

Epiphany Sunday 2017

Dark Money: Epiphany and the Hidden Trillions

A sermon by Rev. Steven Epperson

January 8, 2017

UCV

Chalice lighting

We light this chalice, symbol of our faith. Here, we affirm the worth and dignity of every person, this one and precious life, and the interdependence of all existence which we are called to nourish, respect and serve.

Meditation:

Let us begin this year with a pause, a moment of silence, to allow the pulse of Life and gentle breath to clear our minds....(pause)

There is a source of strength that dwells within us. The very well-spring of life.

For a moment, set aside the obstacles.

Let us meet our deepest selves face to face...

There are headaches, aching hearts, the failures...to be sure. Truly.

And wonders, and beauty, and grace, and goodness.

We know that we need one another and that we must keep faith with ourselves, with others, if we are to keep faith with the world.

In moments of quiet, like this, when we open ourselves to the depths...see there! The spirit of Life is within us; guiding, sustaining, so that the strength we need and the compassion the world needs will come to us and shine like a beacon in the night

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This is a big day in the Christian world: Epiphany Sunday. Somewhere between a fourth and fifth of the world's population is celebrating an essential of their faith: the revelation of the divinity of Jesus as symbolized in narrative and art by the Three Wise Men—who stand in for all the gentile world—venerating this human infant as the unique incarnation of God. In my dictionary, the definition of epiphany I want to focus on goes like this: “epiphany—a *sudden and important manifestation or realization.*”

I can't let this second Sunday of the new year go by without acknowledging and sharing with you my big epiphany of 2016. I wish this revelation was good news, but then you all know I'm an incorrigibly serious person. That said, I do believe that knowing the truth can set us free; and hopefully, there will be some light shining forth by the end of these remarks.

The epiphany struck in late August when I read a review article of a book hot off the press entitled *The Panama Papers: Breaking the Story of How the Rich and Powerful Hide their Money*, co-authored by two investigative reporters of the Munich based *Suddeutsche Zeitung*. The book tells essentially two stories; the first is how investigative journalists do their work (and that's fascinating enough); but the second story is the explosive information published by these reporters and an international consortium of journalists with whom they worked. Their findings first hit the news internationally last April, but it took me some months to catch up and for its implications to sink in to my thick skull once I'd read the book and other material for myself.

Through 2015 to the beginning of last year, an anonymous source working inside a Panamanian based law firm called Mossack Fonseca leaked over 11.5 million documents from the firm to the German reporters. Mossack Fonseca has long been under investigation for

suspected money laundering; it employs over 600 hundred lawyers, accountants and financial specialists, with subsidiary offices in forty two countries. Over the last thirty years, this one firm specialized in setting up more than 300,000 offshore bank accounts, shell companies and trusts for a superrich international clientele of thousands, including 450 Canadians. And before I go any further, I need to add that this company is only one of a legion of firms located around the globe specializing in this largely hidden economy—an economy dedicated to concealing the identities of the rich, dedicated to concealing the nature, source and amount of their wealth, and above all dedicated to helping their clients avoid or evade paying taxes.

The trove of documents leaked from Mossack Fonseca was so huge that eventually 400 investigative journalists from over 80 countries, working in 25 languages, representing more than a hundred media outlets, became involved in order to verify the accuracy of the information, the reliability of the sources, contacting those named, the analyzing of the information and its consequences, and then figuring out how to write, coordinate and release their findings publicly for maximum impact. The documents revealed the offshore accounts and the names of those holding them; they included 140 politicians and public officials from Africa to Pakistan, Iceland to Germany, officials in the highest echelons of the Russian, Ukrainian, Saudi, Syrian and Chinese governments; as well as international soccer stars and officials, media celebrities, mining company executives, blood diamond dictators, drug lords, and financiers for Hezbollah and Al Qaeda—I kid you not.

To be sure, not all of the money, stocks, art, property deeds, villas, jewels etc. socked away in myriad offshore tax havens is ill-gotten, or illegally cached away. It is not illegal in many cases to have offshore accounts—just ask corporate Canada and the domestic banks that service them. “The finance industry does at least try to make sure its activities are carried out

within the letter of the law, and is partly successful in this.” But the journalists working to produce the Panama Papers “came across [the names of over 3500] criminals and organizations engaging in offshore activities. The Japanese mafia, the Italian mafia, the Russian mafia, drug cartels, arms smugglers...money laundering rings...as well as corruption cases by the dozen.”

(Panama Papers, 305)

Since the findings of those journalists working on the Mossack Fonseca documents went to press last April, some heads of government and public officials have been forced from office, some police investigations have ensued, and intergovernmental hearings into the whole offshore finance racket have, are and will be taking place. All well and good.

But here’s the thing: what the *Panama Papers* have disclosed is not just the wrong doing of organized crime, venal hypocrites in government betraying the public trust, and a global industry of law firms and banking all-too-willing to service the most outrageous cases—and they are legion. The heart of the matter is this: since the 1920s, and especially in the past thirty years, by means of offshore bank accounts, shell companies and trusts, the international machinery of offshore finance has effectively created an economic system that has removed the rich and the powerful from the messy business of paying taxes. In the words of the *Guardian*’s Luke Harding: ***They don’t pay taxes anymore, and they haven’t paid tax for quite a long time. We pay tax, but they don’t pay tax. The burden of taxation has moved inexorably away from multinational companies and rich people to ordinary people....Basically, we’re the dupes in this story. Previously, we thought that the offshore world was a shadowy, but minor, part of the economic system. What we learned from the Panama Papers is that it is the economic system.***” (Quoted in Alan Rusbridger, “Panama: the Hidden Trillions,” *New York Review of Books*, October 27, 2016)

That was the epiphany; the publication of the Panama Papers drew the curtain away—the one concealing a world of secretive tax avoidance and evasion for the world’s superrich on a global scale.

Mossack Fonseca and the international web of financial services provided to companies and individuals handle trillions of dollars of wealth in their totality. Conservative estimates by one of the few economists who’s studied tax havens count \$8 trillion of offshored wealth (in places like Luxembourg, Switzerland, the Cayman Islands, the British Virgin Islands, and the state of Delaware, to only name a few of the more than ninety jurisdictions that offer tax havens); while research by the Tax Justice Network puts the figure at \$21 trillion in financial assets hidden from the world’s tax authorities. Between these two estimates: \$8-21 trillion, the lost tax revenue to governments worldwide runs between \$200 billion and \$1 trillion *annually*. Tax havens cost US taxpayers as much as \$100 billion every year. Canadians hold unrecorded offshore wealth to the tune of \$300 billion (US)—that’s 10% of total Canadian wealth—which means that \$6 billion of taxable revenue is lost to us and our nation every year.

Meanwhile, tax payers bail out banks too big fail, suffer through austerity budgets, cuts to social safety nets, and we’re left dealing with the consequences of inadequately funded healthcare, infrastructure, alternative energy, courts and legal systems, workplace safety, housing and education—because we are told by global elites that “we” cannot afford to pay for them.

Here I agree with Canada’s Mark Carney, the current Governor of the Bank of England, who said in a public lecture last month: “We meet today during the first lost decade since the 1860s....Citizens in advanced economies are facing heightened uncertainty, lamenting a loss of control and losing trust in the system....Economists must clearly acknowledge the challenges we face” including “low [and stagnating] wages, insecure employment, stateless corporations and

striking...staggering wealth inequalities.” Voters, he said, deserve a more honest appraisal from economists when it comes to the real impacts of these challenges. “Taxpayers and citizens have paid a heavy price...” (see Mark Carney, “The Spectre of Monetarism,” Roscoe Lecture, Liverpool John Moores University, 5

December 2016, <http://www.bankofengland.co.uk/publications/Documents/speeches/2016/speech946.pdf>)

And speaking of staggering wealth inequalities, when we combine the findings of the Panama Papers and those of the mainstream economist Gabriel Zucman in his recent book *The Hidden Wealth of Nations: The Scourge of Tax Havens*, we’re left with an entirely new perspective on one of the greatest questions of the age: “why has income distribution in the more developed economies become increasingly unequal in step with the advance of globalization?” It’s not just the revolution in information technology, the decline of manufacturing and the rise of low paid services industries. We now have compelling evidence that the trillions of wealth offshored beyond the reach of taxing authorities in the past thirty years has wholly subverted what could have been the equalizing effects of taxation.

After reading *The Panama Papers*, which he calls the most important book of the decade, the political scientist Luttwak says this: “when the less affluent must pay their payroll taxes and income taxes in full, while the more affluent with offshore companies do not pay their own taxes, the total effect of the taxation system,” combined with “sales and value added taxes...is strongly regressive. Once we recognize the sheer magnitude of offshored income flows, and once we take into account the regressive effects of...taxation systems, the phenomenon of rising inequality in affluent societies may not need much more additional explaining...” (Edward N. Luttwak, “Hidden Costs”

The Panama Papers—a radically new explanation of rising inequality,” *Times Literary Supplement*, August 19 & 26, 2016)

Here’s the question the two lead authors of the Panama Papers pose its readers: “Why should the 99 percent accept that their governments now have no more than a theoretical influence on the super-rich 1 percent of society? An employee looking at her payslip sees what

the state has taken from her and is powerless to do anything about it. But someone who has dividends paid to a shell company in the British Virgin Islands can decide for himself whether or not to declare those earnings in the country in which he lives, whose amenities and protection he enjoys. The feeling that, in the world of finance, ‘the people at the top’ can do whatever they want is more than just a feeling. It’s the reality.”

The Danish sociologist Brooke Harrington, who trained for two years as an asset manager and immersed herself in this world to understand how it works, “warns of a ‘neo-feudal concentration of wealth.’ The members of the international financial elite,” she says, “are effectively constructing their own legal system....A small group of people are not only hiding their money and avoiding taxes, they are also evading the law.” (see *Panama Papers*, 304)

Why am I bringing all this up in a worship service and making it the subject of a sermon on a Sunday morning? As Unitarians, we claim that our lives are informed and guided by a set of values—of ideals and practices that include justice, equity, the search for truth and the use of the democratic process in our congregations and the in the society at large. What the Panama Papers and other studies on tax havens and have disclosed, and what even the Governor of the Bank of England said just last month, is that all of these values are being severely tested and under grave threat. As one political economist put it two years ago:

“[M]odern democracies are based on a fundamental social contract: everybody has to pay taxes on a fair and transparent basis, so as to finance access to...public goods and services. Of course, there is ample room for disagreement about what “fair” and “transparent” taxation means. But if...the wealthiest individuals and...the largest corporations use tax havens and fiscal dissimulation in such a way that they avoid paying taxes almost entirely, then it is our basic social contract that is at stake. If middle-class taxpayers feel that they are paying higher effective tax rates than those at the top of the pyramid, if small and medium-size businesses feel that they are paying more than our largest companies, then there is a serious risk that the very notion of **fiscal consent**—which is at the core of modern democracies—will fall apart altogether. And if a rising fraction of the population, at the bottom and in the middle of the pyramid, feels that the system is not working for them, and that they are not being well treated by the global economy or by their government[s], then they might reject the very notion of interclass solidarity and of a fair fiscal and financial state. Some might even become tempted by nationalist solutions, ethnic divisions, and the politics of hatred.” (Thomas Picketty, in Zucman, *The Hidden Wealth of Nations...*, vii, viii)

And as if I even need to say it: those temptations are alive and on the march across Europe and south of our border and elsewhere.

At the beginning these remarks I said something about light shining forth as we approach the close of my words today. It starts with a hard truth, and facing some concealed facts face-to-face: *we pay taxes, they don't*; and the consequences to democracy, justice and equity are, quite frankly, terrifying. And those consequences are hitting us now and will hit our kids, grandkids and future generations especially hard if something isn't done.

I know it came as quite a shocking letdown for Dorothy and her crew when Toto pulled that curtain aside and revealed the quite ordinary man hiding behind the curtain manipulating the dials, images and messaging of the great and terrifying Oz. But the deflation of that epiphany was a necessary condition for getting Dorothy back to Kansas, the Tin Man his heart, the Lion his courage and the Scarecrow his brains. And it's heart, courage and brains we need now.

The good news is that now that we're coming to understand the enormity of the problem of tax havens and off-shored wealth more clearly, there are steps to be taken to begin to solve it. And here I'm relying on solutions proposed by economists, the Governor of the Bank of England, Mark Carney, and the lead journalists of the Panama Papers.

Step one: create an "effective system for the automatic global exchange of information about bank accounts." However, this "kind of exchange of information is still useless...if an account is held by an anonymous shell company." Which leads to...

Step two: create "a globally transparent register of all companies that would list the real owners of companies and foundations." The register would simply record the names of the owners, their date of birth, a business address and the number of shares they hold.

This information would enable “national tax administrations to fight tax evasion and to levy taxes on capital-income flows and wealth stocks.” Participation would “entail rights and duties,” it would ensure “property rights and financial transactions; but in exchange, it requires a commitment to transmit information necessary to identify the *actual* owners of all assets.” (see Zucman, x-xii, 75-101, *Panama Papers*, 305-13)

If economists, Mark Carney, and the authors of the Panama Papers are right—then that’s it—there are two simple steps with far-reaching consequences that governments can take to end the scourge of untaxed wealth and masters of the universe; at least, it’s a place to start.

Tax havens, off-shored wealth and lost tax revenues thrive on secrecy, inattention and lack of political will. It’s time to say ENOUGH!

And there’s something *we* can do about it, there really is. We can write a short letter to the Minister of Finance and our own Member of Parliament, calling on our government to lead out in advocacy for the international community to take these two steps. I have provided a form letter in the order of service to guide us in writing such a letter. I have also provided the address of the Minister of Finance. If you don’t know your MP’s mailing address ask me and we’ll find it. Letters written to MPs in Ottawa don’t even require a postage stamp; it’s free.

In closing, I simply want to say: this is not a political sermon. Writing a letter on ending the scourge of tax havens is not politics, plain and simple. This is *making real* our Unitarian values and beliefs in truth, justice, equity and the democratic process, and *then* putting them into action. May this be the legacy of our Epiphany Sunday and a meaningful way to begin the New Year. Amen.