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OPINION

# Inside the tax havens that are helping the 1 percent steal trillions of dollars



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Protesters set up a fake tax haven in London. JUSTIN TALLIS/AFP/Getty Images

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Is Planet Earth in hock to Mars to the tune of \$7.6 trillion? When economist Gabriel Zucman went digging into the world's national accounts, that seemed to be the case — total world liabilities exceeded world assets by about that much.

Of course, there aren't actually any extraterrestrial banks hoarding human assets. One way or another, the world financial books have to balance. So where are all those missing assets? In tax havens like Singapore, the Cayman Islands, and Switzerland, it turns out. This is one of the major

findings of Zucman's new book, *The Hidden Wealth of Nations*, a short and lively investigation into the global effects of tax avoidance.

Tax havens are nations that provide anonymous banking services, easy access to shell corporations or other ownership-hiding devices, and extremely low levels of taxation. It sounds (and is) complicated. But it really just amounts to institutionalized, state-level robbery:

Each country has the right to choose its form of taxation. But when Luxembourg offers tailored tax deals to multinational companies, when the British Virgin Islands enables money launderers to create anonymous companies for a penny, when Switzerland keeps the wealth of corrupt elites out of sight in its coffers, they all steal the revenue of foreign nations. [*The Hidden Wealth of Nations*]

The book contains some staggering new statistics, apart from the \$7.6 trillion mentioned above, which amounts to about 8 percent of all wealth held by households. This implies a yearly loss of about \$200 billion in world tax revenue directly, plus an indeterminate amount lost by nations lowering their capital gains tax to compete with tax havens.

The U.S. share of lost revenue is \$35 billion — smaller than many tax loopholes, but still equivalent to a 20 percent tax hike on the top 0.1 percent of incomes, a group that very probably comprises the vast majority of tax haven fraudsters.

What is to be done? Zucman proposes three major reforms. First, a global financial registry to simply figure out who owns what — much of what tax havens do is obscure the ownership of assets, so that tax collectors (not to mention drug-trafficking or counter-terrorism investigators) can be duped. The U.S., of all places, has gone some way towards creating this kind of system, with the 2010 Foreign Account Tax Compliance Act. This law requires foreign banks to automatically transmit the banking information of American citizens to the IRS, and could serve as part of an international treaty to create an automatic exchange of financial information.

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Second, tax havens that refuse to cooperate would be confronted by

economic tariffs approximating their financial benefit from enabling tax fraud. Since these nations are all fairly small, this is easily doable.

Third, Zucman proposes a reform of corporate taxation, so that multinational companies can't relocate their headquarters to avoid taxes. Under his regime, corporate taxes would be levied on total world profits, with revenue distributed according to the location of sales. This would sharply reduce corporate tax avoidance (\$130 billion yearly for the U.S. alone) in a way that would be very hard to game.

It might not even be much of a net cost to the tax havens themselves. It turns out that small nations with gigantic financial sectors have a nasty habit of imploding during financial crises (see Iceland, Ireland, or Cyprus). The Swiss seem better at it than most — the key strategy seems to be forbidding foreigners from investing in the haven itself — but that is no permanent guarantee. Fundamentally, specializing in financial parasitism does not bode well for long-term prosperity.

This point about parasitism is particularly worth emphasizing. A great many people have an almost mystical view of property as a metaphysical relationship between people and objects. Such people are certain to object to any program of hunting down tax cheats. But in reality, property is a legal relationship *between people*, as enforced by the state. When I say "I own my computer," that is to say I have a legal right to keep my computer for my exclusive use, and the right to call upon state violence (the police) should someone try and take it from me. Property rights are a construct of the state's legal system, not inherent in the fundamental structure of reality.

The upshot here is that it is perfectly legitimate to fiddle with property rights should they prove to have some undesirable side effects. As Zucman argues, "Financial secrecy — like greenhouse gas emissions — has a costly impact on the entire world, which tax havens choose to ignore." So when people take wealth that was utterly dependent for its creation on national institutions like efficient government, good infrastructure, corporate and securities law, and so on, and then use legal chicanery to avoid paying the taxes on which those institutions depend, their property rights are null and void.

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