Indian Capitalism in Development

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To the next generation of scholars who we hope will take forward some of the ideas in this book.

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Kannan Srinivasan[1]

Introduction

India's capitalism is incompletely described when the account does not include the laundering of wealth: its concealment in other business, including its flight from India's jurisdiction in order to separate the surplus extracted from the gaze of labour.[2] Although the customary understanding of money laundering is 'the process of concealing the origins of money obtained illegally by passing it through a complex sequence of banking transfers or commercial transactions' (OED 2002), I suggest it might be more usefully defined as the concealment of assets acquired *legally or illegally*, intended for personal consumption or beneficial heirs (whether the purpose is benevolent or otherwise).

I will try here to show[3] that the flight of Indian capital is one of three significant manifestations of the exercise of coercive authority: these being the extraction of the surplus; the movement of such wealth out of the Indian jurisdiction, and the culture of silence about extraction and flight, both in India and abroad. These are little discussed I suggest, because at a certain point economics stopped acknowledging coercion as a significant motive for the acts of societies and states.

All over the world, funds flow constantly between different businesses. The illegal is easily concealed in the legal, as when individuals hide legally earned income, transferring it abroad by arrangement with traders who misprice trade; or when corporations hide it by internal transfer pricing between subsidiaries or related companies. Tax evasion must be conducted by laundering money. Yet this category is generally absent from all discussion, perhaps because it is the wealthy and powerful who benefit from such silence. Money laundering also includes what is earned in business *that is entirely illegal everywhere*, such as trafficking in minors, women, narcotics or extortion.[4]

At one time, former sovereigns were exiled so that their subjects would forget that they had once ruled and the social surplus could be the more easily extracted.[5] This exile anticipated the contemporary movement of wealth away from the site of extraction, such as the surplus created by the land and labour of rural Orissa to a zone of recreation like Kensington in London. This displacement

enforces an amnesia whereby we forget what we have once known as to where such wealth originated. Such obfuscation better enables the most significant laundering of money, tax evasion in weak jurisdictions, and capital flight from them, both generally excluded from the category of money laundering, but as I have suggested, incorrectly so. Indeed, subordinate jurisdictions may be so powerless that they lack the authority or confidence to even offer their own legal definition, or to attempt resistance to the departure of wealth from their borders, even as they are crippled by the outcome.

When the concealment of income from taxation authorities in Nigeria by over-invoicing payments to suppliers in London in order to bank those funds in the Channel Islands is *not* called money laundering, while money paid by a hawala dealer in Kochi to the relatives of a labourer in Abu Dhabi *is* (McCulloch and Pickering 2005), this merely follows the arbitrary definition of crime by dominant jurisdictions. That definition serves to legitimise the flight of capital from the subordinate jurisdiction and to develop a policy towards crime that assists the ceaseless expansion of the predatory sovereignty of the strongest states in the international system.

Colonial origins

The separation of wealth from its origin in labour is evident in *colonial drain* (Bagchi 2005; Banerjee 1990; Habib 2006; Patnaik 2002). Dadabhai Naoroji (Naoroji 1901) employed the term to identify the transfer of surplus from India by employing Indian revenues granted by the Dewani of Bengal in 1765 to buy textiles in India. These were then sold in England thereby constituting an unrequited trade in that no money flowed from Great Britain to pay for cloth sold there. In the second stage, Indian revenues were used to buy opium sold locally in China with profits remitted to Britain. Finally, Indian revenues paid for the subjugation of India by armed force (termed the 'Home Charges'), as well as numerous other activities deemed related to the 'Defence of India' (which meant British interests in India and included expenses to do with Suez or the Mediterranean Fleet (Palme Dutt 1940)), and for the development of the oilfields operated by Anglo Persians in the Middle East and the policing of the entire Empire by Indian men in arms (Srinivasan and Gangoli 2005). The opaque official accounts of this cross-border transfer of funds served to disguise what was really tribute.

Such concealment was subsequently adopted by managing agencies that were accused of cheating British investors when they did so. Accounts of such nature also provided useful terms of reference for the multinationals that succeeded them, and for the flight capitalists of today. For instance, Finlay Muir in Calcutta was appointed agent of Champdany Jute at the very incorporation of that firm in 1873, receiving a 5 per cent commission on sales irrespective of profit. In the following two decades, during which Champdany performed poorly, this arrangement suited Finlay Muir but not Champdany's shareholders. In 1893 a complainant alleged:

> [T]here is no public confidence in your management … you have a double interest in your undertakings and … your interests as shareholders are largely subordinated to your interests as managers, agents and financiers. The way in which the Champdany company has been managed has made it the laughing stock of the business community.
>
> (Misra 2000)

Shareholders sued the company in the Scottish courts in 1895, two of the plaints addressing themselves to the high interest rates Champdany was forced to pay on loans from Finlay Muir that had been arranged without the consent of shareholders. Yet, despite such lawsuits, and despite the fact that between 1897 and 1900 the management paid no dividend to Champdany shareholders, it paid Finlay Muir a fee of £41,000 in 1900, a substantial sum at the time. Harrison & Crossfield, one of the other two large managing agencies, charged the plantation companies it managed for secretarial services as well as commissions on buying and selling irrespective of profit or loss (Jones and Wale 1998).

Very similar charges to these were made in relation to Indian firms following Independence suggesting a continuity of practice. Concealment of this kind occurred not just in relation to imperial or colonial possessions but also in relation to those parts of a larger informal empire, including countries such as Brazil, Egypt and Argentina, where the interests of British investors could overpower local and nominal sovereigns. For instance, Brazil accumulated sterling balances by 1947 of £68 million, small in comparison to India, yet 45 per cent of total Brazilian foreign debt and 50 per cent of Brazilian imports. In the case of cotton alone, Brazil lost at least £70 million by accumulating such balances and purchasing inflated British assets with them (Abreu 1990). These cases illustrate the point that dependent countries' elites may identify with the strong and negotiate unattractive arrangements for their own states, enabling capital flight.

Money laundering today

I shall now try to give some idea of how money is siphoned out of public sector contracts, how laundering services are solicited in India today, and how laundered wealth is managed outside the original jurisdiction in which it was earned. My research has shown that the most important institutions that aid all varieties of money laundering today are not back-alley hawala merchants, but the main money-centre banks, respectable law partnerships and accounting firms, with the support of the Western states in which they originate.

Laundered funds often originate in legitimate business, such as any manufacturing or trading activity that seeks to evade the taxes levied on earnings by governments. It is such funds that are the bulk of the business of laundering money, and of global unreported or misreported flows. The concealment has long been conducted by European and American private banks that serve the very wealthy from all over the world with personal attention, and in absolute secrecy. The 'banques privees' of Switzerland became known between the two World Wars

as the home of flight capital from other parts of Europe, and Wall Street served that same purpose for flight capital from France (Helleiner 1994; 2005).

Since then, this has become an important aspect of the City of London's business too, although nominally located in the Channel Islands or Overseas Territories. Money from business entirely illegal in every jurisdiction, such as the trade in narcotics, or the traffic in persons, is laundered identically through such tax havens.

Significant Indian money laundering and capital flight originates in corrupt government contracts. Let us look at a couple of examples from my research on how these work. In the first case my informant B explained to me how his earlier employer, a law firm, organized the kickbacks for a contract for an important new port. The contractor was a European multinational. The provision for arbitration in the event of cost escalations concealed a secret understanding to allow the multinational super-profits at the expense of the public sector port trust, and ultimately the Indian taxpayer. Enormous escalations in cost were claimed. In an elaborate charade, the port trust pronounced these to be completely unacceptable. The foreign contractor, seemingly enraged, referred the matter to arbitration by a panel composed of retired High Court and Supreme Court judges. The law firm had meanwhile, for the purpose of arbitration, set up a Potemkin village of a firm, comprising two associates who formed a bogus firm in partnership. This bogus firm was set up at the old chambers of the real law firm. A nameplate of the fictitious firm was set up at this office for a fortnight. The original firm appeared in the arbitration for the foreign multinational, and its bogus firm associates for the port trust, and the latter bungled the case. Without this elaborate procedure, cost escalations would have been challenged by the Annual Report of the Comptroller and Auditor General of India (CAG), which would have written what are called audit paras about negligence, to be placed on the floor of Parliament, and provide fodder for attack by the Opposition. With this mechanism of rigged arbitration, hundreds of such agreements went through unnoticed every year.

One might also get a feel for such transactions by looking at Indian Navy procurement. The Soviet Union supplied the Indian armed forces with technology and equipment, beginning in the 1950s. Its factories were very widely dispersed: a ship assembled in Vladivostok might require engineered supplies from various Soviet states in Europe and Asia. When the USSR broke up, obtaining spare parts required an intimate knowledge of the different factories, excellent technical Russian, negotiating skills and of course incorruptibility, if the Ministry of Defence was not to be exploited by agents who now assumed a powerful role.[6] My informant, a retired Rear Admiral, attempted to ensure that procurement be undertaken competitively by government negotiating teams travelling abroad, or by offering tenders to the very large number of high-quality Indian engineering firms in both the public and private sector who could undertake the work. He failed. The deals which went through were generally conducted through intermediaries in London[7] or New York,[8] perhaps owing to the proximity of private banks that facilitate the concealment of the money made.

The third case shows how laundering services are solicited. I first met private banker C through my lawyer informant B. In 1994, when he began freelancing with C, B was operating out of the chambers of his old firm, developing his own clients. People who he would meet either at work or on the Bombay social scene who did not have assets abroad, or who had assets poorly concealed and inefficiently deployed in terms of preservation of value for the long term, he would introduce to C, and she would pass on commissions. His networks developed, in Bombay, in Delhi, in Dubai and in London. Today he is celebrated for the elegant parties he hosts and the retreats and seminars he organizes for international businessmen seeking Indian connections.

C had been an airline 'stewardess', as it was then termed, and was good at dealing with people, and it was this that enabled her to build relationships and cultivate clients which led to her becoming a private banker. She looked after South Asia and the Middle East for a UK private bank nominally located in the Channel Islands but actually run from the City of London. It was also a subsidiary of one of the most respected investment banks. Channel Islands trusts, she claimed, were much safer than Swiss accounts, their mechanisms being far more sophisticated. She dealt with a lot of arms deals.

She asked me for contacts, businessmen and other Indian wealthy people who wanted to keep wealth abroad out of the reach of taxation as well as currency depreciation. She was not like some private bankers who will only deal with very large amounts. For her, $300,000 in cash or liquid assets was an acceptable minimum from a client to whom she could offer something worthwhile. She could give an assurance of absolute secrecy, and absolute safety, such that no government or other authority, no wife, no business partner, no rival, could get at the funds of the client. Five years after I last saw her she was killed when her farmhouse in Tuscany was blown up. Her death was little discussed in Mumbai, although a London colleague had at the time remarked on her involvement in a sensational arms deal, which must have meant that a reasonable number of people in more than one country knew about it.

Many countries from which there is capital flight, whether Russia, Pakistan, Nigeria or India, are *weak* jurisdictions,[9] in even the nominally egalitarian enforcement of law, and therefore weak in resisting the ability of the powerful to export their wealth. But weak jurisdictions that provide extraordinary returns may also be an uncertain store of value. Political movements or changes of government may challenge the settled order, as in the Philippines or Indonesia, or Pakistan or Chile. The arbitrariness that has appropriated the value created by others makes them a poor home for the long-term residence of surplus. Recipient states receive the benefit of such capital without having had to assist in its creation, generally offering no tax at the point of entry. The destination economies of the US and the UK, the tax havens connected with them, and neutral countries such as Switzerland and Austria, are the most attractive both for the physical residence of flight capitalists and for their wealth.

The City of London

UK-connected jurisdictions dominate international tax-avoiding fund flows, and are of great importance both to the UK and to the US. There are two categories of these: the Crown Dependencies[10] and the Overseas Territories.[11] The UK, the Overseas Territories and the Crown Dependencies form one undivided realm, which is distinct from the other states of which Her Majesty The Queen is monarch (UK Government 2012). The Crown Dependencies, where a unique system of taxation and secrecy in regard to non-residents is guaranteed by law, were inherited by the Sovereign as successor to the Dukes of Normandy. The UK Parliament has authority to legislate for them, but chooses not to do so. The Queen acts on matters concerning them on the advice of her ministers acting in their capacities as Privy Councillors. This formula of nominal independence permits the UK to employ the Crown Dependencies to mop up international funds while maintaining the fiction of being at arm's length from them.

The Overseas Territories are more evidently administered by the government:

> As a matter of constitutional law the UK Parliament has unlimited power to legislate for the Territories.... Governors or Commissioners are appointed by Her Majesty The Queen on the advice of Her Ministers in the UK, and in general have responsibility for external affairs, defence, internal security (including the police) and the appointment, discipline and removal of public officers.
>
> (UK Government 2012)

Following a public campaign,[12] the Labour government in 1998 commissioned an official report on issues of concern in the administration of trusts in the Channel Islands. This report, the Edwards Report (UK Government 1998), was eager to find excuses for the sort of money that finds its way to the Channel Islands. Thus:

> [I]t may have nothing to do with crime in any generally recognised sense but be illegal within the extreme laws of some repressive regime.
>
> (Part I, ch. 14)

Further, the Report recorded unquestioningly the statement of accountants in the Channel Islands who had never heard of requests from abroad for information concerning tax evasion, or indeed of any tax-evading money. This contrasts with what Assistant District Attorney John Moscow prosecuting BCCI (the Bank of Credit and Commerce International) said in relation to Jersey's compliance with international requests for assistance:

> It is unseemly that these British dependencies should be acting as havens for transactions that would not even be protected by Swiss bank secrecy laws.[13]

Global business companies (GBCs) registered in Mauritius are exempt from preparing an annual report, annual return of funds held and invested, or any statement of profit and loss; nor need there ever be any official inspection; nor need any corporate documents be held on record. Such GBCs can be set up in 48 hours. Although the Mauritius Financial Services Commission can take action if a company is used to launder money, since GBCs are immune from inspection the possibility of detecting wrongdoing is slight. A request from a foreign government for assistance must be processed within three years, within which time the foreign investor may well have vanished.

Given the general public concern in India, the government was compelled to issue a White Paper (Government of India 2012). This sees money laundering as a vindication of the official policy of amnesty and finds proof in the nature of direct investment:

> 2.8 Has Money transferred abroad illicitly returned?... FDI statistics perhaps point to this fact. As per data released by the Department of Industrial Policy and Promotion (DIPP) ... the two topmost sources of the cumulative inflows from April 2000 to March 2011 are Mauritius (41.80 per cent) and Singapore (9.17 per cent).

Further, the earlier contention that PNs need not be laundered money has now been abandoned:

> Investment in the Indian Stock Market through PNs is another way in which the black money generated by Indians is re-invested in India.... The ultimate beneficiaries/investors through the PN Route can be Indians and the source of their investment may be black money.
>
> (Government of India 2012: 17)

Wall Street

It is not just Asian economies' official investments in US instruments (such as US Treasury securities and corporate stocks and bonds) that have helped America finance its current account deficit. Laundered funds have also played a part.[20]

Of the $3.86 trillion of foreign inflows into the US at the end of 2012 (US BEA 2013), deposits in US banks and financial institutions by foreign residents and banks and securities brokers amounted to $3.63 trillion. However, another important government report shows official and private holdings of US Treasury securities by foreign residents and banks (US Federal Reserve Bank 2013: 20, table K) were $5.57 trillion, 34 per cent of total outstanding Treasury securities. Of course, China and Japan as important government investors of their own liquid overseas assets are the largest.

But it is also worth noting that Belgium, Luxembourg, Switzerland, Hong Kong and the Caymans are very significant; as are Belgium, Luxembourg, the

UK, Ireland, Switzerland, and Caribbean financial centres in the case of foreign private holdings of US corporate and other bonds and equities.

Investment flows into the US from these financial centres ought to be a matter of concern because a large amount of their holdings are in the form of *bearer* securities, Treasury securities, long-term and short-term debt and equities, where the identity of the owner is entirely unknown to not just the US government but even unrecorded by anyone save his or her nominee, lawyer or accountant. Those who invest in such bearer instruments are attracted above all by the matching US assurance that non-resident investors may buy them, and thereby keep their identity secret. Mere *possession* of such an instrument constitutes the title of ownership.[21]

Another reason that so much money flows into the US from tax havens which assure anonymity is because US taxes that would otherwise be withheld at source by the Internal Revenue Service (IRS) on earnings from portfolio investments[22] and bank deposits[23] were in 1984 exempted for non-resident foreigners by the US Treasury. Immediately a flood of international anonymous investment flooded into the US, and thereafter in the past three decades these enormous flows have comfortably financed the large trade deficits. The business economist Lawrence Hunter claimed the portfolio-interest exemption:

> (section 871(h)) is perhaps the greatest single example of Congress's attempt to attract offshore investment.
>
> (Hunter 2002: 3)

He characterized this policy as being:

> perhaps the purest example of enlightened self-interest and realism in attracting foreign capital ... analysts generally believe that this provision has attracted somewhat over $1 trillion in foreign capital to the United States.
>
> (Hunter 2002: 3–4)

What is true of the portfolio-interest exemption benefits is equally true of the benefits assured by the exemption on taxes withheld at source for bank deposits. Such investors often pay no taxes anywhere. This means that the world's tax-avoiding, corrupt and criminal money finds in the US as in the UK a welcome so warm that it renders absurd any claim by their governments to be resisting the laundering of money, since their external economic policies are directed to just that purpose. I suggest that this mopping up of the wealth of the world is concealed in euphemism and silence by today's democracies and strong states.

David Hume's price specie flow mechanism for adjustment[24] formed the basis of one view of the nature of equilibrium in international trade. This view of the nature of equilibrium represented an inherent challenge to the labour theory of value. That is why it *necessarily* led to Jevons' insistence that such a self-adjusting mechanism could dispense with the labour theory of value, since value

varied constantly with every transaction (Jevons 1866). Jevons believed that value depended on marginal utility, which he saw as determined by taste, or the market, from time to time.

Once labour was no longer seen as a source of value, free capital flows became the new dogma, since the self-adjusting equilibrium would, it was believed, arrive at the best outcome, substituting for political choice (even if this is in fact deeply political). It is sometimes argued by those such as Hunter (cited earlier) or IMF officials such as Rojas-Suarez (Rojas Suarez 1991) that such flight may be a matter of the optimum deployment of capital, and in any case cannot be checked by government fiat. That is the official view today of OECD governments and the Bretton Woods institutions (although periodic crises encourage episodes of self-doubt).

Locke and others had seen the fruits of man's labour as value. Yet, as long as the work of each labourer was in any sense unique, commodities in the modern sense could not exist, and the labourer retained some autonomy; neither value in use nor value in exchange offered a satisfying basis for valuing labour. It was only when large amounts of identical commodities could be manufactured and exchanged for money, and the role of each labourer could be reduced to a personality virtually interchangeable with all others, that the leading exponent of classical political economy, Marx, could deploy both use-value and exchange-value to offer a modern definition of value itself. Today, the ultimate stage in the process he identified has been reached. Through instruments of great financial sophistication that have been developed, and policies to support them that have been developed, the entire wealth of a country can now vanish in a few days. It is this very environment that enables the concealment and flight of wealth from any jurisdiction.

The labour theory of value compels us to remember that the wealth that has appeared magically as stock in Wall Street or the education of a future generation at Harrow is actually the labour of a Dhanbad worker.

Trade mispricing

As the instances of rigged cost escalations, fake arbitrations, weapons deals and private banking would suggest, systematic trade mispricing has undoubtedly been an important mechanism for organizing capital flight out of India. Zdanowicz and others estimated that several billions of dollars were laundered annually through Indian trade. They developed a global price matrix and analysed every single India–US import and export transaction for the years 1993 to 1995, to estimate abnormal pricing and the magnitude of consequent capital flight (Zdanowicz *et al.* 1996). In the most recent year studied (1995), capital flight from India to the US effected through the mispricing of trade between the two countries was estimated as amounting to up to $5.58 billion. Were this maximum figure in the range to hold true for other countries with which India trades today, Indian money laundering through trade would exceed $50 billion annually. I say this guardedly. By examining trade data we can see how likely it is that there is capital flight. I am not confident about precise estimates as to how much.

Epstein and others (Epstein 2005) have made serious estimates of flight from several countries. But the most comprehensive recent studies of flight from different countries based on trade data as well as other methodologies have been produced by Global Financial Integrity of Washington, DC. Kar (2010) estimates India's annual outflows at $16 billion and total outflow since Independence at nearly half a trillion dollars ($462 billion). This would seem to further indicate that wealth tends to be laundered outside the jurisdiction in which it is generated. Kar did not find (ibid.: 20–31) that inflation or expectation of inflation based on imprudent government policies induced capital flight. The wealthy steadily took their money out following Independence; and, when it became easier to take it out because of the absence of exchange control, they took it out faster.

Keynes, White, on setting up the WB and the IMF

What countries do to each other was the concern of Keynes and the American official Harry Dexter White who at the end of the Second World War worked to design the World Bank and the International Monetary Fund. But their ideas were quite different. White, whose secret provision of information to the Soviet Union has been confirmed by the Venona Transcripts (Craig 2004), attempted to right colonial injustice, prevent the exclusion of the Soviet Union, and set up significantly multilateral arrangements employing the authority of the US to check that of Britain. Keynes on the other hand wanted to build a US–UK condominium with London as a great global centre for finance. It was Keynes who prevailed.

By 1936 White had developed a strategy for restraining incoming capital flight from other countries into the US by imposing 100 per cent reserve requirements on incoming bank deposits (meaning that for each dollar of such a deposit lent out another should be kept in reserve, discouraging the soliciting of such funds by raising the cost of acquiring them) and taxing the foreign depositors themselves (Boughton 2002: 9–10). Horsefield's official history of the International Monetary Fund reproduces White's design of the IMF in his Plan of April 1942 (Horsefield 1969: 37–96). Moreover, regarding flight capital, White proposed that each country should agree first not to accept or permit deposits or investments from any member country except with the permission of that country (Horsefield 1969: 44).

Keynes' own proposal of 11 February 1942 for an International Currency (or Clearing) Union (Horsefield 1969: 3–18) sets out so clearly to ensure an Anglo-American condominium to rule the world that White's altruism shines by contrast. Keynes' Anglo-American condominium would have exercised a veto over any or all other countries in combination for the first five years (p. 3). This was, he said, 'an attempt to recover the advantages which were enjoyed in the nineteenth century'. In his memorandum to the US delegation he proposed that it should be set up by the US 'and its possessions (*sic*)' and the UK and the British Commonwealth (p. 15). His design anticipated that Britain would control a voting bloc that would include its Dominions and Empire:

> [T]he great advantage [with this arrangement is] that the United States and the United Kingdom … could settle the charter and the main details of the new body without being subjected to the delays and confused counsels of an international conference.
>
> (p. 15)

A system such as he had in mind would preserve 'the historical continuity of the sterling area in the same form and with the same absence of restraint as heretofore' (Horsefield 1969: 17). While both Keynes and White wanted restraint on the movement of capital, Keynes feared above all a flight of capital from a weakened Britain to the US and therefore appealed to a common transatlantic culture. His strategy required the continued subordination of the Empire, that Latin America be discounted and that the Soviet Union be entirely excluded. He sought to ensure that the Empire would be a voting bloc for the future world order, enforced by an alliance with the US on equal terms so that each would have an Empire to rule post-war.

The limited common perspective that united Keynes and White against the view of Wall Street led them both to discourage capital flight. But since the 1980s even that has been discarded. The very coercive authority that White had wanted to vest in states to resist flight is now employed by the Fund and Bank to *encourage* it.

The acceptance of coercion versus silence

The fact that coercive flight is not ordinarily investigated arises not just from the nature of the discussion in political economy, but a failure to observe, itself a form of coercion, and an agreement not to see. Bourdieu (1987: 194–195; Bourdieu and Haacke 1994) speaks of 'common knowledge', 'everyone knows', as preventing any serious discussion, for what passes for debate is actually a set of coded instructions. This language of power universalizes a particular set of interests that are claimed to be the interests of all, even though they only represent those of a tiny elite. Euphemism is understood in Bombay where the threat of violence is explicit at the time of extraction of value from labour, and the subsequent unstated threat ensures the good behaviour of the journalist, and therefore the opacity of all public record. This is evident in the absence of public discussion about the source of Indian or Russian wealth now in London, or in the City's business of private banking. So many around the world have been impoverished and their land and water ruined; perhaps we might ask not only whether a surplus was extracted, but where it has gone.

Notes

1 I am indebted to the New York Public Library for access to its collections; and especially to Jay Barksdale who has enabled me to do my research and writing at the splendid Wertheim Study.

2 It is because Barbara Harriss-White has been curious about the real lives of people that she has found important and original explanations. When we met through Jairus Banaji she invited me to join them on a proposed study on corporate governance and capital flight. Sadly this study never obtained funding. Her willingness to look outside convention has been an inspiration. I shall discuss our original project, namely the cross-border flow of capital from the city in which I was born and grew up, now Mumbai, to the UK and the US.

3 I have earlier argued that there has been too little examination of international private banking (Srinivasan 1995); and that the laundering of Indian wealth by sending it abroad is enabled both by India's pusillanimity and by the rapacity of the West (Srinivasan 2007).

4 The latest manifestation of such concealment is internet pornography, i.e. the traffic in images of persons by means of their transfer to the internet and sale there, enabling a physical separation from the ultimate buyer that renders those exploited even more powerless just as those who exploit them are even less accountable.

5 Examples include the removal of Wajid Ali Shah, last King of Avadh, to Matiaburj outside Calcutta, the removal of the Mogul Emperor to Burma, and the removal of the King of Burma to Ratnagiri.

6 A piston rod, for instance, that had cost Rs.626 two years earlier thereafter cost Rs.98,420 if bought through the government's favoured middleman, and a 'valve cover seat ring' bought earlier for Rs.436, in two years, cost Rs.7539. Some items have been inflated by as much as 5000 per cent (personal communication from my informant, the senior officer of flag rank dealing with logistics at the time).

7 Even when suppliers were important Russian equipment manufacturers such as the Baltic Shipyard, the invoices were still routed through firms such as M/s GS Rughani in London.

8 A deal from Kiev for spares for the Kamov-28 helicopter was a tripartite one which included the happily named Banking Investment Saving Insurance Corporation, registered in the US.

9 Capital flight occurs in advanced Western states such as the UK, but very differently: governments may permit legal tax avoidance by the rich, such as allowing concessions for non-residents or Jersey subjects; yet occasional capital flight does not arise from complete helplessness, since the UK and the US, for instance, have long had policies in force that have enabled them to finance their trade deficits with predictably consistent net capital flows; by contrast, in weak states, flight is a long tradition arising from the collapse of state authority.

10 Jersey, Guernsey and the Isle of Man.

11 Anguilla, Bermuda, British Antarctic Territory, British Indian Ocean Territory, Cayman Islands; Sovereign Base Areas of Akrotiri and Dhekelia in Cyprus, Falkland Islands, Gibraltar, Montserrat, Pitcairn, Henderson, Ducie and Oeno Islands (commonly known as the Pitcairn Islands), St Helena, Ascension and Tristan da Cunha; South Georgia and the South Sandwich Islands, Turks and Caicos Islands, and Virgin Islands (commonly known as the British Virgin Islands). It goes without saying that some of these Territories are not tax havens.

12 Led by John Christensen of Tax Justice Network, Austin Mitchell MP for Great Grimsby and Professor Prem Sikka, Professor of Accounting, University of Essex.

13 Assistant District Attorney John Moscow, quoted in the *Observer*, 22 September 1996, p. 19, cited in *Submissions to the Clothier Committee Jersey's Review Panel on Machinery of Government*, 26 June 2000, http://visar.csustan.edu/aaba/Jerseyclothier.html.

14 Just one building, Ugland House in the Caymans, was the sole registered office of 18,857 companies as of March 2008 through its only tenant, the law firm of Maples and Calder (Report to the Chairman and Ranking Member, Committee on Finance, US Senate, US Government Accountability Office (GAO 08 = 778)), www.gao.gov/new.iterms.d08778.pdf (downloaded 10 December 2011).

15 These fluctuate sharply; those from Switzerland have consistently been positive ($8.4 billion at end-June 2009, down considerably from $137 billion at end-2007); those from Ireland have been negative for the UK; and those from Luxembourg have varied considerably.

16 House of Commons Justice Committee – Eighth Report Crown Dependencies Q 17, oral evidence on The Work of the Ministry of Justice, 7 October 2008, HC 1076i, publications.parliament.uk/pa/cm200910/cmselect/cmjust/56/5606.htm (downloaded 11 February 2014).

17

> We dread the operation of money. Do we not know that there are many men who wait, and who indeed hardly wait, the event of this prosecution, to let loose all the corrupt wealth of India, acquired by the oppression of that country, for the corruption of all the liberties of this, and to fill the Parliament with men who are now the object of its indignation? To-day the Commons of Great Britain prosecute the delinquents of India: to-morrow the delinquents of India may be the Commons of Great Britain.

18 www.ft.com/cms/s/0/e208a9f0–479a-11dd-93ca-000077b07658,dwp_uuid=a6dfcf08–9c79–11da-8762–0000779e2340.html (downloaded 29 July 2008).

19

> One concern … which has been debated is the investment through the participatory note (PN) route by FIIs. The Government is of the opinion that as FIIs maintain records of identity of the entity they issue PNs to and SEBI can obtain this information.… Further, PNs can be issued or transferred only to persons who are regulated by an appropriate foreign regulatory authority. The Reserve Bank's concern is that as PNs are tradable instruments overseas, this could lead to multi-layering which will make it difficult to identify the ultimate holders of PNs.
>
> (Reserve Bank 2009: 356–357)

20 Raymond Baker (2005), and www.gfintegrity.org, (downloaded 27 January 2014), long the leading international authority, has been my guru in understanding not just US policies and data, but so much about this entire issue.

21

> Another problem in country attribution is that many U.S. securities are issued directly abroad, with settlement and custody occurring at international central securities depositories (ICSD).… Among the ten countries with the largest holdings of US securities on the most recent survey, five – Belgium, the Cayman Islands, Luxembourg, Switzerland, and the United Kingdom – are financial centers in which substantial amounts of securities owned by residents of other countries are managed or held in custody. If securities are issued in bearer, or unregistered, form, the owners of such securities do not need to make themselves known, and typically little or no information is available about them.
>
> (Federal Reserve Bank 2013: 10)

22 (Section 871(h)) Internal Revenue Code United States Internal Revenue Service.

23 (871(i)(2)(A)) Internal Revenue Code United States Internal Revenue Service.

24 It is, says Hume, 'the low price of labour in every nation' that enables poorer states to undersell the richer in all foreign markets (Hume 1758: 136). Even as the lowest prices ensured the greatest earnings from trade, national currencies thereafter appreciate as trade remittances increase, raising prices and making each country with increasing trade remittances and an appreciating currency less competitive. This *prices–trade–currency value–public expenditure–price inflation/deflation* equilibrium was, argued Hume, entirely self-correcting, since equilibrium must always be restored on its own – 'prices adjust until supply equals demand'. This claim about international trade was thereafter applied to the flow of capital.

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