IDEAS

The American Con Man Who Pioneered Offshore Finance

How a now-obscure financier turned the Bahamas into a tax haven—and created a cornerstone of global plutocracy

By Brooke Harrington

Illustration by Ben Kothe / The Atlantic. Sources: Getty

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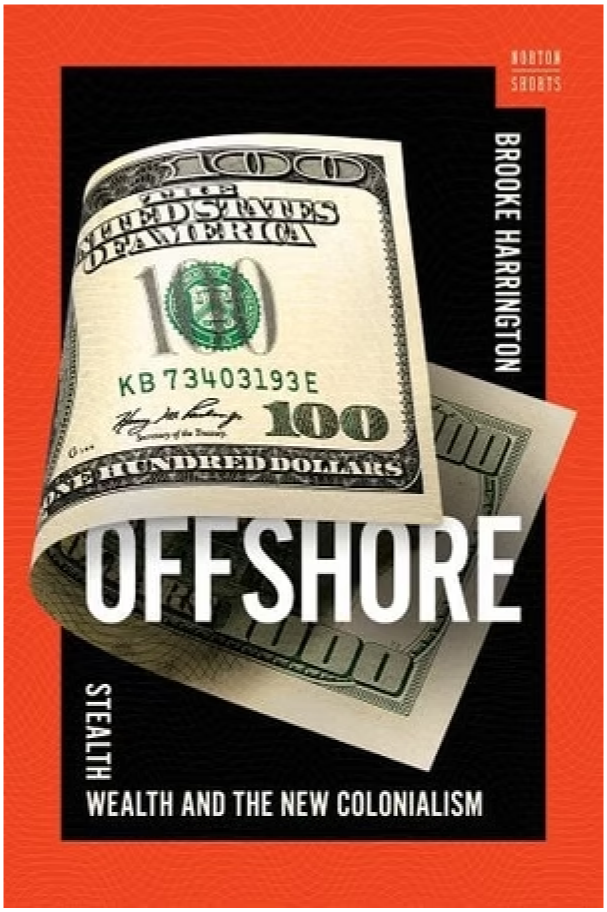
The financier and bon vivant Wallace Groves had little use for the law or social norms. His wife, a former Hollywood starlet, left him in 1937 after he'd had their infant son briefly kidnapped from their glittering Park Avenue triplex apartment. A day after the supposed abduction, authorities arrested Groves on the tarmac at Newark airport, in the company of two women whom *Time* magazine coyly described as his "girl friends." Monaei (pronounced "*money*-I") Groves soon ended up with a divorce settlement worth about $3 million in today's currency. New Deal–era federal prosecutors, bent on reining in what President Franklin D. Roosevelt called "privileged princes of new economic dynasties," indicted him the following year on multiple counts of fraud and conspiracy.

Monaei's testimony helped put Groves in a federal penitentiary. But his conviction didn't break his spirit or teach him the error of his ways. Historical accounts indicate that he left prison with a new wife—Monaei's former hairdresser—a ticket to the Bahamas, and a plan that would change the world. What started as his personal quest to rebuild a fortune turned a balmy Caribbean archipelago into a powerhouse of the global economy and a model for what we now call the offshore financial system. Groves started by taking over a sleepy lumber business on the island of Grand Bahama, but by 1955 had amassed so much wealth and political capital that he persuaded the colonial government to do something extraordinary: Authorities granted him carte blanche to rule and develop 50,000 acres—about 15 percent of the island, including what is now the city of Freeport—that would be immune from taxation and regulation for the next 99 years.

The Bahamas, which gained independence in 1973, are well known today as the former home of Sam Bankman-Fried's cryptocurrency exchange FTX, whose meltdown cost investors $8 billion. But the company would never have set up in the island nation if not for Groves, the founding fraudster of offshore finance. Groves pioneered the model for turning British colonies with lax financial regulation and minimal taxation for expats into snug harbors for foreign capital seeking refuge from other countries' laws. A generation later, Groves's imitators expanded his model to the Cayman Islands, the British Virgin Islands, and other territories of the fading British empire.



This essay has been adapted from Brooke Harrington's forthcoming book, Offshore: Stealth Wealth and the New Colonialism.

According to the International Monetary Fund, the Bahamas are now the fourth-largest tax haven in the world in terms of the volume of assets flowing through the country. It's a major hub of a global system that the economists Annette Alstadsæter, Gabriel Zucman, and their colleagues at the EU Tax Observatory estimate contains at least $13.7 trillion in private household wealth; the IMF estimated that a similar amount of corporate wealth—$12 trillion—is held in offshore shell companies that exist mainly to dodge taxes and other laws. In total, that amounts to about a quarter of the wealth produced annually worldwide.

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Offshore finance has become tightly integrated with the global economy, as corporations channel their money through the Bahamas and other havens to limit their taxes, deter outside scrutiny of their financial dealings, and take advantage of permissive securities laws. Offshore finance has probably affected your life without you knowing it. For example, lax offshore regulation made possible the securitization of risky subprime mortgages, the financial "innovation" that crashed the world economy in 2008. If you're an American with a pension or a life-insurance annuity, odds are that at least some of your money has ended up in the offshore tax haven of Bermuda, as the business journalist Mary Williams Walsh reported earlier this year.

Brooke Harrington

TODAY, GROVES IS a largely forgotten figure, even in the Bahamas. But the ubiquity of offshore finance is partly a consequence of the model that he pioneered. In his heyday, he was lauded in the Bahamian press as a savior of the country: In 1965, *The Bahamian Review* praised the "intrepid developer Wallace Groves" and "the invaluable service done to this section of Mankind by the creator of Freeport." Two years later, a Florida newspaper dubbed him "the King of the Bahamas."

It was an apt moniker for a man who had reinvented himself as a kind of freelance imperialist, making Freeport his own personal colony within a colony. The resorts, casinos, and financial institutions that arose there attracted not only tourists but money launderers, tax dodgers, and mobsters. Groves's partners were denizens of the global financial demimonde: a Canadian gambler and Mafia associate, a former Swiss banker who had escaped the French penal colony of Devil's Island after being convicted of financial crimes, and the notorious gangster Meyer Lansky.

Within 15 years of Groves's acquisition of Freeport, his creation was flourishing to such an extent that *The Economist* described the Bahamas as "the archetype of the tax haven." Local publications billed it as the "Little Switzerland of the Western Hemisphere." Hundreds of American, Canadian, and Swiss banks opened branches in the capital city of Nassau, and by 1975, the offshore business employed nearly 10 percent of the island's population. By 2019, the *Financial Times* described the Bahamas as "the richest country in the Caribbean" in terms of GDP per capita, due largely to its offshore financial-services business, which by then made up an estimated 20 percent of its national economy. These figures represent an extraordinary transformation from the Bahamas of the mid-1940s, when local historians recorded widespread destitution and occasional death by starvation.

Yet the country's Gini coefficient for household wealth—a measure of economic inequality—is among the highest in the world. Ironically, in a center of global finance, an estimated one in five Bahamians still lacks access to a bank account, and real wages are so low that the government occasionally institutes price controls to keep bread and eggs affordable.

ABOUT 50 MILES from Miami Beach—the distance of a day's sail—the Bahamas make for a convenient spot to engage in activities that aren't permitted under U.S. law. Groves knew all about this from his Depression-era trips to the islands on his yacht, Regardless. When he was still a high-flying young financier, he got acquainted with the islands' elite white power brokers and established two of the offshore corporations that later got him convicted of tax evasion.

At that point, Groves was just walking a well-trodden path of exploitation and chicanery first blazed by Christopher Columbus, whose initial steps in the New World were taken on the island now known as Grand Bahama. Within two decades, Spanish explorers had killed or carried off the island's native inhabitants, and for centuries afterward, Caribbean historians note, pirates made the Bahamas their base and became the de facto rulers. From then on, being a law-free zone intermittently boosted the economy of the Bahamas.

In the 1860s, Nassau, the islands' capital, grew rich for a few years by helping the Confederacy evade the Union's maritime blockade, becoming a trading post where southern cotton was exchanged for British arms. When Prohibition banned the sale of liquor on American soil in the 1920s, the islands became a hub of "rum running." This turned out to be what local historians have described as a "godsend for the Bahamian economy," creating a steady flow of income from wealthy tourists and buyers to supplement a "desperately poor" nation just getting by on fishing and agriculture. It also created what social scientists call a "criminogenic environment"—one likely to reward illegal acts. The Bahamas' role in skirting the laws of other countries intensified in the mid-1930s, when Americans started using the islands to escape the increased taxes imposed by Roosevelt's New Deal.

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Groves and other tax dodgers from North America and Europe were drawn to the Bahamas not only by the lack of financial regulation, but also by the promise of secrecy and stability offered by the institutions of British imperialism.

Under British laws designed to reward white settlers in British colonial possessions, the Bahamas levied no taxes on personal or corporate income. It did business in English—a major attraction for North Americans—and was governed by English law; the ultimate court of appeals for disputes in the Bahamas was the Privy Council in London. The currency was the familiar, reliable British pound.

But wealthy foreigners also had the security of knowing that what happened in Nassau would stay in Nassau. The Bahamian historian Anthony Audley Thompson described the impact of companies that "were in effect legal fictions designed solely for the purpose of evading taxation in countries abroad. Because no treaties provided for the exchange of financial information between the Bahamas and other governments, the accounts of such corporations were not subject to scrutiny by foreign authorities." He added that the Bahamian government did not require these largely imaginary holding companies to file financial statements.

In short, British colonial administration had unintentionally put in place the legal and financial infrastructure necessary to build an ideal offshore financial center.

Life magazine likened the 1955 agreement between Groves and the Bahamas to the "blank-check" given in 1600 by Queen Elizabeth I to the British East India Company—the catalyst for a centuries-long enterprise of plunder and pillage that brought a globe-spanning empire into being. Groves's innovation, such as it was, lay in making the perks cherished by British colonists—among those the absence of capital-gains and income tax—available to the global ultrarich, people who weren't settlers and might never set foot in the islands at all.

As the British empire in the Caribbean began to break up in the late 1960s and early '70s, many of the islands turned to Groves's model as a way to gain economic self-sufficiency. Regional competition heated up, including from unexpected places such as the famously mosquito-plagued and underdeveloped Cayman Islands; within 20 years, by revamping itself along the Bahamas' lines, the Caymans went from being a neglected dependency of British Jamaica to surpassing the per capita income of Great Britain itself.

This put pressure on the Bahamas to keep pushing the boundaries of the law as an international tax haven. Thus, two years after Bahamians declared independence from the British, an interview with the governor of the Central Bank concluded that "national self-sufficiency and self-reliance" required that the country not only continue its practices, but also aggressively expand its role as an offshore financial center. In other words, the new nation would sustain itself by helping wealthy foreigners break their own countries' laws.

The 2022 collapse of Bankman-Fried's FTX is a direct outgrowth of this historical trajectory. In keeping with the Bahamas' centuries of resilience in the face of colonial crime sprees and contemporary frauds, the FTX debacle does not seem to have done lasting damage to the country's economy. Yet the country's government continues to bet its future on highly speculative financial ventures, enacting policies to entice more blockchain-based, decentralized-finance businesses to the country. For example, the Bahamian Central Bank was the first in the world to issue its own digital currency—the sand dollar—and announced a plan to give away $1 million worth of it as an incentive to early adopters. This strategy seems likely to perpetuate a cycle of economic boom and bust based on fraud and criminality. Wallace Groves is a historical footnote, but we are all living in the world he helped create.

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ABOUT THE AUTHOR

Brooke Harrington, a Dartmouth College sociology professor, is the author of *Capital Without Borders: Wealth Management and the One Percent* and the forthcoming *Offshore: Stealth Wealth and the New Colonialism*.

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