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Robin Hood's Very Merry Man

The book's argument—that the rich steal from the rest of us by secreting their money away in tax havens—will please Bernie Sanders fans.

By **JOSEPH C. STERNBERG**
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It says a certain something about France that the country is now producing a crop of economists famous chiefly for lending an empirical veneer to petty jealousy. First came Thomas Piketty, whose "Capital in the Twenty-First Century" handed elegant tables and charts to those who remain convinced that the wealth of "the rich" is a form of robbery from the rest of us. Now one of his students, Gabriel Zucman, has written a book—with a gushing foreword by Mr. Piketty, *naturellement*—purporting to measure how much the world's rich individuals and corporations steal from everyone else by secreting their money away in tax havens.

Mr. Zucman's estimates of global tax avoidance in "The Hidden Wealth of Nations: The Scourge of Tax Havens" will stoke the resentment of Bernie Sanders supporters everywhere. He calculates that rich individuals stash about $7.6 trillion—about 8% of global household wealth—in tax havens such as Switzerland and Singapore. In 2014 that would have translated into $190 billion in foregone revenue from taxes on estates, dividends and capital gains for the world's governments each year. That's around 1% of all revenue collected by governments world-wide.

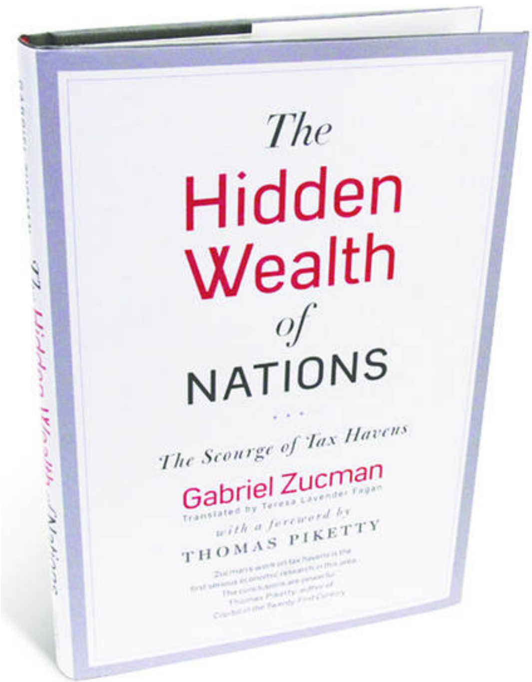
As for corporate tax bills reduced by legal financial strategies that vest profits in business units located in low-tax jurisdictions, data is harder to come by. But Mr. Zucman estimates that U.S. firms alone paid the Treasury around $130 billion less last year than they would have paid had they repatriated all overseas profits rather than parking them in low-tax areas such as the Cayman Islands.

Mr. Zucman's book is coming out amid a debate among leaders in the G-20 about how best to capture more global revenue. His main contribution is his data, assuming the numbers turn out to be correct. At least they aren't far out of line with other economists' estimates of some of the variables he tries to measure.

This will all be subject to intense debate, however, not least due to the difficulty of figuring out what should count as "hidden wealth." Mr. Zucman and other international-revenue hunters ought to be more honest about the fact that in a globalized economy, the complex financial affairs of individuals and companies create many legitimate causes to maintain offshore accounts. One can deposit money into a brokerage account in a "tax haven" jurisdiction, for instance, to take advantage of protections afforded by better rule of law than one's home. Jews, after all, weren't stockpiling money in Switzerland in the 1930s to avoid Hitler's tax regime. Nowadays Chinese investors are drawn to Hong Kong for its property-rights protections and functioning courts as much as for its low tax rates.

Admitting this might lead the author to more modest estimates of revenue available for government collection. Mr. Zucman's guesses about billions of tax dollars left uncollected boil down to crude extrapolations: Assume all foreigners' money on deposit in tax-haven jurisdictions has gone completely untaxed by the relevant authorities and then guess at what would happen were the estimated dividends and interest taxed at higher rates. Since it's not obvious that such depositors are in fact defrauding their governments at all, policy makers chasing those tax dollars are likely to be disappointed.

And to what end? The global revenue brigade assumes governments would spend this



THE HIDDEN WEALTH OF NATIONS

By Gabriel Zucman
Chicago, 129 pages, $20

extra revenue more wisely than whatever private investors are doing with it. After proposing one scheme that he says could raise €300 billion for the French government by imposing punitive taxes on illegal accounts abroad, Mr. Zucman suggests that Paris would likely use the money to pay down part of the national debt. In addition to reducing Paris's debt-service costs, "the private wealth taxed away by the state would ultimately be re-created (thanks to savings), thereby generating supplemental capital-income tax and inheritance tax revenue in the future, which could serve to lower other taxes, such as the tax on the income of the middle classes or the [value-added tax]."

This scenario can charitably be described as delusional. The more likely outcome among those governments whose unconstrained spending makes them desperate for the extra income—Paris, we're looking at you—is that they will spend whatever little additional revenue they manage to extract from tax havens on top of what they're already spending.

Another striking feature of such analyses by Mr. Zucman and others is seemingly total indifference to the relationship between government revenue extraction and economic performance. The implicit assumption is that additional revenue can be collected from low-tax jurisdictions with no ill effects on growth. That's a mighty big assumption.

One thing's for sure, though. Mr. Zucman's proposed solutions amount to a recipe for soaking the poor and middle class—not the rich. Consider his boldest suggestion, that governments such as that of the U.S. impose retaliatory tariffs on tax havens like Ireland to compensate for the revenue they lose and discourage policies that facilitate tax evasion. A European tariff of 30% on Swiss exports should just about offset the fiscal effects of Swiss bank secrecy laws, Mr. Zucman figures.

This is nuts. Such measures, if implemented, would force lower-income citizens to pay more for imports or buy lower-quality domestic products for the sake of pursuing tax revenue from "the rich" that probably doesn't exist. Even now, reporting requirements such as America's Foreign Account Tax Compliance Act—which foists burdensome disclosure rules on banks serving American citizens abroad and which Mr. Zucman doesn't think goes far enough—have the principal effect of making it harder for law-abiding middle-class American expats to open bank accounts.

Underlying the current fad for global revenue collection is the reality that many governments' spending addictions now far outpace their ability to fund their budgets. Like a drug addict who first robs his family to feed his habit, those governments increasingly find mother and sister at home don't have any jewelry left to pawn. The next logical step is to burgle the neighbors, and Mr. Zucman's book is a guide on how to try to jimmy open the door.

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