

Econ 133 – Global Inequality and Growth

Offshore wealth

Gabriel Zucman

zucman@berkeley.edu

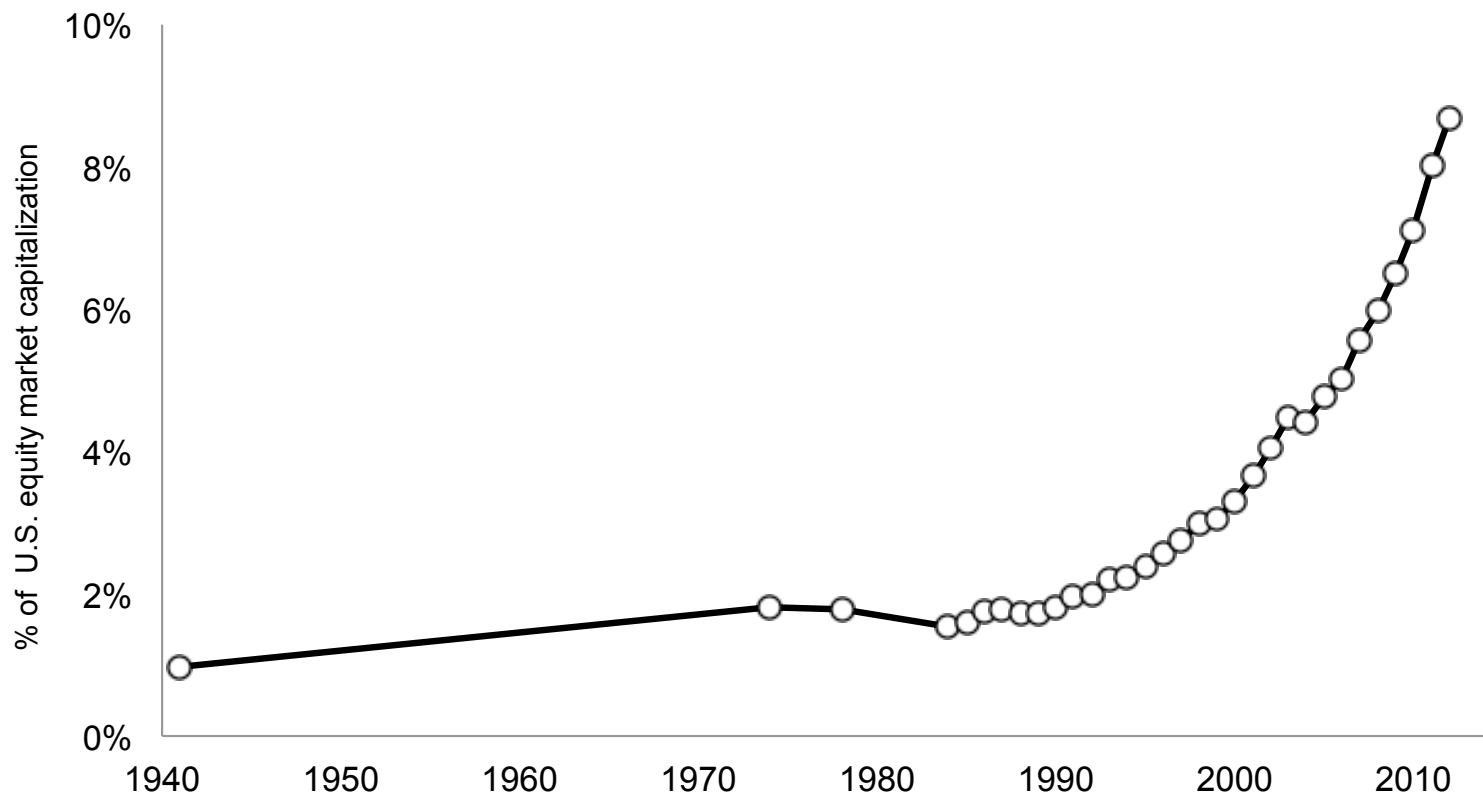
What we've learned so far:

- To understand wealth inequality, it is critical to pay attention to the top, because wealth is very concentrated
- Best way to do this: use tax data
- However there's a big problem: tax evasion

Roadmap

- How big is the wealth in tax havens?
- How does that affect what we know about inequality?
- Policies that can curb tax evasion

U.S. equities held by tax haven firms and individuals



In 2012, 9% of the U.S. listed equity market capitalization was held by tax haven investors (hedge funds in the Cayman Islands, banks in Switzerland, mutual funds in Luxembourg, individuals in Monaco, etc.). Source: author's computations using US TIC data

Source: Zucman (2015)

1 How big is the wealth in tax havens?

1.1 What do offshore centers do?

A great deal of activities, many of which legal and legitimate:

- Investment funds (Luxembourg, Ireland...)
- Shadow banking (Caymans...)

- Treasury management (U.S.-Cayman...)
- Personal wealth management (Switzerland, Singapore...)

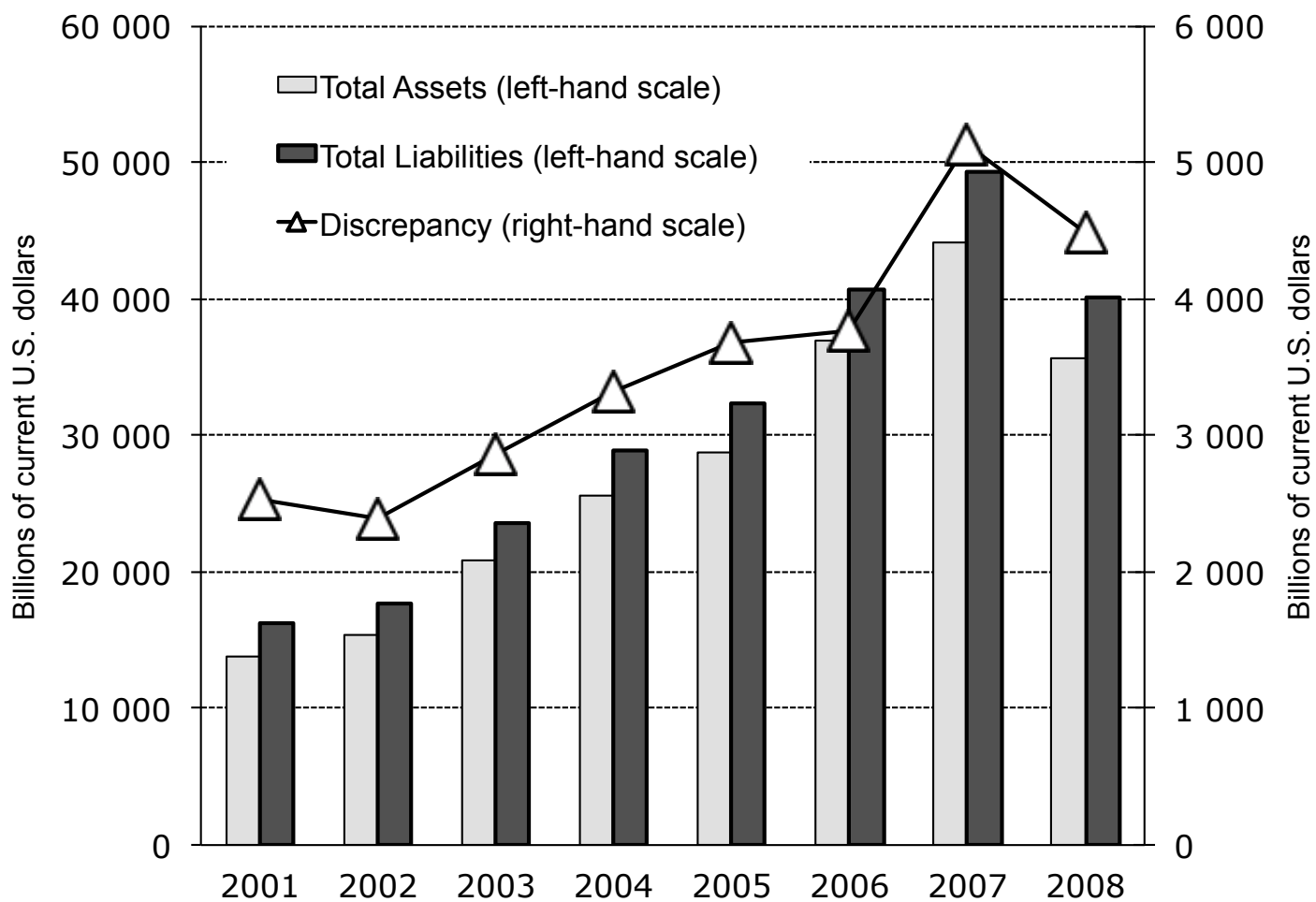
But some offshore centers, institutions and instruments also facilitate tax evasion by wealthy individuals

1.2 How offshore tax evasion works

- Shell companies
- Fake invoices
- Offshore accounts
- Disconnecting legal and beneficial ownership

1.3 What do we know about the magnitude of offshore tax evasion?

- Monthly statistics by the Swiss National Bank
- Systematic anomalies in the international investment positions of countries caused by offshore portfolio wealth



Source: Zucman (2015)

Key take-aways:

- 8% of the world's financial wealth offshore
- If anything lower bound
- More limited data on what fraction evades taxes: evidence suggesting 90-95% prior to 2008, down to 80% today

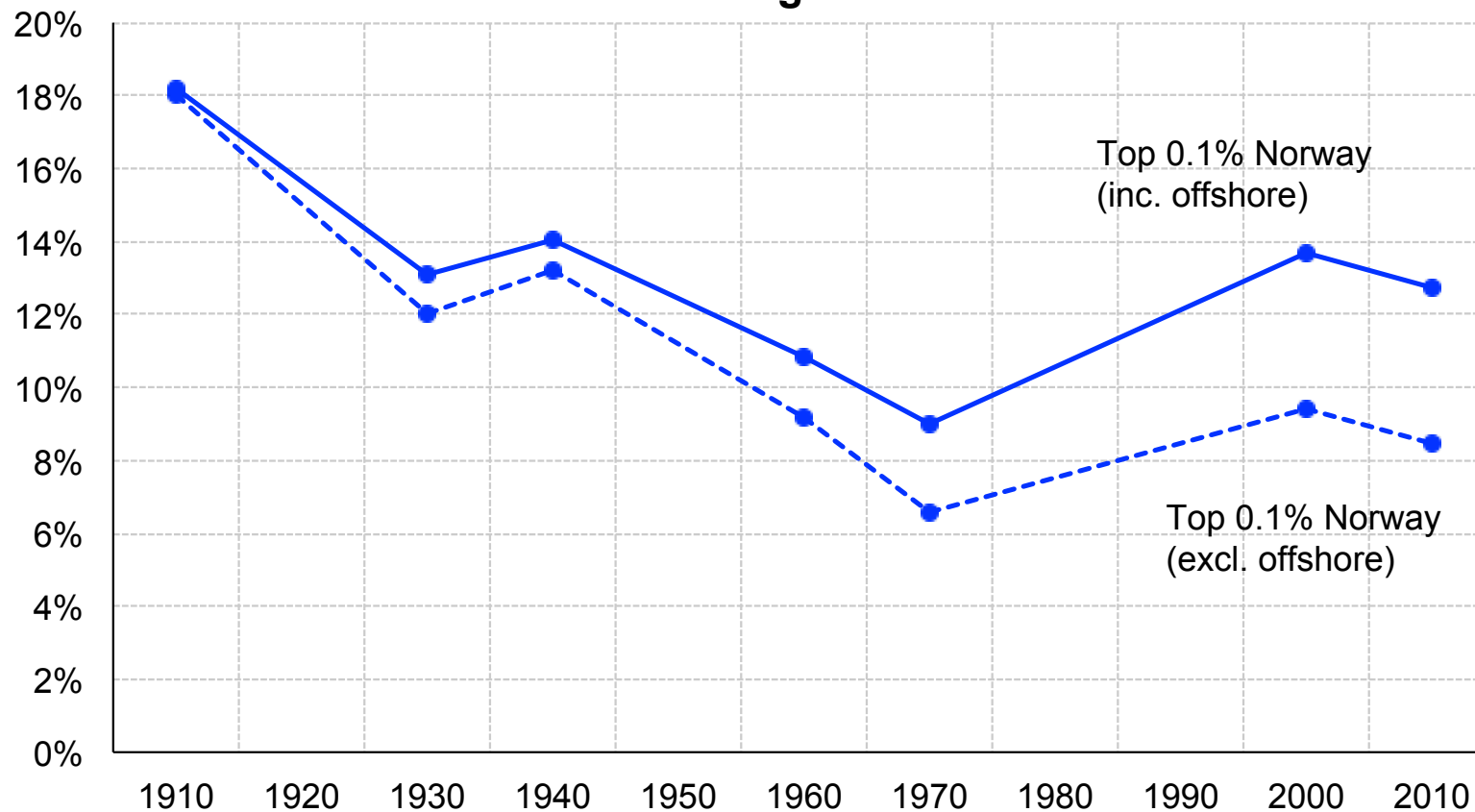
	Offshore wealth (\$ bn)	Share of financial wealth held offshore	Tax revenue loss (\$ bn)
Europe	2,600	10%	75
USA	1,200	4%	36
Asia	1,300	4%	35
Latin America	700	22%	21
Africa	500	30%	15
Canada	300	9%	6
Russia	200	50%	1
Gulf countries	800	57%	0
Total	7,600	8.0%	190

Source: Zucman (2015)

2 Consequences for inequality

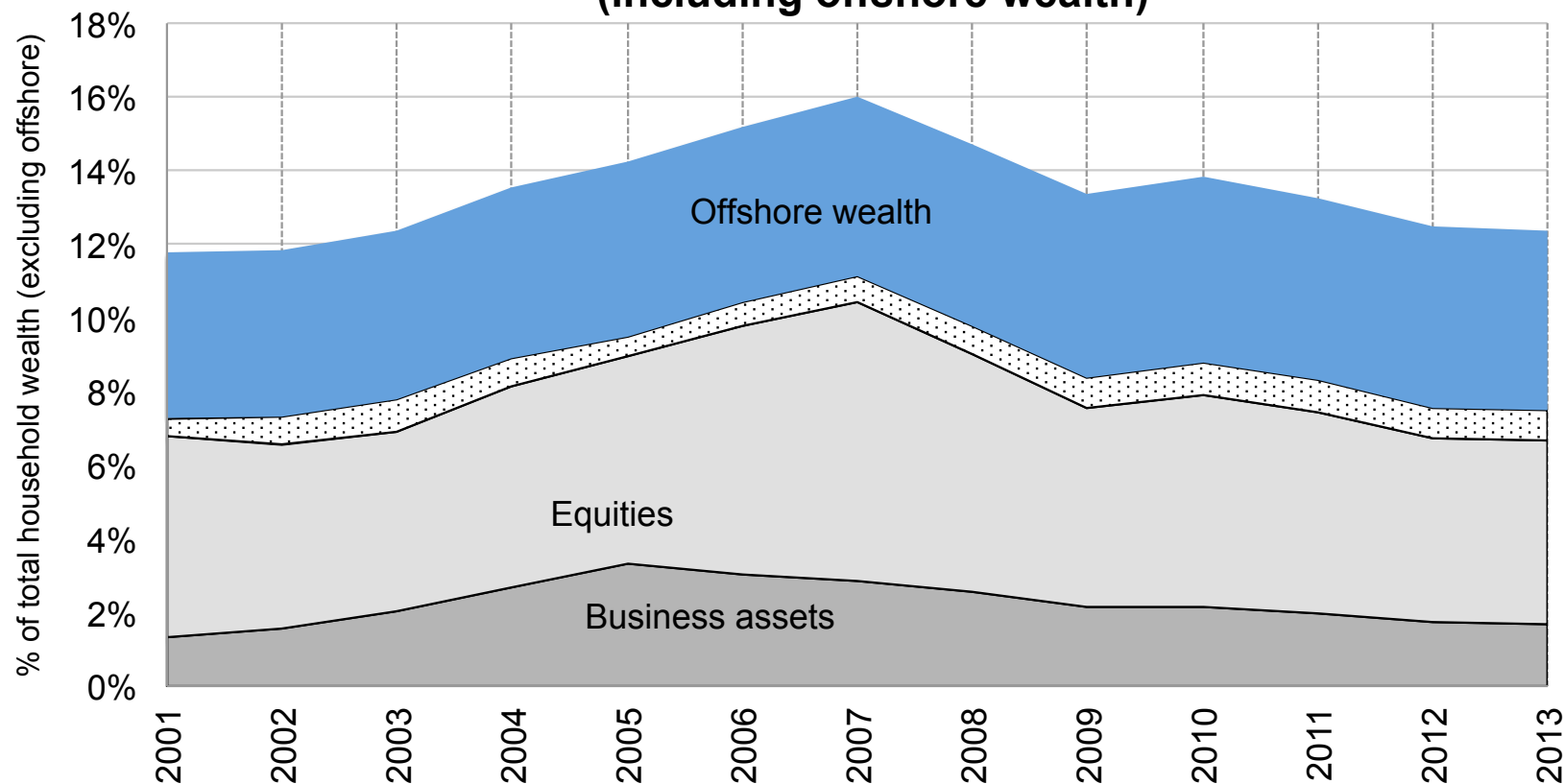
- First order for developing countries
- Can be sizable even for Europe / U.S.

Figure : Top 0.1% wealth share in Norway: including vs. excluding hidden wealth



Source: Alstadsæter, Johannesen and Zucman (2016)

Composition of the top 0.1% wealth share in Norway (including offshore wealth)



This figure depicts the share and composition of the wealth held by families in the top 0.1% of the wealth distribution, after taking into account unreported offshore wealth. Source: Appendix Table B5b.

Source: Alstadsæter, Johannesen and Zucman (2016)

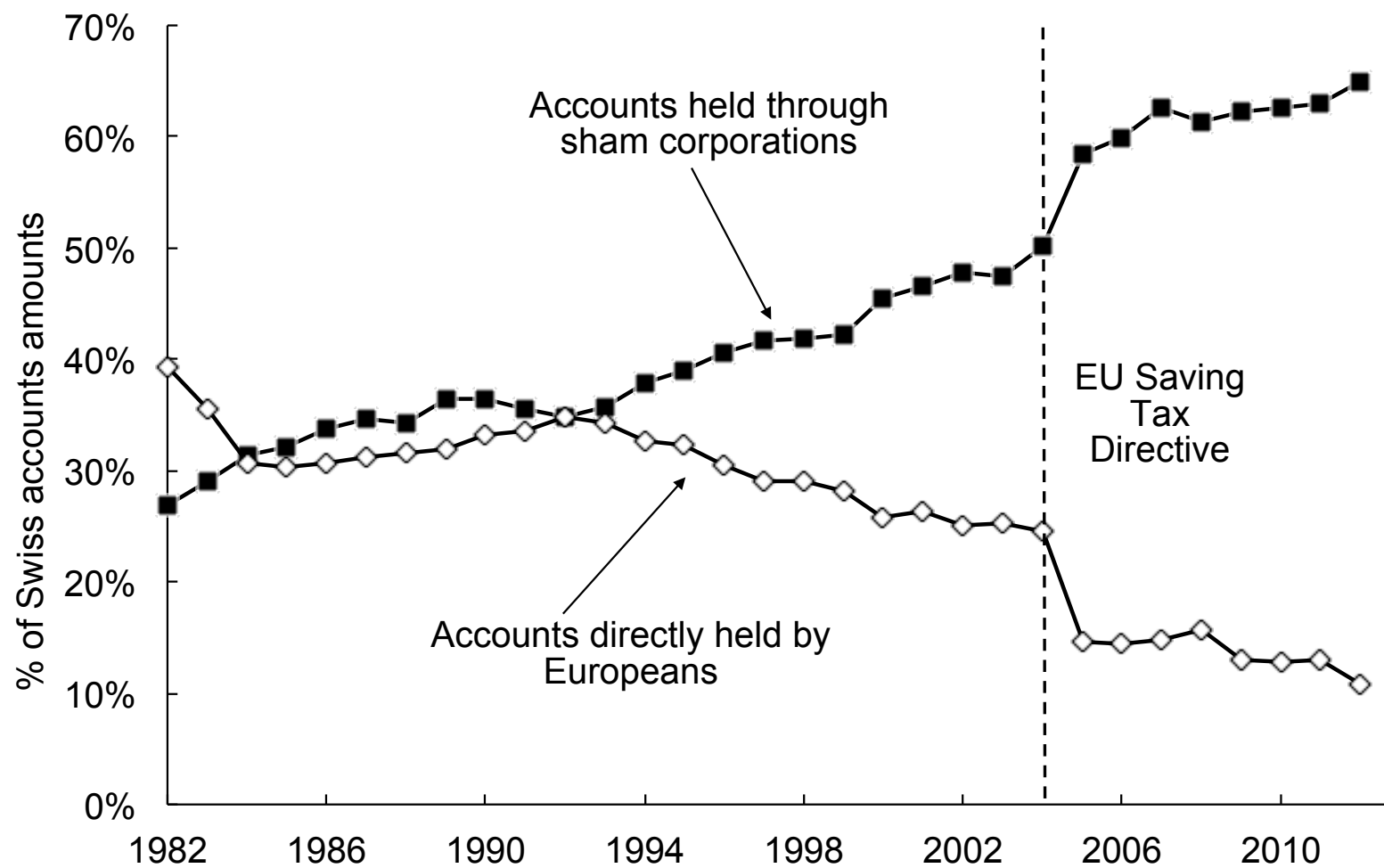
3 Policies

3.1 What has been done

- Automatic exchange of bank information (FATCA law in US)
- Will become global standard by end of 2010s

Three obstacles:

- Incentives of offshore bankers
- Financial opacity
- Incentives of tax havens



Source: Zucman (2015)

3.2 What could be done

- Well defined sanctions for territories and institutions that facilitate criminal activity

- A world financial registry

4 Summary

- About 8% of the world's financial wealth is held in tax havens globally
- Accounting for it increases wealth concentration substantially
- Tax evasion is not inevitable but can be addressed with proper policies

References

Alstadsæter, Annette, Niels Johannesen and Gabriel Zucman, “Tax Evasion and Inequality”, 2016 (in progress)

Zucman G., “The Missing Wealth of Nations: Are Europe and the US net Debtors or net Creditors?”, *Quarterly Journal of Economics* 2013, (web)

Zucman G., “Taxing Across Borders: Tracking Personal Wealth and Corporate Profits”, *Journal of Economic Perspectives* 2014, (web)

Zucman G., *The Hidden Wealth of Nations*, University of Chicago Press, 2015, (web)