International Tax

Book review: The Hidden Wealth of Nations

Daniel Ben-Ami review's Gabriel Zucman's analysis of the world of offshore financial centres

Ambitious Wealth

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One of the biggest potential rifts in modern societies is that between great wealth and democracy. The ideals of formal equality, such as equal rights and one vote for every adult, are widely accepted. On the other hand, there is an influential school of thought that argues gross economic inequalities can undermine democratic societies.

The contemporary critics are not generally akin to the socialists of yesteryear. They are not arguing for the abolition of capitalism or the creation of a classless society. Their call is essentially for new forms of regulation of existing societies. Prominent supporters of this approach include many members of what called by called the technocratic elite. These are technical experts with close ties to government and top universities.

Gabriel Zucman's *The Hidden Wealth of Nations* (Chicago Press, 2015) fits into this tradition. The assistant professor of economics at the University of California, Berkeley, makes a case for much tighter

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The taxman, Google and the benefits of

regulation of tax havens. In his view, offshore centres such as Switzerland, Luxembourg and the Cayman Islands enable the super-rich to evade paying their rightful share of tax. Given his background it is not surprising that his case is firmly grounded in data.

fiscal voyeurism

If that was all it was it would be an interesting and relatively accessible technical study of tax havens. The problem lies in some of the grand claims made for it. In a foreword to the book, Thomas Piketty, one of the world's best-known experts on inequality and Zucman's PhD supervisor, suggests his protégé's work is an important contribution to understanding one of the main threats to democracy. Piketty goes on to argue that what makes it particularly significant is its grounding in data and solutions rather than just abstract principles.

To be fair to Zucman, his book should first be examined in its own terms. It is to his credit that he has written a new book in clear English (translated from the original French) rather than simply tweak his doctorate. For anyone who follows finance it should prove relatively accessible.

The author also provides a useful thumbnail sketch of the history of tax havens. The backdrop to this story is the transformation in the nature of wealth. By the mid-19th century, financial wealth (such as shares and bonds) had taken over from land ownership as the main form of assets held by the rich in the industrialised nations. But it was not until the 1920s, when the main countries started levying taxes on large fortunes, that Switzerland emerged as an important offshore financial centre. But it was not until the 1980s that new centres of wealth management emerged including London, Hong Kong, Singapore, Jersey, Luxembourg and the Bahamas.

Zucman also makes a valiant attempt to estimate the amount of assets held in tax havens. He comes up with a conservative estimate for the cost of global tax evasion of 8 per cent of the financial wealth of households. That is equivalent to about 1 per cent of the total revenues raised by governments worldwide. He uses various means to come up with this total including the discrepancy between assets and liabilities in the international investments positions of countries. On a global level, these should theoretically be equal but in practice there always seem to be more liabilities than assets. This “hole” is the point of departure for Zucman’s estimate of the illicit wealth held in offshore centres.

In the final part of the book he proposes measures to deal with this problem. These include the creation of a global financial register so there is a centralised record of the ownership of assets. Zucman also favours sanctions against uncooperative territories. Such measures are explicitly meant to complement Piketty’s proposal for a global wealth tax.

The problem with the book is precisely what Zucman and Piketty see as its greatest strength: its emphasis on data. Estimating the extent of offshore wealth is fine but it cannot resolve or even identify the fundamental problems the world is facing. Even a perfect estimate of this figure would not answer the question of what should be done about it. That is a political and moral question.

This narrow approach also sidesteps what are arguably far more important questions, for example, the social power that arguably accompanies the ownership of substantial productive capacity – or the role that an intrusive state can play in undermining individual freedom.

Such questions belong in the realm of abstract principles, and in politics, rather than technical economics.

The writer is the author of Ferraris for All (Policy Press 2012)

The Hidden Wealth of Nations: The scourge of tax havens, by Gabriel Zucman. University of Chicago Press, 2015. ($20.00/£14.00)
