

Econ 133 – Global Inequality and Growth

Offshore wealth

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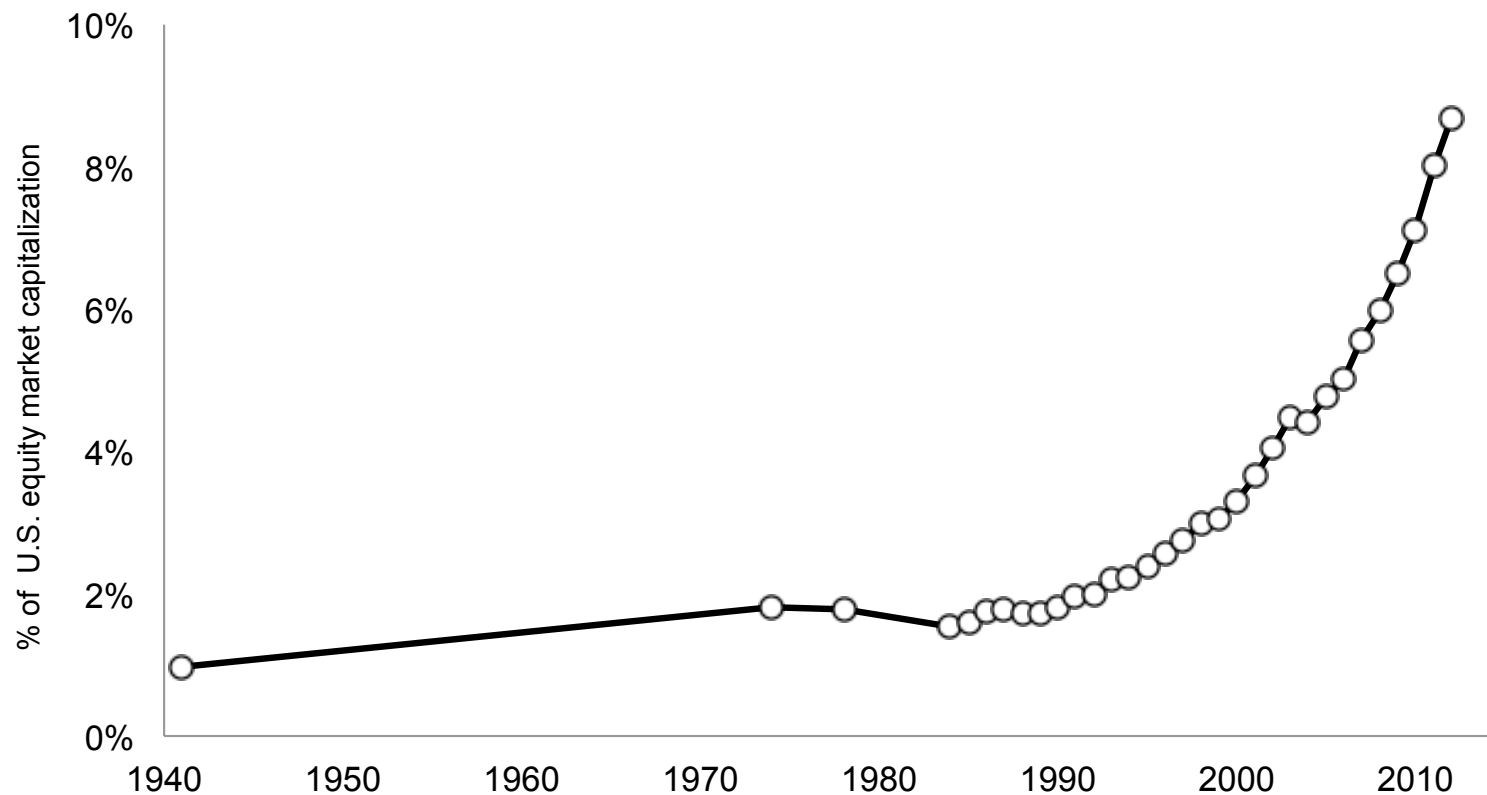
What we've learned so far:

- To understand wealth inequality, it is critical to pay attention to the top, because wealth is very concentrated
- Best way to do this: use tax data
- However there's a big problem: tax evasion

Roadmap

- How big is the wealth in tax havens?
- How does that affect what we know about inequality?
- Policies that can curb tax evasion

U.S. equities held by tax haven firms and individuals



In 2012, 9% of the U.S. listed equity market capitalization was held by tax haven investors (hedge funds in the Cayman Islands, banks in Switzerland, mutual funds in Luxembourg, individuals in Monaco, etc.). Source: author's computations using US TIC data

Source: Zucman (2015)

1 How big is the wealth in tax havens?

1.1 What do offshore centers do?

A great deal of activities, many of which legal and legitimate:

- Investment funds (Luxembourg, Ireland...)
- Shadow banking (Caymans...)

- Treasury management (U.S.-Cayman...)
- Personal wealth management (Switzerland, Singapore...)

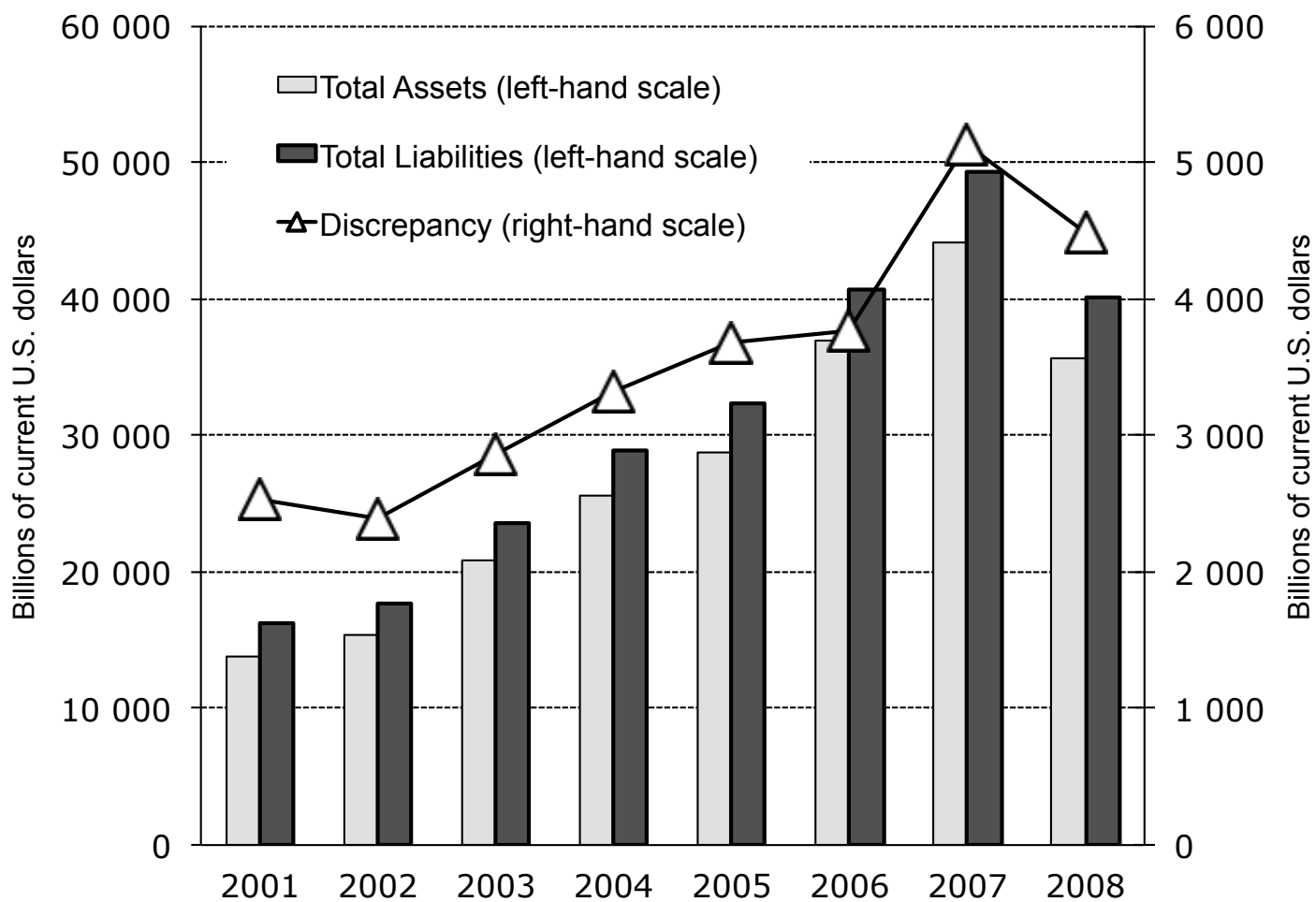
But some offshore centers, institutions and instruments also facilitate tax evasion by wealthy individuals

1.2 How offshore tax evasion works

- Shell companies
- Fake invoices
- Offshore accounts
- Disconnecting legal and beneficial ownership

1.3 What do we know about the magnitude of offshore tax evasion?

- Monthly statistics by the Swiss National Bank
- Systematic anomalies in the international investment positions of countries caused by offshore portfolio wealth



Source: Zucman (2015)

Key take-aways:

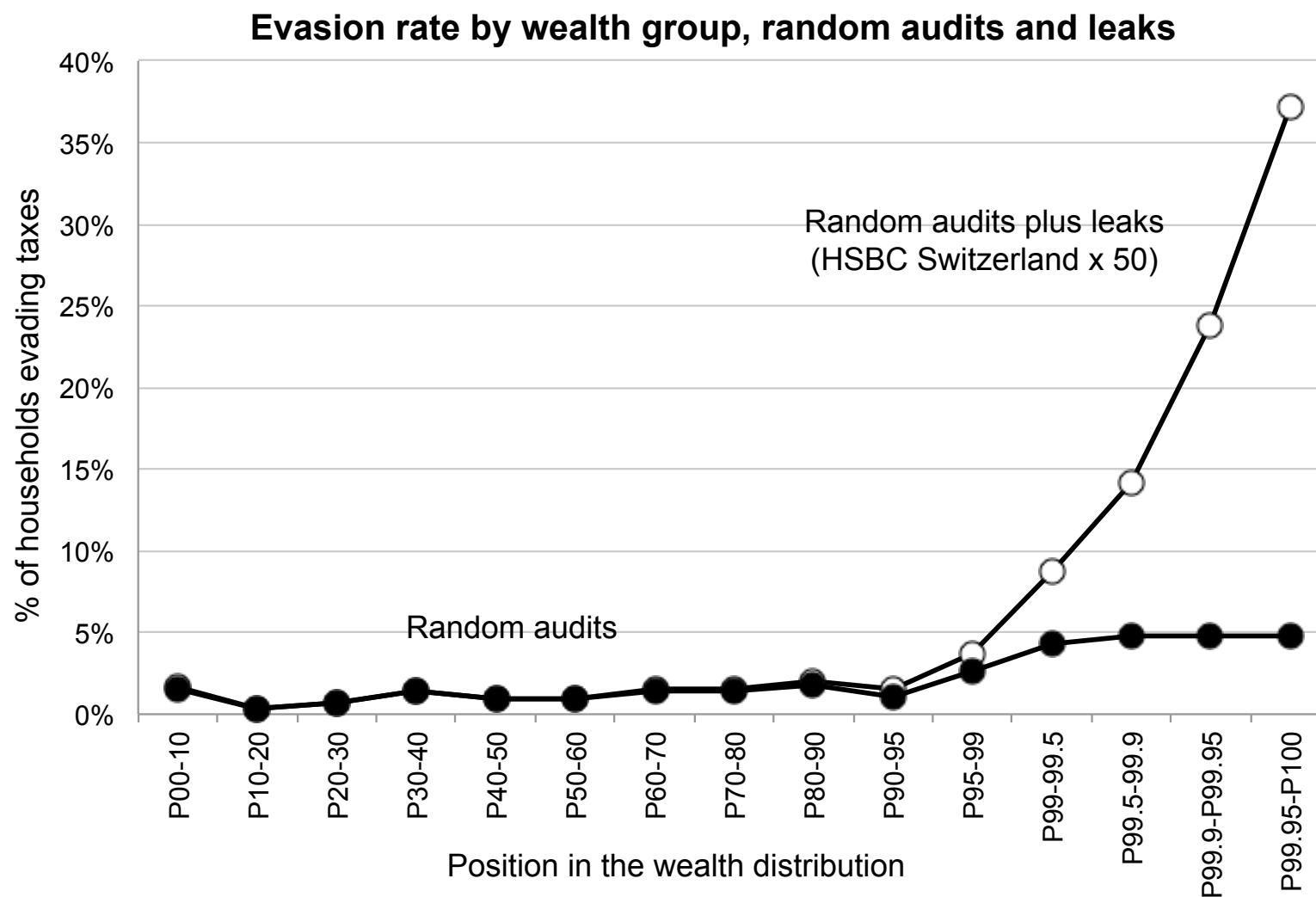
- 8% of the world's financial wealth offshore
- If anything lower bound
- More limited data on what fraction evades taxes: evidence suggesting 90-95% prior to 2008, down to 80% today

| | Offshore wealth (\$ bn) | Share of financial wealth held offshore | Tax revenue loss (\$ bn) |
|----------------|----------------------------|--|-----------------------------|
| Europe | 2,600 | 10% | 75 |
| USA | 1,200 | 4% | 36 |
| Asia | 1,300 | 4% | 35 |
| Latin America | 700 | 22% | 21 |
| Africa | 500 | 30% | 15 |
| Canada | 300 | 9% | 6 |
| Russia | 200 | 50% | 1 |
| Gulf countries | 800 | 57% | 0 |
| Total | 7,600 | 8.0% | 190 |

Source: Zucman (2015)

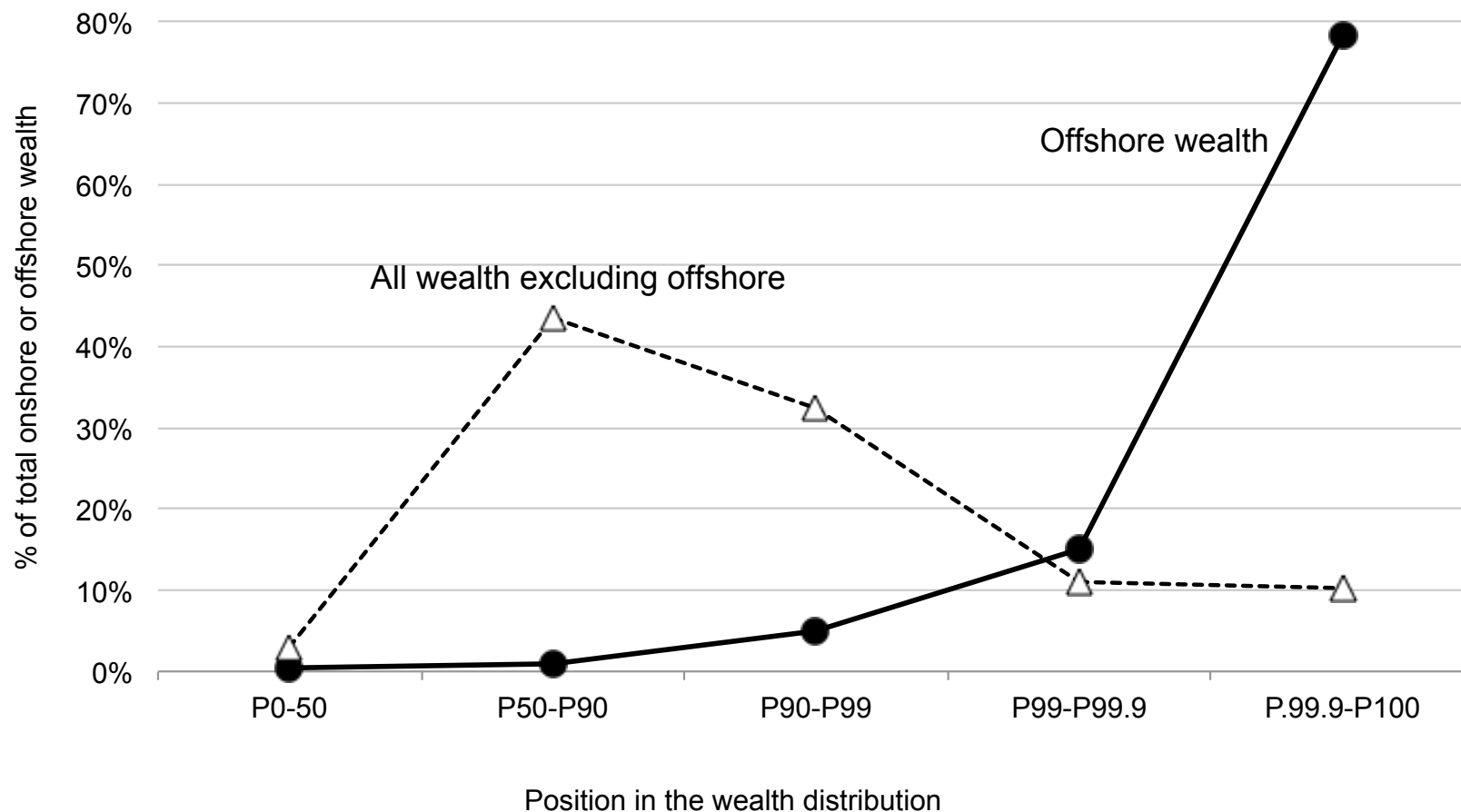
2 Consequences for inequality

- First order for developing countries
- Can be sizable even for Europe / U.S.



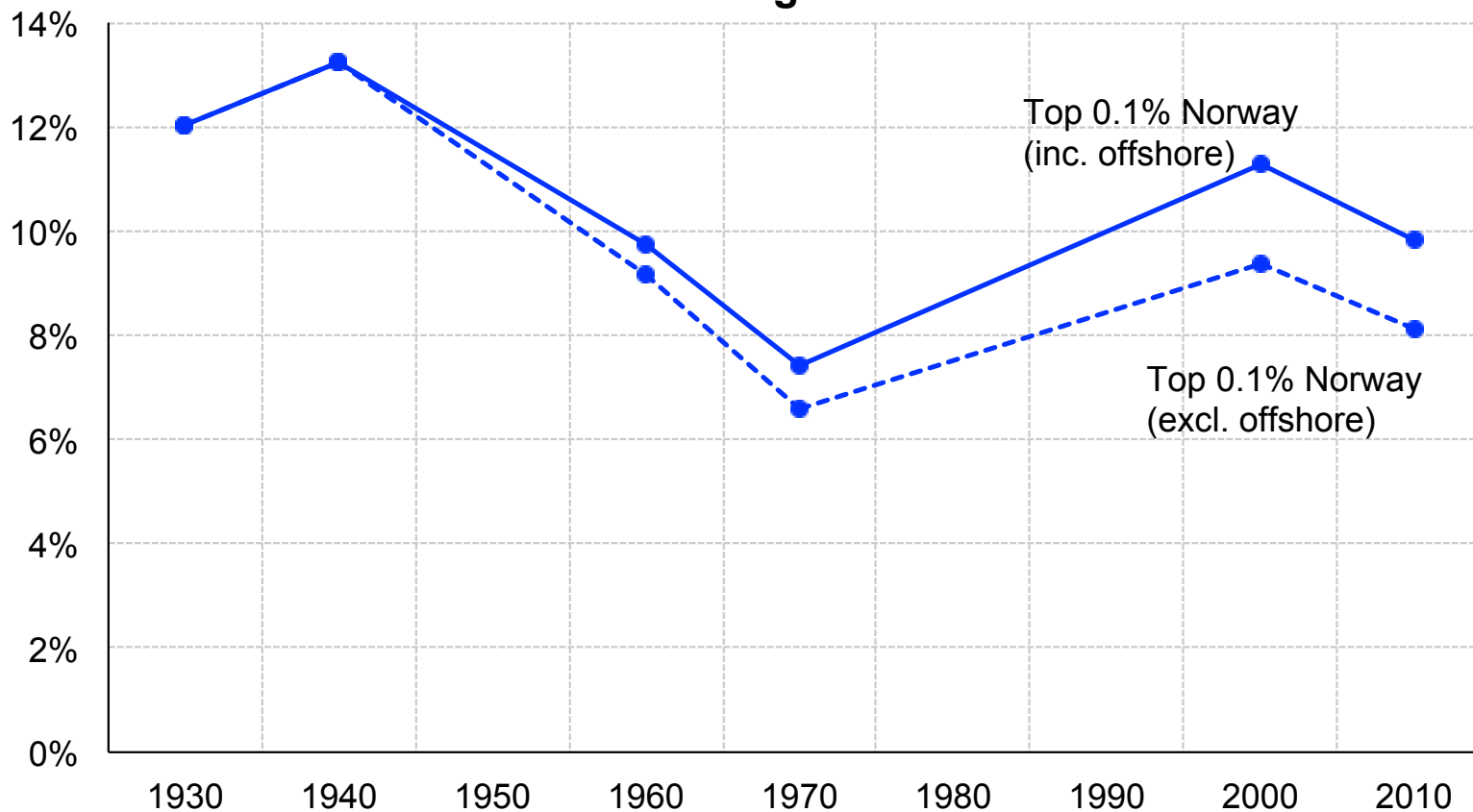
Source: Alstadsæter, Johannesen and Zucman (2016)

Distribution of wealth: onshore vs. offshore



Source: Alstadsæter, Johannesen and Zucman (2016)

Figure : Top 0.1% wealth share in Norway: including vs. excluding hidden wealth



Source: Alstadsæter, Johannesen and Zucman (2016)

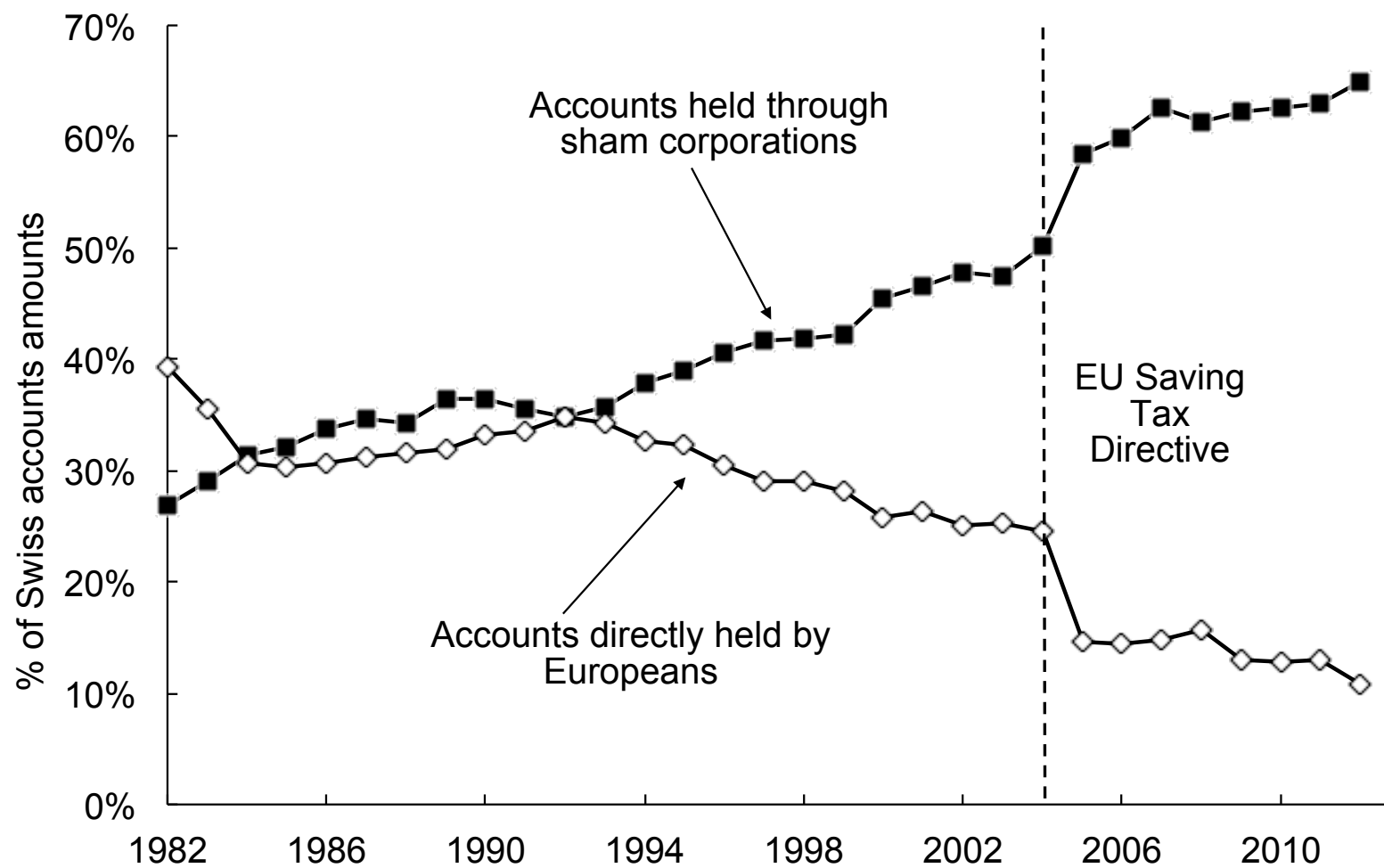
3 Policies

3.1 What has been done

- Automatic exchange of bank information (FATCA law in US)
- Will become global standard by end of 2010s

Three obstacles:

- Incentives of offshore bankers
- Financial opacity
- Incentives of tax havens



Source: Zucman (2015)

3.2 What could be done

- Well defined sanctions for territories and institutions that facilitate criminal activity

- A world financial registry

4 Summary

- About 8% of the world's financial wealth is held in tax havens globally
- Accounting for it increases wealth concentration substantially
- Tax evasion is not inevitable but can be addressed with proper policies

References

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