is America's bitch." We can't be certain that those were the precise words used, but I have it on good authority, from a Swiss banker no less, that this pleasantry fell from the lips of General de Gaulle in a meeting of the Council of Ministers. The cause of his displeasure? He had just been informed that Chrysler, with the connivance of Credit Suisse, had obtained control of Simca by surreptitiously purchasing the thirty-eight percent of the firm previously held by the Agnelli family (which also owns Fiat).

On the other hand, de Gaulle's first finance minister, Antoine Pinay, was heard to exclaim in 1959: "Thank God for Switzerland, she has saved our French bacon!" He was alluding to the fact that all of the French wealth that had been hiding out in Switzerland for the previous twenty years had escaped the ruinous debasement of the French franc, which had been devalued six times during that period. Having thus been protected, French capitalists were able to take full advantage of the tax amnesty that Pinay then proceeded to offer them, albeit not before he had devalued the franc yet again in 1958.

So the Swiss tax haven is forever alternately calling forth amoebaean songs of eulogy and condemnation. The dedicated occultists of the professional investment world are one thing, but what particularly irks the authorities in other countries is the way that prominent individuals can openly go and live in Switzerland just for the tax benefits, and there is nothing that they can do about it. Think of the British stars, such as Charlie Chaplin, Noël Coward, Peter Ustinov, and Richard Burton, who revel in their immunity as Swiss residents. Or of Americans like William Holden, Orson Welles, Mel Ferrer, or Elizabeth Taylor. And that is before we even get to the Germans! The gastronomist Hans Herbert Blatzheim we encountered in the preceding chapter, but one should also mention the confectionery king Rudolf Hussel and, of course, the cut-price tailoring whizz Alfons Müller-Wipperfürth, otherwise known as "Don Alfonso," whom *Der Spiegel* has described as "Germany's most skilful tax evader." Indeed, this Rhenish industrialist's tussles with the tax office are meat and drink to Grub Street on that side of the Rhine.[5]

[5] Müller added the "Wipperfürth" to his name in homage to the town near Cologne that made him his fortune, but he has been based in the Canton of Ticino since 1959. He originally went there to get out of paying 1.3 million Deutschmarks in back tax plus a 180,000-mark fine (that's more than 1.8 million French francs in total) for participating in an illegal transfer pricing scheme involving a Swiss company. In May 1963, he bragged to *Der Spiegel* that he had recently negotiated a very favourable settlement with the German authorities ("I paid a lot less than they originally wanted"), and further disclosed that he was only liable for fifteen percent tax on dividends from his German enterprises thanks to the Germany/Switzerland double taxation convention. A year later, however, the light aircraft that Müller was piloting

From 1948 onwards, the Swiss federal government has tried to inject some order into the practice of *Aufwandsteuer* or "lump-sum taxation."[6] It would appear that certain cantons were taking this concept somewhat too literally, by effectively granting rich foreigners tax exemption for life. The right of overseas nationals to be taxed by reference to the amount of money that they spend in Switzerland each year, rather than on their income, is now governed by an inter-cantonal concordat, to which all of the subnational governments have been party since 1960. Within the limits set by this agreement, however, the twenty-two cantons continue to compete with one another to attract a super-wealthy clientele of maharajas, oil-sheikhs, Common Market capitalists, and authors of detective fiction. The concordat also imposes conditions on the availability of tax breaks for business, but that has not prevented the cantons from participating in a cutthroat race to slash their corporate tax rates, similar to the way that rival shops engage in discount selling.[7]

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from Austria to Belgium crashed in the Eifel mountains with the loss of three passengers. Don Alfonso was himself badly injured, but that did not prevent him from being arrested by the tax police in Düsseldorf, who were evidently keen to reopen negotiations.

[6] The term "forfait" is used in the French-speaking cantons, and you will also hear this alternative method of taxation referred to as the "Lex Chaplin," after the great entertainer who moved to Vevey when his right to re-enter the United States was revoked on account of his perceived political unreliability in 1952. In fact, lump-sum taxation long predates Chaplin, having first been introduced in the Canton of Vaud in 1862, followed by Geneva in 1928.

[7] As noted in the previous chapter, the headline tax rates in some cantons are comparatively high, but most of them offer substantial reductions for domiciliary companies. Combined with the federal tax concessions available to certain types of holding company, this has led to a sustained

Even in the context of the battle against so-called "economic overheating" that the Swiss have been waging for the past few years, which has seen the government impose quotas on the entry of foreign workers—regardless of whether they are Sicilian tomato-pickers, Spanish domestic servants, or the university-educated staff of some swish financial enterprise—they have been reluctant to turn away tax exiles. It is true that significant curbs were placed on non-resident investors in 1960, including negative interest rates on money deposited with Swiss banks, and a prohibition on purchasing real estate or securities without official permission. Those measures, which were abolished in 1966, did help to stem the remarkable inflow of capital that occurred in the late fifties and early sixties, when foreign deposits were increasing by a billion Swiss francs every year. But for committed customers, these restrictions were largely beside the point. For the important thing, the "name of the game," was that Switzerland continued to combine a favourable tax regime with the guarantee of absolute financial discretion.

Bank secrecy is neutral Switzerland's Maginot Line. It goes well beyond being a professional duty comparable to that of a lawyer, doctor, or priest. It has been elevated to the status of a national security issue. The Confederation assuredly has a proud tradition of libertarianism in financial matters.[8] Yet the attachment

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"incorporation boom" in the Confederation over the last few years, with up to 800 new holding companies being registered annually.

[8] At an annual banquet for the foreign press in May 1967, Swiss President Roger Bonvin made this point in unequivocal terms: "The determination to earn all that you can through hard work, and the prudence to put aside part of your earnings; these are marks of character and self-discipline. They go hand in hand with a modesty that lays claim to discretion. Not everyone wishes

to bank secrecy seems to operate at a more visceral level. Swiss courts have gone as far as to compare breaching a client's confidence with spying for an enemy power. According to folk-history, this chariness originated with Switzerland's desire to safeguard assets belonging to persecuted German citizens from the unwanted attentions of Hitler's henchmen, who were hell-bent on getting hold of them, by force or fraud if necessary.

Be that as it may, there is no doubting that, in 1934, the Swiss legislature took the unprecedented step of backing up the civil law in the sphere of bank secrecy with draconian criminal sanctions. A bank employee can be imprisoned for up to six months and fined up to 20,000 francs if he "intentionally violates his duty to observe silence or his professional rule of secrecy."[9] Experts disagree as to whether, for example, this provision truly prevents bankers from providing evidence in criminal proceedings. But the banks interpret the rule widely, and they maintain that it is for them to decide if they wish to cooperate with the judicial authorities or not.

Switzerland recently acceded to the European Convention on mutual assistance in criminal matters, yet that treaty expressly excludes political or fiscal offences, and it also allows a state to deny a request for help if it believes that implementing it could "prejudice its sovereignty, security, *ordre public*, or other essential interests." The Swiss view is that foreign exchange control laws

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the world to know the extent either of his productivity or of his thrift. In this country, it is not the done thing to make an exhibition of your income, your assets, or your wealth. As far as we Swiss are concerned, the interests of the tax authorities must take second place to individual freedom, even if that freedom is sometimes abused."

[9] Article 47 of the Federal Act on Banks and Savings Banks of 8 November 1934.

are prejudicial to the public order, so Switzerland routinely rejects requests pertaining to the alleged violation of such laws. What is more, although some of the double taxation conventions that the country has signed contain clauses providing for the exchange of information between tax authorities, in practice the Swiss tax administration always refuses applications for data concerning assets held by banks in Switzerland. The fact is that they would be unable to compel the production of such information anyway, because Swiss domestic tax law gives them no authority to obtain it. It makes no difference, for these purposes, whether the account in question is in the taxpayer's own name, or is distinguishable only by a string of digits, the latter practice being designed to limit the number of bank employees who know the holder's real identity. Like peace, it seems, Swiss secrecy is indivisible.

Between the hammer of Germany and the anvil of the USA

Outside of Switzerland itself, this idiosyncratic approach has made the country some powerful enemies in official circles, where sympathy for the Alpine republic's predicament during World War II has long since worn thin, and there is now a thoroughgoing scepticism about Swiss bankers' motives. The Swiss claim that they enacted these laws to protect the Jews, the feeling runs, but they have only ended up helping the Nazis and their collaborators. That attitude is prevalent above all in the United States. There, the Treasury Department and the Federal Bureau of Investigation (FBI), who at least paid lip service to the notion of legal transparency, could never understand why the Swiss authorities would carry on observing the code of silence in time of war. Unless, that is, they were actively aiding the enemy, or were at any rate colluding in flagrant abuses of Swiss neutrality by German agents who were freely replenishing the Reich's supplies of raw materials, armaments, and intelligence. Why else would they sit back and allow a thousand Swiss companies to be blacklisted, with their assets frozen, the Americans asked innocently, when all that those firms needed to do was to open their books and to disclose who really lay behind the various transactions carried out in their name.

In the immediate aftermath of the war, the Swiss delegation in Washington came under concerted pressure to turn out the country's coffers, purportedly jam-packed with Nazi plunder, in order to make a contribution to the Western World's fighting fund for the new global conflict that everyone assumed was imminent. These demands received short shrift in Bern, where the Americans were seen as little better than neo-Nazis who were resorting to Hitlerian methods in an attempt to get their hands on the keys to Switzerland's safes. Nevertheless, following embittered wrangling the Swiss government agreed, in 1946, to liquidate German external assets in Switzerland and to split the proceeds fifty-fifty with the Allies. Furthermore, they undertook to pay 250 million Swiss francs in restitution for the gold that Germany had looted from the occupied territories.[10] This settlement did not fully satisfy either side, but American thinking had already begun to move away from the idea of transforming Germany into an agrarian

[10] This was much less than the Allies had asked for, which was in the region of 560 million francs, but much more than Switzerland had initially offered (approximately 107 million).

utopia and towards that of rearming it against the Russian threat. Switzerland had succeeded, meanwhile, in preserving both her honour and her unique appeal to investors.

The Washington accord did little, in reality, to alleviate American mistrust of the Swiss, and the sentiment subsequently hardened during the course of protracted legal proceedings relating to a company named "Interhandel."[11] This was a Swiss holding company that the mammoth German conglomerate IG Farben had set up in 1928 to manage its interests overseas. Interhandel had a U.S. subsidiary, the General Aniline and Film Corporation (GAF), which the American government sequestered in 1942 on the basis that it was controlled by the enemy. After the war, the Basel bank H. Sturzenegger & Compagnie sued the United States on behalf of Interhandel's owners for the return of the GAF stock. The Americans refused to give the company back, as they believed that Sturzenegger was merely a cloak for IG Farben, and they ignored the increasingly frantic remonstrations of the Swiss government. The resulting litigation would drag on for more than fifteen years and enrich two generations of lawyers.

In 1949, in an effort to discover who really owned Interhandel, the U.S. government secured an order from the District Court in Washington, DC, obliging Sturzenegger to produce all documentation in its possession bearing upon the issue. Sturzenegger demurred, on the basis that this would involve it in committing a criminal offence in Switzerland; and, as if to make

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[11] The company's official name was "Société Internationale pour Participations Industrielles et Commerciales SA," but it was usually referred to by the German abbreviation Interhandel. Until 1945, it had been called "IG Chemie."

the point, the Swiss Federal Attorney promptly "confiscated" the relevant records. He claimed that he was exercising "preventive police power" to forestall any potential breach of Swiss law concerning bank secrecy or industrial espionage. The American court then dismissed Interhandel's suit for failing to comply with the procedural requirements, but Switzerland hit back by taking the United States to the International Court, which turned the case down in 1959 on the grounds that Interhandel had not exhausted the remedies available to it under U.S. law. It took a personal intervention from the United States Attorney General, Robert Kennedy, before this dispute was eventually resolved in 1963.[12]

One of the Americans' staunchest adversaries during the first decade of their struggle with Interhandel was the company's managing director, the Swiss banker Walter Germann (a nephew of Eduard Greutert, founder of the Sturzenegger bank).[13] Germann was a veritable one-man tax evasion machine who controlled what the American magazine *Forbes* described as "a maze of at least twenty-four companies located in such 'hot money' havens as St Kitts, Curaçao, Monaco, Nassau, Basel, and Panama."[14] A frequent visitor to New York, Germann was disconcerted when, in April 1966, he was summoned to appear before a Grand Jury to

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[12] The agreed solution was that the U.S. government would sell GAF to American private interests, and would share the proceeds of sale with Interhandel. An auction was held in 1965 netting almost 330 million dollars. Interhandel received 120 million, and, now flush with cash, was taken over by Union Bank of Switzerland (UBS) shortly afterwards.

[13] Germann was pushed out in the late fifties, along with his father August and other Greutert cronies, when the big Swiss banks decided to "clean up" Interhandel in an attempt to improve its image stateside.

[14] These included Bank Germann in Basel, Banco Suizo-Panameno, and the Banque Commerciale de Monaco.

answer charges of facilitating frauds on the U.S. government with respect to income tax laws and securities regulations.

Having been grilled by the Grand Jury for four days, Germann decided that he was on a losing wicket and, rather than face any further interrogation, fled to Switzerland. His attorney then announced that he would not be returning.[15] An infuriated judge slapped him with a twenty-five-thousand-dollar fine for contempt, plus an additional thousand dollars for every subsequent day that elapsed. By the time he blew his brains out at his chalet in Klosters in April 1967, Germann owed the U.S. authorities more than 200,000 dollars, yet that was only the tip of the iceberg in terms of his financial troubles. He had been badly burned by the failure of the German timeshare fraudster Karl Heinz Moos, whom he had apparently failed to spot until it was too late.[16] More fatally still, his run-in with the American government had made him an "unperson" in the eyes both of his fellow professionals—who were quick to point out that Germann was "not a member" of the Swiss Bankers Association—and also of prospective clients. "Nobody is going to leave hot money with a guy who might be pressured into talking," was how one shrewd American investigator put it to *Forbes* magazine.

That case is now definitively closed, but a different one was belatedly reopened in October 1966, when the American

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[15] *Forbes* reported that "the foreman of the panel directed Germann to go to Switzerland and pick up whatever documents he needed to refresh his recollection—on the condition that he return for further questioning in three weeks. That was the last the panel saw of Germann."

[16] Since Moos was an obvious blowhard who once absurdly claimed to be "bigger than the Rothschilds," this does not say an enormous amount about Germann's capacities as a judge of character.

immigration service arrested a sixty-five-year-old businessman from Munich named Ernst Cremer, who had been in charge of the diamond control office in Antwerp while Belgium was under Nazi occupation. The British had succeeded in evacuating a significant quantity of diamonds from Antwerp on 10 May 1940, the day that the Germans invaded, but they had been obliged to leave a large number of stones behind because it was a Friday, so the dealers were closing for the weekend. Cremer's task had been to convert this unexpected German windfall into foreign exchange, and he did it by smuggling the diamonds to the United States, where they were sold off by a U.S. citizen of German extraction called Werner von Clemm. Von Clemm was caught and sentenced to two years in jail in 1942, thereby bringing the racket to an end.

Twenty-four years later, von Clemm finally decided to sue the American government for restitution, claiming that he had been an unwitting participant in the scheme, a plea that the court had no hesitation in rejecting, not least because he had wired the proceeds of the diamond sales to Swiss bank accounts with the code name "Jalmac," which belonged to the German Navy. Unfortunately for Ernst Cremer, the hoo-ha generated by von Clemm's lost cause led Cremer's name to cross the radar of the ambitious United States Attorney for the Southern District of New York, Robert Morgenthau, who got wind of his impending visit and saw to it that Cremer was arraigned on his arrival at JFK airport. The whole business was essentially an anachronism, but it put Switzerland uncomfortably in the spotlight once again.

There are other tales that I could tell that have never seen the light of day, such as the one involving a Swiss banker who also happened to be a lepidopterist, and took a holiday to Guam to hunt butterflies. While he was there, an agent of the U.S. Secret Service persuaded him to hand over an annotated list of a hundred numbered accounts, for which he was paid a hundred thousand dollars. The incident had to be hushed up, or so I was informed, because among the names thus revealed were those of four senior New York policemen. But the whole story could equally well have been a load of baloney! You find that a lot of what you hear about Switzerland shades into the realm of myth and fabrication, put about by those who are galled by the country's prosperity as a tax haven. Such people love to caricature Swiss bankers, either in the role of die-hard mercenaries, or else as strict constitutionalists who insist on going by the book, for no better reason than that it allows them to keep their grubby mitts on the son's inheritance from his father or the widow's bequest from her husband, and all because the unlucky individual in question has forgotten the account number that belonged to the beloved but inscrutable deceased.

Numbered accounts, orphan money

The rule of Calvin and Zwingli dictates that such provocations are not to be risen to. Only silence is golden, only silence is Swiss. Hence, no denial was forthcoming when commentators claimed that poor King Alexander of Yugoslavia, who was assassinated in Marseille in 1934, had proved unable in his dying breath to whisper his account details to his son Peter, who was consequently deprived of the consolation of a regal existence in Monaco and forced to fend for himself.[17] Ex-president of Argentina Juan Perón was likewise left in the dark when his wife Evita died in 1952. She was supposed to have deposited ten or fifteen million dollars in one Swiss financial institution or another, but she never told him exactly where, thereby ensuring from beyond the grave that he is obliged to live more or less like one of her "shirtless ones." From time to time he leaves the gilded mediocrity of his Spanish exile and sets out for Geneva on a sad quest to recover his lost fortune, thus far without success.

A lot of people will find it hard to feel much sympathy in cases such as those just mentioned, but even the hard of heart have been appalled by the way that Helvetic legalism has prevented people who suffered at the hands of the Nazis from recovering assets that their families had earlier stowed away in Switzerland, sometimes at significant personal risk. In response to pressure from abroad, the Swiss Federal Assembly passed an Act in December 1962 that compelled banks, insurance companies, lawyers, and other fiduciaries to trawl their records and to disclose to the Federal Council "all assets in Switzerland the last known owners of which were foreigners or stateless persons of whom there has been no firm news since 9 May 1945 and who are known or presumed to have been the victims of racial, religious, or political persecution." While this enactment elicited a rash of misleading press reports about the putative "end of Swiss bank secrecy," the truth was otherwise, since the implementation of the law was left to the financial institutions themselves.

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[17] Peter II was deposed in 1945 but maintained a "chancellery" in Monte Carlo for some years afterwards. By 1967 he was living in Los Angeles, where he works for the Sterling Savings and Loan Association.

The initiative had the appearance, at least, of an earnest attempt to come to terms with the past. Yet when the results were tallied, in March 1964, the sum total of unclaimed assets that had been reported by institutions under the Act was a mere 9.47 million Swiss francs.[18] At this juncture, unless you were Swiss, it was easy to imagine that you were being taken for a fool. A few reasoned voices pointed out that most of the Nazis' victims had not been rich, and that even among the well-to-do, there was no certainty that all or even a majority had had Swiss bank accounts. Others posited that the better off you were, the more likely it was that you had got out in time, and hence been able to reclaim your assets for yourself. But this issue naturally stirs up all kinds of emotions, which no amount of argument along those lines will wholly put to rest. For even if we took it as read that all of the bankers had done their duty, could the same be assumed of the lawyers, or might there be some shady Balzacian characters among the members of the Swiss bar, as there are in all other countries? And was it actually sensible to take the bankers at their word, when one thought of Perón, or of Peter of Yugoslavia… Far from drawing a line under the situation, the 1962 law may actually have exacerbated the prior suspicion and confusion.

I will try to be as clear as I can, though I am well aware that people have strong opinions on this topic, and of course it is ultimately for everyone to make up their own mind. Personally, I am less surprised than some other observers are that the hopes of those who believe themselves to have been dispossessed have so

[18] This apparently represented the contents of 961 accounts. The three largest Swiss banks, taken together, declared only half a dozen accounts containing around 10,000 francs.

often been dashed. That is because because I don't think it was inevitable (as it was in King Farouk's case, say, or that of the Cuban strongman Fulgencio Batista) that the nest eggs of ordinary middle-class Germans, Austrians, Hungarians, and Poles would or could have been cached in Switzerland. In fact, the Swiss financial system—more, arguably, than any other—might well have put obstacles in the way of this occurring. Once you appreciate the customs and rituals that attend the opening of a numbered account here, the more expansive estimates that are sometimes mooted can begin to appear a little far-fetched.

For it is not a case of "come who may." You try turning up without an appointment at a reputable private bank in Geneva, and see how you get on. First, you will need to locate its premises, which are barely distinguishable from the other grand houses on some residential side street, their presence advertised only by a discreet sign about the size of a wedding invitation. Good luck with getting past the concierge, who, if he doesn't recognize you, is bound to ask for your name so that he can ring ahead and check. If his boss isn't otherwise engaged, you may then be permitted to climb the staircase, with its nondescript carpet, before being ushered into an austere office where you will be courteously greeted by an urbane practitioner. He'll hear you out, but it's a foregone conclusion that he will turn you down, unless you can claim a family connection (his firm looked after your dad's money, and preferably your grandad's) or, at the bare minimum, come recommended by an existing client who is prepared to vouch for you.

A Swiss private bank is a club, and one that has no pressing need of new members. Before admitting you, it will want to suss out who you really are and what you're about. Indelicate remarks concerning your reasons for seeking Swiss secrecy are liable to lead to an early termination of your interview. If your intentions are disreputable, then you had better keep them to yourself; a Swiss banker can put from his mind that which he does not actually know to be the case. Flattering him by asserting that you view his firm's investment expertise as second to none is unlikely to aid your cause. He will either detect this for the humbug that it is, or else have you marked down as an ingénue, because, like anyone in the know, if *he* wanted to invest in American equities, then he'd take his money directly to Wall Street.

If you make it through these preliminary tests, if you can satisfy this professional fiduciary that all that you have in mind is the desire to pass down to your nearest and dearest an estate untrammelled, as far as possible, by irritating imposts, then he will warmly approve of your honourable ambition. But he won't actually take any cash from you until you have exhaustively stipulated, in written form, who is to receive it when you are gone. Swiss bankers have become allergic to "orphan money," which has caused them too many headaches. I know of one from Zurich who, in case of intestacy, employs a qualified genealogist to track down claimants. He leaves it to the latter to apprise them, respectfully of course, that a hefty commission is extracted for this service.

Having named a beneficiary, you may find that you encounter a certain amount of eyebrow raising and tut-tutting. For the elderly patriarch who proposes to settle all of his worldly goods on his attractive young secretary, the following form of words is kept in reserve: "If you consider this woman worthy of your riches, sure, by all means, go ahead and open a joint account. But if you're not quite sure you trust her, if you think she might be a bolter, gee, I wouldn't bother." At some point, any Swiss banker worth his salt is also bound to flag up the forced heirship rules that apply in the Confederation, as they do in many other civil law countries, and to insist that any gifts that you wish to make do not exceed the permitted discretionary maximum. That's because he is obliged to respond to queries from interested parties (jilted ones, usually), and he doesn't want the hassle of people suing his firm.

"It would be better if we got rid of numbered accounts once and for all," one of the grand panjandrums of the Swiss financial scene has repeatedly opined, "because all that they do is fuel the curiosity of idiots and clever-Dick journalists. In fact, they're an insidious form of defamation against the system as a whole. It's like being asked to cross-your-heart-and-hope-to-die with knobs on."

"What you have there is the opinion of a private banker who manages twenty or thirty colleagues and a couple of hundred million dollars," was how the managing director of one of Switzerland's big three commercial banks responded to this suggestion.[19] "But numbered accounts are one of the reasons why people come to Switzerland, just as the strength of the economy means that we have Italian housekeepers, French interns, and German cashiers."

It was doubtless out of tact that he didn't add: "and just as we have plenty of bankers here who are not Swiss, but rather Italian, American, Spanish, or Arab." For that was obviously what he was thinking. Being the world's longest-established tax haven, with the

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[19] Between them, these three institutions employ 17,200 people and account for something like thirty billion dollars' worth of savings.

most abiding reputation for discretion, the one that is a magnet for capital from every corner of the globe, brings with it the inconvenience of accommodating unscrupulous financiers from overseas, who like to use the Swiss Cross as a fig leaf for their dodgy dealings.

Strangers in the house

Whether peaceful or bloody, revolutionary or mercenary, intercommunal conflicts in distant parts of the world always seem to wash up on the shores of Lake Zurich or Lake Geneva. Such battles have a tendency to bespatter Switzerland's banks, because their financial front usually passes through the Confederation and, once the hidden tables have turned against them, the losers often resort to the weapon of scandal.

In April 1965, the petty bourgeois Catholics of St Gallen learned to their horror that their staid local bank, Schweizerische Spar- und Kreditbank, had been forced to file for suspension along with its subsidiary, Banque Genevoise de Commerce et de Crédit.[20] They were surprised to discover that there was precious little that

[20] Under Chapter XII of the Federal Act on Banks and Savings Banks of 8 November 1934, a bank that is "unable to meet its commitments when due" can ask a judge to suspend its operations for a year. If the request is granted then the bank is allowed to continue in business under the supervision of a "commissioner," subject to certain statutory restrictions concerning the repayment of existing debts and the origination of new business. The suspension will be terminated when the commissioner succeeds in placing the bank back on a sound footing, or conversely when he decides that it has no option but to file for insolvency. The suspension may also be extended by up to a year to facilitate a consensual restructuring.

was still Swiss about this fifty-six-year-old cantonal institution, which had become Spanish in all but name. In 1962, the Catalan Financier Julio Muñoz Ramonet had surreptitiously acquired control of both banks using a network of Swiss straw men and a particularly complex holding company structure that straddled several different tax havens.[21] Within two and a half years, Muñoz turned both institutions, which had previously been solidly capitalized, into shells of their former selves. He extracted up to eighty million francs in loans to fund his pet projects in the real estate sector, putting up collateral that was insufficient or even worthless.

Where did Julio Muñoz obtain the funds to launch his raid on these once venerable Swiss banks? A proportion may have come from his own pocket. The son of a Francoist textile manufacturer, Muñoz was intelligent, eloquent, and precocious, not to mention well-connected. He came of age, both literally and in commercial terms, during the Spanish Civil War, whose ravages enabled him to make a fortune by buying up idle cotton mills in and around Barcelona. Muñoz was interested less in the mills' productive capacity than in their entitlement to cotton quotas, which allowed him to corner the market in this scarce resource. Flush with success, he enhanced his prestige in 1946 when he married the daughter of central bank governor Ignacio Villalonga. The 1950s saw further expansion of his business empire, which he consolidated under the umbrella company Unitesa, a loose

[21] Muñoz's forty-seven percent stake in Spar- und Kreditbank was owned by a Luxembourg holding company, Société Holding Bancaire et Financière Européenne, which also held interests in Credito Commerciale e Industriale of Italy and Sociedad de Banca Andorrana of Andorra. Société Holding was, in turn, owned by a Panamanian finance corporation called Cotram, Inc.

conglomerate of a dozen firms in the manufacturing, retail, insurance, and construction sectors that collectively employed tens of thousands of people.

The lion's share, however, of the capital that Julio Muñoz used to take over the banks in St Gallen and Geneva came from a different source. In addition to his day job as an industrial magnate, Muñoz had a lucrative sideline as a "getaway driver for flight capital," as one Swiss publication evocatively put it. During the late fifties and early sixties he actively solicited the funds of senior political figures and businessmen across Latin America, who had traditionally preferred to deposit the fruits of their bribery, kickbacks, and embezzlement in the United States, but who were growing increasingly nervous as American policy in the region became ever more high-handed and inconsistent. Such people lent a receptive ear to Muñoz's claim that they would find a better home for their assets in Switzerland than they would in Miami or even Montevideo. His biggest coup, by a long stretch, was when he secured an estimated quarter of the 800 million dollars that had been systematically looted from the Dominican treasury over the course of three decades by the caudillo Rafael Leonidas Trujillo, who was assassinated after he finally fell out of favour with the Americans in 1961.

In the aftermath of Trujillo's demise, power was briefly assumed by his bloodthirsty and spendthrift son Ramfis, whose prime motivations lay in wreaking vengeance on his father's opponents and, more importantly, in expatriating as much of the old man's booty as he possibly could before his own inevitable ouster. He eventually fled the country in November 1961 aboard the 300-foot yacht *Angelita*, which was named after his younger sister. Ramfis and Angelita settled in Madrid, while their brother Rhadamés, who is married to the French actress Danielle Gaubert, bought a five-million-dollar stud farm near Evreux. It was not long, however, until their domestic bliss was interrupted by two illegitimate offspring of the goatish dictator, namely Rafael and Yolanda, who, from their own exile in Florida, sued their half-siblings "for theft, cutting them out of the will, and the dissipation of their inheritance."[22] Their counsel in these proceedings was the erstwhile Vice President of the United States, Richard M. Nixon, who was retained by an unnamed "banking group" based in Miami. The Dominican government has continued to lobby vainly for the extradition of Ramfis and Angelita, although it gave up on trying to recover any of their ill-gotten gains following the September 1963 military coup that overthrew Trujillo's ephemeral successor, Juan Bosch.

The Trujillo/Muñoz scandal, which is arguably the worst that Switzerland has had to weather in recent times, simmered for more than two years after a Basel newspaper initially revealed the tortuous links between the former Dominican first family and the banks in St Gallen and Geneva in December 1962. The most damaging aspect of the story, which only emerged in the aftermath of Julio Muñoz's arrest on fraud charges in June 1965, was that the Federal Banking Commission, whose mandate is to ensure compliance with the Confederation's fairly strict regulatory framework, had been aware that something was amiss since early 1963 but had effectively connived in Muñoz's mismanagement.

[22] This led to Rhadamés being arraigned by the French police and extradited to Geneva in November 1964. He reportedly secured his release by making a payment of seven million Swiss francs to his estranged relatives.

The president of the Commission, Max Hommel, was forced to step down and found himself under investigation when it was revealed that he had effectively been bribed to look the other way, by accepting a secret paid sinecure and various other perks from the very banks that he was supposed to be supervising.

To Switzerland's credit, it did act swiftly to rectify the situation once Hommel's misconduct became known, immediately installing a very "safe pair of hands" to replace him, in the shape of the former Swiss President, Hans Streuli. And the country can probably be acquitted of some of the more lurid accusations that have been levelled against it in the international press, suggesting that it deliberately helped to fence the Trujillos' bloodstained cash. Somewhat ironically, the family may even have precipitated Muñoz's downfall when they decided to shift it to a different haven. One major Swiss financial institution has gone as far as to state publicly that it turned down an offer from Trujillo senior to manage his millions, which may very well be true. Either way, it is hard not to cringe at the double standards reflected in some of the newspaper coverage, when one considers that Washington bent over backwards to ingratiate itself with "the benefactor," as he absurdly styled himself, from the 1930s onwards. The main casualties of the Muñoz affair are actually the small stockholders of the banks that he defrauded, whom the Swiss Bank Corporation (SBC) has offered to buy out, but only once the balance sheet has been cleaned up, which means that they are likely to receive mere pennies on the dollar.

What may be more prejudicial to Switzerland's reputation in the long run is that the link between Swiss banks and controversial foreign conflicts has become too predictable to be put down to coincidence. One notable example occurred during the Congo Crisis, which began in July 1960 when Moise Tshombe unilaterally declared independence on behalf of the State of Katanga. Tshombe was backed by the Anglo-Belgian company Union Minière du Haut-Katanga (UMHK), which had long controlled the rich copper deposits of Congo's southernmost province. The Kinshasa government led by Patrice Lumumba was powerless to prevent Katangese exports from reaching the world market via Northern Rhodesia and Angola. But Tshombe did experience a certain amount of difficulty in obtaining the proceeds of those exports, because of the ambivalent attitude of the National Bank of Belgium, which insisted on treating Katangese receipts as if they belonged to the government in Kinshasa, even though the bank was also quietly helping Katanga behind the scenes.

Into this entanglement stepped the Frenchman Olivier de Ferron, who worked for the Banque d'Investissement Mobiliers et de Financement (IMEF) in Geneva, and became Tshombe's most trusted financial aide and counsellor.[23] De Ferron engineered a deal whereby UMHK deposited a large quantity of foreign currency with IMEF and with Credit Suisse in Zurich, which the Katangese government then used to pay for imports.[24] He also arranged for the secessionist regime's remaining Belgian assets to be transferred to Switzerland, shortly before United Nations troops, who had originally been sent to Katanga by Dag Hammarskjöld in 1961, finally "pacified" Elizabethville at the end of the following

[23] De Ferron was also an adviser to the French government on international trade, served as Iceland's consul in Switzerland, headed the Liberia-Swiss African Finance Company, and was friends with William Tubman.

[24] Katanga was exporting more than a billion Belgian francs' worth of copper per month, so the sums involved were clearly considerable.

year.[25] Tshombe fled to Madrid, as contradictory rumours swirled concerning his future intentions. Some believed that he planned to use his trust fund to send mercenaries from Rhodesia and the Ardèche to re-take Katanga, so there was consternation when he returned to the Congo in 1964 to serve as prime minister of the reunited country. Meanwhile, Olivier de Ferron was killed in a car crash in 1963, at around the same time that IMEF was taken over by Banco Popular Español, which is associated with Opus Dei.

Khider, Genoud, and "The Spider"

While the Confederation received comparatively little backwash from the Tshombe episode, the same could not be said for the tragic feud that broke out between the three most prominent members of Algeria's Front de Libération Nationale (FLN) in 1963. The man at the centre of this affair, the Swiss François Genoud, is an oddball for whom the struggle to implement Nazi ideology did not die with the Third Reich. As an agent of the Abwehr during World War II, Genoud struck up a lasting friendship with the former Grand Mufti of Jerusalem, Amin al-Husseini. And as a representative of the Swiss Red Cross in Brussels soon after the war, according to various Swiss and German sources, he became the money-man behind the SS ratline *Die Spinne* ("The Spider"), which facilitated the resettlement of numerous war criminals in the Middle East and elsewhere. He holds the rights to several works of literature such as *Hitler's Table*

[25] Hammarskjöld died in a plane crash in Northern Rhodesia in September 1961.

Talk and *The Private Correspondence between Martin Bormann and his Wife*, and has reputedly made a fortune out of publishing these tomes. By the mid-fifties, Genoud had become a vocal advocate and financial supporter of various Arab nationalist causes. He was therefore a natural choice to take custody of the millions of dollars that the FLN amassed in the years leading up to Algeria's independence. However transparent his foibles, one can say this for him: he has managed to stay alive longer than some of the others through whose hands this unlucky hoard has passed.

Genoud helped to establish the Arab Commercial Bank of Geneva in 1958, which counted among its advisers Hitler's former Minister of Economics, Hjalmar Schacht, and among its customers the Cairo-based Provisional Government of the Algerian Republic (GPRA). In 1962, when they were discharged from a French jail after almost six years of incarceration, two of the *neuf historiques* who had founded the FLN in 1954, Mohamed Khider and Ahmed Ben Bella, joined forces with the chief of the FLN's army inside the country, Colonel Houari Boumedienne, to push aside the GPRA and to form Algeria's first independent government with Ben Bella as leader. François Genoud arrived in Algiers to head the Arab People's Bank, in which he held forty-five percent of the equity. Less than two years later, however, Mohamed Khider fled the country that he had spent his entire adult life trying to liberate, dismayed by Ben Bella's increasing authoritarianism. He took with him some twelve million dollars of party funds, apparently with the connivance of Genoud, who arranged for them to be transferred to Geneva. When Khider announced, from his exile in Spain, that he intended to use this war chest to unseat Ben Bella, the Algerian authorities imprisoned Genoud for violating the exchange control laws, and only released him following urgent interventions from Nasser and from Syria's new president Amin al-Hafiz. Genoud was subsequently deported from the country.

Shortly afterwards, in November 1964, a Swiss magistrate who was acting on a complaint from the Algerian government purported to freeze Khider's deposits with the Arab Commercial Bank, and ordered the arrest of one of its directors, the Syrian Zouhair Mardam Bey. The magistrate accused Mardam of deliberately obstructing his investigation by moving Khider's assets into new numbered accounts while Genoud was interned in Algiers. But Mardam hit back by suing the magistrate for a million francs in damages, pleading false arrest and incitement to commit a breach of professional secrecy. The Swiss press came out unequivocally on the Syrian's side, as, albeit less vocally, did the Federal government. The stalemate ground on until the investigation was quietly dropped at the end of the following year. By then, Colonel Boumedienne had himself tired of Ben Bella and had deposed him in a military coup on 19 June 1965. Yet this made no difference to Khider, who, far from rallying to the new Algerian regime, declared his willingness to provide financial support to anyone who was intent on opposing it.

In the evening of 4 January 1967, Mohamed Khider was gunned down in the street in Madrid by an unknown assailant. Unavoidably, Khider's assassination reopened the question of what had happened to the FLN's money, which some believed was still in Switzerland, while others claimed that it had been moved to the Munich branch of an American bank before disappearing altogether. If Khider had left instructions regarding the funds, then the man who was best placed to know, which was François

Genoud, resolutely refused to reveal them. He was perfectly entitled to adopt this approach; indeed, he arguably had no choice in the matter. But some commentators who latched onto the case lost no time in insinuating that, while Khider's murder had obvious political advantages for the Boumedienne regime, it had also been of benefit to the Arab Commercial Bank, assuming that it still had the money.

So unpleasant were the noises emanating from the rumour mill that the Federal Banking Commission adopted the extraordinary expedient, in mid-1967, of directing all of the Confederation's banks to ascertain whether they held any funds pertaining to Mohamed Khider. They were instructed to communicate the answers to an independent adjudicator, whose discretion was guaranteed by his long experience as the manager of a respected trust company. The Algerian government was not prepared to wait for the result of these enquiries, though, and it filed suit against the Arab Commercial Bank in August 1967 claiming forty-three million francs in compensation for "losses sustained as a result of the bank's dishonesty." All I can say is, don't hold your breath for an early resolution of that litigation.

Before the ink was even dry on the FLN's writ, the bankers of Geneva were already fighting fires on a different front. This new scandal, on which the lid has hitherto largely been kept, is said to concern a scheme to defraud the Chase Manhattan Bank of more than ten million dollars, which came very close to succeeding. As far as we know, it involved a forged payment order authorizing a transfer from Chase's correspondent bank in Switzerland, UBS, to the Exchange and Investment Bank of Geneva, which is believed to be associated with Meyer Lansky. The FBI is presently endeavouring to get to the bottom of this murky business and has been assured of full cooperation from the Swiss government.

Inevitable scandals, tardy reforms

The Swiss Bankers Association (SBA), which represents the country's more conservative banks, is understandably fed up with the endless procession of "foreign scandals," and, to give them their due, its own members are seldom implicated in the kind of hokey-pokey catalogued above. But that doesn't mean that we should absolve them of responsibility entirely. In the same way that smart clubs regard it as infra dig to give out the names of candidates whom they have blackballed, the SBA is loath to identify institutions that have applied for membership and been turned down. That just isn't their style, and the last thing that a Swiss banker would wish to be accused of is attempting to restrict free entry to the profession. On a more practical level, bankers here have an almost morbid fear that formalizing their procedures in that fashion would merely court interference from the authorities. And it would be quite insufferable, from their perspective, if the establishment of new financial institutions were subject to regulatory checks. For where would it end? They look around the rest of the continent and see limited government intervention opening the floodgates to perennial meddling, which soon slides into *étatisme* and inevitably culminates in nationalization! Discussing this issue with them is like engaging in conversation with Molière's *Hypochondriac*, who was terrified of slipping "from bradypepsy into dyspepsia, from dyspepsia into apepsy, from apepsy into lientery, from lientery into dysentery, from dysentery into dropsy, and from dropsy to the deprivation of life."

If you suggest to a grand Swiss banker, the model of rectitude, that there are obvious dangers for his country in allowing any old Tom, Dick, or Harry with 50,000 or 100,000 francs to set up a bank, conditional only upon there being a few Swiss on the board of directors, he will tell you that they have their own way of doing things. Since he regards the management of money as the most momentous of tasks, he would always provide a prospective investor with his honest and considered opinion about the soundness of any institution.

In real life, however, these judgements are usually couched in such nuanced "Swiss-speak" that you practically need a translator to peel away the layers of euphemism. The most damning condemnation of all is: "I've never heard of that bank." A more *sotto voce* warning would be: "They're well thought of in certain quarters, with the Arabs, the Argentinians, and the like." You are supposed to intuit from this that, although the bank has an office in Switzerland, it borrows from foreigners and lends to foreigners, and you are advised to give it a wide berth unless you know what you are doing. Then again, you could be told: "I'm not very familiar with them, but Mr X, who's a big political fish, and Mr Y, an eminent member of the bar, are both on the board. You might want to talk to them about it, but you'll be lucky if you can get an appointment because they're both jolly busy." Interpret this to mean that the aforementioned somebodies are happy to put their names to the business, but they have nothing to do with actually running it, so any comfort that you can take from their being there isn't really worth having.

If people could only summon the nerve to be a bit more forthright, perhaps there would have been fewer nasty surprises in recent years. Of the ninety-one banks established in Switzerland between 1961 and 1967, twenty-three have already had to shut up shop. There has also been a spate of failures among Swiss companies run as real estate investment trusts, which were marketed mainly in Germany and Italy and did not always possess the collateral to which they laid claim in their prospectuses.

The Confederation belatedly embarked upon an overhaul of its financial services regulations in 1966, but the revisions have not yet been fully implemented and it is debateable whether they go far enough. For investment funds, a new law came into force in February 1967 that restricts the right to act as a fund manager to authorized firms and obliges them to submit to an annual audit inspection by an approved expert.[26] The other main area of focus is on banks controlled by foreigners, where the government is consulting on a draft decree that would establish a two-tier licensing system with stricter requirements for institutions that are more than fifty percent owned by overseas interests. Foreign banks will be prohibited from using names that suggest any Swiss origin, and banks that come under foreign control will be expected to disclose this fact to the Federal Banking Commission, which will be entitled to take remedial action. In the meantime, the SBA has reiterated its earlier recommendation to members that they refrain

[26] Real estate investment trusts are subject to additional conditions designed to prevent their being used as a means of cheap financing by construction and property trading companies.

from any vulgar advertising "extolling the benefits of our country's legally enshrined banking secrecy, referring to numbered accounts, or comparing the merits of our tax regime with those of other countries," all of which can only "shore up negative portrayals of our industry."

If these efforts to protect the national brand succeed, then it may not be long before the wider world comes to understand that the Swiss banker's appeal has always rested upon his lack of daring rather than on any putative excess of that quality. A good Swiss banker is risk averse, cagey, and above all respectable. In these ways he is eminently representative of his homeland, which of all tax havens is by far the most preoccupied with keeping up appearances. The Swiss private banker is also expensive, but he is worth it because he is a workaholic and he agonizes, constantly engaging in self-reflection. Unlike his French and German counterparts, he has no desire to become some kind of dealmaker buying, managing, or selling corporate enterprises. He leaves it to the big boys (UBS, Credit Suisse, and SBC) to concern themselves with whatever rationalization may be required in the industrial sector, just as he views infrastructure development and the like as a matter for the cantonal banks. He has internalized the laws of liquidity to the point where they have become ingrained in his character, and he is suspicious of long-term lending, which he believes is "not really banking, as such." He is a competent, clued-up wealth manager with a bulging Rolodex full of international contacts, and it neither consternates nor amuses him that he inspires fear, as much as resentment, in people with bad financial motives. For although it is without singing and without whistling that he gamely goes about his work, he suffers, all the same, from what you might call a “gnome complex.”

Trial by double taxation convention

For countries ravaged by war and revolution, Switzerland’s superior neutralism has a tendency to stick in the craw. The Confederation’s cultivable land is only capable of supporting three million people, yet the Swiss population is now twice that large. The country’s industrial output would not disgrace a nation of ten million, but it is the Swiss financial sector that is the standout performer; looking at the figures for that category of business in isolation, you would assume that the population must be double that size. Human nature being what it is, this kind of success arouses feelings of envy.

Switzerland’s native industries undoubtedly derive considerable advantages from the country’s status as a hub for global capital. That is partly a question of investment, and partly one of technology transfer, for it is not just foreign money that is attracted by the Confederation’s benevolent tax regime and by its noncommittal stance in foreign affairs: multinational enterprises also find the country a convenient place to undertake research and innovation that is later exported to the rest of the world. Swiss companies invest some eighteen billion francs outside of Switzerland every year, and the country holds more international patents relative to population size than any competitor does.[27] Such prosperity could not be achieved without the contributions, both financial and intellectual, which arrive here from overseas, often openly but sometimes in secret.

Alone among tax havens, Switzerland benefits from an extensive network of double taxation conventions (DTCs), and these bilateral agreements are vitally important to Swiss business, because they reduce or even eliminate the withholding tax on dividends, and in some cases interest, received by Swiss companies from their subsidiaries in other countries. But the Confederation's treaty partners (a category that includes half of the members of the Organization for Economic Cooperation and Development (OECD) founded in 1961) have grown increasingly restive about perceived abuses of the preferential treatment available under DTCs via the use of "base companies" and other devices.[28] Aware of these rumblings of discontent, the Swiss Federal Council unilaterally took pre-emptive action in 1962 by passing a decree aimed at counteracting so-called "treaty shopping," where a Swiss

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[27] For every 100,000 residents, Swiss firms filed 32.8 patent applications around the world in 1965. Compare that with 9.9 for Sweden, 9.4 for the Netherlands, 9.2 for the UK, 5.5 for the U.S., and 4.1 for France.

[28] A base company is an intermediate holding company that owns the shares of operating subsidiaries in a number of other jurisdictions. By incorporating a base company in their structure, rather than owning these subsidiaries outright, multinationals can achieve various tax advantages, such as the avoidance or deferral of tax on dividends, and the reduction of withholding taxes in the place where the operations are located, if the base company's jurisdiction has a more favourable tax treaty with the source country than the parent company's does.

resident is deliberately interposed into a transaction for no other reason than to reduce the overall tax bill.[29]

The mood, however, among the counterparties to Switzerland's DTCs is that although the Swiss anti-abuse decree is fine as far as it goes, it is not the end of the story, since the existing DTCs were negotiated at a time of generalized European poverty and no longer reflect the balance of economic power on the continent. The Franco-Swiss treaty is a good example. The original treaty entered into force in 1953, during the darkest period of French monetary history, and it necessitated Paris's forsaking the right to impose withholding tax on investment income arising in France, provided that the avowed recipient was resident in Switzerland.[30] In 1966, after seven or eight years in which France's gold and dollar reserves had consistently increased, the French government at last had the confidence to insist on renegotiating the treaty, and a new text was somewhat reluctantly ratified by the Swiss Federal Assembly in 1967. The revised treaty entitles France to impose fifteen percent withholding tax on outbound dividends, ten percent on interest payments, and five percent on royalties; and there are

[29] The decree provides that "there shall be deemed to be an abuse" when an individual or a corporation domiciled in Switzerland claims tax relief under a DTC and granting the relief "would result in a material part of such relief accruing directly or indirectly to the benefit of persons not entitled to take advantage of the convention."

[30] The treaty stipulated that the exemption from French withholding tax was contingent upon the recipient being subject to tax on the income in Switzerland, but this proviso did not apply to tax-exempt entities such as charities.

additional rules designed to restrict treaty benefits to companies and foundations that are genuinely owned by Swiss residents.[31]

In general, the healthier a country's current account position is, the stronger a stance it can take vis-à-vis Switzerland when negotiating revisions to its double tax treaties. Holland and Sweden, which have succeeded in maintaining a surplus on their balance of payments, have both recently extracted concessions from the Swiss government. In the Dutch case, a special amending protocol to their 1951 DTC was added in 1966 to deal with Dutch people who transfer their residence to Switzerland shortly before realizing a significant capital gain. The Netherlands is now entitled to levy a twenty percent tax on such gains if the sale occurs within five years of the person leaving Holland. Similarly, Sweden was able to negotiate a new convention with Switzerland in 1965 to replace the treaty of 1948. The revised DTC allows Sweden to impose tax on a Swiss resident, if the individual is of Swedish nationality and has lived in the Confederation for less than three years.

At the time of writing, this fad for revisiting the terms of previously-agreed DTCs is yet to spread far and wide. West Germany, which, like France, has seen substantial inflows of foreign exchange in recent years, began negotiations with Switzerland in 1964. But although the talks are currently stalled, Bonn has not seen fit to threaten Bern with a revocation of the existing treaty, which was originally signed in 1931 and was last

[31] The French withholding tax on dividends and interest is in line with the maximum rates set by the OECD's 1963 Draft Double Taxation Convention on Income and Capital, but the tax on royalties represents a departure from the model treaty, which envisages such income being taxable only in the state of the recipient.

updated in 1959. Italy, on the other hand, has never succeeded in concluding a comprehensive DTC with the Confederation despite decades of bilateral discussions, and this probably has a great deal to do with the fact that the Italian balance of payments swings from one extreme to the other like a pendulum. Italy's situation is also complicated by the fact that it experiences substantial capital flight to Switzerland whenever the lira is weak. Rome has thus far adopted a fairly relaxed attitude towards this phenomenon, its indignation seemingly tempered by the knowledge that a high proportion of the funds that Italians illegally deposit in Swiss banks is immediately invested back into the Italian economy.[32] For that very reason, however, Italy is obviously reluctant to agree to any limitation on its right to tax dividends from Italian companies at source.

Switzerland needs to tread carefully in these negotiations, as a failure to renew any of the DTCs would potentially deal a grave blow to Swiss industry. Yet the country finds itself caught between a rock and a hard place, because any curtailment of the country's fiscal advantages is seen as inimical to its powerful

[32] A group of experts commissioned by the European Economic Community (EEC) reported that "the volume of illicit cash transfers to Switzerland by Italian residents was 762 million dollars in 1962, reached 1.456 billion dollars in 1963, and declined to 557 million dollars in 1964. According to the estimates given in the annual reports of the Bank of Italy, seventy-five percent of the sums transferred out in 1962, and sixty-five percent in 1963, were repatriated in the names of Swiss entities in order to fund businesses and investments in Italy." In times of crisis, banknotes clandestinely cross the frontier by the truckload. Sometimes this is with the collusion of the border police, at other times using diversionary tactics. Smugglers are sent ahead with sacks of coffee or cigarettes for the sole purpose of tying up the customs men in chasing them, while the real business is conducted elsewhere. Most of the cash ends up being deposited with banks in Lugano.

financial sector. Realistically, though, many of Switzerland's customers aren't in a position to claim double taxation relief in any event, since that would require them to make a clean breast of things with their home tax authority. People in that position may well consider that suffering withholding tax at thirty percent, or even higher, is a price worth paying to preserve their anonymity. Hence, Bern's predicament is not as uncomfortable as it might superficially appear to be, and it is presumably with a certain amount of satisfaction that Swiss administrators paste into their scrapbooks numerous articles culled from the British and American press pronouncing "the death of the Swiss tax haven." Let them think that if they want to! In fact, so much the better for Switzerland if they do.

It is noteworthy that the United Kingdom and the United States have not, thus far, made any substantive efforts to renegotiate their own tax treaties with Switzerland (though Washington has enacted broad unilateral legislation aimed at curtailing the use of base companies by American multinationals, as we will touch on in chapter eleven). Labour's Britain hasn't lost sight of the fact that it may yet have further recourse to the much-derided gnomes in the interests of buttressing the pound. The British government borrowed 450 million francs from the big three Swiss banks in October 1967, which has to be repaid within a year. Meanwhile the acute stresses that the dollar is now under have put a dampener on anti-Swiss policy stateside. American firms are heavily dependent on the Confederation's financial markets for the pursuit their European ambitions in any case, and the Swiss authorities have actually been apprehensive, for some time, about the sheer volume of bond and share offerings. They have actively encouraged Swiss banks to reduce their exposure to foreign issuers, who are beginning to migrate to other centres where they can obtain finer rates and more elbow room. The total of funds deposited in Liechtenstein is currently increasing four times more rapidly than deposits in Switzerland. Since 1965, more U.S. firms have opened offices in the Benelux countries than in the Confederation; and, as we shall see in the next chapter, they are increasingly concentrating on Luxembourg for their European capital market operations.

In spite of all that, Switzerland is still without question the world's premier financial entrepôt. It is the tax haven that keeps a cool head. It knew how to be an anti-Beirut, an anti-Hong Kong, when those places were getting carried away by their own impetuosity. The Confederation is a windmill of wealth that never runs too fast, even while the miller is sleeping. That's tough luck for the get-rich-quick types! But there is no harm in "losing the trend followers"—to use a typically Genevan idiom, couched in the language of the stock exchange—as long as the big money stays loyal, and it invariably does. The tremors that shake other financial turntables actually strengthen Switzerland's foundations. The gnomes of Zurich can take comfort from the fact that if their country has ceased to be the most dynamic of financial centres, if it is no longer at the forefront of every new permutation of what a tax haven can offer, those things pale into insignificance when you consider that it is the only one that is truly diverse, and the only one that has never faltered.

10. Commonplaces and exceptions

Let them learn for once that money,
although it buys everything else,
cannot buy morals and citizens.

Discourse on the Arts and Sciences
JEAN-JACQUES ROUSSEAU

I have scoured the world looking for tax havens, but are there some that I have passed over without noticing them? Those would be the most valuable havens of all, if hardly anyone even realizes that they exist. I used to assume that this Holy of Holies must be out there somewhere, but the scales have fallen from my eyes over the years. It is like hunting for some fabled creature, such as the Himalayan Yeti or the Beast of Gévaudan; you get tired of following dead ends after a while. Don't get me wrong: I know only too well that there is much in between the heavens and the earth that lies outside of our compass! Yet I do not believe that there is any such thing as an undiscovered tax haven. While they act as Gygean rings that make money invisible, they cannot themselves remain unseen. Like all other phenomena they are subject to Zipf's law, which states that the rank-frequency distribution is an inverse relation. In other words, the more important a tax haven is, the more often we are likely to have seen it referred to as such in the financial press, to the point where the association has become automatic. There is more to be gained, in my opinion, from explaining how the tax havens that we do know about work, than there is from chasing around searching for new ones.

Having said all of that, it is nonetheless hard to shake off the feeling that one can never explore widely enough, as long as this financial universe pregnant with surprise still contains uncharted spaces. For as Socrates says in Plato's *Phaedo*, "the earth is very vast, and we who dwell in the region extending from the Pillars of Hercules to the River Phasis live in only a small portion of it surrounding the sea, like insects or frogs at the edge of a pond." In an attempt to find the happy medium, let us at least survey the rest of Europe, which, after all, has other microstates besides Liechtenstein and Monaco. What about San Marino, for instance, a third of Liechtenstein's size at merely sixty square kilometres? It, too, has somehow survived intact throughout the centuries with its own flag, a plethora of ornate and colourful uniforms, and the romance of a mediaeval political system.

Er, no, San Marino is not a tax haven! After nearly seventeen hundred years of independence, about the only thing that this miniature republic has going for it on that score is its sovereign status under international law, which brings with it the privileges of the diplomatic bag. These are heavily exploited by the Sammarinese envoys to Western capitals, who are generally big businessmen with links to the Vatican. It is now more than a decade since the so-called "Rovereta affair," when the socialist-communist coalition that had ruled the country since 1945 was toppled in a constitutional coup.[1] Yet the Sammarinese government has failed to obtain permission from the Italians to open a casino (the previous one closed in 1951, when Italy retaliated by shutting the border). Nor has it persuaded the maritime transport committee of the OECD to recognize the Republic's blue and white bicolour as a flag of convenience. The country remains popular with tourists, who send one and a half million postcards from there every season, but San Marino's 18,000 residents have yet to make a foray into the company formation business. The closest they come to profiting from regulatory arbitrage is by offering divorces—I beg your pardon, annulments—but there is a limited market for those, in view of the fact that the unhappy couple need to live there for a year before applying.

The Principality of Andorra has a marginally better claim to be a tax haven than San Marino does. At 453 square kilometres, it is almost half the size of Hong Kong, and it boasts Europe's highest capital city, a thousand metres above sea level near the summit of

[1] The impetus behind the events of 1957 remains mysterious to this day. In April, five "Ninists" deserted the coalition, ostensibly to protest against the Soviet reaction to the Hungarian uprising, and formed a new social democratic party. That meant that the Grand and General Council was deadlocked. Then, in September, another communist switched sides, giving the Christian Democratic opposition a narrow majority. At that point, the remaining leftists barricaded themselves inside the town hall, while opposition figures based in the border town of Rovereta declared a separate provisional government. Italy immediately threw in its lot with the latter, blockaded the frontier, and ordered the Carabinieri to encircle Monte Titano ready to intervene. After ten days, the communists accepted defeat and surrendered "for the supreme good of the nation."

the Pyrenees. Representing a unique experiment in Franco-Spanish diarchy, Andorra has a fabulously muddled constitution. One of its co-princes is the French head of State, i.e. presently General de Gaulle in his capacity as the forty-seventh lord of the County of Foix, which was incorporated into the Kingdom of France by Henri IV and inherited by the Empire and the Republic. The other co-prince is the Bishop of Urgell, currently Monsignor Ramón Iglesias y Navarri, who was Franco's chaplain during the Spanish Civil War. With two such staunch nationalists each possessing equal influence, it is small wonder that the Andorrans are able to do more or less as they please.

Hence, Andorra hosts two commercial radio stations and at least seven banks, which is a lot for a principality with only 20,000 inhabitants.[2] But although the French franc and the Spanish peseta are both legal tender here, the banks don't seem to be particularly keen on foreign exchange operations, other than for the account of Andorra's own residents and of the million and a half holidaymakers who visit every year for the winter sports and the shopping. Import duties in the Principality are only two percent, which means that it is blessed with the lowest retail prices on the continent. This used to make it a hotbed of smuggling, but in recent years the French and Spanish customs have conducted a pincer movement that has largely squeezed the life out of the illicit trade in tobacco, automobiles, watches, and so forth. Andorra also has a very favourable fiscal climate, having never felt the need to introduce an income tax. Somewhat quixotically, however, it has strict rules designed to confine the privilege of owning a limited

[2] Sud Radio, which used to be called Andorra Valleys Radio, is owned by Sofirad. The other station, Radio Andorra, belongs to a Spanish company.

company solely to Andorran citizens, of whom there are only 7,000, constituting a minority of the population. And on a literal reading of the law, it is actually illegal for a bank there to open an account on behalf of a non-resident.[3] Since Andorra has one of the least welcoming naturalization policies in the world, these provisions severely limit its appeal to foreign capital.[4] For the most part, the place appears content to remain in antiquated slumber, untroubled by the world outside.

In that sense, Andorra is the antithesis of a tax haven, the defining characteristic of which is to provide financial services to people from other jurisdictions. There is little advantage in having an easy-going tax regime if it is only accessible to your own citizens, as Monaco is now discovering. In that case, the death rattle is already audible, and all that will be left behind is a Lilliputian polity. Every flourishing tax haven that we see around the globe today is essentially cosmopolitan in outlook, and this is so regardless of whether it exists primarily to serve—or to hollow out, depending on your perspective—a particular constituency. To

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[3] The practice of banking secrecy is, however, customarily observed in the Principality, so it is unclear how this statute is enforced in practice.

[4] Andorra applies a fairly extreme version of the *jus sanguinis*. It is possible for a foreigner to acquire Andorran nationality only if: (i) he, his father, and his grandfather were all born in Andorra and have always resided there; (ii) he has lived in the Principality for at least twenty years and is judged suitable by the authorities ecclesiastical as well as temporal; or (iii) he is married to an Andorran woman who is a sole heiress (known locally as a *pubilla*). Those born outside Andorra to Andorran parents lose their citizenship unless the family returns to the country within three generations. Foreigners wishing to conduct any kind of business in the Principality need to obtain a commercial licence from the General Council, which is not readily granted, and will not even be considered unless the applicant has lived there for at least ten years.

be sure, Hong Kong is the tax haven for China, Lebanon for the Arab world, Liechtenstein for the Germans, and The Bahamas for the Brits and the Americans, but this is really just "the costume," as Fénelon would say. Underneath it, in each instance, one finds a fundamental tolerance of diversity, be that of ethnicity, nationality, or ambition.

An authentic tax haven has to be a marketplace, a free zone, and a bureau de change all rolled into one. They work best when they are staffed by a financial foreign legion that is united (if at all) by its adherence to a common tax and regulatory regime, by respect for equality of opportunity, and by the nose for profit. But these people are seldom "united," in any meaningful sense. It would be more accurate to say that they coexist in close proximity. That is arguably the main factor that differentiates tax havens from ordinary countries, for although they attract plenty of wanderers who are looking for a clean slate, they do not aspire to be the foundry of a "new man," in the way that Americans emerge from New York's melting pot, or Sabras from the kibbutzim of Israel. When you spend time in Panama or Hong Kong, Nassau or Beirut, and even Zurich or Geneva, the society there makes you think not of some miraculous alloy arising from a novel chemical reaction, but of a crude amalgam produced using primitive metallurgical methods, whose components can be separated and reused whenever necessary.

Childhood ailment, terminal disease

Tax havens are inherently unstable, because they face constant threats both from outside and from within. Like any exercise in regulatory arbitrage, of which tax avoidance is but one example, they are liable to become offensive to those in power when the number of people trying to use them reaches a certain threshold. Thus, Mr Giscard d'Estaing chose to crack down on Monaco after Prince Rainier threw caution to the wind and started encouraging companies to exploit its tax-free status on an industrial scale. At around the same time, however, Giscard also decided that he was fed up with hundreds or even thousands of taxpayers claiming accelerated depreciation allowances for railroad-cars, which they were buying purely in order to lease them at exorbitant rates to the state railway company. That was a "domestic" tax dodge, with no offshore angle. Conversely, Dubai has managed to stay out of the limelight as few are acquainted with what goes on there, while in France the tax breaks available to the owners of poplar plantations seem safe enough for the time being because they are practically forgotten, at any rate among country folk.

The transformation of specific territories into tax havens is often tied to conflict situations, which means that they may quickly find themselves out of a job if the warring parties reach a stalemate or make peace. Hence, Tangier owed its prosperity to the fear of a Soviet invasion of Western Europe, to the American financial offensive against Switzerland after the war, and to the struggle for Moroccan independence, when it offered sanctuary to nationalists on the run from the French authorities. Once those antagonisms cooled, the city lost its raison d'être. In similar fashion, Panama's position as the tax haven for Latin America is attributable primarily to Southern Command's occupation of the Canal Zone, which the United States justifies by reference to the prevalence of guerrilla activity in the region. And if Lebanon still has a chance to make it as a financial centre, then that is not due solely to the implacable hatred of Israel among the Arab states; it is a function, also, of their own mutual mistrust. Were the Arab countries ever to iron out their differences—or, for that matter, if their uneasy alliance were to degenerate into open warfare—Beirut would suffer a decline as catastrophic as Alexandria's was in earlier times. Tax havens thrive on a non-stop, simmering atmosphere of cold war, and abrupt changes of temperature in either direction put their survival in danger.

Even where the external circumstances are favourable, though, the internal equilibrium of tax havens is fragile. They are usually small territories that have historically been backwaters, but have managed to rise up the pecking order without expanding their physical size by capitalizing on their constitutional status. A colonial outpost or a forgotten remnant of European feudalism combines the attribute of security, being essentially a protectorate of some larger power, with that of autonomy, possessing a high degree of self-determination in tax and regulatory matters. That enables them to increase their relative weight in economic terms by offering financial services to foreigners, thereby transforming themselves into monetary and mercantile hubs. Yet in the process, they risk imperilling their economic sovereignty, since they become relay stations, in effect, for transmitting decisions that are made somewhere else entirely.

The quicker the transition from impoverished somnolence to commercial metropolis, the more vulnerable the resulting centre is. The marble edifices of Tangier, Hong Kong, Panama (and even, in a smaller way, Dubai) may give the impression of solidity, but in truth these places are built upon a teeming mass of speculation that can disappear just as suddenly as it first arose. Spectacular success is prone to beget spectacular failure, as greed feeds over-ambition, which, in turn, gives way to a crash, a rush for the exit, and downfall.

That seems destined to be the fate of most tax havens in the end. The tipping point comes when they move from being paper entrepôts to physical ones, because unlike shell companies, real businesses need premises and staff, and this tends to touch off a spurt in the construction industry. Unfortunately, that sector is susceptible to cycles of boom and bust like no other, and, when the market turns, it has a nasty habit of pulling the banks down with it. Innovativeness and risk taking, the very qualities sought after and admired while the bubble was inflating, are apt to mutate into scandal and recrimination when it bursts! The authorities are then faced with a quandary: do they put their heads in the sand and reiterate their faith in private sector credit control mechanisms, which merely narrows the odds that the next crash will be even bigger and messier? Or do they attempt to impose official supervision of the whole banking system, which, ironically, is the one course of action most likely to alienate the hot money upon which their prosperity is ultimately founded?

While they bicker and fret, the money is already drying up, and, if they are not careful, there will soon be an exodus. This in turn will trigger a contraction in economic activity, wage cuts, layoffs, and a hostile reaction among the rising ranks of the unemployed, who become politicized, which simply accelerates the flight of capital. That was what occurred in Beirut, well before the Israeli and Egyptian forces clashed in the Sinai in June 1967. And although Hong Kong has thus far weathered the difficulties that have beset it, I do not discount the possibility that something similar could happen there.

When one tax haven declines, however, there is often another one waiting to step into its shoes. If British rule in Hong Kong becomes untenable and a Red tide engulfs the colony, then Singapore may already be sufficiently well developed to displace it as Asia's premier financial hub. This city-state seceded from Malaysia in 1965, having always been the most forward-looking and worldly member of the federation. Singapore has its own currency and an enviable deep-water harbour on the Strait of Malacca, one of the world's busiest shipping lanes, which is administered as a free port. Now that it has the flexibility to amend its laws as it sees fit, one can easily envisage Singapore becoming an international centre for the gold and opium trades, as it has long been for certain other vital commodities, namely rubber and tin. On the opposite side of the globe, The Bahamas faces competition from its sister colony, Bermuda, whose history, culture, and legal system are all broadly similar. If Lynden Pindling decides to follow the example of Patrice Lumumba rather than Moise Tshombe—and while that may seem far-fetched, in view of his background as a corporate lawyer, it is the direction in which some people believe that things are currently heading—then The Bahamas could quite rapidly slip back to the level of Guadeloupe or Martinique, and Bermuda, which is presently known more for its onions than for its shell companies, would be glad to take up the slack.

I can't tell you which tropical paradises are going to blossom as tax havens in the 1970s, for they may not yet know it themselves. One potential candidate is Saint Martin in the Leeward Islands, the only one of the Lesser Antilles to be divided between two countries, with the northern half being French (capital Marigot), and the southern half Dutch (capital Philipsburg).[5] It was in the latter that Europe's largest electronics firm (perhaps flattered by the homonym) chose to locate a holding company many years ago, although few people seem to realize this and even fewer have followed suit. There are no customs or other economic controls between the two halves of the island, and a few Le Trouhadecs are already buying land there and dreaming of the spectacular triangular transactions that they will be able to put together, just as soon as they can find some bankers and lawyers to execute them.

In reality, though, tax havens don't simply cannon off each other like billiard balls, because the ones that go down can't always get back up again, and what may be mistaken at first for teething troubles are actually sometimes the symptoms of an early onset of senile dementia. A large country such as Britain, which is today's "sick man of Europe" as far as its balance of payments is

[5] This arrangement has lasted for more than three hundred years, ever since France and the Netherlands signed the Treaty of Concordia, in 1648. Legend has it that the French part of the island, which occupies about sixty percent of its overall area, ended up being larger than the Dutch part because of the peculiar procedure that the two countries used to demarcate the border. They selected two soldiers, one French, one Dutch, to run in opposite directions around the shoreline, and agreed to draw the boundary wherever they met. But since the Dutchman was drunk, and the Frenchman sober, the contest was hardly a fair one.

concerned, can soldier on despite the alarming fluctuations of its economy. It can administer a shot of “stimulus” when it looks ready to expire, and apply a dose of “stabilization” if it seems to be running out of control. As a result, the yo-yo-like peaks and troughs on the graph never threaten to pull its society apart at the seams. Tax havens lack that kind of safety net, because they are devoid of societal glue, of that indefinable quality of national cohesion. They rely instead upon a classical conception of the public interest as representing the sum of individual interests, and they are therefore at the mercy of citizens who, for entirely selfish reasons, may decide at any given moment that it would be more conducive to their own wellbeing if they transferred their allegiances to a different jurisdiction.

Indeed, the word “citizen” is arguably a misnomer when we are talking about tax havens, implying as it does an unshakeable fealty, which has on some level been internalized, to a particular civic order. You are unlikely to hear anyone from Monte Carlo, Nassau, or Vaduz exclaim defiantly: “My country, right or wrong!” The most that they will be prepared to say is that they are “a resident of Monaco” (or The Bahamas, or Liechtenstein). The term “resident,” with its fiscal implications, is generally more appropriate, for tax havens rarely succeed in becoming motherlands. Rather, the right to reside there is appraised, by individuals and corporations from elsewhere, using the same criteria according to which they evaluate any other item of property.

Lebanon is a partial exception to this rule, Switzerland perhaps even more so, but don’t be fooled into thinking that this is because the Swiss are what Michelet might have called a nation of "libertarian cowherds." No, it is because the drovers of the golden calf are careful to ensure that no one is excluded from participating in the profits of Switzerland PLC, and it is steady receipt of these dividends that instils in the average Swiss an instrumental patriotism akin to the loyalty that a long-serving employee feels for the firm that provides his bread and butter, that is to say a respect for the most lucrative of his attachments.

The degree zero of politics

Those qualified counterexamples should not distract us from the fact that, beneath their differently-patterned Harlequin outfits, all tax havens are essentially similar in being defined more by what they don't possess than by what they do. It is not merely taxes and regulations that are absent; most of them also lack the capacity to defend themselves with their own armies. Instead of soldiers willing to die for their country, all that you get are guards of honour, paramilitary police, and private security firms. Many tax havens do not have their own currency, finding it more convenient to adopt that of a larger state lock, stock, and barrel (see for instance the French franc in Monaco, the Swiss franc in Liechtenstein, and the United States dollar in Liberia and Panama).[6] Trade unions are thin on the ground, and you seldom find authentic, grassroots political parties.

[6] Where they do have their own currency, it is often merely a proxy for somebody else's. The Bahamian dollar, for example, was pegged to sterling until 1967 and is now pegged to the U.S. dollar. The Luxembourg franc has been a proxy for the Belgian franc since 1921, although note that the rate was

To adapt a phrase of Roland Barthes, in these small financial centres we approach “the degree zero of politics,” the practice of which is almost as distasteful there as traditional artistry is to the ideologues of “anti-literature.” Local peculiarities are observed, but the general picture is much the same, reflecting a fusion between the government and the private sector. Sometimes (as for example in The Bahamas and Hong Kong, under the mantle of a colonial regime) a few powerful families capture the state and run it as an extension of their commercial monopoly, sticking rigidly to the principles of laissez-faire, apart from when it comes to the preservation of law and order. In other places, such as Panama, the real power rests with oligarchs, a few of them local but the majority foreign, who exercise it through placemen whom they already control before their accession to office, and whom they keep in check with carrot-and-stick methods. Elsewhere the head of state is himself the country’s leading capitalist, and can make it up as he goes along. In no case, though, is there an independent professional civil service to act as a bulwark between money and power.

The first president of the French Third Republic, Adolphe Thiers, once propounded the view that “private property is a natural institution, which represents nothing other than the free and unlimited development of human faculties, obeying and respecting the divine will.” All of the tax havens considered here would eagerly second that assertion, which neatly encapsulates their own worldview. They might be equipped with the most sophisticated financial architecture to be found outside of Wall Street or the City,

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1.25:1 in the Luxembourg franc’s favour after 1935, until it returned to parity in 1944.

but tax havens are truly the last survivors of nineteenth-century mercantilism. In fact, one can identify other precursors still further back in history. There is a parallel to be drawn, for instance, between today's Swiss bankers and the great merchants of Renaissance Italy, whose mastery of the foreign exchange market made them the equals of the city-states themselves, which bowed to their recommendations and protected them in exchange for generous subsidies. The gnomes of Zurich, guardians of the world's credit, are on first-name terms with foreign political leaders, yet they have little to do with the federal government in their own country, where public finance is highly decentralized, being dealt with mainly at the cantonal level.

According to some Marxists, tax havens may even supply us with living evidence of "primitive accumulation," an antediluvian process that is still at work, nevertheless, underneath the surface of contemporary capitalist production. And many non-Marxists, also, see tax havens as the mirror image of the crisis of underdevelopment that René Dumont argues is gripping some agrarian nations, where a lack of democratic accountability has allowed the elites to appropriate the land and other resources for themselves. By contrast, small financial centres, whose primary commodity is money, have managed to become over-developed relative to their size by playing upon their essentially artificial character as jurisdictions of convenience. They are strange hybrids of modern investment technology and old-fashioned black markets, where money originating from dubious sources, including the Third World kleptocrats whom Dumont so roundly castigates, is repackaged so that it can wash back into the financial mainstream.

That fact, or that perception, is a cause of never-ending embarrassment for tax haven administrators, particularly in light of the measures that large states are increasingly inclined to take to discourage their citizens from going "offshore." Some tax havens are more susceptible to such pressure than others, and in this context a smattering of real trade and industrial activity provides a degree of protection. But the key to survival is not to be too dependent upon any one country as a provider of capital. The most prosperous and longest-lived havens, and those that are perceived to have the greatest legitimacy, are the ones that know how to diversify. They need to source their funds from multiple places, and to reinvest them in a variety of geographical locations and different types of business activity. No financial centre can hope to rise above the level of an also-ran without exhibiting versatility in terms of the clientele that it is willing to service and the range of stratagems that it is able to offer. And once you achieve that kind of critical mass, you will find it hard to escape the notice of an attentive observer.

Say the same observer went fishing with a larger net, but one made out of finer mesh. The danger is that all that he will dredge up are niche operators, such as Dubai, whose role in the Asian gold market we discussed in chapter five. One risks conforming to La Bruyère's rather sad stereotype, of "people who engage out of restlessness or curiosity in endless voyages, who wish only to see new castles or new steeples, and to cross rivers that are called neither Seine nor Loire, who leave their country in order to return to it, who love to be away, who long one day to be home again." It is possible, however, to find other tax havens without leaving Europe, and it would be unfair to ignore them just because they are somewhat out of the way and are inhibited by their specialized nature. The two that I have in mind are worlds apart from each other. The first lies at the heart of Western Europe, while the second is literally offshore on the very edge of the continent.

The Grand Duke of holding companies

In the first instance, it would be a mistake to leave out Luxembourg, even if this not-so-grand duchy has little to recommend it except for its holding companies. It is much the largest of the continent's microstates, indeed it is debatable whether it truly deserves to be labelled as such: at a little over 2,500 square kilometres, the country is only marginally smaller in territorial terms than our own Department of the Rhône. Luxembourg was the birthplace of Robert Schuman, who gave his name to the first great plan of European integration in 1950. A generation before that, its most famous son was the industrialist Émile Mayrisch, who consolidated the Grand Duchy's steelworks into the national champion Arbed. In 1926, he became the first president of the International Steel Cartel, which brought together producers from Luxembourg, France, Germany, Belgium, and the Saarland.[7]

[7] Mayrisch also founded the Franco-German Study Committee, which existed from 1926 to 1938 and represented a model of transnational cooperation, with its office in Paris headed by a German, Gustav Krukenberg, while the delegation in Berlin was led by the Frenchman Pierre Viénot. Members of the committee were drawn from business, academia, and public administration, and met twice a year at Mayrisch's home, Colpach Castle.

Luxembourg is not what you would call a crazy crazy crazy kind of a country. It does have a casino, at Mondorf-les-Bains, where gambling is now sadly prohibited, although you can still indulge in a Turkish bath. As far as I am aware, the Grand Duchy has but a single smuggling ring, specializing in Ardennes ham. The highlight of the social calendar is the feast of Saint Willibrord in November, when the whole of Echternach dances the dance of Saint Guy, consisting of two steps forward and three steps back. One has to admit, on the other hand, that Luxembourg is progressing, for its population grows year on year. It stood just shy of 300,000 when Radio Luxembourg began broadcasting in 1933, and it had reached 325,000 when the country celebrated its millennium with a dog show, a stamp exhibition, and a wine festival in 1963. If it carries on increasing at the current rate, there will be 350,000 Luxemburgers by 1970.

When the European Coal and Steel Community was rolled into the much more ambitious EEC in 1957, a few wags in the European Commission were heard to say that Jean Monnet and Grand Duchess Charlotte were getting divorced in order to consummate their relationship. It was a joke, of course; Charlotte has been happily married to Prince Felix for almost half a century, and is now enjoying a well-earned retirement, having abdicated in favour of her son Jean in 1964. Jean's brother, Prince Charles, did cement an important connection in March 1967, though, when he married Joan Douglas Dillon, daughter of the one-time United States ambassador to France who subsequently served as Secretary of the Treasury. It was an appropriate union in view of the fact that, between 1951 and 1965, ten American corporations (ranging from Lorillard tobacco to Monsanto and DuPont) opened factories in the Grand Duchy, attracted by the productivity of the local blue-collar workforce and its complete lack of interest in politics.

That trend has tailed off over the last couple of years, but the country still attracts plenty of foreign investors, albeit in pursuit of less capital-intensive projects. Luxembourg has been in the company formation business since 1929, when it enacted a law exempting certain holding companies from most of its ordinary corporate taxes.[8] Those fortunate enough to qualify have been referred to ever since as "1929 holding companies," and this statutory regime is much admired around the world, including in places where they know a thing or two about managing money.[9] If you can muster a billion Luxembourg francs in equity and bonds—which is about twenty million dollars—then you are able to apply for special treatment as a "milliardaire holding," potentially reducing your effective tax rate even further.[10] This latter

[8] Holding companies are forbidden from directly engaging in any commercial or industrial activity, but may own shares in other companies that conduct business either within or outside of the Grand Duchy. Qualifying companies pay no taxes on profits. They are subject only to a 0.32 percent registration duty upon formation, 0.1 percent stamp duty when they issue new securities, and an annual "subscription tax" calculated as 0.16 percent of the market value of all of their outstanding capital.

[9] I have seen a well-researched circular produced by the Swiss branch of a reputable Israeli bank, for example, which advises clients who are intending to set up a holding company not to bother with anywhere other than Panama, Liechtenstein, or Luxembourg.

[10] By virtue of a Grand-Ducal Decree of 17 December 1938, "billionaire" holding companies are exempt from the subscription tax, and are instead subject to a regressive withholding tax: three percent on interest; three percent on dividends (but only to the extent that the company pays less than 100 million francs in interest); 1.8 percent on the first fifty million francs of dividends otherwise; and 0.1 percent on dividends above that threshold. If

provision makes the country particularly attractive to high net worth investors.

Luxembourg has three crucial advantages that give it an edge over Switzerland and are rapidly turning it into an important centre for international capital markets, both in respect of intra-EEC investment and that involving third countries. For one thing, interest and dividends paid by Luxembourg holding companies are not subject to withholding tax (WHT).[11] That is more generous than the Swiss system, which imposes thirty percent WHT on interest or dividends paid by all domestic corporations.[12] Secondly, Luxembourg has no central bank, having been in a currency union with Belgium since 1921. So its banks do not come under the same kind of pressure from the monetary authorities to limit their underwriting activities as the Swiss banks periodically do. Finally, unlike Switzerland, the Grand Duchy is a member of the Common Market, which means that securities listed on the Luxembourg stock exchange are automatically eligible for purchase by investors anywhere in the EEC.[13]

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the company's capital exceeds two billion francs, there are also reductions in the registration and stamp duties.

[11] Assuming that the company has not elected for "billionaire" status as referred to above.

[12] Foreign companies can issue bonds directly out of Switzerland without being liable for WHT, but if they use a Swiss holding company as an intermediary then the tax is payable. The Swiss WHT may well be reduced or eliminated under a double taxation convention, but, in order to obtain the relief, the investor will have to declare the income to his home tax authority. The absence of withholding tax in Luxembourg obviates that requirement and preserves the investor's anonymity.

[13] Pursuant to the European Council Directive of 11 May 1960 implementing Article 67 of the Treaty of Rome.

For all of those reasons, Luxembourg has proved the perfect launchpad for the financial flying saucers known as "Eurobonds" that have been all the rage with international banking syndicates for the past five years. Eurobonds became a thing when major European corporations discovered that their demand for long-term credit outstripped the available supply in their domestic markets.[14] Overseas investors were not always keen to lend to them in their own national currencies, which were perceived to be vulnerable to devaluation, at least not without charging a significant interest rate premium. To overcome these limitations, firms started issuing bonds in foreign currencies, primarily but not exclusively the United States dollar.[15] Wall Street's "Yankee" market handled much of this business until the early sixties, but two interrelated factors conspired to shift the focus back to the old continent from then on.[16]

By the late 1950s, the "dollar gap" of the immediate post-war period had given way to a "dollar glut," as Western Europe's balance of payments improved relative to that of the United States. The first consequence of this development was that the U.S. Treasury began to get nervous about a potential drain on the American gold reserves, and decided to curtail the Yankee market. In 1963, President Kennedy introduced the so-called "interest

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[14] By then the short-term market was already being catered for by the "Euromarkets," as noted below.

[15] Other popular currencies include the German mark and the pound sterling. Some Eurobonds incorporate more exotic currency features: a few are denominated in the synthetic "European Unit of Account," for example, while others include an option for repayment in a number of different currencies.

[16] A Yankee bond is a dollar-denominated bond sold into the U.S. domestic market on behalf of a non-U.S. issuer.

equalization tax," which effectively blocked European companies' access to Wall Street by imposing an excise duty on the acquisition of foreign securities by American citizens, at rates of up to fifteen percent.[17] President Johnson tightened the noose in 1965, when he pressured U.S. corporations into signing up to a voluntary Foreign Credit Restraint Program, whereby they agreed to limit their overseas lending and investment, including the financing of their own subsidiaries.

The second consequence of the growing U.S. balance of payments deficit was that Europeans now had spare dollars to invest. Eurobonds, which are invariably bearer securities on which the interest is paid gross, were the ideal instrument for diffident savers who wished neither to hand over their hard-won foreign exchange to the government, nor, necessarily, to go to the trouble of depositing it in a distant tax haven, and were glad, in any case, to receive a better rate of return than they could obtain by lending the funds short term. Hence, these deracinated debt obligations have seen a surge in popularity, whereas investors' willingness to assume the risk associated with lending to companies in their own local currencies has, at best, stagnated. And for the continent's capital-hungry firms, Eurobonds have turned out to be a wonderful laxative for freeing up the constipation that previously afflicted the European market in fixed-income securities. Eurobond issues amounted to approximately 1.8 billion dollars in total up to the end of 1965, but they jumped to more than a billion dollars in 1966

[17] For debt obligations, there is a sliding scale of rates depending on the duration of the bond. The maximum rate (imposed on maturities of twenty-eight and a half years or more) was increased to 18.75 percent in August 1967.

alone, and reached almost two billion in 1967 despite the prevailing turbulence in the foreign exchange markets.

It is not just European companies that are finding Eurobonds a convenient way of financing themselves; around forty percent of the capital raised in this fashion in 1966 was borrowed by U.S. firms. American corporations do not issue Eurobonds in their own right, because of the thirty percent withholding tax that the United States imposes on outbound interest payments. Instead, the issuing vehicle will typically be a finance subsidiary of the U.S. parent company. The choice of jurisdiction for the subsidiary depends on where the corporation ultimately intends to utilize the funds that it is raising.[18] Despite the loss of WHT incurred due to the use of

[18] The finance subsidiary will on-lend the cash that it raises through the Eurobond issue either to the U.S. parent company or to overseas companies in the group. A U.S. corporation can make interest payments to a non-resident free of WHT if that corporation derives more than eighty percent of its income from non-U.S. sources. So groups that intend to utilize Eurobonds to finance projects exclusively *outside* of the United States often issue them through a Delaware subsidiary, because this means that the company can rely on the extensive network of U.S. DTCs to reduce any foreign WHT charged in respect of overseas loans (Delaware is preferable to other states for various reasons, including the fact that it exempts finance subsidiaries from corporate taxation at the state level). Conversely, companies that intend to use the Eurobond proceeds primarily to fund activities *inside* the United States usually issue them through a subsidiary in the Netherlands Antilles, which has no WHT on outbound interest payments. A Netherlands Antilles company is exempt from U.S. WHT on interest (despite the 1963 changes to the U.S./Antilles DTC mentioned in the next chapter) provided that it elects to be taxed in the Antilles at the full rate, which is unproblematic for a conduit company as it has no, or virtually no, net taxable income. Luxembourg companies are sometimes used to issue Eurobonds, but this is not normally appropriate where the funds are destined for the United States, because 1929 holding companies are explicitly excluded from claiming benefits under the U.S./Luxembourg DTC. Generally speaking, a

these conduit companies, the United States Treasury has, to date, exhibited a relaxed attitude towards American firms tapping the Eurobond market, which tends to increase the profitability of U.S. industry by lowering its borrowing costs, and involves dollars moving in the "right" direction from a balance of payments perspective.

Switzerland and France take on Luxembourg

The growth of the Eurobond market, coming on top of Luxembourg's pre-existing vocation as a refuge for holding companies, means that one can no longer dismiss the Grand Duchy as a third-rate financial centre. It is questionable, however, whether this recent expansion is built on solid foundations. On the one hand, Luxembourg would not have come to the fore had it not been for the somewhat self-defeating policy of the Swiss National Bank, which effectively forced the Swiss banks to sit on the sidelines from 1963 to 1966 while the Eurobond market was taking off. On the other hand, Luxembourg's Common Market partners, led by France, are convinced that the Grand Duchy's gain is their loss and have declared themselves determined to bring the country into line.

The Swiss attitude to the Eurobond explosion is difficult to comprehend, even taking into account the central bank's preoccupation with "overheating." The SNB always fought shy of

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Luxembourg issuer is only used where the bond proceeds will be on-lent to a place, or in a form, such that WHT is not applicable, since Luxembourg has few DTCs that would confer exemption.

giving its approval for Eurobonds denominated in Swiss francs, which is fair enough, as the bank's longstanding practice has been to resist the emergence of the franc as a major reserve currency. It is for that reason that the SNB exercises strict control over foreign bond issues in the Confederation, with prospective borrowers first being vetted and then made to wait in a queue.

Yet it made little sense for the Swiss authorities to penalize their own institutions by preventing them from underwriting bonds denominated in foreign currencies, especially when one considers that at least half of all the Eurobonds that have been issued so far are believed to have ended up in the hands of the Swiss private banks.[19] And the policy seems particularly perverse in view of the fact that the Swiss banks have been a major player in the "Euromarkets"—which are the short- to medium-term equivalent of Eurobonds—ever since their inception in the late 1950s, with an estimated 3.2 billion dollars' worth of short-term foreign currency assets at the end of 1966, making Switzerland second only to London as a supplier of funds to this market.[20]

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[19] The SNB's justification for not authorizing the banks to participate in Eurobond underwriting was that this could lead to a lack of demand for domestic securities and thus drive up Swiss bond yields.

[20] The Euromarkets (short for "Eurocurrency markets") is a catch-all expression for foreign currency deposits held by European banks that are deployed on money-market terms, anything from overnight to one year. The most important component of the Euromarkets is the Eurodollar market (i.e. U.S. dollars deposited with banks in Europe), which, according to the Bank for International Settlements, accounted for some fourteen and a half billion dollars out of the total Euromarket volume of around eighteen billion dollars in 1966. Euromarket deposits are put to use both in the financing of foreign trade and the expansion of domestic credit, as well as being extensively employed in the interbank market to take advantage of various forms of arbitrage. The same money is often redeposited many times over, and there

The SNB eventually gave the green light for Swiss banks to participate in the Eurobond syndicates from the third quarter of 1966, and they are currently responsible for placing around a third of all new issues.[21] Having been *hors de combat* during the formative phase of the Eurobond market, however, they missed out not only on some juicy commissions, but also on the chance to shape that market in their own image, and to bask in the political kudos that comes with managing large-scale debt issues on behalf of international borrowers. Nevertheless, to the extent that Switzerland can now demonstrate that it is once again the chief dancing-master at the eternal waltz of global capital, Luxembourg's position looks set to decline significantly.

Unless, that is, the Luxemburgers can come up with innovative ways of leveraging their Common Market membership to provide additional opportunities for tax avoidance, perhaps as yet undreamed of! But the signs are that the Grand Duchy is wary of antagonizing its EEC colleagues, all the more so since French finance minister Michel Debré announced in 1967 that he was on a mission to "finalize Luxembourg's entry into the Common Market," by harmonizing the rules on withholding tax across the Community. France has found some support for this initiative from the Grand Duchy's other neighbours, Belgium and Germany,

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will usually be several banks in the chain between the original depositor and the ultimate borrower. For a general description of this market see Paul Einzig, *The Euro-dollar System* (London: Macmillan, 1964).

[21] It is also worth noting that the Swiss Federal Assembly abolished the three percent "coupon tax" on foreign bonds with effect from 1 January 1967, but such securities continue to be subject to a 1.2 percent "issuance duty," which means that Switzerland is still not an attractive place to issue Eurobonds (and about which the Swiss banks constantly complain).

but there seems little prospect of pushing through a directive obliging all member states to impose a minimum rate of WHT in 1968, as Debré initially planned, certainly not in the face of last-ditch resistance from Luxembourg.[22] Paris now seems to be rowing back from the idea anyway, having apparently concluded that it would be unwise to take any measure that might increase borrowing costs for French firms relative to their American competitors, at a time when credit is generally becoming scarcer and more expensive.

So the day when Luxembourg is compelled to amend its 1929 holding company regime may well be some way off, but, even if it never arrives, the Grand Duchy is not about to race to the front of the tax haven league. A fifth of the workforce is still employed in heavy industry, producing some five million tons of steel annually from low-grade Lotharingian ores. These people will have to find something else to do eventually, though, as the European steel industry is in terminal decline, in spite of feather-bedding by governments and the billions that have been invested since the war. And Luxembourg is in the wrong location, because once the giant bulk carriers that are currently being built start transporting huge shipments of high-grade ore from Liberia and the Great Canadian North (not to mention cheap American coal), the only place where you will be able to make any money from steel is by the side of the sea.

[22] The proposal is unlikely to meet with much sympathy from the Netherlands, either, which also has zero WHT on interest paid to non-residents.

The new treasure islands

In the second instance, there are profits to be made from avoiding taxes and regulations out on the ocean waves, beyond territorial waters. That is the lesson that one can draw from the pirate radio stations that, for the past ten years, have baited the authorities by siting themselves on offshore platforms or ships riding at anchor, close enough to civilization for their signals to be picked up, yet far enough away that they are out of reach of the law. Although conditions on board the pirate vessels may sometimes be archaic and insalubrious, make no mistake, their operators are in the avant-garde of financial entrepreneurs, since broadcasting unlicensed radio commercials is an extremely lucrative business. Whether they are permanently fixed to the sea bed, or can weigh anchor and move elsewhere at a moment's notice, is of merely technical interest. For the true genius of the radio rebels' insight was to realize that they could invent their own tax havens, without need of territory or government. As man created artificial fibres, so they have synthesized a new mode of getting free of the taxman's clutches. It wasn't a short road, or an easy one.

Financial markets always anticipate change, as they are in a constant state of flux. Nevertheless, for more than a decade after the war people struggled to think of a feasible way of opening up radio's rich Hertzian veins to commercial exploitation. Yes, there were private stations in Luxembourg, Andorra, the Saar Protectorate, and Monaco, which were licensed by the local authorities, but the continent's larger nations all jealously guarded their broadcasting monopolies. This illiberal attitude might be considered somewhat hypocritical, because governments on both sides of the Iron Curtain are hardly squeamish about invading other countries' airwaves for the purpose of disseminating propaganda, international law be damned. The ITU (International Telecommunication Union) made a special exception for Vatican Radio in 1936, permitting it to broadcast anywhere it liked. But the frequencies and strengths used by Radio Tirana to reach Western Europe, for instance, are not sanctioned by the ITU's Radio Regulations, any more than is the Voice of Britain's behaviour in targeting the Middle East from Cyprus, or that of the Voice of America, which, until 1964, broadcast to Eastern Europe from the U.S. Coast Guard Cutter *Courier*, stationed in the Mediterranean.

The latter may, indeed, have provided an inspiration for the pirate transmitters that sprang up on the continent's northern periphery from 1958 onwards. First came Radio Mercur, which began as a Danish station on a boat in the Øresund, the *Cheeta*, later shared with the Swedish outfit Radio Syd. Next on the scene was Radio Veronica, anchored just outside the territorial waters of the Netherlands. They proliferated like plankton as the sixties started to swing, occupying an abandoned sea fort here, refitting a disused trawler there, and making intelligent use of the offshore system so as to layer the protection of secrecy on top of that provided by the wide, open sea. Thus, the *Cheeta* was registered in Panama and owned by a Liechtenstein Anstalt, a structure that was copied by Radio Veronica and subsequently became the pattern for most of the floating stations.[23] When Panama withdrew its registration from the *Cheeta* and the *Veronica*, due to complaints

[23] Liechtenstein did not become a party to the International Telecommunication Convention until 1965.

from the Danish and Dutch governments, they re-registered in Guatemala, one of the few states that had not ratified the ITU's Convention despite being a signatory to it.

Talking to people in financial circles, you sometimes get the impression that they live in a bubble, almost like a primitive tribe with their rites, taboos, and superstitions. Anyhow, they convinced themselves at an early date that because the pirate stations imitated one another, there must be a master brain behind them all, some "Mr Big" or "Dr No" who was pulling the invisible financial strings and bankrolling the DJs, supplies, and security for the various different operators. As far as I can establish, however, that was simply paranoia. There *were* links between the pirate stations—Radio Mercur sold out to Radio Syd in 1962, for example, and Radio Nord subsequently became Radio Atlanta—but the reason why they changed owners or moved locations was that the authorities were making concerted efforts to squash them. The Scandinavians led the way in this regard, successfully lobbying the ITU to amend its rules, in 1959, to outlaw broadcasting from international waters.[24] As the ITU lacked any means of enforcing this regulation, it was to all intents and purposes a dead letter, but it did embolden the Nordic Council to draft anti-pirate legislation that was simultaneously enacted by Denmark, Finland, Norway, and Sweden in 1962.

Immediately after passing this law, the Danish authorities boarded the *Lucky Star* (a second vessel belonging to Radio Mercur) on the pretext of investigating a murder committed at sea,

[24] Broadcasting from ships and aircraft outside national boundaries had already been prohibited in 1947, but the application of this rule to stationary transmitters was perceived to be unclear.

seized the ship, and took the station off the air. Sweden promptly followed suit and tried to shut down the *Cheeta*, now owned by Radio Syd. But the Swedes had reckoned without the grit and bloody-mindedness of its proprietor, Britt Wadner. She refused to be intimidated and fought tooth and nail for Radio Syd to continue broadcasting, which it did, intermittently, even after the *Cheeta* sank, and a Swedish court slapped Mrs Wadner with a jail term, in 1964.[25]

The Dutch were stirred into action in the same year by the most audacious project to date, "REM Island," a purpose-built platform resembling a small oil rig that had been financed by the leading shipbuilder Cornelis Verolme and constructed in the Republic of Ireland. It was owned by a Panamanian company, Explotación de Construcciones Maritimas Excomar SA, and had a massive 250-foot antenna for broadcasting both offshore radio and—a first—TV.[26] A race ensued between the operators of Radio-TV Noordzee and the Dutch government, as the former towed REM Island into place six miles off the coast of Noordwijk and the latter endeavoured to stymie them by passing a North Sea Installations Act through parliament. The government lost, and radio broadcasts commenced in July 1964, followed by TV a month later. The legislation finally went through in December, extending Dutch jurisdiction to structures sited outside the country's territorial

[25] Radio Syd eventually closed in 1966, when its replacement ship, the *Cheeta II*, was loaned to Radio Caroline.

[26] Verolme transferred the ownership of REM Island to the Panama company when it became apparent that the Dutch authorities were on the warpath, and the broadcasting business was taken over by a British firm at the same time. In the event, neither of these expedients delayed its demise, though they did cause the government some embarrassment.

waters, but within its claimed area of the continental shelf. Dutch marines then staged a melodramatic raid on REM Island, and that was the end of that.

Well, so it seemed! But Prime Minister Victor Marijnen had gravely underestimated the popularity of Radio-TV Noordzee, and his cabinet fell amid a public backlash four months afterwards. Oddly, while all of this was going on, the authorities took no action whatsoever against Radio Veronica, which is still transmitting to this day, despite the fact that it was anchored within spitting distance of REM Island. This divergence of approach struck many observers as arbitrary and inconsistent, and in retrospect it seems even more so. The excuse that the Dutch government gave at the time was that they were waiting for the Council of Europe to finalize an Agreement for the Prevention of Extraterritorial Broadcasting. Yet although this document was opened for signature in January 1965, the Netherlands only signed it after a six-month hiatus, and they still haven't ratified it.

On the face of things, the Agreement leaves the pirates with nowhere to go:

> Each Contracting Party undertakes to take appropriate steps to make punishable as offences, in accordance with its domestic law, the establishment or operation of broadcasting stations . . . installed or maintained on board ships, aircraft or any other floating or airborne objects and which, outside national territories, transmit broadcasts intended for reception or capable of being received, wholly or in part, within the territory of any Contracting Party, as well as acts of collaboration knowingly performed. The following shall be acts of collaboration: a) the provision, maintenance or repairing of equipment; b) the provision of supplies; c) the provision of transport for, or the transporting of, persons, equipment or supplies; d) the ordering or production of material of any kind, including

> advertisements, to be broadcast; e) the provision of services concerning advertising for the benefit of the stations.

By the end of 1967, however, only Belgium, Denmark, Sweden, and the United Kingdom had ratified the accord. The Scandinavian experience I have already narrated, while Belgium's is nothing to write home about. But the British encounter with the radio pirates repays further consideration in its own right.

Harold Wilson and the pirates of pop

Even though Britain arrived late to the pirate radio party, acquiring its first offshore station only in 1964, it was here that the phenomenon reached its apotheosis, with a dozen unlicensed transmitters encircling the island by 1966. Until the Labour government secured the passage of a Marine Broadcasting Offences Act in July 1967 they enjoyed near-total impunity, but after the law was brought in, like the ten little Indians in the nursery rhyme, they soon shrank back down to one again. If press reports and rumours are anything to go by, their owners made an absolute fortune in the meantime, accumulating two and a half million pounds of tax-free advertising revenue in 1966 alone according to the most reliable estimate.

Those earnings were very unevenly distributed, though. A single station, Radio London, is supposed to have grossed about a million pounds that year. It was run by the successful advertising executive Philip Birch from offices in Mayfair, on behalf of the shareholders in Marine Investment Limited (incorporated in The Bahamas), whose names have never been revealed. Having begun transmissions from the MV *Galaxy* in December 1964, Radio London apparently made enough profit within the first year to recoup its 500,000-pound setup costs.

The other major operators included Radio England and Britain Radio, two stations that broadcast on separate wavelengths from the same ship anchored near Harwich called the *Laissez-Faire*. It was owned by a Bahamian company, flew the Panamanian flag, and had been fitted out at enormous expense by the Texan businessman Bill Vick, who fronted for a syndicate of American and Canadian investors. The two stations combined were forecast to gross more than 150,000 pounds a month, but they didn't come on air until May 1966 and suffered from persistent technical problems.

And most iconically, of course, there is Radio Caroline, which may be somewhat rough around the edges compared with its erstwhile competitors, but had a nine month head-start over them in March 1964, and is the only station still going, having defied the 1967 ban. Its owners claimed in 1966 to be making 80,000 pounds of *profit* monthly, although that was probably an overstatement.

The whole history of Radio Caroline is one marvellous, swashbuckling yarn. It began with a race between the two pioneers of the UK pirate broadcasting scene, neither of whom was actually British. In lane one was Allan Crawford, an Australian former military pilot and owner of several London record labels; and in lane two was the twenty-something Irish Rastignac Ronan O'Rahilly, who had family money behind him and had already demonstrated his business savvy by running a nightclub for teenyboppers in swinging Soho, London's version of the kasbah. Crawford had acquired the *Magda Maria* (previously home to the

Swedish station Radio Nord) in 1962, but he faced an uphill battle raising the 150,000 pounds required to refit her.[27] She languished in Galveston, Texas until the following year, while he raced around looking for transmitters, studio equipment, a crew, and, most importantly, a team of presenters who not only had the "cool factor," but also possessed a good pair of sea legs. It was only when Major Oliver Smedley—ex-paratrooper, decorated hero of the Normandy campaign, member of numerous boards of directors, and long-time vice-president of the Liberal party—took charge of fundraising in 1963 that Crawford's project, christened "Radio Atlanta," finally got off the ground.

Allan Crawford renamed his boat *Mi Amigo* and sailed her to Greenore at the mouth of Carlingford Lough in Ireland, where Ronan O'Rahilly's father owned a disused harbour that had once belonged to British Railways. O'Rahilly, who had decided to set up a pirate station after failing to persuade the British Broadcasting Corporation (BBC) to provide airtime for an artist that he was trying to promote, was somewhat further advanced with fitting out his own boat, the *Fredericia*, which was destined to become Radio Caroline. So he was happy for Crawford to moor up alongside him at Greenore and complete his works, knowing that Caroline would hit the air first. In the event, Atlanta was only six weeks behind, making its inaugural broadcast in May 1964.

For a month or so the two ships transmitted side-by-side off the coast of Essex, but O'Rahilly had sunk around 250,000 pounds of his backers' money into refurbishing the *Fredericia*, and he rapidly

[27] Radio Nord's transmitters had been removed from the ship, supposedly to facilitate a voyage by some Cuban exiles who were looking for adventure, but something must have put the skids under that plan.

realized that there was more to be gained from cooperating with Crawford than from competing with him. In July 1964, he brokered a merger between the two stations whereby the Atlanta name was dropped and the *Mi Amigo* became "Radio Caroline South." The *Fredericia*, meanwhile, upped anchor and moved to Ramsey Bay in the Isle of Man, whence, as "Radio Caroline North," she could reach the heavily-populated areas of Manchester and Liverpool. North and South, Radio Caroline proved to be wildly popular, claiming a combined audience of nine million listeners by 1966.

Both the *Mi Amigo* and the *Fredericia* were registered in Panama, but few were privy to this information thanks to the elaborate precautions that O'Rahilly took to head off any repressive action by the British authorities. It was said, for instance, that not even the *Mi Amigo*'s captain could be certain of her port of registry, since her flag was kept in a locked casket, only to be produced in case of dire emergency.[28] Caroline North, meanwhile, cultivated friendly relations with her hosts in the Isle of Man—a *sui generis* dependency of the British Crown that does not form part of the United Kingdom—by airing copious free advertising for the local tourist attractions. This solicitousness was later to pay dividends.

The remaining pirate stations, such as Radio 390 and Radio City, may have been smaller in scale but were no less buccaneering. They were, nonetheless, the first to be silenced, having somewhat naively chosen to avoid the expense of

[28] The permission of the flag state is normally required before the authorities of another country can board a vessel, which it is not possible for them to obtain unless they know where the ship is registered.

maintaining a ship by basing themselves in various decommissioned anti-aircraft forts that had been erected in the Thames estuary in the early forties to protect London from the blitz. These "Maunsell forts" were outside the three-mile limit, and therefore akin in law to offshore wrecks, fair game for anyone who could land a boat there. The first to do so was the singer Screaming Lord Sutch, who broadcast Radio Sutch from Shivering Sands army fort commencing in May 1964. After a few months, Sutch tired of the privations of the aptly-named Shivering Sands and sold the station to his friend, Reg Calvert, who relaunched it as Radio City.

Others followed, including Radio Essex, whose proprietor Roy Bates knew the Maunsell forts from his day job as a skipper for an inshore fishing fleet. Bates initially occupied Knock John naval fort, slap-bang in the middle of the estuary, having wrested control of it from Radio City in 1965. A year later, though, the government brought proceedings against Radio Essex and its neighbour, Radio 390 (based in Red Sands army fort), for contravening the Wireless Telegraphy Act. Contrary to the previous understanding of the position, the Postmaster General now argued that these forts were actually *inside* British territorial waters. The magistrates agreed, and Bates was unable to convince the Court of Appeal that they were in error.[29] Radio Essex, along with Radio 390 and Radio City, went off the air in the early months of 1967.

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[29] Two years earlier, in 1964, the government had promulgated an Order in Council effectively extending British territorial waters by implementing the 1958 Geneva Convention on the Territorial Sea. The court held that the Thames estuary was a "bay" as defined in that Convention.

Bates was not done yet, however, for there was one Maunsell fort that still lay outside of the UK's jurisdiction. That was Roughs Tower, seven miles off the coast of Suffolk, which Radio Caroline had gone to some trouble to outfit as a helicopter landing pad and supply dump.[30] When Caroline's men left Roughs unattended in June 1967, Bates claimed it for himself. Equipped with a defensive arsenal consisting of "six shotguns, a flamethrower, and two air rifles," Bates's team repelled an attempt by Radio Caroline to retake the fort, raining Molotov cocktails down on their unfortunate assailants. One man was left dangling beneath the edifice for three hours, clinging for dear life to a rope ladder. Bates still occupies Roughs Tower, which, he declared in September 1967, was henceforth to be known as the independent state of "Sealand." As far as I am aware, however, he has never attempted to broadcast anything from it.

This was not the first time that violence had erupted among the pirates. A year earlier, a dispute between Radio Caroline and Radio City had culminated in tragedy. It grew out of a failed attempt to merge the two stations in 1965, when Caroline had supplied City with a new transmitter (which, according to the latter, never worked). City's proprietor, Reg Calvert, then lost interest in the Caroline tie-up and began talks with Radio London instead. Oliver Smedley was displeased, and, in June 1966, accompanied by his business partner Kitty Black, he led a raiding

[30] Another naval fort, Sunk Head, was also outside territorial waters and was briefly used by Radio Tower, but Sunk Head was blown up by the British army in 1967.

party to Shivering Sands to put Radio City out of action.[31] They held the station staff hostage for a week, while Smedley returned to shore and attempted, to no avail, to insinuate himself into Calvert's deal with Radio London. Neither Scotland Yard nor the Admiralty saw fit to intervene.

Sadly for Calvert, he then decided to take matters into his own hands. Accounts of what happened next differ, but it appears that he and an accomplice went down to Smedley's house in Essex, like a pair of small-time London gangsters trying to ape the American Mafia, intending to do him some harm. They threatened to kidnap his housekeeper unless he ordered his men off Shivering Sands, whereupon Smedley shot Calvert dead at point-blank range with a twelve-bore. He went on trial for manslaughter, but was acquitted by a jury on grounds of self-defence in October 1966, after only a very brief period of deliberation. While Calvert's widow succeeded in recovering Shivering Sands, that was doubtless small consolation.

It may have been this incident that finally galvanized Harold Wilson's cabinet into legislating against the pirates, although in the eyes of a significant proportion of the British public that was scandalized by Reg Calvert's death, the government was still painfully slow to react. Introducing the Marine Offences Bill to the House of Commons for its second reading in February 1967, Postmaster General Edward Short inveighed against the renegade broadcasters, who, he contended, "are correctly designated as pirates, and their motives, like those of all pirates, are personal gain at the expense of law abiders." It was another six months, even so,

[31] Ronan O'Rahilly denied any involvement in this affair, insisting that Smedley was acting on his own initiative.

before the Bill cleared the House, and there was very nearly a last-minute hiccup when the parliament of the Isle of Man (the Tynwald) petitioned the Queen for their island to be exempted from the law on the basis that it was "incompatible with the freedom of a self-governing democracy." Fifty thousand Manxmen, it appeared, were firmly behind the crusade to save Radio Caroline!

Their plea fell on deaf ears, and the legislation, which essentially criminalizes the purchase of advertising time from the offshore broadcasters, thereby rendering their operations uneconomic, came into force in August 1967. The government made sure that the advertisers would have no excuses when it took out full-page paid features in the British and international press warning them that any future dealings with the radio pirates could earn them two years in prison. By sourcing food and fuel from the Netherlands, both of Radio Caroline's ships have managed to keep on transmitting, although it is not clear how, if at all, they are being remunerated for the commercials that they continue to broadcast. Ronan O'Rahilly, with all the ardour of his twenty-seven years, has threatened to take the British government to the European Court of Human Rights. But it remains to be seen whether anything will come of that, and, at this juncture, it does now look as if this remarkable chapter in British cultural history is drawing to a close.

It is easy, with hindsight, to see what was in it for the pirates: money, notoriety, and the sort of experience that is handy in obtaining future gainful employment. One of Radio Caroline's most popular DJs has already signed a deal to bring "pop *à la* pirate" to the comparatively fogeyish Radio Luxembourg. The thing that I find it harder to get my head around is why Prime

Minister Wilson temporized for so long, displaying a forbearance towards the pirates that bordered on pusillanimity. It may be that the example of Holland's Victor Marijnen weighed heavily upon his mind, and he was afraid that by making martyrs of O'Rahilly and his ilk, he risked transforming the youth of England from spendthrift hippies (who are London's main tourist attraction when it's windy, and make a considerable if nonconformist contribution to the national income) into violent "provos." But I don't believe that one can account for Wilson's procrastination purely as a piece of electoral calculus, albeit that we are talking about the man whose bright idea it was that the long-haired Beatles and the inventor of the mini-skirt should both receive honours from the Queen.

In a sense, the pirates' biggest coup was to project an image of themselves as dispassionate knights errant of the high seas, veritable Robin Hoods of the airwaves, while the venerable BBC—which may have been hamstrung as much by its status as a "corporation" as by its reputation as a fuddy-duddy—ended up being cast as the villain of the piece. Don't you think that's a bit weird? After all, what the pirates were actually doing was making bundles of tax-free cash by playing pop records without paying the requisite copyright royalties, and they had powerful support not only from their ghostly financial backers but also, by some accounts, from influential members of the London underworld. It seems specious, to say the least, that they were regarded, even by a faction of the establishment, as noble young Ariels who were standing up to the Caliban of the music industry. Whereas in the same breath, the bankers of Zurich (who entertain themselves with nothing racier than safety-deposit boxes, lending and borrowing, and numbered accounts) were caricatured as disreputable gnomes.

Maybe the authorities handled the rebels who made them look flat-footed with kid gloves because they couldn't sanction any action that risked putting the government itself on the wrong side of the law. Arguably, the British addiction to constitutionalism is such that finding an unassailable legal basis for the suppression of pirate radio would have justified any amount of inconvenience or delay. On the other hand, there are plenty of tax havens in the sterling area, so perhaps it is just that Britain has a particularly tolerant attitude towards them. But we shouldn't get too hung up on the old adage about British sanctimoniousness. If travelling to tax havens teaches you anything, it is that man's relationship with money is a complicated one, revolving as much around fantasy as it bears witness to reality. Instead, without fear or favour, let us turn our attention to the relations between small financial centres and the great powers of this world. Even if the exercise reveals as much about the latter as it does about the former, it is, nevertheless, one final avenue that we ought to explore.

11. Ambiguous liaisons: big states and little havens

If it works, it's obsolete.

MARSHALL MCLUHAN

When a tax haven dies, it leaves behind an underdeveloped nation that wallows in its own poverty, like the temples of a vanished religion gradually being engulfed by virgin forest. Civilizations built on purely financial foundations sink more quickly than others, and they tend to go straight to the bottom. As soon as neighbouring countries realize that having a struggling tax haven on their doorstep is likely to do them more harm than good, then they will do their utmost to kill it off. The attitude of more distant states, meanwhile—as evidenced for example by their interest, or lack of interest, in renegotiating their double taxation conventions—seems to oscillate unpredictably between non-intervention and low-level warfare. As a rule, this schizophrenic approach, alternating passivity with systematic aggression, cannot be attributed to personal or cultural clashes; for there is seldom any rapport, either positive or negative, between tax havens and ordinary countries. Rather, as I suggested in chapter nine, big-country governments blow hot and cold depending upon whether they see tax havens as a help or a hindrance to their balance of payments at any given time.

It is no contradiction, on the other hand, to observe that reactions to tax havens vary from nation to nation for reasons that transcend their periodic requirements for additional liquidity. Listing the various tendencies that I have noticed over the years makes it sound as if I were leafing through a psychiatric dictionary: indifference, hypersensitivity, fits of enthusiasm, co-dependency, relapse. In the absence of a qualified head-shrinker, I am afraid that you will have to make do with one of Stendhal's "idle travellers," who, while he may lack the diplomas normally considered a prerequisite for experiments in dream interpretation, is inquisitive enough to have a go at it anyway. Looking as it were through the wrong end of the telescope, my broad-brush impression is that among the countries I know well there are basically two modes of response, the choice between which is dictated by how heavy a tax burden the state in question imposes.

Where rates are relatively low, people tend not to see anything outrageous or unjust in the existence of these small financial centres. Now and again, some particular practice will attract the ire of an agency or an administrator, who will counter it as a fencer parries a thrust, tit for tat, but not, heaven forbid, as a question of principle. That seems to be how the Netherlands and, to a lesser extent, Belgium approach this issue. With their Flemish tradition of commercial cosmopolitanism, they have been happy, for instance, to accommodate Luxembourg inside the Benelux Union, without themselves being tempted to exploit the Grand Duchy's potential to the full.

Curaçao writ small, Europoort writ large

If this curious mixture of sympathy and nonchalance seems a bit confusing, then consider how the Netherlands has behaved vis-à-vis its own Caribbean colonies over the past decade. Until about five years ago, the Netherlands Antilles (which comprise Curaçao, Aruba, Bonaire, Sint Eustatius, Saba, and Sint Maarten, the Dutch half of Saint Martin) were most decidedly "windward" in financial terms. Indeed, Antillean holding companies were as keenly sought after as Liechtenstein Anstalts.[1] But when the United States decided that enough was enough, the Dutch apparently didn't consider it worth fighting to preserve full tax haven privileges for their dependent territories.

To be sure, the Dutch West Indies still retain some of their historical pulling power. They are exceptionally well connected, with the kind of transport and communications infrastructure that you would expect from a 350-year-old possession, albeit one that has steadily and undramatically achieved a large measure of self-government. The population is as heterogeneous as the lingua franca—Papiamento, a melange of Spanish, Portuguese, and several African languages—and Antilleans are well endowed with commercial know-how. The Netherlands Antilles has a free zone, in Curaçao; its own currency, the Antillean guilder, which is one hundred percent backed by gold or U.S. dollars on deposit in

[1] In 1956, for example, the French oil services company Schlumberger reincorporated in Willemstad, Curaçao (with the blessing of the French government), primarily to escape heavy taxation in France and the United States, but also to stave off potential nationalization. Schlumberger NV is now the parent company of the whole group, and has been listed on the New York Stock Exchange since 1962.

Washington; and an uninterrupted reputation for banking stretching back to the seventeenth century, when the islands welcomed Jewish financiers from Portugal and Brazil who had been driven out by the Inquisition.

After losing Java, Sumatra, Sulawesi, and the thousands of smaller islands that became the nation of Indonesia in 1949, the Dutch government's top priority was to maximize the benefits that were available from its membership of the newly-established Coal and Steel Community, and later of the EEC. The Antilles were initially left out of this calculation, being admitted by the Community as "associated territories" only in 1964, after Holland's partners insisted on an amendment to the Treaty of Rome in order to restrict the quantity of petroleum products refined in Aruba and Curaçao from Venezuelan crude that could be imported into Europe without incurring tariffs. It may be, therefore, that the Dutch had their eye off the ball when the American government approached them in 1962 demanding a revision of the double tax treaty between the Netherlands and the United States to exclude offshore holding companies incorporated in the Antilles from benefiting under its provisions.[2]

One way or another, the American proposal met with little resistance, and the two countries signed a protocol the following

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[2] When it was originally entered into in 1948, this treaty did not apply to the Antilles at all; it was only extended to them in 1955. Under the Antillean Profit Tax Ordinance, holding companies owned by non-residents pay tax at ten percent of the rate applicable to other corporations. The maximum normal rate is thirty percent, so the maximum holding company rate is only three percent. Under the treaty, the rate of U.S. withholding tax on dividends is fifteen percent, while on interest and royalties it is zero. Until 1963, therefore, an Antillean holding company paid a maximum of 17.55 percent on U.S.-source dividends and three percent on interest or royalties.

year that provides for U.S. tax to be withheld from payments of interest, dividends, or royalties to Antillean holding companies at the full thirty percent rate, unless the company in question either opts out of the special low-tax regime, or certain fairly restrictive conditions are met.[3] These developments haven't killed the Antilles stone dead, but they have diminished the territory's appeal compared with the other major tax havens in the region, The Bahamas and Panama, which have never relied on a single selling point in the form of a favourable treaty relationship with the United States, and where taxes and regulations are lighter overall.[4] Simon, my contact in Panama, wasn't lying when he told me that.

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[3] The Antillean government amended the Profit Tax Ordinance immediately after the 1963 protocol came into force to make the holding company regime elective, whereas it previously applied by default. At the same time, the government introduced a new fifteen percent tax rate for dividends. Accordingly, if a company opts out of the special regime, it now suffers fifteen percent U.S. WHT on dividends and pays fifteen percent Antillean tax on the net receipt, i.e. 27.75 percent tax in total. Interest and royalties are free of U.S. WHT, but are taxed at thirty percent in the Antilles. If the company elects to be subject to the special regime, then the reduced rates of WHT under the treaty are only available if: (i) the payment is made by a U.S. corporation that derives less than sixty percent of its income from passive investments, and the Antillean company owns at least twenty-five percent of its stock; (ii) the Antillean company is wholly owned by Dutch residents; or (iii) the U.S. company is a ninety-five percent subsidiary of the Antillean company (in which case the WHT on dividends is only five percent).

[4] Even after the 1963 changes, the situation of the Dutch Antilles is still sufficiently benign to make it an attractive jurisdiction for investment funds, particularly ones that are oriented towards the United States. In August 1967, for example, Curaçao was chosen as the location for the Five Arrows Fund, a joint venture between Rothschild Frères of Paris, Baron Edmond de Rothschild of Geneva, N.M. Rothschild & Sons of London, Banque Lambert of Brussels, and Pierson, Heldring & Pierson of Amsterdam.

By 1966, the number of holding companies registered in Curaçao and Aruba had reportedly declined to about 800, but the Dutch government was not perturbed by this trend, having decided to concentrate on improving the mother country's own credentials as a base for foreign investment. Metropole would now take precedence over colony in providing a free zone for Europe; Curaçao was henceforth to be played only in the minor key, while the major would be reserved for "Europoort." With this massive upgrading and expansion of the port of Rotterdam, undertaken between 1958 and 1964, the Dutch authorities envisaged creating a literal "gateway to Europe," by supplying the bonded warehouses and marshalling yards for an entire continent. The philosophy behind Europoort is not dissimilar from the one that prevails in tax havens, although the Netherlands has been mindful of exhibiting enough sobriety in the business of tax enforcement to keep its sceptical Common Market partners off its back.

Most of the other rich industrialized nations embrace the opposite type of response. To a greater or a lesser extent, in Britain, the United States, and the larger countries of continental Western Europe, taxes are seen not only as a means of raising public revenue but also of securing a general redistribution of income and wealth, not to mention incentivizing certain sorts of economic activity and discouraging other kinds. As a result, these countries have some of the highest marginal tax rates in the world, although the mix varies somewhat from state to state between indirect taxes, the burden of which is typically passed on to the end consumer, and direct taxes on capital and profits. So all of these nations have an interest in preventing tax evasion, of both the purely domestic and the cross-border variety, and in plugging the loopholes that clever people are wont to find in even the most carefully-written laws. It is like a constant duel in which one party possesses modern artillery, while the other has to make do with a rickety suit of armour.

All other things being equal, you might assume that it would be hard to put a cigarette paper between these First World countries when it came to the staunchness of their opposition to tax havens. For they share the same motivation, surely, to trace hidden funds through to their ultimate owners and to resist the use of factitious sovereignty as a cover for fraud or sharp practice. You might anticipate that they would all agree equally with the famous dictum of the Vicomte de Bonald: "The worst sort of corruption is not that which flouts the law, but that which makes its own." Yet quite the contrary, in my experience. Wherever you go, you will hear a lot of vehement rhetoric, but, beyond the superficial realm of political posturing, there is no substantive consensus on the best way of dealing with tax havens.

It would be simplistic to attribute this divergence solely to differences of national *weltanschauung*, since there are other considerations at play. But the "mentality" of a particular country is not immaterial, because it delimits how far legislators can go in terms of actually doing anything to counteract the practices that they like to make such a noise about. One eminent scholar at Sciences Po has argued that "in France, when you are talking about taxation, most of us still behave as though we were oppressed subjects of the *Ancien Régime*. We like to tell ourselves that our rulers are no better than a modern-day Henri III or a Madame de Pompadour, and that the French Republic is merely the same protection racket in a different guise. Believe it or not, there are countries where taxpayers feel a sense of civic responsibility!" That last statement is most obviously directed at the United States, but it is also true of Britain, in the sense that if you are convicted of fraudulent tax evasion there, it is unlikely to do your career any good, and may even see you ostracized from polite society.

The City and the invisible Commonwealth

In their approach to tax havens, however, the two great Anglo-Saxon democracies could hardly be more different from one another. Ironically this is because, in the financial sphere, the British cleave to their own idiosyncratic faith in "manifest destiny." It is largely irrelevant whether the government is drawn from the Conservative Party or from the Labour Party, since the British ruling class as a whole derives much of its self-identity, of its purpose in life, from the myth of Britain as a global power. They prefer to gloss over the fact that the dominions drifted away long ago and that the colonies have now almost all seceded; for them, the distinction between Empire and Commonwealth is a tedious point of nomenclature. The important thing, in their eyes, is that despite an embarrassing series of setbacks and defeats, London is still the beating heart of a vast international network of influence, and that is always something worth preserving, however nebulous it may have become.

The power that matters, in this day and age, isn't so much military strength, political control, or industrial pre-eminence. It is a long time, after all, since mass manufacturing was a British prerogative, and even the high-tech sector has lost ground to its competitors in recent decades. No, the mainspring of British influence nowadays is commerce and, above all, finance. Not only does the sterling area still exist, but the pound remains the medium of settlement for almost a third of the world's trade. It is the second most important international reserve currency, behind only the United States dollar. Numerous Commonwealth and other countries maintain large sterling balances in London, a proportion of which represent sums that they originally lent to the United Kingdom during World War II. The British government is most anxious that there should be no wholesale liquidation of these balances, which would quickly exhaust the country's foreign exchange reserves; and the price that it pays to hold onto these pools of capital is felt in the form of higher interest rates across the rest of the economy.[5] The differential between the return on capital in London and that available elsewhere has presumably helped to bolster confidence in sterling, even if it has done nothing for the competitiveness of the domestic industrial sector.

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[5] British interest rates have exceeded those payable in Switzerland by approximately three and a half percentage points, on average, since 1960 (the differential is somewhat larger for short-term rates than it is for long-term ones). According to official estimates, when the Six-Day War broke out in June 1967, the sheikhs and emirs of the Persian Gulf withdrew around ten percent of the funds that they had on deposit in London and invested it in Switzerland instead, notwithstanding the lower rate of return. But the Swiss banks immediately turned around and reinvested an equivalent sum in London for their own account, much to the sheikhs' consternation. The moral of the tale was not lost on them. Nevertheless, the overall volume of Arab funds held by the City had declined by the end of that year, partly because the richer Gulf states were obliged to make good on their promises to reimburse Egypt and Jordan for some of their war costs, but also because they decided to punish both sterling and the dollar by buying significant quantities of gold.

Today, instead of the visible Empire of which Whitehall was the capital, there is an invisible Commonwealth with its command centre in the City. The sterling area tax havens are its outposts, jumping-off points in the lee of Europe, America, and Asia from which to launch audacious financial sorties. These tax havens would not exist but for the City, and the City could not exist without them. They funnel towards London the millions of the Middle East, the private wealth of Greek shipowners, and a sizeable chunk of the profits that American corporations make outside of the United States. They are a big part of the reason why, even after years of restrictive regulation, the City is still one of the premier repositories for global capital, a centrical hub that is assisted greatly by the mother of all diasporas, namely that of its banks, its insurance companies, and its shippers, all of which bestride the world's oceans with consummate ease.

The UK may be a fiscal hell for your average Briton, but the City's sunny places—kept at arm's length, mark you—are a paradise for foreigners, to whose every whim they cater. What is more, the bankers and lawyers in the City also have plenty of useful services on offer for the affluent British elite of the 1960s. In no other country of the world is there such a clear demarcation between ordinary citizens, who are expected to abide by the tax code, and those whose occupations more or less presuppose that they will find a way around it. Governments have doubtless paid lip service to the merits of financial levelling, by enacting estate duties so severe that even the most august of fortunes can be wiped out by a couple of deaths in succession, and through such steep rates of income tax as to make indolents of the ambitious and emigrants of the enterprising. The first Labour administration after the war abolished the City's "rotten borough" quota of two MPs in the House of Commons, which was anachronistic and superfluous given that the interests of the financial sector are championed by the preponderance of representatives of both persuasions anyway. The present Wilson cabinet has trodden on the City's toes to some extent, meanwhile, by tightening the exchange control regulations and by significantly extending taxation of capital gains.[6]

At the same time, however, regardless of who has occupied Number Ten Downing Street the authorities have looked kindly upon the preservation of the large concentrations of private wealth that the country needs in order to pursue its diverse objectives overseas. There is an obvious disconnect between that general worldview, and the heavy taxation (on paper at least) of income and capital. One way in which this circle is squared is by allowing some of the best-heeled Britons to shake off the shackles of domestic tax law, without leaving the sterling area or the penumbra of British subjecthood. Yet there is a risk, especially in view of the latest tax rises and of increasing financial repression, that tax avoidance and evasion will be "democratized," with increasing numbers of people willing to engage in it. In spite of that danger, the current Chancellor of the Exchequer, Jim Callaghan, has thus

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[6] Harold Macmillan's Conservative administration had already intensified exchange controls in response to the sterling crisis of 1961 by subjecting direct investment abroad to official authorization, which is only granted where the foreign exchange cost will be recouped over the short term, i.e. within two or three years. Wilson's Labour government introduced a raft of new measures in 1965, including restricting the amount of currency allowed for foreign travel and further limiting the "investment pool" of foreign exchange available for overseas portfolio investment. It was in 1965, too, that the UK imposed comprehensive taxation of capital gains for the first time; there had been a limited tax on short-term speculative gains since 1962.

far taken no steps to ensure that it is only the rich who have access to tax havens.

Flight to Jersey and Guernsey

Notably, the British government has done nothing to impede the sudden recent surge of activity in the Channel Islands, which are the UK's closest and most accessible tax haven, just a couple of hours away, with no need to adapt to a different climate or culture. Annexed to Normandy by William Longsword, and forgotten about by Philip Augustus when he retook the Duchy from John of England, the Channel Islands are not part of the United Kingdom, but are discrete dependencies of the British crown. Jersey is the largest island, both in terms of territory and population, while the second-largest, Guernsey, has two sub-dependencies, Alderney and Sark, which possess their own itsy-bitsy legal systems.[7] Although they are in monetary union with the UK, and are therefore part of the same jurisdiction for exchange control purposes, the islands are entirely self-governing in fiscal matters and make no contribution to the national exchequer.[8]

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[7] Jersey is about 120 square kilometres in area and has a population of about 65,000. Guernsey is roughly half of Jersey's size but is more densely populated, with around 50,000 people. Alderney and Sark are tiny (eight, and five and a half square kilometres respectively) and have a combined population of about 2,000.

[8] This differentiates them from the third "Crown Dependency," namely the Isle of Man in the Irish Sea, which has a separate direct tax system but is in a customs union with the United Kingdom.

That places the Channel Islands in a plum position, not least because the top rate of income tax there is four shillings in the pound, i.e. twenty percent, whereas in Britain it goes up to ninety-one and a quarter percent. There is a "corporation tax," but, for companies that are not controlled in the islands and do not conduct any business there, it is a mere one hundred pounds per annum.[9] There is no surtax, capital gains tax, or inheritance tax; and, if you are domiciled in the islands and own property in Britain through a local holding company, then your British assets won't be subject to UK death duties either.

For those reasons, the Channel Islands have been a roosting place for millionaires, and for a small elite of multinational firms, ever since the inter-war period.[10] In 1920, for example, the restaurant chain and processed food conglomerate J. Lyons & Company established the Overseas Trading Corporation in Jersey, which still packs tea and exports it all around the world. Other international concerns, such as the Gillette Company, have also entrusted the administration of some of their most important subsidiaries to Channel Islands lawyers.[11] And for decades now, British oil companies have adopted the practice of paying expatriate workers based in the Middle East and elsewhere via bank accounts in Jersey and Guernsey, so as to minimize their tax

[9] Reduced to fifty pounds if the company is controlled outside of the islands but "within Her Majesty's dominions."
[10] At the time of writing, I understand that there are fourteen sterling millionaires living in Jersey.
[11] In Gillette's case, the companies were Foreign Industrial & Commercial Limited and Textile & Financial Company Limited, which were responsible for parts of its business in continental Europe.

liability and make it easier for them to spend their earnings overseas.[12]

It was not until the mid-1960s, however, that the real exodus to the Channel Islands began. Two hundred and seventy-four new companies were registered in Jersey and Guernsey in 1964, and 351 in 1965, such that the total number by the end of 1966 was around 1,500. Over the same three-year period, at least a dozen new banks sprang up there like mushrooms after the rain—some of them branches of well-known institutions—and are actively soliciting the savings of both Brits and foreigners. Five offshore investment funds were launched from the islands during the course of 1965 alone.[13] In May 1966, Leonard Matchan (chairman of the manufacturing group Cope Allman, which had just relocated the management and control of some fifty of its subsidiaries from London to St Helier, the capital of Jersey) told *The Wall Street Journal* that, "from a financial perspective, the Channel Islands are well on their way to becoming a little Switzerland."

The Swiss authorities would not exactly have been ecstatic about that comparison. In fact, they had suffered something of a sense of humour failure in 1964, when the British firm Barro and the Zurich bank Cifico set up a joint venture in St Helier called the

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[12] Even people who are both resident and domiciled in Britain do not have to pay tax on income from "an employment wholly outside the United Kingdom," unless they remit the earnings to the UK.

[13] An "offshore fund," as the name suggests, is an investment fund located in a tax haven. Since the UK introduced capital gains tax in 1965, these funds have become popular because they eliminate the tax at the entity level, thereby deferring any charge on gains until the investor sells his units. (Funds that accumulate their income rather than distributing it annually potentially have additional advantages, but anti-avoidance rules somewhat diminish their attractiveness where British residents are concerned.)

"Swiss Jersey Bank of Commerce." The partners were forced to change its name to "Jersey International Bank of Commerce" after the Swiss government complained that they were taking the country's name in vain. There seemed to be scant control, meanwhile, over who could or could not describe themselves as a "bank"; the British Board of Trade, which regulates the use of that word in English company names, does not regard its writ as extending to the islands. Nor, apparently, did the Board believe that it was within its remit to warn the British public about the risks associated with depositing money in banks that were incorporated in the Channel Islands, but had branches on the UK mainland. This hands-off approach led to unfortunate scandals, which were splashed all over the press and attracted the attention of criminal investigators.[14]

On 22 February 1967, one newspaper in St Helier ran a strong editorial declaring that it was "for the authorities to determine

[14] In early 1966, for example, two directors of the Bank of Alderney, which is registered in St Anne but has branches in London and Malta, were each fined sixty thousand pounds after being convicted of fraud in a trial at the Old Bailey. The bank, which was found to have been "deliberately involved" in the fraudulent transactions, suspended payments in mid-1967. At around the same time, the Board of Trade was investigating the failure of a number of cut-price insurance companies that they suspected had been established for the main purpose of defrauding policy-holders. Channel Islands banks featured in this investigation, as did "suitcase" companies in Bermuda and The Bahamas. The London newspapers, with their close ties to the City, tended to play down the severity of these incidents. But the Jersey government was sufficiently chastened to amend its company law in 1965 so that the regulator can now refuse registration to companies whose proposed names are felt to be "in any way undesirable." The island also passed a Prevention of Fraud Law in 1967, which requires deposit-takers to register with the local authorities and to submit returns annually.

whether certain transactions are only entered into for the avoidance of tax, and to amend the law to deal with them." For once, this remark was not directed towards those in the United Kingdom who make it their business to complain about the islands' tax privileges and to demand that they be stamped out. Instead, the author was referring to the avoidance of Jersey taxes by certain crafty residents who had taken it upon themselves to turn the feudal commune of Sark into their own pocket Liechtenstein.[15]

The Channel Islands undoubtedly have their detractors in Britain, but I do not think that the Labour cabinet can be included among them. On the contrary, the government seems happy to run the risk that a certain amount of monkey business will take place there, provided there isn't too much fallout. It has no real desire to block off one of the avenues whereby the City exercises its global reach, particularly now that Britain has decided that it wants to join the Common Market.[16] For whatever you might be inclined to assume, the upper echelons of the Labour Party have no axe to grind vis-à-vis the City of London.

[15] Although Sark is administered as part of the Bailiwick of Guernsey, it is a separate jurisdiction under the authority of an hereditary "Seigneur." This means that companies incorporated in Jersey or Guernsey, but nominally controlled in Sark, can meet the criteria to be treated as non-resident "corporation tax companies," such that they are subject only to the *de minimis* charge referred to above.

[16] In a recent paper produced for the merchant bank Hill Samuel, the economists Maxwell Stamp and Margarita Eagleton predict that "Britain will join the EEC without the Channel Islands, just as France joined but Monaco didn't, ditto Italy and the Vatican." While Guernsey is concerned about the effect that staying out might have on its agricultural exports, the government of Jersey is convinced that it would be disastrous to join, because it would entail the Channel Islanders giving up their internal autonomy, fiscal sovereignty, and control over immigration.

In fact, based upon rather dubious prognostications, the two groups have reached a tacit understanding, that industrial productivity is to be sacrificed on the altar of financial prestige. Although he has wholeheartedly embraced the European project, Harold Wilson nevertheless fought for three years to stave off a devaluation of sterling—essential for restoring the competitiveness of British industry—such was his fixation with preserving both the pound's role as a reserve currency, and the City's ability to make the most of its nexus with the smaller financial centres in the sterling area. Taken to its logical conclusion, this unwritten pact implies that the factories of the Midlands and the Clyde will be abandoned in order to reinforce Hong Kong, The Bahamas, and other distant archipelagos that are more useful for projecting British economic power in the late twentieth century. There is an obvious analogy with the way that the British general staff has relinquished its traditional garrisons east of Suez in favour of constructing airbases on minute, obscure islands that either already belonged to the Crown or that the government has discreetly acquired for that specific purpose.[17]

[17] In 1965 the United Kingdom created a new colony, the British Indian Ocean Territory, formed from four scattered atolls some 3,000 kilometres apart: Aldabra, north of the Comoros; the Farquhar Group, northeast of Madagascar; Île Desroches in the Seychelles; and the Chagos Archipelago to the south of the Maldives (the largest of the Chagos Islands is Diego Garcia). The total population of these territories is in the region of 1,250 people. In 1967, the British government spent just over a million pounds on purchasing all of the privately-held land in the colony from its owners Paul Moulinie, André Delhomme, and the Chagos-Agalega Company. Although the Maldives became an independent state in 1965, the Royal Air Force has also retained Gan Island as part of Britain's strategic bases policy.

Contrast the British approach with that of other European nations that once possessed empires upon which the sun never set, and that now cling to their colonial remnants as does a peasant to his little patch of earth, however barren it may be. There is not much interest in tax havenry among the countries of the Iberian peninsula. Spain has done nothing with the Canaries, and she doesn't keep on at Britain about Gibraltar because she has the slightest intention of turning it into a new Tangier. Franco wants the Rock "because it's Spanish," and that's all that there is to it. Portugal hung on to Macao, and until 1961 to Goa, because she saw them as integral parts of the Portuguese state, rather than for the sake of their respective roles as centres of the gold trade and the opium business. Neither of those markets had ever been under Lisbon's effective control in any event.

Germany was stripped of its colonies after World War I, but modern Germans don't really "get" tax havens anyway. In today's West Germany, regimented and industrious, as entombed in its own wealth as other countries are by poverty, offshore financial games are viewed as all very well for fortune-hunters, but as being beneath the dignity of German companies, whose quality and after-sales service sell themselves. The cases of Italy and Greece are more surprising, because although they are endowed by nature and history with remarkable potential for tax havens, they don't actually possess any. Greece would never be able to keep the Greeks out of them! On a more serious note, though, even the most successful Greek people seem to find it hard to overcome a subliminal distrust of their homeland. They prefer to fragment and to internationalize their affairs: to be a citizen of one nation, to live in another, to keep their money in a third.

Italy's reticence is harder to explain, as we are talking about the country of Lombards and Florentines, the only place to have made princes out of her merchants as a matter of course. In the 1920s and 1930s, Italy succumbed to a geopolitical crassness that elevated the conquest of Ethiopia, Corsica, and Savoy into strategic objectives. It was in that period, too, that the country made its only recent foray into the world of offshore finance, when it succeeded in creating a tax haven, but one whose sole beneficiary is the Pope. In 1929, Mussolini signed the Lateran Pacts with Pius XI, establishing the new state of Vatican City and thereby finally resolving the "Roman Question." In exchange for the Pope's abandonment of all claims to the historical Papal States that had ceased to exist in 1870, the Italian government paid him 750 million lire in cash and a further billion lire in government bonds. Thanks to careful management by the Special Administration of the Holy See (SAHS), and to injections of funds from other sources, this considerable seed capital had been multiplied one hundredfold by the mid-1950s.

If the first criterion of a tax haven is that it should be broadly accessible, then one has to concede that the Vatican fails on that score. Yet it does have many of the other characteristic attributes. In the first place, its liquidity is near-inexhaustible; the value of the Holy See's numerous holdings of stock, by themselves, has been estimated to exceed the gold and foreign exchange reserves of the Bank of England by a factor of three.[18] The Institute for the Works

[18] In an article dated 27 March 1965 (which has since been cited elsewhere), *The Economist* evaluated the size of the Vatican's worldwide portfolio, one-tenth of which is in Italian securities with the remaining nine-tenths representing foreign stocks, at 5.6 billion dollars. The 26 February 1965

of Religion, sometimes referred to as the "Vatican Bank," which was established in 1942, has an enviable network of connections throughout the Catholic world and benefits, owing to its status as a sovereign institution, from diplomatic privileges.[19] This enables it to act as a clearing house for various kinds of international business, not all of it religious in nature. Furthermore, it presently enjoys a complete exemption from taxation in respect of dividends that it receives from Italian companies.

This special dispensation was last confirmed in 1963 by the government of Giovanni Leone, which issued a circular to banks and other corporates instructing them not to withhold Italian tax from payments to the Vatican. It is likely that overseas assets owned by the Holy See are also generally exempt from taxes under the overriding principle of "sovereign immunity." In 1967, Pope Paul VI sanctioned a major reorganization of the Vatican's finances, combining the SAHS and the APHS into a new body, to

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issue of *Time* magazine, on the other hand, put "the Vatican's wealth" at ten to fifteen billion dollars in total, of which shares in Italian firms accounted for 1.6 billion dollars (one trillion lire) or fifteen percent of the total market capitalization of all of the companies listed on the Italian stock exchange. Speculation mounted, to the point where the Pope, in an effort to quell the rumours, commissioned an official balance sheet for the Holy See that he intends to publish at a future date. A high-profile Italian banker, the chairman of a large private bank, was even asked to look into the eventual establishment of a Vatican currency, separate from the lira, that would be backed by the Holy See's global collection of assets. One must emphasize that this was, at that stage, a purely theoretical exercise.

[19] According to the IMF, the Vatican Bank is not the central bank of Vatican City, as that role falls to a separate organization, the Administration of the Property of the Holy See (APHS). Some observers doubt whether the Vatican Bank can truly be called a bank, preferring to describe it as a "*sui generis* financial institution."

be known as the "Administration of the Patrimony of the Apostolic See," which will streamline the management of the Church's real estate, treasury operations, payroll, and so forth. Whatever the result of this exercise, you may be sure that the supreme pontiff, *per angusta ad augusta*, will continue to utilize all of the financial and fiscal levers at his disposal for the furtherance of God's works and designs.

What befell Djibouti?

France's attitude to tax havens ostensibly wavers between ferocity and ineptitude. The Third and Fourth Republics tolerated Tangier as a kind of bribe payable in respect of the French conquest of Morocco, while the Fifth Republic crushed Monaco, which had no alternative but to depend on France. We have been content to leave Andorra in a mediaeval doze, and we are decidedly apathetic about New Caledonia, even though the latter, with its low-tax regime and the Pacific franc, could potentially be an Oceanic Bahamas for the advancement of French interests. Most tellingly, on the only occasion when France deliberately tried to set up a tax haven, in French Somaliland, we made a complete mess of it.

Djibouti sits at the junction of the Red Sea and the Indian Ocean and is connected by rail to Addis Ababa, making it an important point of entry to Ethiopia, especially since the road link from the port of Assab in Eritrea has a rather hazardous reputation. In the late 1940s, the French government decided that the only way to stem the leakage of foreign exchange through this impoverished territory, which is entirely isolated from other French possessions, was to turn it into the Tangier of East Africa. There is no direct tax in Djibouti, and the authorities built upon this foundation in 1949 by declaring the town a free port. In the same year, the Djibouti franc was uncoupled from the French franc, made freely convertible, and pegged to the United States dollar. Despite these promising beginnings, however, the colony failed to live up to expectations as a financial hub.

I have never made the trip myself, so I can only judge from other people's reports, but I gather that it would be beside the point to blame the climate, or, for that matter, the debilitating consumption of *khat* (600 kilograms is flown in from Harar every day, and the local Somali workers spend half of their salaries on it). No, the problem here was obvious, which was that the British colony of Aden was immediately the other side of the Bab-el-Mandeb. While Aden suffered from many of the same problems as Djibouti, it was nonetheless a much more attractive location for shipping, commerce, and finance; at least it was until February 1966, when the Brits announced that they were about to leave.

Djibouti did benefit to some extent from the debacle in Indochina. Its tax regime and currency switching facilities drew in around fifteen large firms that were no longer welcome in Saigon but still had vast landholdings in Southeast Asia and in Africa. Some of them stayed right down until 1967, when French Somaliland became "the French Territory of the Afars and the Issas," after which a few relocated to New Caledonia. Realistically, however, there were never more than about a hundred holding companies of all sizes registered in Djibouti. Besides, it was no great advantage if investment capital rolled in, when there was no business there worth investing it in. All right, that's slightly unfair, because there were a few crumbs to be had from the occasional gold transaction with Egypt or Yemen, but there was a reason why all of the serious players in the Red Sea area, such as the Frenchman Antonin Besse, chose to base themselves in Aden.[20]

Part of that reason was that French Somaliland—which is 23,000 square kilometres in area, less than a tenth of the size of Aden Colony and the Aden Protectorate combined, and was home to 85,000 people in 1960—had an official budget that was five times larger than that of the British possessions in Yemen on a per capita basis. Most of this excess was attributable to sustaining a bloated administration, although note that salaries in Djibouti are double those in Aden and three times higher than they are in Assab. The decision to peg the Djibouti franc to the U.S. dollar was misconceived; it would have made more sense to link it to the East African shilling, as that was the currency used by most of the neighbouring states. Worse, the French committed a schoolboy error by choosing to eliminate all direct taxation, even of a moderate and selective kind, since this this meant that when France insisted on the territory becoming more self-supporting, in 1956, the authorities were forced to resort to an eighteen percent "internal consumption tax." Difficulties of enforcement led to the tax effectively being transformed into an import duty in 1962, which

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[20] Antonin Besse arrived in Aden in 1899 aged 22, and, after an apprenticeship with a French trading house, founded his own firm dealing in incense, coffee, and other commodities. In 1923, he was appointed agent for Royal Dutch Shell in southern Arabia and the Horn of Africa, a position that brought him immense wealth and allowed him to become the major builder and operator of shipping in the Gulf of Aden. Prior to his death in 1951, Besse donated 1.25 million pounds to establish St Antony's College, Oxford, now a leading British centre of expertise in matters concerning the Arab world.

naturally put a dampener on the entrepôt trade. In consequence, a lot of the financial and other services that could have fed off the latter decamped to Aden instead.

This maladroitness was encapsulated, for me, in a speech that was delivered by a Governor of Djibouti sometime in the 1950s (I'm not going to tell you which one it was). "The goal of the customs and monetary reforms will not have been achieved," he told a roomful of bigwigs, "if their only effect is to turn French Somaliland into a cash desk; that is to say, if the French flag is merely a wrapper for disparate transactions that have no purpose other than profit. Well, gentlemen, why not be honest about it? Some of you have served France with distinction, and, whatever line of work you are in now, you carry the colours before you. You don't necessarily dwell on it all of the time, but you know deep down that the *tricolore* is not just something that we fly over trading stations, it is a symbol of our national pride." General de Gaulle expressed essentially the same sentiment during his trip to East Africa in 1959: "Djibouti is French, and that won't be changing any time soon." By August 1966, when he visited the territory for a second time, the President was compelled to couch himself in more conciliatory terms.

With people of that school of thought calling the shots, no wonder Djibouti's career as a tax haven was stillborn! For one of the hallmarks of an offshore financial centre is that no one feels truly at home there. If the instinct beats in your breast to share your patrimony by making a gift of your Gallic heritage to all and sundry, in other words when Dunkirk comes to Tamanrasset, then it is sometimes possible to create a functioning polity, but not so much a sanctuary for international capital. France is by no means absent from the world's tax havens, thanks largely to the efforts of two outstanding financiers, Alfred Pose of BNP and Jean Laurent of the Banque de l'Indochine. They and their acolytes have ensured that the names of those two institutions are known around the globe, which, in turn, makes it that much easier for other French companies to do business there. But there is no French tax haven, and this deficiency seems inevitable, when you consider the habitual hostility that our monolithic administration exhibits towards international capital movements, which are seen as a destabilizing force.

Indeed, it may not be stretching credibility all that far to posit that there is an underlying continuity in French policy, running all the way back to Philip the Fair's suppression of the Knights Templar, bankers to kings and popes, in 1310. Then there was the imprisonment and forfeiture suffered by the pioneer of the Levant trade, Jacques Coeur, at the hands of Charles VII in 1451; and there was Francis I's inability to deal with Jakob Fugger, kingmaker and master of the international trade in bullion and indulgences, which pushed him into the arms of Emperor Charles V. In our own time, we have had Mr Giscard d'Estaing's determination to stymie the aspirations of Monaco, and, as I write, France is embroiled in a battle with Luxembourg marshalled by Finance Minister Michel Debré, who would be horrified at the thought of his own constituency, La Réunion, becoming a tax haven, regardless of how profitable that might be. In a traditionalist society for which "small is beautiful"—think *petit bistrot*, *petite couturière*, *petite femme*—there is an instinctive suspicion of Eurodollars, of freewheeling finance centres with international ambitions, and even of free ports, which might lead to lucrative industrial spin-offs, but have a tendency to denature everything they touch. Let them do it in Antwerp, Rotterdam, Bremen, Hamburg, Genoa, or Livorno, that's just fine! But no way do we want that kind of thing in Marseille, Bordeaux, or Dunkirk, where the transhipment facilities are totally inadequate in any event.

According to one official of the Currency Board, which has since been abolished, as many as 70,000 French residents had money hidden in Swiss bank accounts during the period of political and monetary turmoil immediately after the war. In such circumstances, as Gaston Lerouge remarked in his 1944 *Thesis on Fraud in Tax Law*, "refusing to do your fiscal duty . . . can appear less an act of selfishness than a manifestation of the instinct for self-preservation, in fact even a kind of obligation to one's family." A faint whiff of that proclivity still lingers, surely, if we think of the gratitude that Mr Pinay expressed towards Switzerland for having preserved a part of France's wealth, or of the long and lenient tax amnesty that was extended to repatriated capital, which frequently served as a cover for financial irregularities. Until 1967, there was no better way of reintegrating dodgy money into the formal economy than by secretly taking it out of the country and bringing it back in again with officially-sanctioned immunity.

With tax fraud now on the rise again in France, it is understandable if the authorities sometimes appear to be doing an impression of Courteline's *Pitiless Policeman*, who of course was "pitiless but compassionate." The *forfait fiscal*, for instance (which one British commentator has aptly characterized as "the right to be taxed on an arbitrary basis") is prone to lull taxpayers into believing that, to quote Gaston Lerouge again, "tax is imposed not by right of authority but by a private law contract, freely entered into, with the result that the state may legitimately be diddled."[21] There are doubtless several interrelated considerations behind the strange blend of vigilance tempered with restraint that we see in France today. The sense of injustice felt by some workers about the preferential treatment given to agriculture, trade, and the professions. The political imperative to proceed with extreme caution when contemplating reforms, which might tread on the toes of any number of special interests. And the government's belief, until relatively recently, that it would actually impair its ability to raise revenue if it tried to crack down too hard.[22] When you compare us with the Americans, things can certainly seem terribly lax.

And that was before the French authorities decided that it was vital to help Paris grow into a major European financial market, which necessitated amending the law so that behaviour previously regarded as tax evasion was now perfectly legal! This consequence may well have been unintended, but there is no

[21] The *régime de forfait*, which excuses smaller traders from the rigours of preparing a proper income statement, and instead taxes them on a fixed percentage of turnover, is almost as old as the income tax itself, dating from 1917. It is probably a coincidence, albeit an amusing one, that in the language of our forefathers *forfait* meant "a felony" or "a heinous crime."

[22] Lerouge, who teaches at Sciences Po, has drawn attention to the significance of fiscal influences on French political history: "When you read the lists of grievances, you realize that Frenchmen in 1789 were more interested in tax reform than they were in establishing representative democracy. Tax revolts tend to foreshadow wider political earthquakes. The election of Napoleon III was in some respects a response to the Second Republic's extension of direct taxation. Moreover it is no coincidence, in my view, that the appearance of Poujadism was followed not long afterwards by the collapse of the Fourth Republic."

denying that the 1967 reform of exchange control drove a coach and horses through the carefully balanced regulatory apparatus that had until then kept tax compliance within acceptable margins. Since the rules were amended, it has been lawful for French people to transfer unlimited amounts of cash to Switzerland or Luxembourg, to buy whatever securities they like, and to have the dividends and interest freely remitted to them in France. They are supposed to declare any such income to the tax authority, but, given the lack of monitoring, it is only their consciences that can force them to do so.[23]

[23] Note, on the other hand, that where investments in French equities are concerned, there is seldom any point in holding them through a tax haven so that you don't have to declare the dividend income. That is because since 1965, when a French company pays a dividend to someone resident in France, the recipient is entitled to a tax credit or "*avoir fiscal*" equivalent to fifty percent of the amount of the dividend. This is treated as a prepayment of their own tax liability. So if the dividend actually declared by the company is ten, you are viewed for tax purposes as if you had received a gross dividend of fifteen, on which thirty-three and a third percent tax has already been paid. Leaving aside surtax and other potential complications, then provided your own marginal rate does not exceed the deemed tax, you have no additional liability. Contrast that with the position were you to transfer the stock to Switzerland, in which case you would lose your entitlement to the tax credit, as well as suffering twenty-five percent withholding tax on the actual amount of the dividend. So in the above example you would receive a net dividend of seven and a half, representing an effective tax rate of fifty percent. Unless your marginal rate is above that level, you derive no benefit from the transfer; and, to be paying tax at that rate, you would have to be in one of the very highest tranches, with annual income of more than 200,000 francs, which means that your stock portfolio would need to be worth about four million, disregarding any other earnings.

The incorruptibles versus the untouchables

Washington is at the other end of the spectrum from Paris, having launched a systematic crusade against tax havens at the beginning of the 1960s. It was probably motivated more by the sheer number of American citizens who were making use of them than by any deeper conviction that they are anathema to the standards and mores of the United States. All the same, every American—it's there in black and white in the Declaration of Independence—has a right to "the pursuit of happiness." Everyone must start out equal in the salutary race to enrich himself, even those who were not initially favoured with the "blessing of wealth" of which Benjamin Franklin eloquently spoke.[24] Yet equality of opportunity is a fragile flower, requiring constant reinforcement. The chosen tools for this jihad in the cause of egalitarianism are the agents of the federal tax authority, the Internal Revenue Service (IRS), "incorruptibles" worthy of the name who do battle against the "untouchables" of the American underworld. The IRS is charged with nothing less than the preservation of righteousness, which is the ideological fundament of American capitalism, against grifters who threaten to undermine it by their apostasy.

In "Westerns," the hero is rarely the local sheriff. Instead he is a stranger, a manhunter from out of town, who splits the scene as soon as his work is done. Likewise, in real life, when whole districts of the United States were up for sale, police and judiciary

[24] "The man to whom God has given wealth, and the soul to use it wisely, has received a particular mark of His grace," wrote Franklin, whose life and works have been an inspiration to America, and who coined the phrase "time is money."

included; and when this had been going on for years, to the point that an inquiry had been instigated by the Senate; and when suspects and their advisers were wilfully making a mockery of the law by pleading the Fifth Amendment, it transpired that all that was needed to bring these well-protected wrongdoers to book was the intervention of a steely tax inspector, who could prove culpability for the only unpardonable sin in American life, namely failing to stump up in proportion to your means. And while the IRS is upholding economic democracy, another organization, the Securities and Exchange Commission (SEC), which has a wide range of legal and regulatory powers, is tasked with implementing equality between all classes of investor and speculator on Wall Street, so that in theory at least, there are no such things as "insiders" and "outsiders." Truly, representative democracy, the democracy of the marketplace, and democracy in taxation are taken for one and the same thing in the United States.

The full weight of Leviathan's power is on the side of the righteous. They may be the spirit of the law incarnate, but the men of the IRS are themselves placed above it, for in seeking its enforcement they are allowed to resort to the less genteel techniques of espionage, such as burglarizing premises in order to install hidden microphones.[25] They also possess some of the most advanced electronic methods imaginable for sorting and surveilling the population. Nine regional data centres transcribe all of the

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[25] Some detailed examples of this emerged in 1965, during Senate Judiciary Subcommittee hearings chaired by Edward Long. *Time* magazine (30 July 1965) reported, for example, that the IRS had put a hidden camera in the Pittsburgh Chamber of Commerce building, and that they routinely bugged conference rooms where taxpayers were consulting with their advisers about the optimal filing positions to take when submitting their federal tax returns.

information known about individual taxpayers onto magnetic tapes, which are then sent to a sort of robotic mastermind for the whole country in Martinsburg. The super-computer figures out what each taxpayer's return "ought to say" so precisely, that the only thing left for the human operatives to do is to compare the results with what the return *actually* says. After a single year in operation, the increased revenue generated by this extremely costly piece of equipment meant that it had already paid for itself, which is not altogether surprising when you consider that a 1952 inquiry revealed that only about half of the investment income earned by U.S. residents was reported to the fisc.

This onward march of the machines seems to have brought about a transformation in the ethics of a small but very well-off minority of fiscal delinquents. The necessity of abiding by the rules on pain of being clobbered, more or less in real time, has progressively been internalized as a moral obligation. On the flip side, however, your fly-by-night operator is now viewed by the authorities as automatically guilty, for only a villain, surely, would dare to keep things under the counter, unless he were somehow so remote as to be immune from cybernetic surveillance. Perish the thought! By the same implacable logic, every U.S. citizen who works outside the borders of the country is regarded as suspect, and anybody who lives in a tax haven is a suspect squared. Since 1966, Americans residing abroad have been unable to renew their passports without filling out form No. 3966, which asks for their address, their Social Security number, and the reference from their most recent tax return. Well, in fact they can refuse, but all that this will do is to move them to the front of the queue for an immediate audit by the IRS.

The perils of Subpart F

It is not only individuals who are feeling the heat from the American tax authorities. Companies have also been under the microscope, including household names whose international operations are manifestly legitimate. The official view, apparently, is that it is not fair on competitors who confine their business to the United States if multinationals are subject to a lower effective tax rate on account of their overseas activities, no matter how scrupulously they abide by the law. Hence, the right of "hot pursuit," which the Pentagon has recently arrogated to itself in respect of the Ho Chi Minh trail, is now in vogue in the sphere of fiscal policy too. Indeed, something like this principle has long existed in American tax law, since U.S. citizens are taxable on their worldwide income regardless of whether they reside in the United States or not, a rule that tax officials in many other countries regard as unrealistic and even nonsensical. Until 1962, however, American companies (though not individuals) could effectively sidestep this draconian regime by setting up a holding company in a tax haven.[26]

Profits attributable to overseas branch offices of U.S. corporations have always been taxable in the United States as a component of their overall income. The position as regards foreign subsidiaries is different, because, being incorporated outside of the country, they are not themselves taxable there. In principle, of course, they will pay tax in whatever jurisdiction they are registered in, but, as we have seen, there are a number of tax

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[26] U.S. individuals have been subject to tax on the income of "foreign personal holding companies" since 1937.

havens where certain classes of company are taxed very lightly or not taxed at all. The United States could make no claim on the accumulated earnings of those subsidiaries unless and until they were remitted to the parent company as a dividend. So one great attraction of offshore holding companies was that they allowed American firms to self-finance their overseas operations outside of the U.S. tax net. Profitable subsidiaries would be owned not directly by the American parent, but by an intermediate holding company in an appropriate jurisdiction, commonly referred to as a "base company." The operating subsidiaries would pay dividends to the base company, which would *not* pay them on to the parent (unless the funds were required in the United States), but would instead recycle them around the group as necessary, lending to existing subsidiaries or capitalizing new ones.[27] This structure

[27] Until Congress amended the law in 1960, another advantage of base companies was that they could be used as a "mixer" to maximize the benefit of foreign tax credits. The U.S. tax system used to cap the double tax relief available in respect of foreign tax paid on the profits of each individual subsidiary at the rate applicable in the United States (currently forty-eight percent). So if the rate of tax in the subsidiary's jurisdiction was, say, sixty percent, the American parent suffered unrelieved double taxation of twelve, as it could not set the excess foreign tax off against its other income. But by holding multiple foreign subsidiaries through a base company, the parent could effectively average out the tax rates paid by all of them. So if subsidiary A paid sixty percent, but subsidiary B only paid thirty percent, by the time the base company distributed its own profits to the parent, they were viewed as having suffered tax at a blended rate of forty-five percent, thereby ensuring that there was no "wasted" foreign tax that could not be credited in the United States. Since the law was changed, the parent can simply elect for the more favourable treatment, without needing to set up a base company. (Note also that the arithmetic was more complicated than is set out above, because the U.S. tax rules then in force effectively allowed both a deduction

worked so well that it became more or less standard practice for American multinationals.

Shortly after he arrived in the White House, President Kennedy proposed a new law to Congress that had been drafted on the advice of Professor Stanley Surrey. Enacted as Subpart F of the Internal Revenue Code in October 1962, Kennedy's law severely restricts the advantages of offshore holding companies by taxing their U.S. shareholders on the company's undistributed profits, insofar as those profits consist of passive income or of other specified types of earnings that are deemed to be "abusive."[28] So fearsome are these new rules regarding "controlled foreign corporations" (CFCs) that the main focus of tax planners in the United States over the past few years has been on trying to ensure that overseas subsidiaries are not classified as CFCs in the first place.

Whoever can pinpoint the impetus that drove the President to expend so much political capital on pushing through this reform will do a great deal to enhance our understanding of the broader trajectory of American statesmanship. Bear in mind that the U.S. balance of payments had actually improved somewhat following the scare of the late 1950s, although the deficit ballooned again in 1963. There is a arguably a parallel between Washington's

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and a partial credit in respect of the foreign tax, which has not been the case since a separate law change in 1962: see note 31 below.)

[28] In addition to interest, dividends, royalties, etc., Subpart F also applies to: (i) profits earned by the subsidiary from cross-border related party transactions (the purpose of this rule being to catch income that is "diverted" from high-tax countries into tax havens, generally by manipulating the pricing); and (ii) profits (of any description) that are invested in the United States, for example by being loaned to the parent company.

increasing embrace of globalism in the tax sphere, and the path trodden by U.S. diplomacy since the inter-war years: that is to say, a move from isolationism to multilateralism, from reclusiveness to a politics of international intervention. Under President Roosevelt, Americans were encouraged to believe that the power of their country, young and rich, was sufficient not merely to deliver Europe from Nazism, but to free other nations, young and poor, from the colonial tutelage of the old metropoles. Maybe, under President Kennedy, the United States judged that the time was ripe to cut the invisible financial strings that run from tax havens, which keep other countries tied up in knots. Seen thus, the policy was born out of a kind of idealism comparable to the zeal that led successive U.S. administrations to devote significant time and energy to rooting out secret price-fixing cartels.

I am more inclined to go along with that interpretation than I am to favour the somewhat jaundiced view, which doesn't ring true to me where the Kennedys are concerned, that the American government was simply pursuing the path of least resistance. Admittedly, there were plenty of other measures that they could have taken to alleviate the situation whereby not only the very poorest Americans are legally excused from paying tax, but frequently some of the very richest as well. Yet to adopt that line of argument is to ignore the fact that Kennedy simultaneously promoted a separate initiative, rejected by Congress, that would have restricted the tax deductions available for contributions to "private foundations," nominally charitable bodies that, in practice, are often controlled by the *soi-disant* philanthropist and run as an extension of his business empire.[29] Kennedy's own family, incidentally, has a private foundation. Personally, I always suspected that JFK and his younger sibling, Robert—who continued at the Department of Justice for some nine months after his brother's assassination before being elected to the U.S. Senate—were driven partly by a desire to improve the moral tone of the Kennedy dynasty, which was established by their father, Joe, the last of the Wall Street operators in the flamboyant style of Bernard Baruch, Jay Gould, and Cornelius Vanderbilt. It was Franklin Roosevelt who kick-started this process of gentrification, when he appointed Kennedy *père* as the first chairman of the newly-created SEC in 1934.

Since John Kennedy's death, some observers have claimed that the only purpose of the current occupant of the White House in carrying on the fight against small financial centres is to distract attention from the "Super-Americans" of Texas, who hardly pay any tax because of the generous allowances available to the owners

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[29] Ordinary Americans are only able to give twenty percent of their income to charity without paying tax on it, but if the aggregate of the tax paid and charitable contributions made by an individual exceeds ninety percent of his income for eight of the last ten years, then he can give away as much as he likes in a tax-efficient fashion. Congress has been preoccupied with tax-exempt foundations since the Truman years, but has only ever chipped away at the edge of the issue by prohibiting some of the more obviously abusive forms of "self-dealing" between a foundation and its donors. The existing law (in section 503 of the Internal Revenue Code) is notoriously vague and seemingly fails to prevent rather blatant ruses such as gifting your income to a foundation, which then returns it to you by way of an asset purchase, so that you are not taxed on the income but at most pay capital gains tax on the sale. The Ways and Means Committee of the U.S. House of Representatives is currently consulting, for the umpteenth time, on various Treasury suggestions to curtail the misuse of foundations.

of oilfields and cattle ranches. Again, that strikes me as a little too cynical, not least because although the President is from Texas, most of the Johnson family fortune (which was officially recorded in 1964 at just over three million dollars) reportedly derives from broadcasting.[30] In all honesty, I can't see why one needs to resort to such oblique explanations, because it seems perfectly plausible that the main reason why the IRS incessantly combs the world's tax havens in search of fiscal deserters is that the war in Vietnam is placing an enormous strain on America's public finances. Moreover, there is little sympathy among ordinary people for individuals or corporates who are unpatriotic enough to attempt to shield their resources from the Treasury.

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[30] *The New York Times* (20 August 1964) carried a statement signed by the auditors Haskins & Sells—who, the White House was at pains to point out, "have never previously been retained by the Johnson family"—that showed the book value of the Johnsons' controlling interest in the Texas Broadcasting Corporation (TBC, which is formally owned by a trust for the President's wife, Lady Bird) as 2.5 million dollars, while the book value of the President's own holdings of Texan and other real estate (also in trust) was given as 525,000 dollars. The release of this statement was by way of a pre-emptive damage limitation exercise, the Johnsons presumably having been forewarned that *Life* was about to go public (on 21 August) with a very divergent estimate of the Johnsons' wealth based on the magazine's own research. Using estimated market values, rather than book values, *Life* put the Johnson family's true net worth at almost fourteen million dollars, more than four times the official figure. The magazine reckoned that their stake in TBC was worth 7.5 million by itself, and that the real estate would fetch 3.5 million in the open market. Other broadcasting and banking interests and assorted investments added a further 2.5 million. There was also the question of "a somewhat mysterious entity called the Brazos-Tenth Street Company," which had at least 1.5 million dollars in assets and was believed to be connected with Johnson, but whose "stockholders have never been on public record."

It may be, however, that the perceived urgency of being seen to do something about tax deferral by American multinationals has lumbered the IRS with legislation that misses some fairly obvious targets; or, to put it another way, contains a number of "escape hatches." In the first instance, mere operating subsidiaries are not caught by Subpart F, provided that they do not engage in cross-border transactions with related parties or invest their income in the United States. So controlled foreign corporations engaged in manufacturing or sales activities are still often able to accumulate their income without it being charged to U.S. tax. Furthermore, there is a fairly high threshold of thirty percent for the proportion of passive income that a CFC can receive without it being subject to the rules. Hence, it is now advantageous for multinationals to have subsidiaries with a mixture of active and passive income, in place of pure holding companies. In view of the effective prohibition on reinvesting in the United States and the changes to the foreign tax credit, also enacted in 1962, there is in fact a greater incentive for American firms to keep the retained earnings of their subsidiaries outside of the country.[31] That is one reason why the total amount that they had on deposit in the Euromarkets increased from seven and a half billion dollars in 1965 to nine and a half billion in 1966.

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[31] The parent company used to be taxed on the net distribution from the subsidiary after payment of foreign taxes, and would receive in addition a partial credit for the foreign tax, so that—assuming the tax rate in the subsidiary's jurisdiction was lower than in the U.S.—the effective rate would often be less than the headline U.S. rate. Since 1962, the parent has had to gross the dividend up for the tax paid by the subsidiary, which is then fully creditable (so that the effective rate now matches the U.S. rate, unless the rate in the subsidiary's jurisdiction is higher).

In the second instance, even where pure holding companies are concerned, the legislation does not apply if the dividends actually paid by the subsidiary comply with a statutory minimum, which is inversely proportional to the local tax rate in the subsidiary's jurisdiction. If the local tax rate is less than ten percent, then the subsidiary has to pay out ninety percent of its profits as a dividend, whereas if the local tax rate is almost as high as it is in the United States, then it does not need to pay a dividend at all, and there are a number of gradations in between. So there is now some advantage to siting a holding company in a place like Belgium or Holland, which have comparatively low corporate taxes without being tax havens, and paying a modest dividend to the parent. Additionally, there is a let-out for CFCs that are "not availed of to effect a substantial reduction of taxes," which sounds nicely subjective; and there is an exemption for investments in "less developed countries," which include, apparently without conscious irony, Portugal, Ireland, and Greece.

In the third instance, companies that are prepared to engage in a certain amount of restructuring may well be able to dodge the pitfalls of Subpart F, preserving much the same tax benefits as before. A CFC is defined as a foreign corporation in which more than fifty percent of the voting power is owned by U.S. shareholders, and U.S. shareholders are defined as U.S. residents who own ten percent or more of the voting stock. So if no one person has ten percent of the votes, then the foreign company will not be a CFC, even though it is controlled in the United States. And if no U.S. shareholders taken together have fifty percent, then it will not be a CFC either, even if a smaller holding is perfectly adequate, in the circumstances, to secure effective control. There are regulations to stop you from doing anything too artificial, but a number of U.S. groups have formed joint ventures with foreign companies where the majority of the voting power is held outside of the United States, for example, or decided to list some of the shares in their subsidiaries on local stock exchanges.

Ultimately, therefore, unlike in Aldous Huxley's *Brave New World*—where caste was determined prior to "decanting," and a green Gamma could never aspire to become a mulberry-coloured Beta, let alone an Alpha dressed in grey—in the cloud cuckoo land of U.S. tax law there are numerous opportunities for an "F" company to redeem itself (some of which, no doubt, have entirely passed me by). According to one former official of the IRS, who only left recently, American firms had liquidated between 100 and 200 of their Swiss subsidiaries by the end of 1966, but that represents at most forty percent of the 500 that were estimated to exist in 1960. I know of only a handful that have left Liechtenstein or The Bahamas, and of perhaps four or five that have closed up in Panama.[32] I am sure that there are others, but the crucial point is that due to Congress's whittling down of Kennedy's original proposals, and to the determination of U.S. firms to keep as much of their foreign income as possible out of the Treasury's grasp, they still have plenty of free capital swilling around with which to cement both their penetration of the European market and the rise of American economic imperialism.

[32] *The Wall Street Journal* estimated in 1962 that U.S. companies had 1,200 subsidiaries in The Bahamas.

The round-tripping of American aid

"Fair is foul, and foul is fair." *Macbeth*'s Weird Sisters had it right. It is bad news for the United States if her own citizens can easily stash their funds away in tax havens. And it is certainly a great social evil when the corrupt rulers of countries that the Americans are desperate to keep on side are able to salt away millions of dollars of ill-gotten gains, pilfered in part from the U.S. aid budget, whether in the form of "baksheesh" in the Middle East, "dash" in West Africa, "cumshaw" in Southeast Asia, "matabish" in the Congo, or "mordida" in Mexico and other parts of Latin America.

It is not such a bad thing for the United States, on the other hand, that these agglomerations of capital exist, because regardless of where it was originally deposited—Panama, Beirut, Hong Kong, Vaduz, Luxembourg, or directly in Zurich and Geneva—most of the money in tax havens eventually ends up being invested in the American economy. Switzerland, in particular, which acts as a mustering point for funds initially placed elsewhere, is a strong supporter of U.S. enterprise, and it is partly thanks to Swiss investment that American firms are continually increasing their lead over competitors. To innovate and to acquire the latest technology requires a huge commitment of capital, but it pays off in the form of large profits, which people stateside are not afraid to shout about, whereas even in the more forward-looking nations of Europe they are seen as a shameful thing that must be hidden.

The sometime mayor of São Paulo, Adhemar de Barros, was brutally candid about the shortcomings of his country's socio-economic system. "They say I am a thief," he announced defiantly to a Brazilian crowd. "All right, I won't waste your time with denials. But so what? They're all at it. You find me a single politician who isn't a crook. The difference is that I rob from the rich to give to the poor. Without my thieving, you wouldn't have any roads, any bridges, any stadiums, or any hospitals." Unfortunately, for every Adhemar there are dozens, even hundreds of other embezzlers who couldn't give a damn about their constituents; and they are accompanied, in each case, by a whole ecosystem of lesser men who feed off and imitate them. Their only thought is with channelling as much of the skim as they feasibly can into a welcoming tax haven, whence it will help to buoy up the New York Stock Exchange.

One day in the smoke-filled press room of the White House, a seasoned lobby correspondent told me about the time when Kennedy had communicated to the Argentine President, Arturo Frondizi, his sadness and anger upon learning from a report that he had commissioned that half of all U.S. aid to developing countries "went missing." It comes across as a bad joke, though. For surely somebody must have apprised the President of what happened after that! Or are we to believe that the experts never noticed (more likely, they didn't want to know) that the money went full circle, with tax havens supplying a ceaseless and abundant flow of financial assistance from the world's poorest countries to its richest ones?

Perhaps it is unfair to expect them to have tracked the carcass of Western aid donations to its eventual resting place, once the predators of the Third World have had their fill, although a more sceptical man than I am might assume that they understand the process perfectly well. To give them their due, clandestine capital movements are not as conspicuous as the "brain drain," whereby American aid money is used to send promising youngsters from the developing world to study in the United States, who, on completing their degree, are then given work permits and encouraged to stay if they wish.[33] Indeed, one of Switzerland's great selling points is that she provides dubious money not merely with anonymity, but also with the kind of respectability that is so venerated in the United States. In the absence of this veneer, the country would suffer agonies akin to those of the daughter in Bernard Shaw's play *Mrs Warren's Profession*, when she was confronted with the revelation that her mother supplied the good things in life by acting as what the Americans would term a "madam."

Or so you might think, except that the elite who preside over U.S. monetary warfare, and that's not an overdramatic way of characterizing it, care not a jot for niceties of that sort. They are hardly about to lose any sleep on account of the fact that tax havens are injecting somewhat shady liquidity into the American economy. No, what terrifies them is that because offshore wealth managers tend to base their investment decisions on objective criteria, such as real rates of return and political stability, the tap could be turned off at the critical juncture when the dollar is most in need of support. In the "paranoid style" that reigns in Washington, any retrenchment of that kind would be interpreted as

[33] According to the March 1967 issue of *Reader's Digest*, "seventeen percent of the physicians now practising in the United States began their training abroad, and, of those, eighty percent come from developing countries where there is only one doctor for every 5,000 people. To train the same number of doctors at home, we would need to spend an additional 100 million dollars a year and build fifteen new medical centers costing, in total, a billion dollars, which is more than the entire foreign medical aid budget."

an unfriendly act, implying that the offshore financiers were in league with “Victor Charlie and Charles de Gaulle.”[34]

Are the havens in danger of being fleeced?

One imagines that some such feeling of vulnerability is at the root of an apparent change of emphasis in Washington’s attitude towards tax havens over the past couple of years. The Americans no longer want to squash them completely, but to squeeze them out by assuming for themselves many of the intermediary functions that they currently perform and by appealing directly to the economic interests that they represent. In exchange for compliance with the voluntary Foreign Credit Restraint Program introduced in 1965, U.S. regulators have gradually extended a plenary indulgence to American banks and multinationals where offshore financial activities are concerned. Having at first ignored the Eurodollar market, and then quietly sought to suppress it, the monetary authorities sold the pass in mid-1967, when they sanctioned an exemption from the interest equalization tax for dollar loans made to foreigners by overseas branches of American banks (previously, such loans had only been exempt if they were denominated in a foreign currency).[35] And before then, the Treasury was already actively encouraging U.S. corporations to dip into the Eurodollar and Eurobond markets for their financing

[34] Victor Charlie or VC is a nickname used by the GIs in Vietnam to refer to their Viet Cong foe.
[35] Loans by overseas branches are also excluded from the Foreign Credit Restraint Program.

requirements, so that the retirement funds of European savers could be put to good use fuelling the engine of American growth.

A similar dynamic underlies the recent extraordinary boom in U.S. mutual funds targeted at foreigners, which sucked in an estimated 250 million dollars of new money in 1965. This development may have raised the hackles of the SEC, but it clearly benefits from powerful political backing, with a number of former Kennedy staffers now on the books of companies formed specifically to channel foreign capital into American stocks, bonds, and real estate. The most high-profile is Luther Hodges, who served as Secretary of Commerce from 1961 to 1965, when he left to take up the chairmanship of Financial Consultants International, a Brussels-based organization that specializes in marketing U.S. investment funds to Europeans.[36] The whale of the offshore mutual fund industry, however, is Investors Overseas Services (IOS), which, by 1967, had at least 500,000 customers worldwide, with aggregate funds under management of more than a billion dollars. In December 1966, IOS acquired a suitably illustrious figurehead for its own board when it recruited James Roosevelt, eldest son of Franklin D. and erstwhile member of the House of

[36] Financial Consultants International is controlled by Eurosyndicat, an association of ten European banks, and operates via a subsidiary in Nassau. It is common for U.S. funds aimed at non-U.S. investors to be based in The Bahamas, in order to avoid U.S. estate and other taxes and to preserve their anonymity. On 9 February 1967, for example, *The Wall Street Journal* reported that a Bahamas-based firm called U.S. Investment Fund, whose directors include Pierre Salinger (former press secretary to President Kennedy) and John Stillman (ex-assistant Secretary of Commerce), had sold 3.5 million dollars' worth of shares since it was formed the previous November, "mainly in South America and Western Europe."

Representatives, who came to the firm fresh from his latest role as a U.S. delegate to UNESCO.

The sheer speed at which IOS has grown, which has been a source of fascination to European observers, is attributable to the impulsiveness of its chief executive, Bernard Cornfeld, the son of a Romanian theatrical impresario who emigrated to New York in 1931 when young Bernie was four years old. Bernie Cornfeld's financial career began in 1955, selling Dreyfus Fund shares at the barrack gate to GIs stationed in Europe. Indefatigable, an insomniac, more eloquent than Billy Graham and as accomplished an organizer as Robert McNamara, before he reached the age of forty Cornfeld had built a fund management empire with 14,000 salesmen and amassed a personal fortune of a hundred million dollars. IOS declared a return on capital of 34.7 percent for 1966, due partly to a successful investment strategy and partly to an offshore structure that holds it aloof from tax and securities laws the world over. IOS itself, the fund manager, is incorporated in Panama. Its flagship investment vehicle, the "Fund of Funds" launched in 1962, is registered in the Province of Ontario, Canada, while its main proprietary mutual fund, International Investment Trust, is based in Luxembourg.[37] The group owns a number of banks, including Investors Bank in Luxembourg and Investors Overseas Bank in The Bahamas, and the whole operation is run out of an apartment block in Geneva's Rue de Lausanne. Or at any rate it was, until the Swiss authorities began to get decidedly shirty about IOS's business practices in 1967.

[37] The Fund of Funds, as its name suggests, exists purely to place subscribers' money into other mutual funds.

The original source of the trouble was that IOS was prominently advertising itself as a Swiss company when in fact it was nothing of the kind. The firm had also been hawking its "contractual programs," which involve paying for mutual fund shares by instalment, door to door inside of Switzerland itself. That was not merely bad form but was actually unlawful. Both of these breaches of decorum naturally riled the Swiss Bankers Association, and they led to questions being tabled in the Federal Assembly. Then the Federal Banking Commission investigated the Overseas Development Bank, a Swiss institution that had been acquired by IOS in 1964, and found that it appeared to have only one debtor. The final straw came when the Genevan immigration service discovered that IOS had hundreds of foreigners working for it in the canton, only a fraction of whom had valid work permits. The Swiss believed that all of this high-handed behaviour risked bringing their country into disrepute. In the end, Cornfeld mollified the SBA and reached a compromise with the city fathers: a few senior people would remain in the Rue de Lausanne, but all of the firm's back office staff would follow Voltaire's route of two centuries earlier by moving to purpose-built premises in Ferney, just the other side of the French border.

By the time this relocation occurred, however, in mid-1967, IOS was already under fire on two other fronts. For one thing, a number of governments were alleging that the firm's modus operandi was to offer investors a "package deal" whereby IOS accepted subscriptions in their local currency, transferred the money out of the country, converted it into dollars, and opened a secret offshore account in the investor's name where their mutual fund units were deposited. Colombia was the first to react when it outlawed the export of capital in November 1966. Yet that was merely a prelude to the real drama, which commenced in the same month, on 10 November, when armed police raided IOS's offices in Rio de Janeiro, Recife, and other Brazilian cities. Dozens of the firm's employees were arrested and, in January 1967, the authorities announced that they now had incontrovertible proof, based on documents recovered from a flat in Copacabana, that IOS had been operating a capital flight "ratline" that led to Montevideo and ultimately to Switzerland. Cornfeld tried to reassure governments who were anxious about the depletion of their resources by holding out the prospect of creating local investment funds that would return a proportion of the capital that IOS "captured" to the places where it originally came from. In this vein, under Mr Roosevelt's aegis, the firm has conducted negotiations with a number of interested parties including West Germany and Iran. But there will be no going back to Brazil (once IOS's biggest market), not unless the junta there should suddenly change its tune.

Secondly, even as the Brazilian debacle was in full swing, Cornfeld was facing off against his most formidable opponent to date in the shape of the SEC. The U.S. regulator had been sniffing around IOS since the early sixties, suspecting that the firm was selling unregistered mutual funds to investors within the United States, which is a criminal offence. The SEC also believed that Cornfeld had improperly failed to disclose the fact that a substantial proportion of the holdings in the Fund of Funds were companies under IOS's own control. Although the firm is based offshore, it was registered as a broker-dealer under the Securities Exchange Act of 1934, and this meant that the Commission had every right to demand access to its records. When they did so, however, in November 1965, IOS refused to provide them, leading to bad-tempered litigation that dragged on for eighteen months. Finally, in May 1967, the two sides thrashed out a settlement that appeared, on its surface, to be a total defeat for IOS. The firm agreed to withdraw its SEC registration, to stop selling to U.S. citizens (and to reimburse existing investors), to dispose of its American subsidiaries, and to liquidate its proprietary funds in the United States. Yet there was a sting in the tail from the SEC's perspective, because the proximate cause of the litigation, namely access to records, was left unaddressed. The Commission was implicitly acknowledging, therefore, that the firm's adherence to the terms of the deal would effectively prevent any further investigation. Cornfeld lost no time in crowing about this reprieve in a full-page communiqué that was printed in most of the world's financial journals.[38] That gave a good indication of what his priorities were.

Bernie Cornfeld may have fallen victim to his own hubris, but those in charge of small financial centres would do well to draw a lesson from the precedent set by IOS. For there is a risk that the tables will be turned on them, and that the very mechanisms that they have propagated will be used to rinse them of the mobile capital that is their principal bargaining chip. This comeuppance could be performed as slapstick, in the mould of the classic early film *The Sprinkler Sprinkled*, or it might be more akin to the plight

[38] The press release stated that "while the SEC attempted to get the firm to hand over its worldwide client list, together with details of investments held, the actual agreement reached between IOS and the SEC does not involve the disclosure of any such information, and all clients may rest assured that their affairs will continue to be handled in the strictest confidentiality."

of a “turned” enemy agent, who is taken in hand and spared for as long as he can be made to serve his captors’ ends. Either way, unless the denizens of tax havens can get their act together and put up a fight, other Cornfelds are sure to come along, and in future they may well be furnished with official licenses to tap the liquidity of tax havens for investment in the United States. Provided, that is, that they don’t touch a cent of American money. The latter seems to be the crucial condition: abide by it, and you can get away without ruffling feathers in Washington; neglect it, and nothing will restrain the furies. It savours less of enforcing regulations, but strikes one more as a matter of maintaining a taboo whereby the “mixing” of money is viewed as contamination. It is as if there are two types of money, pure and impure (“tainted” is the word that lawyers use when referring to Subpart F income). Clean money, and money that has been defiled by passing through a tax haven. It would have come as a surprise to the Emperor Vespasian, for whom famously, *pecunia non olet*.

That kind of language inevitably puts one in mind of Freud, who wrote that “in every one of the neuroses, it is not the reality of the experience but the reality of the thought which forms the basis for the symptom formation. Neurotics live in a special world, in which only the ‘neurotic standard of currency’ counts. . . . The hysteric repeats in his attacks, and fixates through his symptoms, occurrences which have taken place only in his phantasy.” Do tax havens inspire neurosis in this fashion? Do they have the capacity to provide us with an insight into the subconscious?

12. A sorcerer's mirror?

A miserable little pile of secrets…

Anti-memoirs
ANDRÉ MALRAUX

The turkey something saw, he thought,
But could not tell exactly what.

The Monkey with the Magic Lantern
FLORIAN

As we have seen, the politics of dealing with tax havens vary depending on which country one is in, from British sham to Flemish toleration, Mediterranean indifference to Teutonic disdain, French flip-flopping as against the American Inquisition. What is clear, however, is that in no case can the relationship between ordinary countries and small financial centres be reduced to that of poacher versus gamekeeper, smugglers against customs, the Special Branch in pursuit of a plant, double agent, or mole. Beyond the desire to stamp out tax evasion and avoidance, conceived of as sophisticated forms of fraud, and over and above a concern to prevent capital flight that could be injurious to the balance of payments, one discerns in some capitals—and not just among people whose job it actually is—a passionate impulse to stop tax havens ensnaring their fellow countrymen and leading them to ruin.

Many people contend that we should defer to the experts, yet the latter are often the worst Jeremiahs. In fact, some of them evince a type of perverted professionalism, regarding every taxpayer as being on probation, a felon-in-waiting, akin to the way that in the play by Jules Romains, Dr Knock convinced healthy individuals that they were really invalids who didn't know it yet. In another theatrical work, Jean Giraudoux's *The Enchanted*, a martinetish government inspector led a campaign to disprove the heroine's contention that the village was haunted by a phantom. Where tax havens are concerned, one sometimes gets the impression that it is the officials who are "bewitched, bothered, and bewildered," that it is they who are seeing ghosts!

Personally I do not believe that we should seek to emulate the British secret service, who act as if they were physicists trying to detect some imperceptible spatio-temporal phenomenon, attaching an inflated credibility quotient to the reports of airline pilots and other tattletales. But I do find it interesting that tax havens appear to exercise a strange pull, a sort of mesmerism, even over those who ought to know better. That may be because their sheer crudity, in that they exist for the sake of money, not culture, society, or anything else, is at once despised and grudgingly admired, even envied. Or it may be something else altogether, for the morbid fascination that they arouse is a will-o'-the-wisp, as difficult to get a handle on as it is to be precise about the manifold services that small financial centres, each in a subtly different way, supply to "private and institutional investors."

Tax havens have their own jargon, exemplified by that last phrase, which epitomizes the rather reductive goal-oriented kind of thinking that holds sway in such places. For what, at the end of the day, is a "private or institutional investor": might one not equally well speak of "capital" in a purely abstract sense? Well, the one is a "natural person," the other a "juridical person," but these, too, are bloodless terms that conceal as much as they elucidate. What gets lost in this thicket of buzzwords and legal terminology is the fact that tax havens, and the organs that emanate from them, are the creatures of living, breathing human beings, even if in practice, they are often managed by committees of specialists. Yes, these men care about money (that much is plain!) And they spend a significant proportion of their time worrying about rates of return, risk profiles, the predictability of government policy, and other such variables. Yet one feels that there must be deeper impulses, aside from a mere concern for the health of their bank balance, which incline people to take refuge in tax havens. Things that reflect their own character and philosophy of life. It is quite possible, of course, that they do not realize this themselves. Who among us, after all, could exhaustively explicate our own reasons for behaving as we do?

Turntables of the mind

Tax havens are like a magic glove that makes the illicit licit. To make use of them simultaneously signifies both guilt and absolution. They are purpose built for manipulating and manoeuvring money. For all of those reasons, they are roundhouses of the imagination, quite as much as they are turntables for global capital. Which methodologies would best equip us to trace their revolutions between the real and the fictitious, to catch hold of their signals, decode their messages, and to analyse, at several different levels of meaning if necessary, what is at play behind the shallow world of appearances? All of them and none, one suspects. The investigator who looks to method to impart the *causa causans* (the real, effective cause) of tax havens will simply be dictated to by his theorem and its assumptions.

Better, you might suppose, to be a humble empiricist, and to content yourself with collating the testimony of the people that you meet in these places. At the outset of his journey, an unwary pilgrim is apt to be beguiled by the rationalizations put forward by the few eminent *hommes d'affaires* in financial centres who like to think of themselves as philosophers. This tendency is particularly pronounced in Switzerland, where self-appointed intellectuals are prone to inveigh against foreign critics. These bellyachers, they proclaim, are desperate to misrepresent the Confederation's embrace of laissez-faire economics as a mere semantic disguise for confusion and chaos, and to mischaracterize offshore finance as a kind of anti-system that is bound to the orthodox one as a proton is to an anti-proton, or matter to anti-matter. The truth, they will tell you, is quite the opposite, for it is Switzerland (and, albeit in a lesser degree, other tax havens) that provides the international standard to which all other states either conform or from which they deviate. It is the offshore system, in other words, that is the measuring rod.

Once a year, a Swiss company called Société Genevoise d'Instruments de Physique calibrates all of the numerous prototype metres that exist around the world. And in the same way, Switzerland's defenders say, the Swiss franc serves as the reference currency for all of the others. The markets of Zurich and Geneva establish the real value of money, which is obscured, in other national contexts, by the superstructure of state interventionism. Big country governments, addicted to manipulation and meddling, will never allow true price discovery in relation to their own currencies, so someone else has to do it for them. In short, it is claimed, the paramount function of a tax haven is to subject money to the game of truth, to strip it of its glad rags and to deliver up naked money, money-in-itself, virtually the noumenon of money. Yet at a time like the present, when passing through tax havens seems to earn capital more animus than it does snob value, you have to ask whether, in reality, it is the Swiss who are out of touch. The American dream is a hair-shirt vision of money whose purity derives from its chaste obedience to rules and regulations, and that stands in stark contrast to the Swiss ideal of money that has no national identity and is as good in one place as it is in another.

In general terms, there is a limit to how much you can learn from interviewing people who work in tax havens. They are not well placed to shed light on the spell that they appear to cast, because they tend to notice it least. On the one hand, you have people who were born and brought up there, and they can hardly tell you “what is it like to be a Persian?” as it is not a question that they have ever posed themselves. On the other hand, there are the expatriates who have been driven to leave their own countries for one reason or another. They like living in a place where the government keeps itself to itself and the prerogatives of foreign powers cancel each other out, and they find that the standards of professional service are adequate to their requirements. This latter group came primarily for materialistic reasons, having selected the jurisdiction on the basis of its fiscal and monetary advantages. Or they may be there due to a partition of the nations among the branches of a powerful family, such as the Rothschilds in earlier times or the Recanatis in our present century.

Ultimately, however, only operators with relatively narrow horizons could be said to be rooted in any particular tax haven. The major players come and go like migratory birds depending on the prevailing climate. The biggest of the big outgrew all of the others precisely because they’re not too fussy about their habitat. Most of the top dogs of the legal gold trade whom I encountered around the world not only wanted nothing to do with the delivery or “endenization” of bullion, but would go as far as to say that they “hated the stuff.” They were in the business of selling anything to anyone—today, silver and platinum; tomorrow, who knows, spices or strategic minerals—and their mindset was the abstract one of a dedicated international broker for whom the world is a chess-board that he can play with his eyes shut. They were in the habit of finding useful confederates wherever they needed to, and when I put it to them that one reason why thousands of ordinary people might be drawn to visit tax havens was that they wished to experience a feeling of communion with *Übermenschen* such as themselves, their response was one of bafflement.

These groupies, who spill forth daily from airplanes, from cruise ships, or from fleets of motor coaches, depending on the latitude, are the real proselytizers of the popular mythology of tax havens. This is often so, in fact sometimes especially so, even when they claim that they are only in Hong Kong for the craic, or in Panama or Beirut or The Bahamas; or, wholly by chance, in all four places one after the other, which I have actually witnessed. What did they have in common, these financial explorers? Judging by random chit-chat that I had with them in Hiltons and dive bars, airports and buses, during delays and dead time, they were people who had fallen out of love with their own countries and were looking somewhat covetously over the garden fence. From their words and their silences one deduced that they were enticed less by cut-price luxury goods that they could buy on Fifth Avenue anyway, and more by the prospect of some kind of revelation or enlightenment.

Pilgrimages to shrines

Yes, a few people went to tropical tax havens because they wanted the gratification of spending for spending's sake, the head rush of "consumption," an intoxication of waste and burnt offerings reminiscent of a potlatch. But a larger group was there on a sort of pilgrimage to the shrines of wealth. In an age when, as Marshall McLuhan wrote, "rich and poor necessarily live in much the same manner . . . today the richest man is reduced to having much the same entertainment, and even the same food and vehicles as the ordinary man," tax havens offer a seldom-seen spectacle, namely that of true opulence. An opulence that floats, no doubt, upon a sea of poverty, but one that is exotic in comparison with the ambient mediocrity of the social democracies, and is more amenable than the abject destitution that prevails in other parts of the world, which, even if the people there are not literally starving, is scarcely conducive to casual tourism.

For that class of traveller, tax havens were something like a financial aphrodisiac. It was as if being in these ritual spaces of capitalism, at once titillating and tantalizing, gave them a shiver up their spine. The sheer incongruity of seeing a fine rare watch displayed in a grungy shopfront, of the way that gold was so unremarkable that it would be fashioned into vulgar knick-knacks, and of the fact that the banknotes of the world's nations were considered less valuable than the wheelbarrows that they were transported in was a form of pleasurable torment. Some of these folks, who thought that they were setting out for Beirut, Hong Kong, or Panama, were really on an esoteric quest to find Zipangu, with "gold in the greatest abundance," or possibly Xanadu, where Kubla Khan built a stately pleasure dome and "Alph, the sacred river, ran through caverns measureless to man."[1] As we can't all be favoured with the genius or the lucidity of John Maynard Keynes, time spent in these lands of exception serves to remind us that "the magical properties, with which the Egyptian priestcraft

[1] "In Xanadu did Kubla Khan / A stately pleasure-dome decree: / Where Alph, the sacred river, ran / Through caverns measureless to man / Down to a sunless sea." So begins the poem that Coleridge saw in a dream and composed upon waking.

anciently imbued the yellow metal, it has never altogether lost." With money, as in the case of gold, there is a phantasmagorical dimension.

The patronage of James Bond and of Sigmund Freud

Speak as clearly as you like; if you are off on the wrong track, you will still end up misleading people. Hence, after a while, I learned to take with a pinch of salt many of the pearls of wisdom dispensed to me by the tax haven tribe. They would fall over one another, for example, to tell you that something was "great value for money." In their terminology, however, this mantra had come entirely adrift from any connotation of purchasing power or thrift. All that they meant by it, as far as I could establish, was that they liked the product or service in question. This was brought home to me in the smoky basement of the lavish building that housed Hong Kong's equivalent of the Playboy Club or the Gaslight. All right, so on this side of the Pacific the cute Chinese waitresses wore nothing but see-through orange shirts on top, with black fishnets and minuscule knickers on the bottom, but the "house rules" were exactly the same as they would have been in the United States. Nothing was on offer, in a city where everything was for sale. This assurance of tameness meant that the place was always packed out with Americans, who drag their virtue around with them like a disease.

There were other people, who were only slightly less out of it, for whom tax havens provided a therapeutic atmosphere because nothing was audible there except the strident voice of money.

Everything was conceived of as a piece of merchandise, a trait captured in blackly comic fashion by the rickshaw-puller who was advertising, in the same breath, "little boys, little girls, blue movies, fat ladies, and Buddhas," the last of which had been manufactured in Birmingham and were freely admitted to have been stolen from a temple the previous evening. For these restless "mummy's boys," these kept men of American power-widows, tax havens fostered the illusion of being finally well-endowed, in a place where their wealth was the only thing that mattered. To employ the language used by Norman O. Brown, money was simultaneously their defence against Eros, the "life force," and against Thanatos, the death drive. You might wonder why it was necessary for them to go to a tax haven in order to get away from it all, when the world was their oyster and they could have chosen any destination they wished. If all that they were after was a change of carnal scenery, presumably any old red light would have done the trick. From what I could gather, however, this type of person found that there was something uniquely reassuring about small financial centres, something that was singularly different from normal life. It was as though only tax havens, owing to their peculiar affinity with money, had the power to soothe away the guilt that invariably accompanies its possession.

When we were children, the merest patch of shadow in the corner of an attic could prompt us to enter a different imaginative world. Tax havens sometimes appear to bring out a similar propensity in adults, even in people who are not normally given to whimsy. An extensive public relations effort incorporating seductive strap-lines makes them seem like strip cartoons come to life. The magic worked by the ad-men is to turn tax havens into somewhat ironic settings for self-aggrandizement, encouraging visitors to identify with their favourite heroes. "Come to The Bahamas, discovered by Christopher Columbus in 1492 and by James Bond in 1960," urges the publicity material for the islands, bearing the stamp of someone well-versed in the art of inducement. It's up to you, is the implication, to complete the trinity. So you can be James Bond in The Bahamas; but there's one for every nationality, so you could also be Felix Leiter of the CIA or René Mathis of the Deuxième Bureau. Hell, you could be Lemmy Caution in Tangier and—why on earth not?—Modesty Blaise in Beirut! After that, it is a logical step to substitute or reinforce the hero's name with that of the haven. So interchangeable have these become, in fact, that movie studios consider it worth emphasizing the nexus of character, location, and plot in such snappily-titled productions as *Karate in Tangier with Agent Z-7* and *The Gong Strikes in Hong Kong*.[2]

There are Parthenons that summon one to prayer, places where the spirit breathes. And there are other places, especially tax havens, that have an unusually liberating effect on screenwriters' creative juices, or so it has appeared in recent years. That is not really surprising, since journalists often report on the variegated

[2] Tax havens first appeared as uncredited extras in movies just after the war, when producers were keen to find places where they could spend blocked money or, alternatively, could unblock money to spend. That was why the sand-dunes and minarets of Tangier formed the backdrop for a number of British films, although they were not identified as such at that point. Later the havens themselves moved to centre stage, with Tangier providing the setting for movies like *Mission in Tangier,* starring Raymond Rouleau, and Sergio Sollima's *Requiem for a Secret Agent* with Stewart Granger. Hong Kong played opposite Paul Meurisse in *The Monocle Laughs*, as well as featuring in *Stranger from Hong Kong* and several other films.

local colour there as if it were already in a movie, or at any rate could serve as the inspiration for one. Far-fetched occurrences are made to seem plausible, and this works to the advantage of the offshore centres because it generates a certain confusion between what is true and what is fabricated; over whether it is art that is imitating life or the other way round. What I do find remarkable, when you consider how many thriller-writers live in Switzerland or Monaco, is that so few of them seem able to break free of the clichéd trope of tax havens as oases of boundless possibility. This spectre has captivated even those with tremendous talent and with the feel for realism that is the hallmark of genuine artistry, including that master of the contemporary novel Alain Robbe-Grillet. For where else other than in Hong Kong could he have expanded *The House of Assignation* until it filled an entire city, leaving nowhere for his quarry to hide?

Even if neither the cinema nor the *nouveau roman* had ever been invented, though, the literature that we imbibe as children somehow inculcates the notion that the pursuit of money is not so much ignoble as it is innate and even essential. Freud argued that "happiness is the deferred fulfilment of a prehistoric wish. That is why wealth brings so little happiness: money is not an infantile wish." I am not so sure about that, when one reflects upon how often "X marks the spot" features as a plot device in stories aimed specifically at the young. When people go to The Bahamas or to Hong Kong they are aware, at least at a subliminal level, that *The Count of Monte Christo* found fame and fortune on an island. But why should the association with Monte Christo be any more powerful in The Bahamas or Hong Kong than it is in Corsica, Sardinia, or Malta? And why are the names of Sinbad the Sailor and Harun al-Rashid more naturally thought of in connection with Dubai than with any other part of the Persian Gulf? This may be sheer coincidence, but I'm not altogether convinced of that.

Perhaps it is the memory of those long-ago and half-forgotten readings that inspires the conviction, among some visitors to tax havens, that they are not only close to buried treasure but to treasure owned by outlaws. Admittedly, such flights of fancy have a basis in real life, for the citadels of tax havens are riddled with strongrooms in the way that other cities are perforated by catacombs; and there are procurators there who hold the keys to secret hoards that the interventions of war and death have transformed into oubliettes awaiting discovery, who knows by whom or when. There is even something about the abbreviations and acronyms displayed outside lawyers' offices that calls to mind the legendary scroll in a fairy tale, which would lead he who could decrypt it to a fabulous trove of wealth.

So I am inclined to think that the image of childhood as a green Arcadia unsullied by pecuniary concerns is somewhat wide of the mark, and I would hazard a guess that one thing that draws people to tax havens is the way that money itself seems to take on a juvenile aspect there, to undergo what one might call a double reversion to its own infancy. What do I mean by that? Well, on the one hand, money resumes the form of glittering and delightful objects (diamonds and pearls, ducats and crowns, gold pieces bearing the emblem of every nation and prince) that are neither forbidden fruit nor mere curios, but are actually used in trade. It resists, in other words, the perpetual debasement from the physical to the abstract to which money has been subject throughout its modern history: from coins to notes, from notes to cheques, from cheques to credit cards. On the other hand, by travelling to tax havens, money is metaphorically retracing the steps that it took during capitalism's formative period, a time when the acquisition of a fortune had nothing to do with "productivity" or with management science, but was the domain of explorers, of privateers, of the intercontinental treasure hunt.

Money pleasure, money power

Tax havens, where money reaches its maximum velocity, perform a similar feat of alchemy by transforming suspect earnings into fungible value, thereby allowing them to leave their violent origins in the past. I am hesitant to draw pejorative conclusions from my research, but it strikes me that the offshore financial system is less concerned with money as *jouissance*, or pleasure, than it is with money in the form of power. To the extent that one could identify any coherent ideology among the inhabitants of these small financial centres, I formed the impression that the utopia of the Black Flag took precedence, for most of them, over that of the Rosy Cross. Some of them may have believed that they were protesting against the corrupt commercialism of Western society, but in truth they were usually just after a larger slice of the cake for themselves. No doubt they found it convenient to pose as rebels who were pursuing distributive justice according to their own tenets, whether we are talking about the pirates of the airwaves in international waters or about buccaneering market-makers dealing in global commodities. I am sure that it is gratifying for them to feel that they are defying the forces of order like some latter-day

Arsène Lupin or Knight of the Red House, perhaps even a homicidal Fantômas. And they are not without their supporters "onshore," either, where the impunity enjoyed by such triumphant pariahs is celebrated as a vicarious revenge against overbearing bureaucracy, against the taxman and his computers. It is one in the eye for the monstrosity that Henri Lefebvre has drolly called "the cyberanthrope"; for *The Organization Man* in all his guises.

In my experience, however, tax havens attract not only men who would be their own masters, but also a floating population of misfits. The stultifying effect of a kind of *Parkinson's Law* of the louche was painfully in evidence. Some resembled bored, overgrown children, thumbing their noses at the puritan pastor who presumed to chide them and deriving a cheap thrill from the fact that the suspension of civilized norms meant that they could tell him to "get lost" without worrying about the consequences. Others called to mind Charles Addams's eccentric American family, with an ossuary's worth of skeletons in the closet and their motto *sic gorgiamus allos subjectatos nunc*.[3] Others still were deluding themselves that they liked to live dangerously by venturing into nocturnal forests where flaming tigers roamed.[4] But while it might have been a turn-on for them to imagine that cloak-and-dagger stuff was taking place in their vicinity, they were mostly Walter Mitty types who would have been hard pressed to fight their way out of a paper bag.

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[3] "We gladly feast on those who would subdue us."

[4] "Tyger Tyger, burning bright, / In the forests of the night; / What immortal hand or eye, / Could frame thy fearful symmetry?" (William Blake, *Songs of Experience*).

Odder and more intriguing was the fact that even those whose professional duty it was to keep abreast of local proceedings often struck you as somewhat clueless, though of course they may simply have been playing dumb. The espionage agencies spent the vast majority of their time spying on each other, and they exhibited, for the most part, a haughty indifference to commercial and financial matters. That didn't stop people speculating, however, and I routinely spoke to diplomats who had spent the better part of their working lives in tax havens and were only too happy to bring you up to speed on their latest pet theory. This was usually a variation on the theme that some Zoroaster or other was masterminding the territory's illicit traffic from that building over there, and was in cahoots with every travel agency, circulating library, and language school in town, all of which were merely front organizations. Beyond that point, their conjectures led in opposite directions.

In one camp, you found people who believed that a careful study of small financial centres would provide them with the crucial insight that would allow them to penetrate the financial netherworld of ordinary countries. Tax havens were like a powerful lens that revealed money's inner workings. If they were peopled by gnomes, then the inhabitants of larger nations were simply giant members of the same species. Analysts of this bent were like Gulliver, returning from the lands of the Lilliputians and Brobdingnagians and asking: "do we not, in some particulars, resemble these creatures?" At the back of your mind, however, you heard a cautionary voice, namely that of Dubourg in Jules Verne's *The Castles in California*: "Huh, as an honest man might resemble a bandit!" Verne, who recounted so many marvellous voyages over the entire breadth of the earth's surface, was, of course, forced to report that he had failed in his attempt to drill down to its very core; and the same will assuredly prove true of these modern mystics, who kid themselves that by meditating on the character of money's exceptional spaces, they will somehow divine the laws that govern the behaviour of the rest of the world.

Twilight of taboos

In the other camp were the compulsive worriers, those for whom only a form of Manichaeism could provide psychological security. For them, tax havens had to be seen as categorically different from ordinary countries, and the money kept there had to be viewed as damned so that money located elsewhere could find its salvation. In that sense, they were adapting the teachings of Luther, for whom it was always and everywhere the case that "money is the word of the Devil, through which he creates all things the way God created through the true word." Is there not an echo of that sentiment in Walther Rathenau's claim that he had "never met a businessman who put profit as the principal objective of his activities, and I can tell you that anyone who thinks only of making money for himself will never be successful in business"?[5] How convenient, then, that

[5] Rathenau (1867-1922) was well placed to speak for early twentieth-century businessmen as a class. His father founded Allgemeine Elektrizitäts-Gesellschaft (AEG), and the younger Rathenau contributed significantly to its ascendancy when he secured a central role for the firm by infiltrating electricity monopolies all around the world in the period leading up to World War I. He had a meteoric political rise during and after the war and was made German foreign minister in February 1922, but was assassinated by

offshore financial centres should stand ready to expose themselves to money's devilry, to abandon themselves unashamedly to the cause of filthy lucre! And small wonder that the "Black Sun of Melancholy" should sometimes cast its sombre aura over taxless places.

A few users of tax havens might have suffered from that sort of hang-up, but by and large they were cheerfully candid about the fact that their sole interest in these jurisdictions related to the profitable and user-friendly business facilities that could be found there. They would come and go, and the only lasting impression that they took away had to do with how such-and-such a haven fitted into the grander scheme of their fiscal, monetary, and financial affairs. "Follow the money" may be an over-used adage, but you sometimes learned more from half an hour's conversation with people like this, about how man's relationship with money is a complex one, in both a social and a psychological sense, than you did from protracted discourse with a clubroom full of armchair theorists.

For big countries, these little financial centres provide the escape-valve that makes their legal systems viable. Whenever it suits their purposes, they willingly look the other way, and, in their attitude to tax havens, allow the real and the imaginary to mingle. One is reluctant, even so, to attribute to such places the properties of a philosophers' stone. The most that they can do is to give money a bit of breathing space. Their role in the international economy may be important, but it is limited nevertheless. They do their job, they wear out, and new ones come along to replace them.

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extreme nationalists four months later in reprisal for signing the Treaty of Rapallo with Soviet Russia.

It is always instructive to try to comprehend how and why, but it is seldom the end of the story.

Of "this great world," Montaigne wrote that "so many humours, sects, judgments, opinions, laws, and customs teach us to judge sanely of our own, and teach our judgment to recognize its own imperfection and natural weakness, which is no small lesson." What, then, to make of the small world of tax havens? If one thing is clear, it is that they are not what the author of the *Essays* called "the mirror in which we must look at ourselves to recognize ourselves from the proper angle." Jean Cocteau once cleverly punned that "mirrors would do well to reflect a little more before sending back images." And from my travels to these boutique financial centres, I concluded that they were less of a sorcerer's mirror, in which you could see things normally hidden from view and perhaps even scry the future, and more like one of those distorting mirrors that you get in an amusement arcade, which grossly exaggerate some parts of your anatomy while diminishing or concealing others. But if you wish to confirm the validity of that analogy, and indeed of all else that I have written here, then you will need to get acquainted with these places for yourself.

Select bibliography

For publication details, see the alphabetical list on pages 477-486

(i) Jurisdictions covered by Alain Vernay

Tangier's role as a tax haven is largely forgotten today, although it continues to host an officially-sanctioned "offshore financial centre." The city enjoyed legendary status in bohemian circles for decades, with the result that there is no shortage of literature in English. Vernay may himself have drawn inspiration from *Turbulent Tangier* by Aleko Lilius and/or *The Diamond Smugglers* by Ian Fleming. In *Tangier: City of the Dream*, Iain Finlayson paints a fascinating, tragicomic portrait of the city's "hedonistic heyday" from the 1920s to the 1960s, seen through the eyes of the numerous literary figures who sojourned there, such as Paul Bowles, William S. Burroughs, and Joe Orton. For detailed information about the governance of the International Zone, Graham Stuart's *The International City of Tangier* is a valuable work of reference.

In contrast, **Monaco** still enjoys a reputation as a tax haven, despite Vernay's insistence that France had definitively "crushed" it. Edouard Chambost explains how a loophole enabled Monaco companies to pay tax at 2.8 percent, instead of thirty-five percent, in his book *Using Tax Havens Successfully*. Surprisingly, in view of the presence of a substantial "English colony" on the Côte d'Azur, there is relatively little pertinent literature on twentieth-century Monaco in that language. Mark Braude's *Making Monte Carlo* provides a skilful history of the Principality's gilded age down to 1930, while Stanley Jackson's *Inside Monte Carlo* goes up to the mid-1970s. George Kundahl's *The Riviera at War* covers the Monegasque experience of Axis occupation. For "the flashiest of Monaco's new seigneurs" during World War II, see Pierre Abramovici, *Szkolnikoff*.[1] The Principality's fraught relationships with Aristotle Onassis, and with France, are dealt with from a staunchly pro-Rainier point of view in Jeffrey Robinson's *Rainier and Grace*.[2] On Samuel Cummings and Interarmco, see *Deadly Business* by Patrick Brogan and Albert Zarca. For an irreverent take on life in the Principality in the 1980s, see Robert Westgate, *Monaco Cool*; its pseudonymous author claims subsequently to have been intelligence supremo to Albert II, and later still his sworn enemy.[3]

As Vernay predicted, **Liberia**'s political stability did not long outlast William Tubman's death in 1971. Nine more years would pass before a coup against his successor, William Tolbert, pitched the country into a cycle of violence from which it only emerged in 2003. James Ciment's *Another America* tells the story of Liberia under settler domination up to 1980, while Stephen Ellis's *The Mask of Anarchy* analyses the forces that underlay the country's descent into civil war in 1989. On the Liberian economy under Tubman, Fred van der Kraaij's *The Open Door Policy of Liberia* is a mine of information.[4] Liberia's rise as a flag of convenience (which was set back, but by no means put paid to, by the civil war) is discussed in *Rough Waters* by Rodney Carlisle. For the activities of

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[1] Readers of French may also appreciate the far more comprehensive account of wartime Monaco in the book *Un rocher bien occupé*, by the same author.

[2] Robinson's book was reissued in 2014 to coincide with the release of the feature film *Grace of Monaco*, set in 1962 and focusing on that year's showdown with France of that year. Robinson not unfairly characterizes the film, which was roundly panned by critics, as "pure unadulterated fiction pretending to be the truth." For a more even-handed account of that year's events, see Fabien Hassan, "The Monaco Crisis from 1962-1963 and the Emancipation of Tax Havens," *Finance Watch: Lessons From History No. 11*, 27 April 2015 (link).

[3] See, e.g., Guy Adams, "I was Prince Albert of Monaco's Private Spook," *The Independent*, 22 November 2009 (link).

[4] The personal papers of William Tubman have been digitized by Indiana University (link), and provide an engrossing insight into the workings of his idiosyncratic regime.

World Commerce Corporation, see Peter Dale Scott, *American War Machine*.

Lebanon likewise, as Vernay foresaw, slid into civil war, which permanently curtailed its status as a tax haven.[5] The period between Vernay's visit in 1967 and the outbreak of war in 1975 is detailed in Farid el Khazen's *The Breakdown of the State in Lebanon*, while Robert Fisk's *Pity the Nation* provides a powerful eyewitness account of the vicious, multifaceted conflict that continued until 1990. One early casualty of the war was Vernay's base, the St George Hotel, gutted by fire during the "battle of the hotels" in December 1975; Said Aburish captures the unique atmosphere of this focal point of the Middle East in his memoir *Beirut Spy*. The rise and fall of Yousef Beidas is narrated in *Warlords and Merchants* by Kamal Dib, and, from a more intimate perspective, in *The Flying Sheikh* by Najib Alamuddin (who was the chairman of Middle East Airlines from 1956 to 1977). Jonathan Marshall sheds further light on Beidas's murky transnational network in his history of Lebanon's role in the global narcotics trade, *The Lebanese Connection*.

Vernay wrote that **Hong Kong**'s future was unsettled, and the 1997 transfer of sovereignty from Britain to China neither diminished the territory's position as a financial centre, nor resolved its fundamental tension between laissez-faire economics and political autocracy. For information on the development of the Hong Kong economy since World War II, see Catherine Schenk, *Hong Kong as an International Financial Centre*, and the two books by Leo Goodstadt titled *Uneasy Partners* and *Profits, Politics and Panics*. Jeremy Tait offers some personal reflections on working for HSBC in 1960s Hong Kong in his memoir *The Obedient Banker*. Ian Fleming recounts a visit to Pedro Lobo's Villa Verde in *Thrilling Cities*, while the Hong Kong-Macao axis is dealt with in greater

[5] See, e.g., Edouard Chambost's *Bank Accounts*, in which he remarks that "Lebanon is no longer a banking haven," and *Using Tax Havens Successfully*, by the same author, where he describes the country as "the saddest loss to the tax haven club."

detail by Bertil Lintner in *Blood Brothers*. For "the Asian equation between gold and opium," see *The Politics of Heroin in Southeast Asia* by Alfred McCoy. Robin Moore furnishes an enjoyable romp centring on the underground gold traffic of *Dubai* in his novel of that title.

The Bahamas has experienced mixed fortunes, doubling as a playground for the world's rich and a sink-hole for some of the Western Hemisphere's ugliest criminal activity. The most complete modern history of the archipelago is Michael Craton and Gail Saunders's *Islanders In The Stream*, the second volume of which contains detailed information on developments in the islands during Vernay's time. Anthony Thompson's *An Economic History of The Bahamas* provides an encyclopaedic chronicle of Bahamian business in the twentieth century. For rum-running from the islands under Prohibition, see *Dry Diplomacy* by Lawrence Spinelli. Hank Messick's *Syndicate Abroad* presents the most comprehensive account of the impact of gambling and organized crime on The Bahamas in the 1960s, while Alan Block's *Masters of Paradise* tracks this battle between "the incorruptibles and the untouchables" through to around 1980. *The Cocaine Wars* by Paul Eddy, Hugo Sabogal, and Sara Walden details the subsequent fallout in the archipelago from the American "war on drugs."

Panama's continuing status as a tax haven was emphasized by a large-scale leak of compromising data from the law firm Mossack Fonseca in 2016, implicating prominent individuals from at least fifty countries around the world. Two journalists closely involved in disseminating the leaked information, Bastian Obermayer and Frederik Obermaier of the *Süddeutsche Zeitung*, tell their version of the story in *The Panama Papers*. The classic account of the construction of the Panama Canal is *The Path Between the Seas* by David McCullough, and there are a number of works dealing with U.S. colonialism in Panama during the twentieth century, notably *Prize Possession* by John Major, *Emperors in the Jungle* by John Lindsay-Poland, and *Borderland on the Isthmus* by Michael Donoghue. The country's role as the linchpin of

American military intervention in the wider region is discussed by Lesley Gill in *The School of the Americas*, and by J. Patrice McSherry in *Predatory States*. John le Carré foregrounds an even ranker fabulist than Vernay's "Simon" in his homage to Graham Greene's *Our Man in Havana*, titled *The Tailor of Panama*.

Liechtenstein, too, has endured its fair share of scandal in recent years, with the so-called "Zumwinkel Affair" of 2008 engendering a degree of international opprobrium. This remarkable episode has spawned a 600-page apologia by the whistleblower, Heinrich Kieber; a less than wholly sympathetic biography of Kieber by the Liechtenstein journalist Sigvard Wohlwend; and lately even a novel (none of them, alas, presently available in English).[6] For a general history of the Principality, see David Beattie, *Liechtenstein*. The best English-language source on the country's métier as a tax haven is *Liechtenstein's Uncertain Foundations*, by U. E. Ramati, although this book is sadly now very hard to find. George Glos elucidates some of the legal peculiarities of the *Anstalt* in his article "The Analysis of a Tax Haven." Vernay will have drawn some of his own background material from the official *Documentary Handbook to the Principality of Liechtenstein*, edited by Walter Kranz. John Sack provides a humorous vignette of life in Vaduz in his *Report from Practically Nowhere*.

Switzerland still has a claim to be "the chief dancing-master at the eternal waltz of global capital," although the country's banks have come under sustained pressure in recent years, partly for historical reasons and partly due to ongoing initiatives by other countries in the sphere of money laundering and tax evasion. It would surely have amused Vernay to

[6] See Heinrich Kieber, *Der Furst, Der Dieb, Die Daten* ("The Prince, the Thief, and the Data") (privately published, 2009: link); Sigvard Wohlwend, *Der Datendieb: Wie Heinrich Kieber den grössten Steuerskandal aller Zeiten auslöste* ("The Data Thief: How Heinrich Kieber Sparked the Biggest Tax Scandal Ever") (Berlin: Rotbuch Verlag, 2011); Benjamin Quaderer, *Für immer die Alpen* ("Always the Alps") (Munich: Luchterhand Literaturverlag, 2020).

know that journalists were still cranking out headlines like "Banking Secrecy Became Extinct One Year Ago Today," more than half a century after he first drew attention to this phenomenon.[7] The most informative recent research on the history and context of Switzerland as a tax haven tends to be in French,[8] but there are two classic works in English: T. R. Fehrenbach's *The Gnomes of Zurich*, on which Vernay based parts of his own account; and Nicholas Faith's *Safety in Numbers*, which was informed by Vernay's work and adds further colour on the story of Swiss banking down to the 1980s. "Lump-sum taxation" is discussed in *Lump-Sum Taxation in Switzerland* by Carol Gregor Luethi, and in *Switzerland in International Tax Law* by Xavier Oberson and Howard Hull. Adam Lebor delves into the history of the Bank for International Settlements in *Tower of Basel*. Switzerland's role in World War II continues to be a political football, with anti-Swiss authors castigating the country for assisting the Axis war effort, and pro-Swiss authors leaping to her defence by arguing that anything was preferable to succumbing to Nazi occupation.[9] Some scholars, among whom Neville Wylie is an outstanding example, attempt to provide a more impartial analysis, comparing Switzerland's fate with that of other neutral nations.[10]

Of the smaller territories that Vernay surveyed, Wouter Veenendaal's *Politics and Democracy in Microstates* is useful on **San Marino**. Thomas Eccardt's *Secrets of the Seven Smallest States of Europe* supplies

[7] See, e.g., Oliver Williams, "Banking Secrecy Became Extinct One Year Ago Today," *Forbes*, 5 October 2019 (link); Michael Shields, "Era of Bank Secrecy Ends as Swiss Start Sharing Account Data," *Reuters*, 5 October 2018 (link).

[8] See, e.g., Christophe Farquet's *Histoire du paradis fiscal suisse* (Paris: Sciences Po, 2018) and *La Suisse dans la constellation des paradis fiscaux*, edited by Dominique Froidevaux (Lausanne: Éditions d'en bas, 2002).

[9] In the former camp, see, e.g., *Blood Money* by Tom Bower and *Hitler's Silent Partners* by Isabel Vincent; in the latter camp, see, e.g., *Target Switzerland* by Stephen Halbrook and *Between the Alps and a Hard Place* by Angelo Codevilla.

[10] See Neville Wylie, *Britain, Switzerland, and the Second World War*, as well as the collection edited by the same author under the title *European Neutrals and Non-Belligerents During the Second World War*.

information about **Andorra**. For the pivotal role now occupied by **Luxembourg** in the European securities markets, see *Bonds Without Borders* by Chris O'Malley and *Plumbers and Visionaries* by Peter Norman.[11] On the **Netherlands Antilles**, see *Corporate Taxation in the Netherlands Antilles* by Damian Leo and Antonio Amador. The **Channel Islands** receive detailed treatment from Anthony Johns and Chris Le Marchant in *Finance Centres,* and from Mark Hampton in *The Offshore Interface*. Jun Jie Woo charts the rise of **Singapore** as an international financial centre in *Singapore as an International Financial Centre*. Catherine Duffy traces the evolution of the offshore insurance industry in **Bermuda** in *Held Captive*. David Vine's book *Island of Shame* provides an interesting account of the machinations that led to the depopulation of **Diego Garcia**. Gerald Posner sheds light on the financial affairs of **Vatican City** in *God's Bankers*. **New Caledonia** is covered by Anthony van Fossen in *Tax Havens and Sovereignty in the Pacific Islands*. Thanks in part to Elmore Leonard's novel *Djibouti*, what used to be **French Somaliland** is, perhaps unfairly, more often thought of today in connection with modern piracy than with "profitable and user-friendly business facilities."

There are numerous books about the pop pirates, such as *Selling the Sixties* by Robert Chapman, *Radio Caroline* by Ralph Humphries, and *Death of a Pirate* by Adrian Johns; while the Isle of Man's role in the story is elucidated by David Kermode in *Offshore Island Politics*. For the denouement of the Investors Overseas Services shenanigans, see *Do You Sincerely Want to be Rich?* by Charles Raw, Bruce Page, and Godfrey Hodgson, and *Vesco* by Arthur Herzog.

[11] Readers of French who are interested in the seamier side of this sector, as disclosed by the "Clearstream affair" that gripped France during the first decade of the twenty-first century, may appreciate the account given by Denis Robert and Ernest Backes in their book *Révélations*.

(ii) Offshore finance generally

Arthur Bloomfield discussed the turbulent monetary conditions that followed World War II in *Speculative and Flight Movements of Capital* (1954); while in *Free Ports and Foreign-Trade Zones* (1956), Richard Thoman outlined the history of tariff suspension regimes around the world. One of the first books to consider international tax planning in detail, *Tax Factors in Basing International Business Abroad* (1957) by William Gibbons, contains a comprehensive account of "base companies," and should be read with an earlier book in the same series, Edward Barlow and Ira Wender's *Foreign Investment and Taxation* (1955), which was based on extensive interviews with corporate executives concerning their attitude to this and other techniques. As a rule, though, it is fair to say that until the mid-1980s, publications on offshore finance in English overwhelmingly consisted of practical, no-nonsense guidebooks that neither concerned themselves with the history of tax havens, nor dwelt on their economic and social ramifications. An early book in this category was Carol McCormick Crosswell's *International Business Techniques* (1963), and the genre flourished in the 1970s with the first appearance of several works that later ran to multiple editions, notably *Tax Havens* by Milton Grundy (1969), *How to Use Foreign Tax Havens* by Marshall Langer (1975), and *Using Tax Havens Successfully* by Edouard Chambost (1978, with a companion volume, *Bank Accounts: A World Guide to Confidentiality*, published in 1983).[12] Another useful book from this era is *Tax Havens and Measures Against Tax Evasion and Avoidance in the EEC* (1974), edited by John Avery Jones, which compares the reaction to tax havens among European

[12] There had been general primers on tax planning since before World War II: see, e.g., Alfred Rawlinson and Robert Hunter, *Practical Aspects of Taxation* (London: Gee, 1931); and Jasper More, *The Saving of Income Tax, Surtax and Death Duties* (London: Butterworth, 1935), but the primary focus of those works was "domestic," with offshore methods playing a subordinate part.

countries in a more rigorous and forensic manner than Vernay's rather impressionist account.

During the same period, social scientists and other commentators began to concern themselves with the "interdependence" of national economies and with the central place that multinational enterprises now occupied in a globalized world: Charles Kindleberger's *Power and Money* (1970) and Raymond Vernon's *Sovereignty at Bay* (1971) are two seminal examples. The development of international markets for corporate debt was ably analysed by Paul Einzig in *The Euro-Dollar System* (1964) and *The Euro-Bond Market* (1969). Timothy Green's book *The World of Gold* (1968) charts the yellow metal's journey from mine to bank vault and provides an indispensable introduction to its role in the global economy under the Bretton Woods system. Paul Ferris surveyed Europe's financial landscape, including the tax havens of Liechtenstein, Luxembourg, and Switzerland, in *Men and Money* (1968). Christopher Tugendhat summed up corporate tax planning for the layman in *The Multinationals* (1971), while Oliver Stanley's *Taxology* (1972) supplies a popular history of tax avoidance in the United Kingdom that contrives to be at once instructive and entertaining. Thurston Clarke and John Tigue's *Dirty Money* (1975) constituted an early exposé of international money laundering written by two investigators who had spent their careers detecting and prosecuting it. Rodney Carlisle's *Sovereignty for Sale* (1981) was the first in-depth history of flags of convenience, and remains the benchmark in that area. Anthony Sampson furnished a characteristically captivating vignette of the rapidly-developing Cayman Islands in *The Money Lenders* (1981). Phillip Knightley explained the evolution of one of longest-running and most successful offshore tax avoidance schemes of all time in *The Vestey Affair* (1981).

The publication by the United States Treasury in 1981 of Richard Gordon's report *Tax Havens and Their Use by United States Taxpayers*, one of the first serious efforts to quantify the scale of this issue, helped to stimulate further substantive research. In *Tax Havens and Offshore Finance* (1983), Anthony Johns developed the concept of an "international politico-economic friction matrix" as a framework for explaining why certain tax havens developed into significant financial centres in their own right. Richard Blum's *Offshore Haven Banks, Trusts and Companies* (1984) was the most sophisticated analysis to date of the criminal dimension of offshore finance, while Ingo Walter's *Secret Money* (1985) focused on the uses and abuses of bank confidentiality. Brendan Brown's book *The Flight of International Capital* (1987) dealt with the history of capital flight from the 1930s to the 1970s, and Tom Naylor's *Hot Money and the Politics of Debt* (1987) supplied both a fresh history of the field and a treasure trove of empirical information, since supplemented in two further books by the same author, *Patriots and Profiteers* (1999) and *Wages of Crime* (2002).

The 1990s witnessed additional expansion of the literature, with Sol Picciotto's *International Business Taxation* (1992) providing an invaluable legal history of multilateral cooperation in the tax sphere and of the gaps left by its incompleteness. In *States and the Reemergence of Global Finance* (1994), Eric Helleiner argued that the increasing internationalization of financial markets had to be understood as the outcome of deliberate policy choices by national governments, rather than the ineluctable result of technological change. Jeffrey Robinson's *The Laundrymen* (1994) popularized the subject of illicit transnational financial flows. The collection edited by Mark Hampton and Jason Abbott, *Offshore Finance Centers and Tax Havens* (1999) brought together leading experts to deliver an inter-disciplinary analysis with a broad geographical scope.

Since the turn of the century, there has been a discernible increase in the salience of offshore finance as a political issue. In 2003, Ronen Palan published *The Offshore World*, arguably the most influential book to have appeared in this field, which combined careful historical analysis with novel theoretical insights into the "commoditization" of state sovereignty.

In *The Blood Bankers* (2003), James Henry laid bare the "round-tripping" not merely of U.S. development aid, but also of hundreds of billions of dollars' worth of the developing world's external debt. William Brittain-Catlin's *Offshore* (2005) coupled a detailed investigation of the Cayman Islands with a philosophical reflection on the motivations behind regulatory arbitrage. Jason Sharman's *Havens in a Storm* (2006) examined the genesis and evolution of the OECD's first initiative on "harmful tax competition." In *The Re-Emergence of Global Finance* (2006), Gary Burn reconceptualized the history of the Euromarkets from the 1950s onwards by concentrating on the policy nexus between the City of London, the Bank of England, and the British Treasury. Hilton McCann's *Offshore Finance* (2006) is a thought-provoking book by a former tax haven regulator that deliberately sets out to challenge some of the now prevalent assumptions regarding small financial centres. Also worth mentioning are two books that criticized the general shape of the U.S. tax system at the beginning of the twenty-first century, *The Cheating of America* (2001) by Charles Lewis and Bill Allison, and *Perfectly Legal* (2003) by David Cay Johnston.

The worldwide financial crisis of 2008 galvanized work in this sphere, as the argument that deregulated financial markets exacerbated systemic risk began to gain currency. Ronen Palan, Richard Murphy, and Christian Chavagneux were among the first to capitalize on this zeitgeist with their informative work *Tax Havens* (2010); but it was Nicholas Shaxson's *Treasure Islands* (2011), probably the most widely-read book on offshore finance ever published, that really encapsulated the mood of the time, with its somewhat polemical critique of forty years of unchecked growth in the sector. In *Offshore* (2011), Alain Deneault explicitly drew inspiration from Vernay's book when expounding his own sulphurous broadside against what he sees as the pernicious influence of tax havens. John Urry's *Offshoring* (2014) sought to contextualize offshore finance against a larger process of "hollowing out" that was occurring in the industrial economies. Michael Findley, Daniel

Nielson, and Jason Sharman collaborated to produce *Global Shell Games* (2014), an experiment in which they attempted to set up several thousand legal entities, in tax havens and elsewhere, in order to test the consistency with which anti-money laundering laws were applied. In *The Hidden Wealth of Nations* (2015), Gabriel Zucman developed an innovative econometric method for quantifying tax evasion globally; while in *Catching Capital* (2015), Peter Dietsch attempted to formulate a new ethical framework for regulating tax competition between territories. Brooke Harrington's *Capital Without Borders* (2016) used ethnographic methods in an effort to understand the *Weltanschauung* of international wealth managers. Recent offerings in the field include *Dirty Secrets* (2017) by Richard Murphy, *The Finance Curse* (2018) by Nicholas Shaxson, and *Moneyland* (2018) by Oliver Bullough.

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