

Jack Blum: One of the consequences, and this is something that was a consequence of World War II, was that the U.K, which had been at the economic powerhouse of the world, the center of an empire that was probably the world's largest and most prosperous, suddenly found itself without the empire and impoverished by what it had to borrow to pay for World War II. So they came out of World War II as almost second class citizens in a world where their economic force was now much more limited.

Naomi Fowler: This is the Corruption Diaries from the Tax Justice Network. I'm Naomi Fowler.

Jack Blum: And also equally important was the value of the pound was greatly diminished and the ability of the pound to be the currency for international trade disappeared and the currency of choice for international trade became the dollar because it was the U.S. that had provided all the credit for various nations to be able to finance World War II. We had the post World War II construction of a global economic system. The U.K. was much more limited than the U.S. in its ability to succeed in that system.

Naomi Fowler: What the U.K. did was salvage remnants of empire. And the remnants of empire were small countries in the Caribbean islands, or outright colonies. And we're not talking about countries that continue to view the crowned head of state in the UK as their sovereign, we're talking really about countries that were ultimately under the control of the U.K. government.

The United Kingdom took quite a different path to other former colonial powers in terms of their relationship to their so-called Overseas Territories in the Caribbean. As former colonies were claiming their independence across the world, Britain pushed some of their overseas territories into tax havenry as a development strategy. Firstly, to avoid their fiscal responsibility towards them. And secondly, the financial secrecy they encouraged them to develop helped 'clean up' money before it got funnelled into the City of London. This 'spider's web' approach has helped keep wealth flowing in. But these oversized financial sectors, and their low or no tax regimes have fuelled inequality to catastrophic levels in these islands, making life very challenging for local people. And the British Crown Dependencies of Jersey, Guernsey and the Isle of Man have fitted into this same kind of model. All of them struggle in some strikingly similar ways from what we call the 'finance curse.'

The British Virgin Islands, the Bahamas, the Cayman Islands, Barbados, for a while, there were numbers of remnants and the remnants of the British empire became the place for an awful lot of the offshore plumbing that we've talked about where everybody set up shop because you could count on two things: that there would be British courts that ultimately would decide whatever disputes came out of these jurisdictions. And it was the stability of the U.K. ultimately that guaranteed you wouldn't suddenly discover that your country, the country you were dealing in, and the bank account and everything else disappeared because there was an overnight revolution or whatever, this was going to ultimately be protected by the Union Jack.

And what they did was provide an enormous flow of funds to the City of London. And there was real pressure in the City of London to keep that flow coming. Among the most important of the places that the UK controlled that were home to this offshore system, Bermuda, Jersey, Guernsey and the Isle of Man, very important players in the offshore system. And everybody in London understood the importance of all of these places to the prosperity of the City. Because ultimately, what happened to money that came in through these places would wind up in the City of London and its transactions would flow through British markets.

The City of London has its own police force, and I'm now talking about that square mile or so of the city, it has its own governing body, it has the Lord Mayor and it has a special status within the UK so it really operates as a state within a state.

One of, one of the experiences that taught me a lot about how this offshore world, with nods to the UK itself, operated, came shortly after 9/11 when, in conjunction with some lawyers on the island of Jersey, we proposed helping the banks in Jersey make sure that they had appropriate money laundering controls and that they cleaned up their act and got rid of questionable clients and customers so that they wouldn't fall afoul of what were also now developing UK and European Union rules about money laundering. So, I remember our buying the head of the Jersey Bankers Association a marvellous and very expensive lunch. And a couple of bottles of wine later, after we had put the proposal to him, saying we'd be happy to work for the constituent members of his organization, he's laughing at us. And the explanation he gave, you know, why is this so funny, he said, you don't understand, it's those customers that provide the bulk of the bank's profits worldwide. He said, on a retail level, banking is brutally competitive and not very profitable, so handling your checking account is not business that makes us rich. When customers come to us here in Jersey and they want specialized services and structures, we can charge pretty much whatever we feel like charging. And this is our most profitable business, so, why would we want to cut our own nose off to spite our face?

What Jersey did to keep its reputation, yet stay in the business we're discussing, was to cooperate whenever something really blew sky high. So, for example, when Morgenthau, who was a prosecutor of the DA in New York County would need some documents from Jersey, he'd get on the phone and those documents would be flying off by, by return carrier pigeon, if you will, but immediately turnedover.

It was what was *not* turned over that was what was really important. So, if something blew sky high in New York, you could count on getting the documents from Jersey, but New York couldn't really see what else *should have* blown sky high. It was a way of insulating the rest of the business from exposure. And that was their strategy, and it worked. It doesn't solve the problem. The problem is the system. And until we do two things, which is undo the system of corporations and trusts that have no fiduciary responsible person in control, and until we fix the global legal system, the problem won't be solved and we've got to start working on those fixes.

Naomi Fowler: The Corruption Diaries is a production of The Tax Justice Network, made by Naomi Fowler and Jo Barratt. Interviews with Jack Blum were recorded over several days at Jack's home in Maryland by Zoe Sullivan.