

Non-Fiction

'The Hidden Wealth of Nations: The Scourge of Tax Havens', by Gabriel Zucman

A young economist hailed by Thomas Piketty sets out a plan for tackling tax havens

Review by Vanessa Houlder OCTOBER 2, 2015

A web of tax havens holds almost a tenth of the world's financial wealth. Evasion by the super-rich has pushed trillions of dollars out of governments' reach. Only by prising open the secrets of the offshore centres can politicians rescue their debt-ridden economies and reverse the tide of rising inequality.

This is the message of a provocative new book by Gabriel Zucman, a 28-year-old assistant professor of economics at the University of California, Berkeley. In Zucman's view, tax havens are a fast-growing danger to the world economy and policymakers need urgently to step up their efforts to curb them.

The Hidden Wealth of Nations promises to make quite a splash. It has a title that echoes Adam Smith and an enthusiastic foreword by Thomas Piketty, author of the bestselling *Capital in the Twenty-First Century*, who supervised Zucman's doctorate. It may be too much to suggest, as Piketty does, that "Zucman's work on tax havens is the first serious economic research in this area". But Zucman has broken new ground in a relatively neglected field by using statistical anomalies in data on countries' international investments to chart the offshore world. He estimates that at least \$7.6tn is held in tax havens, largely in what he describes as the "sinister trio" of the British Virgin Islands, Luxembourg and Switzerland.

So far, so uncontroversial. This figure is smaller than estimates put forward by campaigners and in line with those of industry analysts. In 2014, according to the Boston Consulting Group, \$10tn of private wealth was booked outside investors' home countries — mainly in Switzerland, the Channel Islands, the Caribbean, Ireland, the UK and the US.

The boldest part of *The Hidden Wealth of Nations* concerns the scale of offshore tax abuse. Measuring this is not easy: Zucman's estimate that 80 per cent of assets are undeclared is narrowly based on some hard-to-interpret Swiss statistics about tax payments made under a

recent European crackdown on untaxed savings income. Nonetheless, this allows him to calculate that the annual losses to governments from uncollected income, inheritance and wealth taxes are close to \$200bn.

Zucman joins a debate that has been raging for several years. Cash-strapped governments have already mounted a big effort to tackle evasion and avoidance, as they have sought to address rising tensions over austerity and inequality. Zucman thinks recent proposals for the reform of corporate taxation by the Paris-based Organisation for Economic Co-operation and Development are “unlikely to enable much progress”. He is more optimistic about the “very promising” Foreign Account Tax Compliance Act in the US and similar initiatives elsewhere on automatic exchange of tax information. But he frets about the refusal of some havens to co-operate and speculates that regulation might be side-stepped by renegade banks and new techniques.

It seems highly likely that the new transparency rules will not raise anything like Zucman’s estimate of lost revenues. But if the latest crackdown is perceived to have failed, it would strengthen the argument for tougher measures. Zucman wants to bolster information exchange with a worldwide public register of financial wealth, recording the ownership of shares and bonds. He envisages that countries would be forced to comply by the threat of massive sanctions, and floats the possibility of France, Germany and Italy jointly imposing customs duties of 30 per cent on Switzerland. With a financial register in place, it would be easy to impose a wealth tax at source.

Such a proposal is likely to be viewed as an unacceptable invasion of privacy and sovereignty. But attitudes can change. The trigger could be the economic instability ushered in by a worsening debt crisis. Europeans have more hidden wealth than anyone else — about \$2.6tn, according to Zucman — and large debts that governments are struggling to service. There is already a precedent for more information-gathering. A register of owners of companies and trusts is about to be set up under new EU anti-money laundering rules.

In Piketty’s foreword, he urges all those interested in inequality, global justice and the future of democracy to read the book. The wealthy among them might want to take particular note. Attacking tax havens is a crucial first step to ratcheting up taxation on the rich. The more information there is about offshore assets, the harder they will be to defend.

The Hidden Wealth of Nations: The Scourge of Tax Havens, by Gabriel Zucman, translated by Teresa Lavender Fagan, *Chicago University Press*, RRP£14/\$20, 142 pages

Vanessa Houlder is the FT's tax correspondent

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