FOREWORD

Thomas Piketty

If you are interested in inequality, global justice, and the future of democracy, then you should definitely read this book. *The Hidden Wealth of Nations* by Gabriel Zucman is probably the best book that has ever been written on tax havens and what we can do about them. It is nontechnical and lively, and it achieves three different goals in a very concise and efficient manner.

First, it provides a fascinating history of tax havens: how they came into existence in the interwar period, and how they gradually acquired the prominent role that they have today. Next, it offers the most extensive and rigorous quantitative evaluation ever proposed of the global financial significance of tax havens in today's world economy. Finally, and most important, it sets a precise and realistic course of action for change, which has at its core the creation of a worldwide register of financial wealth recording who owns what in stocks and bonds.

Tax havens with their financial opacity are one of the key driving forces behind rising wealth inequality, as well as a major threat to our democratic societies. Why is this so? Quite simply because modern democracies are based on a fundamental social contract: everybody has to pay taxes on a fair and transparent basis, so as to finance access to a number of public goods and services. Of course, there is ample room for disagreement about what "fair" and "transparent" taxation means. But if some of the wealthiest individuals and some of our largest corporations use tax havens and fiscal dissimulation in such a way that they avoid paying taxes almost entirely, then it is our basic social contract that is at stake. If middle-class taxpayers feel that they are paying higher effective tax rates than those at the top of the pyramid, if small and medium-size businesses feel that they are paying more than our largest companies, then there is a serious risk that the very notion of fiscal consent—which is at the core of modern democracies—will fall apart altogether. And if a rising fraction of the population, at the bottom and in the middle of the pyramid, feels that the system is not working for them, and that they are not being well treated by the global economy or by their government, then many might reject the very notion of interclass solidarity and of a fair fiscal and social state. Some might become tempted by nationalist solutions, ethnic divisions, and the politics of hatred.

But what makes Zucman's book so important is that it is not only about abstract principles and dangerous threats: it is about data and solutions. There are systematic inconsistencies in international financial statistics. In particular, there are always more liabilities than financial assets reported by the world's financial centers. By analyzing these statistical anomalies in a systematic and innovative manner, Zucman offers one of the most credible evaluations to date of the global importance of tax havens. According to his benchmark estimate, which should be viewed as a lower bound, around 8% of the world's financial wealth is held in tax havens. In developing and emerging countries, this percentage can be much higher, which makes it even more difficult to build fiscal consent and trust in government and to address situations of extreme inequality. In Africa the share of financial wealth that is held offshore is estimated by Zucman to be around 30%. In Russia and the oil-rich countries of the Middle East (probably the most unequal and explosive region of the entire world), the share of offshore financial wealth appears to be above 50%.

In the United States, the share of offshore wealth certainly seems to be much less than in Africa or in Russia. Offshore personal wealth also appears to play a smaller role in the United States than in European countries, which have been particularly bad at coordinating their policies to fight tax havens. For instance, they had to wait for the US FATCA legislation and the US sanctions against Swiss banks in order to start moving in the direction of automatic information transmission.

It would be a mistake, however, to underestimate the importance of tax havens for the US fiscal system. According to Zucman's conservative estimates, eliminating the US tax revenue losses due to tax havens would be equivalent to an average tax increase of about 20% for all taxpayers within the top 0.1% income group. Also, while the United States may have less of an issue than Europe with offshore personal wealth, they have a bigger problem with corporate tax evasion by multinational companies. Finally, and most important, Zucman warns us that the FATCA legislation still has a lot of holes in it and that the overall importance of tax havens has continued to rise between 2008 and 2015. We might need much larger sanctions than those that have been implemented so far in order to make real progress. For instance, according to Zucman's computations, the benefits that a country like Switzerland gains from financial opacity are equivalent to the losses that it would suffer from a 30% trade tariff imposed by its three biggest neighbors (Germany, France, and Italy). Of course, we might choose not to apply these sanctions—but then we should not complain when the problem gets bigger and bigger. Global financial opacity is a major challenge for all countries, and there is still a long way to go before we can curb these structural trends.

According to Zucman, the key step should be the creation of a worldwide register of financial wealth, recording who owns what in stocks and bonds. This global financial register would act as a central depository: it would be coordinated by governments and international organizations, allowing national tax administrations to fight tax evasion and to levy taxes on capital-income flows and wealth stocks.

Some might consider the very idea of a central depository as utopian. But it is not. In fact, central depositories for global securities already exist. The problem is that these central depositories are not truly global (they are national or sometimes regional), and most important they are private, not public. Starting in the 1950s and 1960s, securities were gradually dematerialized, and paper titles soon disappeared entirely. This is when modern central depositories were created, simply because there was a need to secure financial transactions and to keep track of who owns what in a computer database (it is difficult to do business if several financial institutions or economic agents in the world claim property rights over the same asset). A number of private financial institutions developed in order to provide this service. The most well-known central depositories are the Depository Trust Company (DTC) in the United States, and Euroclear and Clearstream in Europe. The problem is that these private institutions do not exchange information with governments and tax administrations on a systematic basis. Sometimes they even tend to exacerbate and to benefit from tax evasion and financial opacity (see, for example, the Clearstream scandal in France) rather than to promote transparency.

Zucman's proposal is clear and simple: governments should take control of these central depositories and gradually unify them into a global financial register. The United States, the European Union, Japan, and possibly the IMF should play a leading role in this process, together with the emerging countries in Asia, Latin America, and Africa that are currently losing a lot from tax evasion and capital flight and that are ready to join this cooperative effort. Participation in the global financial register would entail rights and duties, guaranteeing well-protected property rights and financial transactions, in exchange for a commitment to transmit all information that is necessary to identify the actual owners of all assets. This registration system, Zucman argues, should come together with a common minimal registration tax (say, 0.1% of individual net wealth), which could then be supplemented by higher progressive tax rates chosen by national governments (or regional coalitions of national governments).

It is worth noting that the development of centralized registers for real estate and land property titles, together with the creation of inheritance taxes and annual property taxes, played a key role in the building of the modern state and legal systems during the eighteenth and nineteenth centuries. The problem is that these legal and fiscal systems of property registration and taxation were developed at a time when financial assets and liabilities did not play the major role that they do today, and that they were never fully updated for the modern world. In the early twentieth century, income tax systems were created in order to make new forms of wealth creation and income flow—in particular, corporate profits and dividends—contribute to the tax system. One problem that we see today is that it is difficult to properly tax and monitor the income flow generated by an asset if we do not at the same time have a proper registration and taxation system for the stock of assets. This is the problem for modern nations: they still live with a system to register property that was conceived more than two hundred years ago. The good news coming from *The Hidden Wealth of Nations* is that we now understand this problem more clearly, and we know that it can be solved.

The Hidden Wealth of Nations

The Scourge of Tax Havens

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