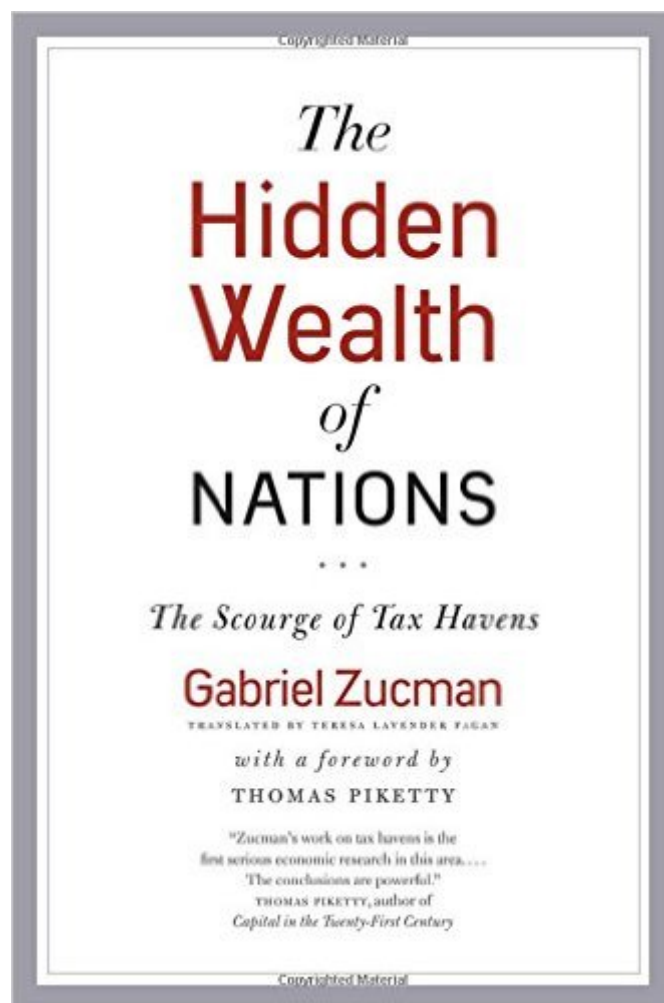


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# The Hidden Wealth Of Nations: The Scourge Of Tax Havens



## Synopsis

We are well aware of the rise of the 1% as the rapid growth of economic inequality has put the majority of the world's wealth in the pockets of fewer and fewer. One much-discussed solution to this imbalance is to significantly increase the rate at which we tax the wealthy. But with an enormous amount of the world's wealth hidden in tax havens—in countries like Switzerland, Luxembourg, and the Cayman Islands—this wealth cannot be fully accounted for and taxed fairly. No one, from economists to bankers to politicians, has been able to quantify exactly how much of the world's assets are currently hidden—until now. Gabriel Zucman is the first economist to offer reliable insight into the actual extent of the world's money held in tax havens. And it's staggering. In *The Hidden Wealth of Nations*, Zucman offers an inventive and sophisticated approach to quantifying how big the problem is, how tax havens work and are organized, and how we can begin to approach a solution. His research reveals that tax havens are a quickly growing danger to the world economy. In the past five years, the amount of wealth in tax havens has increased over 25%—there has never been as much money held offshore as there is today. This hidden wealth accounts for at least \$7.6 trillion, equivalent to 8% of the global financial assets of households. Fighting the notion that any attempts to vanquish tax havens are futile, since some countries will always offer more advantageous tax rates than others, as well the counter-argument that since the financial crisis tax havens have disappeared, Zucman shows how both sides are actually very wrong. In *The Hidden Wealth of Nations* he offers an ambitious agenda for reform, focused on ways in which countries can change the incentives of tax havens. Only by first understanding the enormity of the secret wealth can we begin to estimate the kind of actions that would force tax havens to give up their practices. Zucman's work has quickly become the gold standard for quantifying the amount of the world's assets held in havens. In this concise book, he lays out in approachable language how the international banking system works and the dangerous extent to which the large-scale evasion of taxes is undermining the global market as a whole. If we are to find a way to solve the problem of increasing inequality, *The Hidden Wealth of Nations* is essential reading. ^ ^

## Book Information

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## Customer Reviews

Zucman's book is very short. It's under 200 pages double-spaced and so only takes about a half-hour to read. It is easy to understand -- no complex concepts even though written by a UC Berkeley economist who himself was taught by the famous French economist Thomas Piketty. (Piketty in 2014 wrote a 700-page tome on capital in the twenty-first century, which I have not read.) Zucman's book is organized into 4 general sections: (1) How much wealth is being hidden in tax-havens by the wealthiest families and how much it is costing their countries (and, by extension, the rest of us, who have to make up for the difference by paying more taxes or suffer fewer services in education, medicine, infrastructure, etc.). I had thought that the vast majority of hidden family wealth consisted of non-US and non-European foreigners who are forced to hid their financial assets because they reside in countries beset by government corruption, kidnappings, dictatorships, etc. However, Zucman shows that this is not generally the case. (2) The history of how these tax havens arose and their current growth trends. It is quite eye-opening to learn, not only about the incredible cheating that Swiss banks have been engaged in over the years (recently fined billions of dollars by the U.S. government), but also to discover how Luxembourg (another major tax haven) blocks most attempts at tax reform by other European nations. (3) What to do about the problem. Zucman first covers earlier attempts -- that have failed -- before proposing his solutions (which include a general registry of financial wealth to be maintained by multiple nations).

Tax havens represent one of the ugly by-products of capitalism. They are places where the super-rich (individuals and corporations) keep their money. They are kept in secret accounts so that they cannot be accounted for as part of the taxable income of the individual or corporation. The consequence is that the super-rich pay less taxes than others, and the burden of public expenditure falls on those others. The rich call it tax planning, but Zucman attempts to persuade the reader that keeping money in tax havens is unfair to those who do not have the money to do so. Recently, the

International New York Times (23 October 2015) reported that the European Commission ordered Starbucks to pay up 30 million euros in back taxes to the Dutch government. Starbucks had channelled large amounts of profits from payments for its coffee roasting recipes. The payments were not made to Starbucks but to an entity known as Alki LLP, a "mysterious and opaque box"™ that was not required to file financial statements and which has since shut, but Alki was folded into a new company, Starbucks EMEA Holdings™ which has yet to file any financial statements, according to the INYT. In this book, Zucman shows how tax havens come about, where they are (Virgin Islands, Luxembourg, Switzerland among the main ones), who goes to them, and the inequality between the super-rich and the rest that results from placing money in tax havens. Zucman says that 55% of \$650 billion "foreign profits"™ of corporations is made in six countries with low or no taxes and where little or no production or sale is done to generate that money in those countries. He named the countries as "Netherlands, Bermuda, Luxembourg, Ireland, Singapore, and Switzerland"™. He proposes three major actions to rectify this.

This short but potent book is virtually the first treatment of the scourge of offshore bank accounts. Zucman's expose maybe read in one or two sittings but contains a wealth of information on an issue discussed but little understood. There is a good reason why his book is so short. There are not a lot of solid information about this area because the subject is, well, hidden. This is a netherworld of offshore banking, where, in addition to "wealth management," a euphemism Zucman deciphers as "tax evasion," the hallmark of this type of banking is secrecy. The wealthy utilize offshore accounts for the express purpose of squirreling away cash and to avoid paying taxes. To hide these assets even further, Zucman reveals that if not holding the deposits of these super-rich, which include not only individuals but corporations and other business entities, these offshore banks will manage mutual fund accounts for their clients held by other off shore entities. Zucman includes the global multinational corporations as the other main participants of this phenomenon. The multinationals use a different tax dodge, typified in a recent news story concerning Apple. Apple created controversy when it was revealed the corporation paid little corporate tax in the US (!), because its profits had been transferred to Ireland, all apparently legal moves. Zucman classifies this as another example of "hidden wealth." "We all pay the price for this skullduggery. The countries that can need the tax revenues the most for infrastructure and domestic purposes are the most prominent victims of these offshore activities.

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