Tax Havens Are Turning The U.S. Into An Unequal Aristocracy

To Gabriel Zucman, protégé of rock star French economist Thomas Piketty, the United States is starting to look a lot like Europe in the late 1800s.

"There's been this great reversal where, in the 19th century, the U.S. was much more equal than Europe, and thought of Europe as being way too unequal," Zucman, a native Parisian, told The Huffington Post in an interview on Tuesday. "Now, the U.S. is unequal and many people think Europe is *too* equal."

The gaping chasm between the super-rich and the rest keeps widening. Now, the 28-year-old assistant professor at University of California, Berkeley hopes his newly-published 116-page book, *The Hidden Wealth of Nations*, will jolt lawmakers into tackling a key agent of income inequality: tax havens.

Thanks to a confluence of regulatory and geographic advantages, Switzerland positioned itself as the first major tax haven just after World War I, providing shelter to the wealth of European nobles as France and other allies levied heavy taxes to pay off public debt and compensate war victims. Until then, European governments had hardly taxed income generated from stocks and property.

By the outbreak of World War II, the tiny alpine nation made itself even more attractive by passing bank secrecy laws. The legislation purportedly protected the wealth of persecuted Jews. Instead, according to Zucman, Jews made up just 1.5 percent of those with assets in Swiss banks.

That set the standard for Bermuda, the Virgin Islands and other secretive wealth refuges.

“The substantial revenue that’s lost has to be made up for by taxing middle class people,” Zucman said.

But the problem isn’t just about rich individuals stashing their assets in offshore accounts.

Despite increased financial scrutiny following the Great Recession, corporate behemoths such as Apple, Starbucks and Microsoft continue to funnel their profits through subsidiaries in countries with favorable tax policies, outrageously slashing their U.S. tax bills.

That, Zucman says, is a problem. But he has solutions.

First, he believes the U.S. and other large economies should impose economic sanctions on tax havens, forcing them to make up the difference in lost revenue through trade tariffs.

“The idea is that we need to change the incentives [that enable] tax havens to facilitate tax avoidance and tax evasion,” Zucman said.

Then, countries such as the U.S. should reform their corporate tax policies to geographically bind taxable profits to the location of the sales that generated them. For example, he said that if Microsoft theoretically makes 50 percent of its sales in the U.S., then 50 percent of its global profits should be taxed in the U.S.

“It’s very easy for firms to move profits to Bermuda,” Zucman said. “But they cannot move their customers to Bermuda.”

Still, Zucman said he recognizes that the political appetite for curbing tax havens is weak. None of the current crop of presidential candidates -- ranging from populists (albeit of opposite political ilks) like Bernie Sanders and Donald Trump to establishment candidates like Hillary Clinton and Jeb Bush -- has produced any concrete plan to overhaul the tax system, he said.

Zucman fears the risk of inaction.

“There is a tipping point above which inequality becomes detrimental to growth and dangerous to society,” he said. “Nobody knows whether we are far or close from this tipping point, but it is there and it is coming.”

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