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Thank you. I am very grateful for the opportunity to participate in CAPP Foundation's 2017 conference. This morning we are focusing our attention on human smuggling and economic crime, as Lord Skidelsky will focus our attention this afternoon on incentivizing solidarity and civic virtue.

In Global Financial Integrity we estimate that human trafficking generates \$150 billion a year in profits. The Asia-Pacific region and the European Union countries generate around \$50 billion each in profits from this most abusive crime. More than 14 million souls a year are trafficked for purposes of forced labor, and another 4.5 million are trafficked for engagement in the sex trade. There could be as many as 50 million trafficked individuals around the world currently being exploited for labor and sexual purposes.

Human smuggling and transnational crime are motivated by the desire to earn and shelter profits in a hidden manner. These activities need to be understood within the facilitating system that enables them to thrive. Let me introduce this part of my remarks with a story, in order to make clear where I'm coming from. . . .

The capitalist system has undergone over the last half century a largely unrecognized but utterly fundamental change. Prior to this, from the late 18<sup>th</sup> century to the mid-20<sup>th</sup> century capitalists were almost exclusively focused on earning profits. Since then, from the 1960s onward, capitalists have become equally or almost equally obsessed with hiding profits. The democratic-capitalist system as a whole is affected by this new and disturbing motivation within its capitalist component. These two basic tenets—democracy and capitalism—which should be operating in sync to spread prosperity and freedom are instead becoming decoupled, no longer working in sync.

To facilitate this new goal of capitalism—secrecy—a shadow financial system has been created and expanded for the purpose of moving and sheltering trillions of dollars of unknown provenance generated by unknown owners. Corporations, banks, and individuals make liberal use of the shadow financial system to secrete money of suspect origin, exactly the same system that is utilized by traffickers, other criminals, corrupt government officials, tax evaders, and terrorist financiers.

The original tenets of democracy—popular vote, rule of law, representative legislatures, protection of minority rights—have not fundamentally changed since they were formulated in the late 1700s.

The original tenets of capitalism—making profits, spreading wealth, operating ethically if we subscribe to Adam Smith’s *Theory of Moral Sentiments*—have been radically altered. This alteration, this addition of a second motive in capitalism, is contributing to transnational crime, income and wealth inequality, and political instability and is undermining freedom and democracy around the world.

Rebalancing capitalism and democracy, along with climate change, is in my judgment the most difficult and urgent challenge we face. With the world’s population moving toward 11 billion by the end of this century, 11 billion people severely divided in income, wealth, opportunity, and security, the capitalist system as we are currently practicing it cannot be sustained. The system must change or it will be ripped aside.

Now let me flesh out three aspects of this rather sweeping thesis and link these realities within capitalism to human smuggling and economic crime. First, the shadow financial system. Second, the money that this system moves and secretes. And third the impact this reality has on youth unemployment as we discussed earlier, on transnational crime such as human trafficking and drug trading, on income and wealth inequality as the Vatican has eloquently addressed, and more broadly on the democratic-capitalist system itself.

**First**, the shadow financial system. The most important point to grasp is that this system is a product of our own creation, we in the wealthy western world. This is not something done to us by traffickers and drug dealers and corrupt government officials. No, this is something done by us for the purpose of advancing this new motivation within capitalism—shifting and hiding income and wealth.

Understanding the elements of the shadow financial system, this “in-between existence” as Archbishop Tomasi calls it, helps to grasp the impact this system has on crime.

**Tax havens:** These of course are places to which you can transfer money and pay little or no taxes. When I started in business in the early 1960s there were unknown to me at the time only three or four tax havens around the world. Today, depending on which list you read, there some 70 to 100, with more being established.

**Secrecy jurisdictions:** Most tax havens provide the necessary lawyers and bankers and accountants to set up hidden entities and then to receive, deposit, and transfer incoming and outgoing proceeds so that owners and sources are hidden.

**Disguised corporations:** Shielding the identity of the natural persons owning these entities, disguised corporations now number in the millions around the world, more apparently in the United States than in any other country. There is no argument in favor of not knowing with whom you are doing business, but this is the reality in thousands of transactions every day.

Anonymous trust accounts: These provide essentially the same advantages and opportunities as disguised corporations, facilitating transactions where the ownership of funds and accounts can remain hidden.

Fake foundations: You can create a charitable foundation, you can donate money to your charitable foundation, and you can designate yourself as the beneficiary of the charity of your foundation, avoiding taxes at every stage.

Money laundering techniques: Are these mechanisms used only by human traffickers and drug dealers and other criminals? No; exactly the same money laundering mechanisms are used by otherwise respectable corporations and upstanding individuals. Years ago a senior Interpol official in Lyon spent more than two hours describing to me the ways that he had observed criminals and corrupt government officials moving their illicit money. When he finished he leaned back and asked if I had anything to add. I said to him, “you have not cited a single example of moving criminal and corrupt dirty money that I have not seen repeatedly in the movement of commercial dirty money.” He bolted forward completely stunned, learning for the first time that everything he had worked on for five years had its antecedents in the way that commercial dirty money is moved.

Trade misinvoicing: Multinational corporations and other smaller businesses misinvoice imports and exports for the purpose of moving tax evading and tax avoiding money across borders. This has become entirely normalized in global commerce.

Holes left in western laws: Perhaps some of you saw the film by the NGO Global Witness, with an individual disguising himself calling upon New York lawyers to discuss money of suspect origin which his principle wanted to use to buy real estate, a jet, and a yacht. Twelve of thirteen lawyers offered to continue the dialogue, with degrees of enthusiasm for handling the business. Each was considering the myriad ways they could abet the transactions without too overtly breaking the law.

This is the shadow financial system that we have created. It is not the work of human traffickers, drug dealers, and other criminals. No, it is entirely of our own doing. We created this system to shift hidden revenues and profits across borders and hide these revenues and profits in disguised accounts. We created this system to serve this second motivation now driving capitalism—the secret moving and sheltering of money we have generated.

**Second**, how much money is generated and moved through this shadow financial system? I’ve spent a lifetime in the developing world. I lived 15 years in Nigeria building a group of companies, and then, retaining interests in Nigeria, moved back to the States and did business all over the rest of the developing world for another 20 years. I knew that the economic realities I was observing, severely impacting poverty and inequality for billions of people, were not being addressed by economists and policymakers. So after 35 years in the private sector I segued into the think-tank community as a guest scholar at the Brookings Institution in

Washington, DC, wrote a book on capitalism and dirty money and the philosophical underpinnings of the shadow financial system, and then formed Global Financial Integrity to address the issues I was seeing.

In GFI we estimate that \$1 trillion a year moves illicitly out of poor countries primarily into rich countries. This is based on data filed by governments with the International Monetary Fund. Furthermore we know that this estimate is very conservative because there are many components of dirty money that do not show up in statistics filed with the IMF.

Think of this. \$1 trillion a year that we can measure flowing out of poorer countries into richer countries. This is more than the total of overseas development assistance and foreign direct investment flowing into developing countries. The developing countries are in fact net creditors to the developed world. We in the West like to believe that we are supporting the poor in other lands. In fact it is the poor in other lands who are supporting us.

This trillion dollars a year flowing from poor to rich contributes to the startling rise of M2, the economists' measure of liquid assets—cash, savings accounts, certificates of deposit, treasury bills, etc. M2 has now reached some \$80 trillion. Virtually the whole of this \$80 trillion is earning interest at less than the rate of inflation. In other words the \$80 trillion is losing value. We have accumulated idle wealth beyond our capacity to utilize productively. The wealthiest one percent of the world own more than the remaining 99 percent of the world.

**Third** point, what are the consequences of the shadow financial system and the trillion dollars a year it moves out of poorer countries and the excess trillions that have built up in the richer countries?

We have discussed youth unemployment and underemployment. M2 and youth unemployment are rising together, almost in lock step. In 28 OECD countries, youth unemployment is averaging 30 percent. In most developing countries, youth unemployment and underemployment is almost certainly comparable. Nigeria, a country I know well, estimates youth unemployment at 28 percent. Nigeria is also a major source country for human smuggling and is plagued by the terrorist activities of Boko Haram.

Human trafficking may be the most scurrilous of transnational crimes. Yet this outrage and virtually every aspect of cross-border crime are growing. Two months ago we released our report, *Transnational Crime and the Developing World*, an analysis of human trafficking, arms trafficking, drug trafficking, the illegal organ trade, illicit trade in cultural property, counterfeit and pirated goods, illegal wildlife trade, illegal fishing, illegal logging, illegal mining, oil theft, and more. Many criminal groups are involved in more than one activity at a time, utilizing the same mechanisms and routes and money laundering techniques and disguised entities to carry out their nefarious activities and stash away safely their illicit profits.

The reason I dwell on the shadow financial system and the trillions of dollars it moves and accumulates is to make it clear that every aspect of transnational crime utilizes the same shadow financial system that we use to shift and shelter much of our money. We created the system that now facilitates the transfers of revenues and safe deposits of wealth arising from transnational crime. We created the system which we dubiously thought was to our advantage, and now we find that criminals the world over are using our system to their advantage.

How many people working in the shadow financial system ask themselves how their work may be contributing to crime and corruption and poverty for others? As Professor Alfredo Pastor has said, too often the notion of what is ethical disappears amid the constant pursuit of loopholes in laws and regulations.

How many people ask themselves the basic question posed in Genesis 4.9, “Am I my brother’s keeper?” The lawyer who sets up the disguised corporations and trust accounts that are integral to the shadow financial system, does he ever ask, “Am I my brother’s keeper?” The accountant who muddles the entries in books of record to hide the source or destination of ill-gotten gains, does she ever ask herself, “Am I my brother’s keeper?” The banker who looks the other way when illicit money is suspected, does he or she ask, “Am I my brother’s keeper?” The government official who legislates or maintains holes in the law to enable the shadow financial system to continue bringing money into our coffers, does this individual ever ask, “Am I my brother’s keeper?”

The capitalist system is operating increasingly—*increasingly*—outside the proper rule of law. In so doing it is accelerating the rise of crime, it is contributing to human smuggling, to other forms of economic crime, to corruption, to terrorism, and it is undermining democracy. The primary threat to peace and stability moving forward is not coming from the criminal, the human smuggler, the drug dealer, the terrorist, the corrupt. The primary threat to peace and stability moving forward is coming from us, from our weakening of legal, ethical, moral practices in global economic affairs.

Pope Francis in his Encyclical Letter, “On Care For Our Common Home,” closes with the prayer:

Enlighten those who possess power and money  
that they may avoid the sin of indifference,  
that they may love the common good, advance the weak,  
and care for this world in which we live.  
The poor and the earth are crying out.