Tax shelters cost governments billions of dollars a year. New tax policies will help, but what we really need is a new politics around taxation.

A completely honest financial adviser, albeit a morally unscrupulous one, would likely advise most of her clients to avoid paying taxes. After all, the IRS has long lacked the resources to go after all delinquents, instead having to pick and choose its battles quite carefully. Recent budget cuts have forced the agency to be even more strategic about those whom it chases after and those whom it lets slide. Most citizens earn far too little to be of interest to the tax authorities, making contributions to the public purse that wouldn't even be noticed were they not made.

Of course, the tax preparers that most people rely on give no such unscrupulous advice.

H&R Block and TurboTax are designed to minimize customers' tax burden, not thwart that burden altogether. But as Gabriel Zucman's *The Hidden Wealth of Nations* reminds us, it is not those who rely on TurboTax that we—and the IRS—need to worry about. Those who systematically avoid paying taxes are a select, extraordinarily affluent class who rely on an army of high-priced accountants and higher-priced lawyers to shield enormous amounts of money from the tax authorities. In the process, not only do they violate the spirit and often the letter of the law, but they deprive governments around the world of an astonishing amount of tax revenue.

Zucman's brief but dense book is both a tour of global tax evasion and an attempt to meticulously measure its total cost. He shows his readers how the well-heeled super-elite can take their money from one port, ship it to Switzerland, dock it in the Cayman Islands—perhaps with a stopover in Luxembourg—and end up saving amounts that dwarf many people's entire lifetime earnings. While the system of global tax evasion has evolved over the last century, the fundamentals remain the same: The global rich, aided and abetted by Swiss bankers, use their legal and financial sophistication to avoid paying what the law has intended them to pay, at great cost to the fiscal capacity of governments the world over.

The book's primary contribution is an original calculation of the cost of this evasion. Zucman digs into enormous, disparate international financial databases to conclude that 8 percent of *all global household wealth* is stored in tax havens. In concrete terms, that amounts to $7.6 trillion—but it can be difficult to think of such sums in concrete terms. He further estimates that individual tax evasion costs governments around the world an estimated $200 billion a year. The U.S. government loses $35 billion annually in tax revenue to individual tax evasion, with Europe losing more than double that. In relative terms, the developing world loses the most.

And these figures only account for money lost to *individuals* evading taxes. Corporations also go to great lengths to minimize what they owe. In 2004, for example, Google transferred its most profitable technologies to a subsidiary located in Ireland—and this subsidiary was listed as a "resident" of Bermuda. Zucman estimates that corporate tax evasion saves U.S. companies $130 billion annually, thereby depriving the public coffers of the same amount.

Generally, Zucman's estimation strategies are rigorous and conservative, leading to figures that, he acknowledges, probably underestimate the true amount of evasion. Yet the fact that he's likely underestimating should only trouble us more. Governments subsist on tax revenue. Most people pay their taxes; certainly, the rich should not be excluded from this obligation. The wealth that tax havens hide deprives people around the world of the government services that that wealth could finance. And given that developing nations are the most afflicted by tax evasion, the problem is doubly concerning. Those governments that need tax revenue the most, to build and sustain their capacity to govern, are most deprived of it.

All this makes global tax evasion a policy problem of urgent public concern. Zucman's background makes him an ideal scholar to study such a problem. An economist at the University of California, Berkeley, he should be familiar to readers of Thomas Piketty's *Capital in the Twenty-First Century*, as he helped collect data that appeared center stage in that 2014 blockbuster. Like his mentor, Zucman applies his large appetite for data collection to a subject of transnational concern. Moreover, the problem of tax evasion is intimately linked to the problem of inequality, with the former helping sustain the latter. This book is a kind of spinoff of Piketty's *Capital*—a much shorter take on a more limited subject, but clearly inspired by it nonetheless. (For his part, Piketty offers an introduction brimming with effusive praise and deadpan humor; he declares that this is "the best book that has ever been written on tax havens," a competition with few entrants.)

It is often thought that the current system of global tax evasion originated out of a noble purpose: to shield Jewish clients' bank accounts from the Third Reich. Using Swiss bank accounts that were identified with numbers rather than names, persecuted Jews could park their money far afield from the Nazis. In 1996, *The Economist* described the Swiss as "proud" of their clandestine banking system, because "it was passed in the 1930s to help persecuted Jews protect their savings."

Or so the story goes. As Zucman shows, the modern system of tax evasion actually predates the Nazi regime, and can be traced to the aftermath of World War I. European nations had dramatically ramped up their top marginal tax rates to pay down debts and finance veterans' pensions. In response, the wealthy flocked to the Swiss, whose banking practices promised discretion and whose geopolitical neutrality offered stability. Between 1920 and 1929, foreign assets in Switzerland increased by 14 percent per year. In the 1930s, that rate of increase dropped to 1 percent per year. A commission chaired by former Fed Chairman Paul Volcker in the 1990s found that, of all Swiss bank accounts opened by non-Swiss individuals between 1933 and 1945, only 1.5 percent belonged to

Jews persecuted by the Nazis. The modern system of tax evasion emerged not out of altruism, but avarice.

According to Zucman, 8 percent of all global household wealth is stored in tax havens. In concrete terms, that amounts to $7.6 trillion.

When World War II ended, the Allies attempted to crack down on Swiss banking, in part because Congress was reluctant to spend American money on the Marshall Plan that could instead come from French fortunes stashed secretly in the Alps. Yet Swiss banks cleverly avoided these efforts, using Panamanian shell companies to hide the French origins of certain accounts. What Zucman terms the "golden age" of Swiss banking followed. While the explosion of oil wealth in the 1970s compelled newly rich Gulf royalty to deposit enormous sums in Switzerland, for the most part it has been Europeans who have taken advantage of the evasion system. In 1950, about 2 percent of total European household wealth was located in tax havens; by 1980, the figure had reached 5 percent.

Today, that number has doubled, with Zucman calculating that 10 percent of all European household wealth can be found in offshore tax havens. And Switzerland is far from the only player in town. No doubt inspired by the success of the Swiss, banks in countries as far-flung as the Cayman Islands, Hong Kong, and the Bahamas offer services designed to shield clients' money from tax authorities. One strength of Zucman's book is in showing how these different states work together—one might even say they conspire—to flout the tax laws of other states. An American who wishes to hide her money can register a shell company easily in the Cayman Islands, then rely on the surreptitious Swiss to handle that company's banking, and end up saving millions.

Most governmental attempts to rein in evasion have been failures. Piecemeal efforts undertaken by one region or state are almost bound to fail, as they only encourage would-be evaders to move their money elsewhere, to different and sometimes altogether new tax havens. The bankers are adept at adapting to new regulations, sometimes manipulating them in the drafting process to make sure evasion can continue. In 2005, when the European Union implemented the "savings tax directive," which requires member states to exchange information about interest that foreigners have earned on bank accounts, two states were granted exceptional terms: Luxembourg and Austria. In other words, a directive meant to shut down tax havens carved out different terms for two of the most notorious tax havens on the continent.

More promisingly, in 2010, President Obama signed the Foreign Account Tax Compliance

Act (FATCA), which requires foreign banks to send the IRS information about the American bank accounts they have. Banks that fail to comply face stiff financial penalties. In this case, Luxembourg and the like were not exempt. According to Zucman, the early returns on FATCA have been positive; even the Chinese, who were skeptical upon its inception, have grudgingly praised it. It may become a model for other governments.

When it comes to fighting tax evasion, coercion not only works—it is necessary. Zucman's policy proposals are both coercive and global. He argues that states should impose temporary but brutal tariffs on goods imported from tax havens, with the size of the tariff based on the tax revenue lost to the tax haven in question. He believes that Luxembourg is no longer a state but really a giant tax haven pretending to be a state, and should thus be threatened with expulsion from the European Union. Most ambitiously, he prescribes the creation of a global financial registry, which would record the ownership of the "financial securities in circulation, stocks, bonds, and shares of mutual funds." Zucman contends that the creation of a global registry would not only diminish tax evasion but curb money laundering and bribery as well. And as an added bonus, such a registry could facilitate the imposition of the global wealth tax that Piketty views as essential to combating inequality.

The idea of a global financial registry is less pie-in-the-sky than it first sounds. Developed states, including the United States, already have such registries, and other registries exist to keep track of myriad financial instruments. Just as Zucman's calculations depend on aggregating various databases, so too could regulators merge the existing financial registries to create one of global scope. This registry would not have to be publicly accessible. To work successfully, its contents would only have to be made available to domestic tax authorities, who would use it to check that their citizens have accurately reported their assets.

Alas, even with a global financial registry, corporate tax evasion would likely persist. Time and again, the amount of money at stake in tax evasion has ground reform efforts to ashes. Indeed, reading the history of reform that Zucman offers—a history replete with noble failures—is enough to make one doubt the wisdom of using political institutions to fix this problem. Loopholes in prior reform efforts have been identified and exploited. Bankers are smart, and in many cases their livelihood depends on the very system that Zucman seeks to end. Though a global financial registry would surely represent a massive improvement over current policy, it would not, on its own, eliminate the incentive to evade.

To fight tax evasion, we need to think not only about changing institutional arrangements, but about changing attitudes—especially among the very rich.

Why do people avoid paying taxes? Or, to put it another way: Why do most people *not* avoid paying taxes? They likely do so out of a sense of duty, and a vague feeling of self-interest. They feel obligated to remain within the bounds of the law. And, for many, paying is in their immediate self-interest. Hiring experts to captain one's money across the global tax evasion map that Zucman draws is expensive, and is worthwhile only if one has many millions of dollars at stake. Plainly, most people do not. It is in their self-interest not to evade, and so they do not evade. Contrarily, the wealthy who make up the heart of Zucman's book stand to reap millions from their evasion. It is in their self-interest to evade, and so they evade.

But short-term self-interest is distinct from long-term self-interest. While the wealthy in America may be different from you and me, they are like us in one crucial respect: They, too, depend on the system of laws, property rights, and regulations that form the bedrock of the United States. In fact, they owe far more, in raw monetary terms, to it than the rest of us. The United States government enforces the system that has permitted them to make their fortunes. Our taxes pay to maintain this system, and the wealthy have as large a stake, if not larger, in its maintenance.

Whether as citizens or CEOs, the rich have an obligation to assist in underwriting the system that makes their fortunes possible.

Taxes do not just fund a bevy of services; they fund what lies underneath the services, too. If taxes are viewed solely as part of a contractual exchange—that is, in exchange for my payment, I will receive discrete services in return—the wealthy among us will always receive the short end of the stick. They are not in need of many tangible government services, and so they choose not to pay. But more than a set of services, taxes finance the system that makes America, and the fortunes within it, possible. It is in the long-term self-interest of the wealthy to pay their tax bills. The benefits from doing so will not come today or tomorrow, but by continually and increasingly evading, they risk damaging the set of laws and property rights—in short, the fundamental achievements of government—upon which their fortunes rest.

At present, the wealthy seem captured by their short-term self-interest. The evidence Zucman gathered suggests as much; the available survey evidence paints a similar picture. Political scientists Benjamin Page, Larry Bartels, and Jason Seawright have found that the wealthy are far less supportive of social welfare spending than everyday people. For example, among members of the general public, far more people believe that Social Security should be expanded than cut back. The opposite is true for the wealthy, with many more believing it should be slimmed down significantly. After all, they themselves will not benefit from it directly. The same pattern holds for similar programs. Short-term self-interest has a powerful hold on the behavior and attitudes of the wealthiest Americans.

One of the architects of modern liberalism, Immanuel Kant, once asserted, “The wealthy have acquired an obligation to the commonwealth, since they owe their existence to an act of submitting to its protection and care, which they need in order to live; on this obligation the state now bases its right to contribute what is theirs to maintaining their fellow citizens.” The wealthy seem to have forgotten about this obligation. Reminding them of it, and inculcating resistance to short-term self interest, is difficult but vitally important work. Though the prose may be, at best, workmanlike, this short book packs a devastating empirical punch. The institutional proposals Zucman offers, notably the registry, combined with the attitudinal changes we need, might not only arrest but ultimately eliminate tax evasion. Whether as citizens or CEOs, the rich have an obligation to assist in underwriting the system that makes their fortunes possible. Judging by Piketty’s success, policymakers and the public will listen to what Zucman has to say. It is in the long-term interest of our wealthy compatriots to do the same.