

## [Mal-teasers](#) [1]

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Basic economics teaches that life's transactions occur at the margins, not at the average. So market prices are set by the last transaction, not at the average of all previous transactions. Additionally, economic growth is the result of millions of little transactions made at the margins. Big headline-grabbing government initiatives are easily overwhelmed by the countless little transactions at the margins.

Evidence came this week that the UK's 50% top rate of income tax is indeed eroding the UK's attraction as a base of operations for globally mobile businesses. That 50% rate may have raked in significant extra revenues at the beginning but it's also set in train cold calculations by countless businesses about their longer-term strategies. In particular, the financial industry has long warned – too much derision and smug complacency – that London is losing its attraction as a location to do business. Sure, no big bank has announced an earth-shattering relocation but things are different at the margins.

The Financial Times [now reports that hedge funds are, in fact, shifting operations to Malta](#) [3], of all places. That's right – Malta. Not Zurich, not Geneva, not Singapore, not Hong Kong. In one of those delightful unintended consequences, the UK government's tax policy has given rise to yet another competitor for the hearts and minds of highly mobile bankers.

Why Malta? Well, as the FT puts it, "Malta enjoys an advantage in being within the European Union – giving managers based there greater flexibility under the terms of recently-enacted rules to regulate the European hedge fund industry. Running an office from the island is also significantly cheaper than in London or Geneva – as is the cost of living for employees."

According to one financial advisor to the hedge fund industry, "opening an office [in Malta] gives managers flexibility. [They] are sitting in London, saying: 'I have too much country risk here – the tax rate is through the roof, the regulations are too intrusive'." This advisor admits the shift isn't massive yet – "dozens not hundreds" – but that's the way it is at the margins. Similarly, one hedge fund notes it's already moved a quarter of its 100 or so staff to Malta – again, life at the margins.

The bigger point here is that all of those jobs would have recently been located in London but now they're not. And so it will continue with thousands of more "below the radar screen" transactions at the margin. In these sobering times, breaking foolish electoral promises is now pretty much expected. George Osborne's pledge to keep Labour's 50% tax rate is one of those that may as well join the others.

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