



International Finance – Corruption – Tax Havens

Citizens

Let us act together!

**Under the co-ordination of Chantal Cutajar,
President of OCTFI**

<http://octfi.org>

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**THE CITIZENS' MONITORING CENTRE FOR INTERNATIONAL
FINANCIAL TRANSPARENCY**

A MEANS OF PROMOTING A JUST SOCIETY

FOR AND WITH CITIZENS

The Citizens' Monitoring Centre for International Financial Transparency (OCTFI) was set up in response to the desire and commitment of its founding members to work together, as part of a programme devised with and for citizens, to help bring about a globalised society – a “world society” – with ethics and justice as its central focus. The aim of OCTFI is to bring together all those who, regardless of their differences, share the conviction that a better future is possible and that they must play a leading role in achieving this.

Chantal Cutajar, President of OCTFI

CITIZENS, COME AND JOIN US

We are currently experiencing an economic crisis of historical proportions. This is clear to everyone and many people are suffering from its effects. There is widespread unease.

What are the reasons?

Wealth is no longer shared out. Finance has become deregulated. We are living in a world of high-risk financial practices: securitisation and sub-primes, for example, all of which have given rise to significant discontent. This total lack of ethics lies at the heart of the economic and financial earthquake affecting the majority of citizens. And without a doubt, it is one of the causes of the social fragmentation we are witnessing. To put it plainly, all these practices, technically speaking, are examples of financial crime.

Ineffective responses!

As is plain to see every day, the responses given are hopelessly inadequate. We should remember that despite the FBI reports implicating the leaders of Goldman Sachs in criminal offences, only one fine of \$550 million has been handed down, equating to barely one week's profits for the company!

The expansion of criminal markets

Nor should we overlook the increasingly stronger links between the financial crisis and the expansion of criminal markets. Both use the same questionable procedures. This is very alarming. There is widespread criminal use of financial structures. With a GDP sometimes higher than that of certain countries, criminal organisations are able to exert considerable influence on political,

economic and social life. Criminal organisations have become real global powers. And their activities are far from being merely marginal. In its May 2011 report on organised crime, Europol expressed its concern: criminal organisations are increasingly able to channel specialists in the financial markets and IT experts into illegal activities, and these specialists and experts have become the preferred recruitment targets for organised crime. It has even been shown that these criminals poach newly qualified graduates! Business leaders, beset by economic difficulties, are encouraged to resort to cheaper, illegal labour. The report further states that the 31% increase in the forgery of banknotes in the last two years can be explained by a growing number of legitimate companies which allow themselves to be bribed in order to participate in trafficking.

Democracy in danger

Having become global players, criminal organisations place themselves between the people and their representatives. These organisations manage financial flows of a macro-economic scale enabling them to purchase public decisions, by means of corruption, without any consideration for the public good. **Clearly, therefore, this poses a threat to democracy.** Similarly, when multinational structures come between the people and their representatives, dictating the political decisions to be taken, **it is democracy that is sacrificed on the altar of financial profitability.**

Citizens, we have a key role to play in our present and our future.

We are not, however, powerless. It is up to us, as the citizens that we are, to stand up and act. It is up to us to influence our future. What we are fighting for, and what we firmly believe, is that there are universal non-market values. Let us now, without delay, take

action to ensure that all the international conventions in force which place limits on the market sphere, are effective and transparent:

Yes, the trade in human beings is prohibited.

Yes, the trade in organs and everything which is harmful to health, life and the integrity of human beings, all that is prohibited.

Asserting and upholding these non-market values is an absolute necessity. What is forbidden must remain forbidden in practice.

OCTFI: a means of ensuring effective democracy

Citizens now have at their disposal a means of accomplishing these objectives: the Citizens' Monitoring Centre for International Financial Transparency – OCTFI.

We have set it up, but it belongs to you

What OCTFI proposes are alternatives to oblige the system to change. The objective is to ensure that finance is subject to ethical practices and to justice.

It is about challenging the excesses and dysfunctioning of financial capitalism. It is also about making a clean break with the current rules of the game. When it comes down to it, who has greater legitimacy to take on this role other than committed and involved citizens?

The aim of OCTFI is clear, strong, transparent and non-negotiable: the establishment of financial transparency.

And this is achievable.

First objective: the disappearance of tax havens

Tax and banking havens make possible the opaque financial flows which conceal the fraudulent financial operations that have given rise to the world financial and economic crisis and illegal trafficking. Tax havens, trust funds and other front companies serve to conceal criminal opacity. Furthermore, tax havens, as everyone knows, are an ideal channel for large-scale money-laundering. Money enters the financial system and provides criminal organisations with the means of prospering and expanding their deadly markets.

Today, nobody attacks offshore companies because they are considered to be indispensable to international finance even though they have been shown to be conducive to criminal activity because they are used by Mafia-type organisations throughout the world. The connection and the organised and daily permeability between the proceeds of crime and unbridled capitalism pose a serious threat.

The demand from citizens for justice should prompt politicians to take the necessary measures **for financial interests to no longer have the upper hand.**

This is the aim of OCTFI which is not only a means of providing information and training, but above all a place of citizen action. In this way, together, we shall strike a balance between what is useful and what is just. This is something that can be done. But as many people as possible must help bring it about.

The founding members of OCTFI

Juan Carlos Durant, Peruvian artist, founding member of OCTFI

The historian Christopher Bayly explained that there were three key driving forces behind modern history: States, civil societies and capital. It is clear, without any need to fall into conspiracy theories, that now at the dawn of the 21st century, we are living under the reign of capital. Our consumer society, a society of boundless finance, has reached a climax. What regime on earth has not been shaped by the interests of financial capitalism at the expense of the rule of law and socio-environmental balances?

The mass of money dealt with by international finance is many times greater than that used in the production of goods and services in the world. Throughout the world, the careers of our politicians and the campaigns of their parties are maintained by this senseless concentration of capital that few historians could have imagined.

However, this excess does not have to be. The opacity of the international financial system, just like the overconsumption of our societies and the dogma of growth, are human creations.

The OCTFI in Strasbourg is right to denounce the dishonesty of unbridled capitalism and remind us of the true meaning of what is reasonable and responsible.

Chantal Cutajar, lawyer, Director of the Action-Research Group on organised crime at the University of Strasbourg, President of OCTFI

The origins of the economic crisis are well known. According to many experts, it came about as a result of a change in the distribution of wealth produced at the expense of employees, combined with the deregulation of finance introduced by governments from the 1980s onwards. This deregulation paved the way for the emergence of what is modestly termed “high-risk financial practices”, such as securitisation, which have become possible because the ideal of justice has been sacrificed on the altar of efficiency and utility! Not only is the lack of business ethics at the heart of the financial and economic earthquake striking us, but deregulation has led to a negation of the universal principles that are the very basis of living together, suggesting that everything can be bought and sold, that everything has a price.

This is an accurate analysis, but it is not complete

Over and above the ethical shortfall, the “sub-primes” crisis in 2008 was made possible, like many other crises before it,¹ by the commission of financial fraud constituting criminal offences. Most of the analyses of the financial crisis failed to mention this fraudulent and criminal dimension. Very few authors have discussed it.² It should not be forgotten that despite the FBI reports

¹ The Dutch tulip crisis of 1637, the Panama scandal under the Third Republic affecting many tens of thousands of French investors, the 1929 crisis, the savings bank crisis in the 1980s in the USA, the Japanese real estate crisis in the 1990s, and the crisis caused by the dot-com bubble in March 2000.

² See for example the excellent work by Jean-François Gayraud (2009), *La grande fraude. Crime, subprimes et crises financières*, Odile Jacob.

implicating the leaders of Goldman Sachs in criminal offences, only one fine of \$550 million was handed down, representing scarcely one week's profits for the company!

The analyses made also conceal the links between the economic and financial crisis and the expansion of criminal markets in the hands of criminal organisations. The latter have also benefited from the deregulation of the financial markets and used the same financial innovations to extend their sphere of influence. In this way, they have been able to infiltrate the legal economy with criminal money, investing it in real estate, health, on the stock market, and buying up at a low cost companies in difficulty in order to organise wide-scale money-laundering. Thanks to money laundering, they have been able to prosper and call the tune in the economy and public decision-making, particularly through corruption.

Today we are faced with the widespread criminal use of financial structures. With a GDP sometimes higher than that of certain countries, criminal organisations are able to exert extreme influence on political, economic and social life. Today they have become real global powers and can no longer be seen as merely marginal in society.³ In its May 2011 report on organised crime, Europol expressed its concern: criminal organisations are increasingly able to channel specialists in the financial markets and IT experts into illegal activities, and these specialists and experts have become the preferred recruitment targets for organised crime. It also notes that these criminals poach newly qualified graduates. Business leaders, beset by economic difficulties are

³ Ibid, and Mickaël Roudaut (2010), *Marchés criminels, un acteur global*, PUF.

tempted to resort to cheap illegal labour. According to the same report, the 31% increase in the forgery of banknotes in the last two years can be explained by a growing number of legitimate businesses which allow themselves to be bribed in order to participate in the production chain.

When criminal organisations place themselves between the people and their representatives, managing financial flows of a macro-economic scale enabling them to purchase public decisions, by means of corruption, without any consideration for the public good, this poses a threat to democracy.

When multinational structures come between the people and their representatives, dictating the political decisions to be taken, it is democracy that is sacrificed on the altar of financial profitability.

In response to the above we are not obliged to remain powerless.

Citizens have a duty to resist in order to preserve democracy which alone confers decision-making power on the people: “when, in the Republic, the people as a body possess sovereign power, then it is a democracy”.⁴

It is we, as citizens, who have the responsibility to initiate a new social movement genuinely capable of influencing a change in the current situation.

This social movement is rooted in the belief that **there are universal non-market values**. The international conventions adopted under the aegis of the United Nations clearly lay down the

⁴ Montesquieu 1748, *The spirit of laws*.

limits of the market sphere by prohibiting, amongst others, the trade in human beings, the trade in organs, and everything which may be harmful to an individual's health, life or integrity. Asserting and upholding these non-market values is an absolute necessity. They are a requirement of reason and if they are to be effective, we must find ways of ensuring that what is forbidden remains forbidden.

The social movement which OCTFI wishes to set in motion is rooted in the belief that we need alternatives to oblige the system to change, to move towards what is essential for citizens, in particular wages, employment, the budgets of social welfare and justice, in a word to ensure that finance is subject to ethical practices and to justice.

Clearly this will lead to a genuine challenging of financial capitalism as it exists today. It will prompt us to make a clean break with the current "rules of the game".

Who other than citizens can today take on this role and foster a political approach commensurate with the level of change that is needed?

From this point of view, the disappearance of tax havens is a precondition for the reconstruction of the international financial system.

Why?

Because tax and banking havens nestled in the heart of Europe itself make it possible to conceal financial flows through trust funds or other front companies.

These offshore jurisdictions are areas where the law does not apply, and provide the means for anyone who so wishes to avoid all regulations. What would be the point of obliging companies to declare their subsidiaries in tax havens if it were possible, through carefully orchestrated legal arrangements, to conceal any subsidiary relationship?

Because tax havens make it possible to carry out wide-scale money-laundering by preventing discovery of the money's unlawful origin. It enters the financial system and thereby provides criminal organisations with the means of prospering and expanding the criminal markets.

In order to eliminate tax havens, we must introduce financial transparency.

While there may be some changes in the public statements made, in practice things are just the same. The bailouts adopted have no counterpart in terms of regulation, whether to prohibit or regulate securitisation and derivatives, or to prohibit transactions with institutions based in tax havens. No one challenges offshore companies because they are essential for international finance, even though it is known that they make any response to criminal organisations totally ineffective. As several observers have recently shown,⁵ it is Mafia-type organisations and the interests of the City and Wall Street which have jointly created the current financial system. Without offshore financial centres, most of which are found in the neo-colonial outposts of the City of London, directly linked to the deregulated and opaque international markets and to

⁵ See http://www.solidariteetprogres.org/actualites-001/Trafic-de-drogue-et-systeme-bancaire-Interview-avec-Antonio-Maria-Costa_08781.html

the major banks, the hundreds of billions of dollars derived each year from crime would have nowhere to go.⁶

Accordingly, if the money from crime can so easily enter the financial market then the financial system itself becomes a criminal structure. As long as it is possible to hide behind the masks which tax havens generously provide to anyone who so wishes, the international conventions prohibiting the trafficking of drugs, human beings and arms will remain paper tigers because no effective sanction can be applied as it is impossible to reach the heads of the networks and their assets.

Financial interests must give way to the demand for justice from citizens, who have a duty to make clear to politicians the hierarchy values they wish to see upheld, in exchange for the political mandates they have been granted by citizens.

Protecting this hierarchy of values is the very *raison d'être* of OCTFI which sees its role not merely as a monitoring centre, and a provider of information and training, but above all as a means of citizen action.

It is my objective, through my commitment to OCTFI, to help stir into action all our fellow citizens who, regardless of the traditional political dividing lines and social classes, believe that it is possible to bring about a humane society based on the quest for a balance between what is useful and what is just, and who are ready to help achieve this.

⁶ Nicolas Shaxson (2012), *Les Paradis fiscaux : Enquête sur les ravages de la finance néolibérale*, André Versailles Editeur; *La City, la finance en eaux troubles*, documentary by Mathieu Verboud (2011), Zadig productions (52 minutes)

Sébastien Dupent, Engineer analyst, OCTFI Treasurer

For several years, developments in communication technologies have enabled the free exchange of goods and financial funds, with the result that controls are less effective. In addition, financial organisations have benefited from a certain impunity and lack of common legislation between states to carry out illegal transactions hidden cleverly in the stream of everyday transactions. This has led to the crisis we are currently experiencing, the origin of which lies in an organised and deliberate manipulation by major financial groups with the sole purpose of using their customers' defaults on payment or bankruptcy to become even richer. The conscious involvement of certain organisations in this crisis is indisputable, unlike the crisis of 1929 which resulted more from a lack of awareness of the introduction of a stock market system⁷ which could only function in a situation of continual growth and which was unable to cope with the slightest slowing down in industrial production.⁸

The opacity of the functioning of our economy is such that citizens are very rarely aware of how it operates. The various analyses made of the hidden functioning of the finance market highlight the fact that in many cases, the political authorities deliberately close their eyes to such practices, or worse, are consciously involved in them.

⁷ Introduction of a stock credit mechanism making it possible to borrow in order to play the stock market. Under this system, \$10 worth of stock could be had for just one dollar.

⁸ Since the end of the First World War, the world went through exponential economic growth, with an increase in industrial production of more than 50% in less than eight years.

Moreover, certain cases of money-laundering, revealed in recent months, whether in France, Greece, Spain or other countries involving representatives of the people or those close to them, with no real prosecution being initiated, show us how some people have a free ride and use loopholes in the system to get rich at the expense of citizens, especially as the origin of this money is generally, and contrary to what we are led to believe, illegal, being derived from corruption, drug trafficking, rare metals, ivory, artworks etc.

Although numerous investigations, whether by the police or journalists, regularly highlight these phenomena, the justice system can often do nothing, as it does not have sufficient resources and powers. And information on these cases is so quickly suppressed that the public at large very often has only a small inkling of what was involved.

It is therefore essential to set up a discussion group, enabling each participant to have more detailed knowledge of the parallel functioning of the financial markets and misappropriation, while sharing different visions of this world that governs us. This is why OCTFI was set up and why I decided to join it from the outset to become actively involved in raising awareness and, at the same time, to further my own knowledge.

The diverse backgrounds of the individual members of OCTFI makes it possible to hold exchanges from several points of view and to gain greater insight into aspects of finance and the lack of regulation, and to understand the multiple facets of this problem.

Our initial discussions, focusing primarily on the currently available means of combating these abuses, which we might term white-

collar crime, brought it home to us that there was at present no genuinely effective countermeasure. Indeed, these activities generally escape application of the various countries' national laws, primarily because of the lack of co-ordination between states and thanks to the sleight of hand of hosting a company's various subsidiaries in financial havens.⁹ This makes it possible to hide accounts or circumvent legislation by taking advantage of loopholes or the imprecision of certain legal systems.

⁹ Not to be confused with tax havens, although some countries can be both.

Francis Kern, Professor of Economics, Faculty of Economics and Management, University of Strasbourg

For 10 years or so now, in the course on contemporary economic principles, focusing on the emerging globalisation, on the syllabus of the Faculty of Economics and Management, I have been telling students about the turning point in the 1980s, referred to by certain authors as the neoliberal or neoconservative revolution, under the American presidency of Ronald Reagan and the first female Prime Minister in the United Kingdom, Margaret Thatcher. Faced with the crisis in the Bretton Woods system and the rising power of digital networks, conservative circles seized the opportunity in the name of market efficiency and the possibilities now opened up by digital networks for carrying out all financial transactions in real time, to impose the liberalisation of capital movements. This offensive was subsequent to the liberalisation of goods and services under the GATT which became the World Trade Organisation (WTO) from 1995 onwards. They were in a strong position as it is always easier, or indeed demagogical, to invoke regulation by the omnipotence of the markets than to establish institutions and define the rules that would ensure the resilience of the system. They used technical arguments on progress in information and communication technologies (ITCs) rather than political choices and policies as pretexts to justify this liberalisation.

In this way the international monetary and financial system became an opaque world outside any national or international control. The system was assisted by the new possibilities open to banks, which had now become “universal” with the removal of the partition introduced by the Glass-Steagall Act in the New Deal of 1933 between investment banks and commercial banks with the support

of the Roosevelt administration. Henceforth banks were able to indulge in the delights of speculation, develop – with the help of mathematicians fully conversant with probability theory, in which the French excelled – “derivatives” making it possible to even out the risks of non-repayment of the debts on these products. These derivatives, a technical word to hide this deception, can become toxic because the debts can be securitised, i.e. be transformed into securities, in other words assets for the banks! We are at a turning point in this short history of international finance; a bank’s debts can be transformed into assets through high-risk derivatives.

As was only to be expected, the crisis started with the sub-prime crisis, as American banks were able to grant loans to even the poorest and the insolvent because in the event of non-repayment, they could repossess the asset, the house. How many millions of Americans have been victims of this disaster and are now on the street? Furthermore, Barack Obama has taken no action to help them because the poorest no doubt are unlikely to vote in significant numbers: abstention is very high in the most socially vulnerable sections of the community.

These doubtful debts buried in derivatives have transformed the latter into toxic products as they are extremely high-risk and led to the collapse of Lehman Brothers in September 2008 – perhaps because the then US Secretary of the Treasury, Henry Paulson, former president of Goldman Sachs, appointed in 2006 by President George Bush, preferred seeing Goldman Sachs’s main rival go bankrupt. While the Federal Government stepped in to save General Motors, it did nothing for Lehman Brothers. It is true that under the Bush administration, federal intervention was

rejected in the name of market truth and a policy of laissez faire, an approach challenged by the Democrats.

Nonetheless, I had made it clear to my students since the early 2000s that this international system which came into being in the early 1980s was unstable and fragile, as it was based on ideological assumptions reflecting financial and geopolitical interests. It collapsed in September 2008.

While I am an economist, I am also a citizen and as such I have a duty to ponder how to counter such a development. And, especially in the current context, how to avoid a new crisis which could cause a collapse of our system, leading us to catastrophe if alternatives are not clearly discussed and asserted.

OCTFI was set up as a result of an initiative of citizens aware of these dangers, wishing to inform their fellow citizens about these issues and stir them to action.

It seems to me that the main problem in the financialisation of capitalism over the last thirty years has been the division between transparency and opacity. The opacity that surrounds the world of finance is fundamentally anti-democratic, an anomaly in our societies based on democratic governance. In contrast, transparency is the precondition for restoring democracy, making it possible for citizens to exercise control over the functioning of the financial markets.

This explains for me the citizen dimension of our monitoring centre and the stated aim of restoring transparency in international financial transactions.

In the action and steps we take as citizens, we must place an emphasis on those measures relating to the application of prudential rules which should be imposed on banks (this is the challenge of Basel III, as Basel is the headquarters of the Bank for International Settlements (BIS), the supervisory body for banks at international level) and restoring the compartmentalisation between investment banks and retail banks (commercial banks and merchant banks) to limit the banks' functions and temptation to speculate. But this compartmentalisation continues to acknowledge that speculation remains at the heart of the functioning of the financial markets. Even though access would be harder for the banks, other operators, such as the different types of investment funds, would take over.

These measures and reforms are insufficient as they ignore the key questions regarding financial crime and tax evasion.

The existence of tax havens in the globalisation process is the greatest scandal in modern times as they enable all forms of laundering and recycling of capital accumulated unlawfully. The main instrument of this opacity of tax havens, and the very basis of their existence, is the process of creating front companies which can conceal all financial transactions, recycle illicit capital and avoid taxation. The point is that taxation is the source of funding for state budgets, ensuring the functioning of civil society and public services, making social life possible and facilitating the life of citizens. Lastly, behind the opacity of front companies lies the impunity of these operators. The latest courageous and meticulous investigations – *Inside jobs* and *How Goldman Sachs came to rule the world* – remind us that officials heard by the US Congress

Committee, severely lectured by the members of Congress, whose misappropriation of funds have come to light, will be totally unconcerned, as if finance were above the law being too serious a matter to be accountable, as citizens are, before a judicial body.

OCTFI has clear objectives and can transform a citizen initiative into citizen action to broaden the scope of democracy to cover the world of international finance, the result of the neo-liberal globalisation of the last thirty years.

Claudia-Vanita Dupont, Legal Assistant, Secretary of OCTFI

From the laundering of money derived from terrorism and drugs, and the abuse of social goods to the manipulation of the Libor Rate,¹⁰ the use of clients' funds to replenish own funds, and influence peddling and insider trading, the world of finance is in the midst of a "civil war".

As the UK Chancellor of the Exchequer, George Osborne, said: these facts are *"symptomatic of a financial system that elevated greed above all other concerns and brought our economy to its knees"*.

Banks have too much influence on politics, and its representatives, often caught in conflicts of interest, confirm Montesquieu's famous comment that every man invested with power is apt to abuse it.

Added to all this is corruption, the thousand-headed dragon that undermines the foundations of the rule of law. The legal system is designed to ensure the supremacy of law, which implies prosecuting and passing sentence on financial crime, and yet corruption in justice, so frequent in certain countries, can seriously undermine the most important social values.

One author said that corruption was a seismograph measuring and evaluating the state of lawfulness and morality in a society.

The Citizen's Monitoring Centre was set up not only to inform and educate, but also to have a preventive role.

¹⁰ A series of benchmark rates on the monetary market for different currencies.

The fact that citizens have insufficient information about the functioning of justice and finance often leads to a loss of confidence on their part and an increase in financial crime.

Furthermore, unfamiliarity with the basic concepts of financial, economic and legal terminology generally leads to indifference vis-à-vis the life of institutions.

Providing citizens with information and education on the intricacies of financial channels and on the complex interconnections between this world of finance and politics is the first step towards protecting firstly the consumers of financial products, and then all citizens.

We need to understand the causes of these phenomena and the impact they can have on the socio-economic and political life of a state, and the attitude to it of civil society.

The democratic principle of financial transparency should be a prime concern of all senior officials because it is this integrity which can prevent crises such as the one that emerged in 2008. On numerous occasions we have seen the limits of the measures taken by governments, which is why they need the assistance of civil society. It is no longer only the problem of Africa, South America, Asia or eastern Europe. It is a matter which now concerns us all.

We must shoulder this responsibility and we have a moral duty to help as best we can, perhaps not to eliminate but at least to curtail all this unprincipled conduct and drastically reduce inequalities.

One of the most effective ways is to break with the silence that merely encourages and substantiates such action, to assert that our integrity is not a mere commodity, that we are not puppets in the hands of decision-makers and that each voice and idea can help

make the economy more stable and rebuild effective and fair financial governance. Public opinion can, in this way, deliver its own verdict.

It is for all these reasons that I fully subscribe to the ethical approach of our association which advocates financial transparency; I felt a need to get involved and to make a worthwhile contribution because, as William Gilmore Simms so eloquently said *“Better that we should err in action than wholly refuse to perform ... Stagnation is something worse than death. It is corruption also.”*

Henri Louis Védie, Economist, Emeritus Professor, HEC Group (Paris)

Let us act to bring about a transparent economy – or to be more precise, a *more* transparent economy. What is the situation today? An almost exclusive ultra-dominant market, with scarcely any possible alternative; we have a duty to ensure greater justice in the distribution of wealth and continue the quest for efficiency which is more necessary than ever because of the globalisation of markets.

The market economy is a fact. In 2013, there is no alternative such as was possible in the early 20th century with the Soviet experience, or the mid-20th century with Titoism. Now, the Chinese model, which remains officially the model of the People's Republic of China, is the archetypical capitalist/uncontrolled model. Although some make a distinction between the market economy and capitalism, such as Fernand Braudel, who differentiates between three successive historical forms of production systems/primitive economy; nonetheless, now the confusion between market economy and capitalism is the norm.

So how can we make this system more compatible with justice and efficiency? No doubt by beginning to comply more closely, and more than is happening today, with the assumptions and operating rules of the system. Capitalism did not equate, originally, to large companies, and even less so, to very large companies, the multinationals etc. Nor did it equate to the quest for speculative gains, the taking of unnecessary risks, etc. While all this has been possible in recent decades, it is because there has been a failure to abide by the rules, foremost of which is the need for market transparency. This has been eloquently and forcefully emphasised

by Akerlof, Stiglitz and Spence, awarded the Nobel Prize in Economics in 2001, highlighting the great disparities in the information provided on the markets.

These information disparities, in other words the fact that buyers and sellers did not have the same information at the time of purchase or sale, may be intentional or not. When they are intentional, they play into the hands of speculators, when unintentional, they add to the inefficiency of the markets, and the prime victims are consumers, with the practice of monopoly pricing for instance. And among these consumers are the most disadvantaged in society. By helping to secure greater transparency, we can make speculation more difficult and the markets more efficient.

Olivier Terrien, Project Manager in the field of local democracy in Europe, founding administrator of the OCTFI.

We need to take action to bring about the democratic governance of international finance. 25,000 billion dollars! This is the estimated amount of assets deposited in tax havens. How can we accept a situation in which wealthy individuals, companies and transnational criminal organisations can avoid tax, at a time when the whole world, and particularly Europe, is going through an almost unprecedented economic crisis, with its harmful effects on the job market and public services, demanding huge sacrifices from citizens, including in the tax field.

How can we accept such a situation which marginalises the most disadvantaged amongst us and places democracy in a vulnerable position, at a time when we are also seeing a crisis of governability, reflected in many countries in the significant lack of citizen interest in public affairs and politics in general, bringing with it the danger of rising extremism?

The billions lost each year by states through tax avoidance, tax evasion and tax fraud penalises not only ordinary tax-payers, public finances and social expenditure, it also threatens good governance, macro-economic stability and social cohesion.

Citizens are key players in the democratic governance of international finance. Citizens have a duty to react and to shoulder their responsibilities vis-à-vis this large-scale tax fraud, a real scourge facilitated by the offshore financial system, including tax havens and secrecy jurisdictions.

At a time when good democratic governance is among the central concerns in the management of public services, and the inherent concepts of efficiency and impact become the norm, it is imperative that the stakeholders of international finance should also be accountable. This is a question of social justice, ethics and harmonious co-existence in society!

In many European countries today, there is a trend towards more direct and more participatory democracy. This trend should also apply to the international finance sector, encouraging what might be termed the democratic governance of international finance and transparency in financial flows, putting an end to the organised legal opacity which makes it possible to circumvent the rules in all impunity.

Governance refers to the way in which legitimate power is exercised in interaction with the different components of society, for the common good. The concept of democratic governance is characterised in turn by a high level of transparency and responsibility.

Democratic governance enables greater citizen participation and operates in an institutional and legal framework which acknowledges and respects human rights and the principle of the rule of law. It should also be applicable to the international finance sector which cannot remain above the law.

While citizens are, as users, called upon to develop, manage and evaluate the quality of public services, they should also be the guarantors of good international finance governance.

Citizen participation should be the foundation of the fight to secure complete transparency in international financial flows. It is by participating that individuals and groups will be in a better position to organise themselves independently in relation to the wrongdoings of international finance, to clearly articulate their demands, to act successfully in different political spheres and to interact with public stakeholders and the world of international finance.

The more individuals and groups have experience of participation in the field of international finance, the more they will be in a position to act together on a given issue, to become involved in a collective action, to play a part in the very heart of the system and thereby be able to influence the democratic process.

Collective participation must therefore be one of the foundations of international financial democratic governance. But this is not something that is heaven-sent! Clearly, in predominantly centralised societies, the population tends to expect their elected representatives to make all the decisions and tell everyone what to do. However, this can and must change!

The starting point for this process is awareness. The population and their organisations must – in the same way as politicians – understand the rights, obligations and potential of international financial democratic governance.

Second, the population and their organisations must be given information on the action of the public authorities and their policies and projects, the decisions they take and the results achieved in this field. In order to ensure the provision of this

information, the public authorities must make use of communication methods which encourage transparency.

Transparency, a pillar of international finance democratic governance. Transparency must, together with citizen participation, become one of the pillars of the new international financial democratic governance, in order to ensure harmonious co-existence between citizens and the world of international finance.

Such international financial transparency would make it possible to strengthen democracy and the principles of unity, solidarity and sincerity. The concept of transparency, which may be defined as the accessibility of financial information relating to a given institution, is therefore an organisational principle of democracy. If the concept of democracy corresponds to the implementation of the will of the largest number, with due regard for certain legal standards, then the transparency of international finance is an absolute necessity.

It would also enable citizens to form an opinion on the challenges and dangers of international finance, while at the same time enabling them to enforce their rights, in full possession of the appropriate financial information.

The primacy of law in international finance

We live in states governed by the rule of law and it is only through law that citizens can have their views respected, through the passing, via their elected representatives, of laws which will bring an end to tax havens and, at the very least, punish the criminal

organisations and other companies using dirty money or whose profits are not taxable in the countries in which they are generated.

It is also the responsibility of national and local elected representatives who serve the population to support the primacy of law over international finance as it is also their role to ensure a decent quality of life for citizens by offering services that meet their needs and, lastly, to improve the economic, social and environmental conditions of everyone in the community.

Securing democratic governance of international finance

The time has come for democratic governance of international finance to ensure that the financial markets and systems everywhere, at world and local level, are managed in the interests of citizens and the common good, and not only in the interests of the organisations running them, and under no circumstances should they be able to do this without any control.

The gradual globalisation of financial markets and the decisive influence of the global economy on national economies over recent decades have meant that the problems, activities and challenges associated with financial governance at global level now take precedence over national or local financial systems.

Any contemporary financial system, whose prime role is to secure the provision of funds for the development of societies, should also seek to ensure a certain level of social equity.

The financial crisis of 2008 opened the debate on the need for international financial governance which meets the expectations of citizens and a system which is transparent, legitimate, ethical, effective and just.

We must therefore move on from a financial model geared towards short-term maximisation, speculation and opaque financial flows, and move towards a different model which supports the effectiveness of the productive economy, acknowledging it to be a factor for social well-being and international financial transparency!

It is only through pressure from citizens and public opinion that states, and the international community in general, will be prompted to step up their co-operation to secure greater tax justice at world, European and national level.

It is imperative to solve the basic problems concerning tax havens, such as banking secrecy (tax), the lack of transparency and effective supervision by the public, regulatory dumping, predatory tax arrangements and corrupt accounting techniques within multinationals. It is essential to step up supervision of the offshore financial system, harmonise national tax regimes and enhance corporate social responsibility and ethics, fiscal accountability and financial transparency.

This is the OCTFI's mission! Come and join us! Together we will be much stronger!

Enrique Uribe Carreño, lecturer and researcher at the University of Strasbourg, President of the Association “Les Mots-Arts”, founding administrator of the OCTFI.

Let me begin by quoting Franklin D. Roosevelt, at the time a candidate for the Presidency of the United States in 1936: *“We had to struggle with the old enemies of peace – business and financial monopoly, speculation, reckless banking, class antagonism, sectionalism, war profiteering. They had begun to consider the Government of the United States as a mere appendage to their own affairs. We know that Government by organized money is just as dangerous as Government by organized mob...”*

This speech, so often quoted, is an excellent analysis of the evils that threaten democracies when capitalism establishes itself with no political or legal counter-forces. In the 21st century, however, the capitalist system appears to be becoming universal while democracy in the world remains very dependent on the political traditions of each culture. There is one democracy in the US, several in Latin America and in Europe. And between the democracies in southern Europe and the Scandinavian democracies there are significant differences, for example, regarding the separation and balance of powers, and citizen scrutiny of political power.

Is it coincidence that the countries of Europe which are today experiencing the greatest crises – Spain, Greece and Portugal – are those with a young system of democracy and strong social inequalities. One of the characteristic features of the current crisis is the combination of several crises: an ecological crisis, an

economic crisis and a crisis of democracy. What democracy is there when the former German Foreign Minister Joschka Fischer stated “No-one can do politics against the market”? If the market subsumes the political sphere, then democracy loses its very *raison d’être*. The 2009 and 2010 bailouts showed that what Joschka Fischer said was not totally correct, because if there is political (democratic) will, action will follow, even against the markets!

“All these evils come from the onslaught of finance, which is nothing more than out-and-out egoism” Balzac, 1846. Since the time of Karl Marx we have been warned about the weaknesses of capitalism as a system. However, since 2007 numerous analysts have expressed the view that these weaknesses increasingly constitute a systemic risk. It is therefore time to act, because democratic regimes are now threatened by the actions of a plutocracy at global level, and a deepening of inequalities. They are also threatened by the actions of mafia-type organisations which use the weaknesses of the current system, such as banking secrecy and tax havens, in order to prosper. And lastly, faced with a situation of global uncertainty created by the combination of various crises, democracies are also threatened by the emergence of demagogues and populist solutions.

The system is “crazy” – an analysis that is all too familiar. In the wake of the first visible signs of damage of the sub-prime crisis in 2007 and the 2008 economic crisis, the leading politicians on the world stage (Obama, Merkel, Sarkozy, Zapatero etc.) described the capitalist system as “crazy”, “immoral” and “irresponsible”. In September 2009, Nicolas Sarkozy said that “banking secrecy was over”. The European Commissioner responsible for the internal

market and financial services, Michel Barnier, stated *“the finance industry is too important for the rest of the economy to allow grey areas to persist or to allow the key players to remain unaccountable”*, and he pointed out that 600,000 billion dollars flow through markets which by and large are unregulated. A European Commission report estimated that worldwide, the profits of organised crime could be as much as 5% of world GDP. *“Our objective,” said Angela Merkel at the G20 “is that no market, no financial player and no territory will escape effective regulation and supervision”*. Jérôme Cahuzac, French Minister for the Budget, highlighted the urgent need to strengthen democratic supervision of the financial system, as *“the free determination of supply and demand is called into question by the many conflicts of interest among the key players”*. Lastly, there is no shortage of diagnoses – in fact, it could be said that there have been too many diagnoses of the crisis and its causes and effects. Now, civil society must exert pressure on politicians for them to take action. The financial system must become transparent. Financial crime must not remain unpunished as it is at present, because above and beyond the economic (and social) damage it causes, the feeling of impunity gives rise to a loss of faith in democracy.

“Our spirit will always be stronger than the law!” A speculator, 1848, Balzac. One of the pressing questions of our time is that of restoring confidence in democracy. The deepening inequalities, along with the clear structural impunity of financial crime and the widespread feeling that national (or European) parliaments do not represent the majority, cannot but discredit our parliaments and political parties.

We must therefore create effective controls for the current capitalist system, condemn and punish the abuses of this speculative capitalism, of stock-options, the Madoff affair, the Kerviel affair, sovereign debt. Let us not forget that this latest phase of capitalism is a result of, amongst other things, one of the major changes of the system since the 1980s. This was when we saw a loss of purchasing power, and when the increase in consumer goods gave rise to greater recourse to credit. It is in such times that the markets and financial players predominate and there is an inexorable drift towards the priority goal of making financial gain – speculation – at the expense of creating wealth, i.e. business activity (Mouhoub El Mouhoud (2009), *Le savoir et la finance*, La Découverte).

“Life is business” (Balzac). Today, we can see the absence of any limits to speculation, fuelled by the boundless creativity to circumvent the law. In *Mercadet, the Schemer*, Balzac portrays a character, reminiscent of Bernard Madoff many years later, providing us with insight into the mind of speculators: *“Our spirit will always be stronger than the law! No-one will ever kill off speculation. I fully understand the times we are living in. Today, any business matter which promises an immediate profit, even if somewhat fanciful, is possible! The future is for sale, just as the lottery sells the dream of impossible fortune.”* On a historical note, this play was published in 1848, the same year as the manifesto published by Marx and Engels. We were therefore being warned from two directions. And this is especially relevant given that alongside the world economic crisis, which began in 2008 with the collapse of the sub-prime market in the United States prior to the bankruptcy of the financial system, we had a series of scandals,

demonstrating a total disregard for the standards of integrity. There was also a widespread feeling of impunity, due to, among other things, the lack of concrete results in the fight against tax evasion and the fight against the laundering of drug money. Speculation and the flight of capital go hand in hand.

“No-one is supposed to disregard the means of circumventing the law.” A further observation by Balzac, *“In business, you are entitled to be shrewd ... excessive shrewdness is not dishonesty, dishonesty is not duplicity, and duplicity is not a lack of integrity, but they all fit together like the tubes of an extendable telescope ... In short, the subtle differences are imperceptible and provided you keep within the law, if you are successful...”*. For speculators and other unethical entrepreneurs in finance, this duplicity remains on the right side of the law. In other words, as long as capital circulates freely, and laws are national, it is impossible to inject order into the world economic system. The European Union is an exception in this regard, with considerable legislative drafting, but the problem is how to impose regulations on the rest of the world (and on the British!).

To repeat what we have already said, this global economic disorder is a factor for widespread corruption, social injustice and the destabilisation of democratic regimes. Impunity fuels the feeling that “everyone is corrupt”, which in turn paves the way for populism. It is no easy matter to tackle this odious tradition of banking secrecy, which enables the wealthiest in the world to place themselves above the law. It is estimated that some 25,000 billion dollars have been deposited in tax havens. This is equivalent to the GDP of the United States and Japan combined.

“Be not simply good, be good for something” H. D. Thoreau, *Walden*. It is in order to reflect, inform and find new solutions to the problems caused by the financial opacity in this era of globalisation that we decided to set up the Citizens’ Monitoring Centre for International Financial Transparency (OCTFI) in Strasbourg. Citizens have an opinion to express on the organisation of the economic system in which they are a willing or unwilling participant. This dynamic citizen-based approach marks the beginning of a new era, one in which it will be possible to acquire information and exchange knowledge between specialists and non-specialists so that we can seriously address the no-man’s land which protects the huge fortunes of dictators, Mafiosi, arms dealers and other “entrepreneurs” of organised crime. OCTFI has no intention of becoming a vigilante, but seeks to defend the general interest and enhance practices of democratic supervision. Let us take a common-sense approach. If we can manage to secure greater financial transparency, the coffers of states will be more abundant and societies as a whole will benefit in terms of public services and social welfare.

“Capital knows how to avoid detection” Balzac. Capital has never been as mobile as it is today, and as early as 1848, Balzac had one of his characters comment on how it was able to avoid detection *“It is perhaps better to have capital today. You can keep your hands on capital ... Landed property, on the contrary, furnishes funds for everyone. There it stands immobile like a fool to be taxed, while capital knows how to avoid detection”*.

Faced with global challenges that are so difficult to contain at national level (the proliferation and trafficking of arms and drugs,

tax evasion, pollution, organised crime, over-indebtedness of countries, famine in the world, etc.) we need global responses. The fact that these scourges know no boundaries and that no governmental or judicial system can counter them largely justifies greater supranational legislation (UN) or the establishment of new courts adapted to the new global context. If you think it is important to combat the financial opacity which hinders solidarity and undermines our democracies, *come and join us in OCTFI*.

Stéphane Clerjaud-Bodócs, philosophy teacher, founding administrator of OCTFI.

Unless one wishes to take advantage of the opportunities available in the current state of affairs, no-one can reasonably deny that it is both desirable and necessary to work for a decent society, by which we mean a society that is sufficiently egalitarian so that no-one feels disparaged or deprived, in which everyone, regardless of their desires and capabilities, can plan their life with the certainty of fulfilment — which presupposes recognition by others, in which everyone has control of their living conditions by taking an active part in the way life in their community is organised, and in which no-one is subjected to domination by others, in whatever form that might take.

Such an objective may appear overly ambitious and unrealistic. Some would probably claim that it is unreasonable. But the question really is “What sort of society do I want to live in?” and not simply “What sort of life would I like?”. The second question concerns only myself as an individual, whereas the first relates to the human environment in which I would be happy to live without knowing in advance what my exact place in that environment would be. If people see this as a distant objective, then there is a risk they will feel powerless to achieve it. So we need to determine what people can do to help bring about change towards that goal. We need to take stock of the situation in order to clearly identify the obstacles in our path and implement collective strategies of resistance and transformation. This is, moreover, what could be described as a political approach.

OCTFI provides an example of such an approach. Today, virtually all of us suffer from the international financial apparatus, in the forms of speculation, the predatory nature of stock-market capitalism and the opacity which is made possible by complacent jurisdictions. It was only as a result of numerous political choices taken in recent decades that this apparatus has come about. However, what has been done, can be undone. And while it might seem futile to expect our leaders to take it upon themselves to do this, it is up to us, citizens, to exert pressure on their representatives, who are often scarcely any more enlightened than the leaders.

With regard to what concerns us here, this approach does of course raise a number of conceptual problems. Finance and its global economic implications would appear to require, in response, a form of citizenship which is itself global. This would lead to a jurisdiction binding on all states. In this regard, the law should not be addressed in terms of rules decided by representatives. *The law cannot establish peaceful social relations at all levels unless it is seen as the expression of a community-expressed demand.* The real question is how to develop this community, this “us”. Could it not be based on the principle that the legitimacy of an individual’s demand is conditional on one key factor: the ability to accept it as a duty? Is it not by being able to demand what others in turn can also demand of themselves that a common voice can be expressed and, in the longer term, that a community can be formed or reformed? But in this case, whose demands are to be heard? Only those already acknowledged as fellow-citizens? This brings us to the very heart of politics. It is not merely a question of identifying a problem. The other side of the coin is to ask: who is concerned by

the problem identified? What can we put in place and how can we organise ourselves so as to come up with solutions?

However, we should not think that only a large-scale transnational movement could take us forward in the right direction. That too would be to condemn ourselves to powerlessness. At individual level, informed persons can, for example, withdraw their account from a bank that has subsidiaries in tax havens. They can talk to their MP. They can join with others to give their demands a greater public dimension. The restoration of control of finance by citizens and the practical stages that must be implemented to achieve this are all ways in which we can build a decent society.

Citizens

Let us all act together!

We are going through a crisis signalling a transition to another world, a world to be built for and with citizens. The Citizens' Monitoring Centre for International Financial Transparency (OCTFI) was set up in response to the desire and commitment of its founding members to work together, as part of a programme devised with and for citizens, to help bring about a globalised society – a “world society” – with ethics and justice as its central focus. The aim of OCTFI is to bring together all those who, regardless of their differences, share the conviction that a better future is possible and that they must play a leading role in achieving this.

To join OCTFI, please visit: <http://octfi.perso.sfr.fr/>

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