

# Could shame deter the wealthy from using offshore accounts? - Marketplace

David Brancaccio, Erika Soderstrom : 15-19 minutes : 9/19/2024

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Sociology professor, Brooke Harrington, reveals how the offshore financial system can weaken economies and democracy in her new book, "Offshore: Stealth Wealth and the New Colonialism." Tomohiro Ohsumi/Getty Images

We're able to get a pretty good picture of the extensive offshore financial system from massive data leaks like the [Pandora Papers](#) and [Panama Papers](#), which helped to expose the shadow economy that supports the ultra wealthy.

"You'd think that basically everybody above a certain wealth level is dodging their taxes and using the offshore system," said Brooke Harrington, a professor of sociology at Dartmouth College and author of the new book "[Offshore: Stealth Wealth and the New Colonialism.](#)"

Often located in tropical paradises, offshore financial centers provide foreign companies and the uber wealthy a place to stash their wealth under favorable financial conditions. But despite [huge leaks revealing an immense use of the offshore system](#), minimal legal action has been taken. This is often due to the fact that the lawyers behind the extremely wealthy are really good at flirting with legality.

"What you get when you hire the best lawyers in the world, as a billionaire, is you get people who can walk right up to the line of illegality, but not cross over by even a millimeter," said Harrington, who's spent nearly two decades studying the ultra rich and the use of offshore accounts.

But a somewhat unusual tactic may help deter jet setters from hiding their wealth offshore. "Marketplace Morning Report" host David Brancaccio spoke with Harrington, about how shame may help deter the ultra wealthy from stashing their wealth offshore. The following is an editing transcript of their conversation:

**David Brancaccio:** The sources for the data that's the foundation of this book ... that took some digging in sometimes sticky situations?

**Brooke Harrington:** Yes. There's a phenomenon called the "finance curse," where countries, usually small island nations that turned offshore finance to bolster their economies, tend to roll out the red carpet for some very unsavory activities. Because it's not just above board wealthy people and corporations using the offshore financial system, it's drug dealers and criminals and money launderers as well. And that criminality has a funny way of seeping in to the culture of the nation.

**Brancaccio:** So you're describing a metaphorical pact with the devil. "Oh, we can bring in all this wealth by setting up an infrastructure for people to store i.e. hide some of their overseas wealth," but it comes with unintended consequences and distortions.

**Harrington:** Yes, it does seem to be a Faustian bargain for at least all the smaller countries who have tried it. The island of Jersey, that's in the Channel Islands between France and Great Britain, Jersey and Guernsey are sort of semi-self governing entities, and they became very important tax havens. And for a while it really seemed like they'd invented the economic equivalent of a perpetual motion machine – they could cut taxes, and yet they brought in so much money from foreigners that they could afford to have good public services and quality of life. But after a while, the machine started to fall apart, and a really inordinate tax burden started to fall upon the locals, because the foreign capital wasn't paying its fair share, and the democracy sort of was captured by these foreign capital interests. And a lot of people who were born and raised on islands like Jersey and Guernsey decided that they couldn't live there anymore because the quality of life had deteriorated so much. Similar things happen in places like Luxembourg, which is one of the premier corporate offshore tax havens in the world.

**Brancaccio:** So professor Harrington, that's the new colonialism that you have in your title?

**Harrington:** Yes, my thesis there is both that the offshore financial system that we know today is a direct outgrowth of the British Empire, specifically, but also that it's recreating some of the exploitation and expropriation that was characteristic of the old colonialism. Except it's not connected to any one particular country or territory. It's imperialism practiced by a group of people who don't really belong to the nation state system anymore. They have multiple passports, if they don't like the laws of one country or another, they just go somewhere else.

## The “broligarchs”

**Brancaccio:** Now, we're not necessarily talking about people doing better than most. You're thinking people hiding their wealth overseas, you're talking about really wealthy people. And you spend a lot of time in the book engaging with the irony that people who have the most can be especially averse to paying for, for instance, government services.

**Harrington:** Yes, I'm certainly not the first person to point this out, but there's sort of a group of new money people. One of the best known groups are the “broligarchs,” so-called of the Silicon Valley. So this is mostly, you know, men between like 30 and 50 who have made a fortune in high tech, they have very little regard for rules and governance. And you know, as Mark Zuckerberg famously said, “Move fast and break things,” that's not the motto of someone who has a lot of regard for the rule of law. Don't get me wrong, these people aren't anarchists, they don't want to overthrow the government. They need the government to enforce their contracts and their property rights and provide stable money supply and monetary governance. They wouldn't be oligarchs without those things, but they don't think the law should apply to them, and they think that, basically, they're smarter than the rest of us and deserve to be above the law, which means not paying taxes, not paying back their debts, and having an outsized role in determining what public policy looks like, regardless of the will of the voters.

**Brancaccio:** As a partial antidote, you call for leveraging ... how do you put it? The power of shame. Shame works even for jet setters?

**Harrington:** This was one of the most surprising things I learned in 17 years of doing research on the ultra rich and their use of offshore finance. Like any normie, I thought, well,

once you reach a certain level of wealth and power, you don't care what the hoi polloi say about you. You just laugh all the way to the bank, if you even notice them at all, but au contraire. I think this is illustrated very vividly by the figure of Elon Musk, who seems to be among the thinnest skinned of the broligarchs, but he's not unique in this respect.

**Brancaccio:** So you think this idea of public scrutiny could be leveraged to bring what you would see as justice to the international financial system.

**Harrington:** Well, I'll tell you what, what hasn't worked is trying to chase this problem by making new laws. Now, in any democracy, the process of making new laws is slow, and that's what it ought to be. It deserves a lot of deliberation. The problem is the law is always playing catch up with people's behavior, and the broligarchs and the kind of people who use the offshore financial system, can frankly, afford much better lawyers and much longer periods of time fighting things out in court. So if you want to take them on on the basis of law, it's a high risk endeavor, because they can win just by war of attrition.

Governments don't have infinitely deep pockets and infinitely long time horizons, but oligarchs often do. There was a famous divorce case earlier in the 2000s where a Russian oligarch named Dmitry Rybolovlev was divorcing his wife, and prior to the divorce, he'd asked her to sign a post nuptial agreement, and she refused smelling a rat, so he thought he could avoid paying her half of the fortune that he'd made while they were together by putting his assets in a couple of offshore trusts. Now it's illegal to use offshore trusts to avoid debt repayment, and the challenge is to prove that that's why someone put assets in trust. Also, trusts aren't registered in many places, so it's a very long and time consuming process just to establish that someone has an offshore trust. One of the wealthiest women in the world, Dmitry Rybolovlev's soon to be ex-wife, had to take 10 years to actually make an airtight case to a Swiss court that in fact, her husband had put billions of dollars in two offshore trusts and that she was owed half. So if it takes someone who really does have unlimited resources, a decade to link a person to an offshore trust, you can imagine the challenges that governments and government agencies like, say, the IRS have, they don't have that kind of budget and they don't have those kind of timelines. So most of the time, the oligarchs just get away with it.

## Shame as a means to deter the ultra wealthy

**Brancaccio:** Which brings you back to shame as a tool that you think could be more effective in bringing some order and maybe fairness to the system.

**Harrington:** Having discovered that the wealthiest and most powerful people in the world, at least some of them, cared deeply about their public reputation, it dawned on me that this was a force that could be used for good. So I'm not suggesting that these tools be used willy nilly. What I am suggesting is that for people who have largely very successfully put themselves beyond the rule of law, one of the very, very few tools that society has left to protect itself from people who won't be bound by laws or social norms is shame. And I imagine that if [millions of people can be induced to swallow Tide Pods](#) on camera for likes or to dump buckets of ice water over their heads for charity. They could also be persuaded to maybe think that dodging your taxes and your debts or just generally, being a scofflaw is not something to be admired. This is perhaps a hard sell for Americans, because we have a long cultural history of kind of admiring scofflaws and outlaws.

**Brancaccio:** But a campaign of, let's say, leveraging social media would have to be built on some kind of infrastructure of transparency. The world would have to know who's hiding, what, where.

**Harrington:** To some extent we do. And you know, in the news, every so often, you'll hear about some public interest groups research showing that like Elon Musk paid zero in taxes for the past three years, or Jeff Bezos paid zero in taxes, in addition to their companies paying low to no taxes because of their use of offshore. So the information that would be needed to make this happen is already out there. Also, you know, the Panama Papers, the Paradise Papers, the Pandora Papers, those gigantic leaks from offshore that showed us this rogues gallery, not just of corporate leaders or heads of state, but celebrities like Jackie Chan and Emma Watson. You'd think that basically everybody above a certain wealth level is dodging their taxes and using the offshore system.

So we know that this is happening. What's been missing is a sense of what do we do about this? And I think a lot of people have become demoralized and desensitized to these revelations, because they don't see anybody being tried, much less convicted for doing anything illegal by using the offshore system. And that's where things get really problematic, because perhaps the least well understood part of all of this offshore tax evasion is that the vast majority of it is formally legal. The most conservative thing I can say is the use of offshore finance, for the most part, is in a gray area between formally legal and formally illegal. It's at least debatable. And most governments, for the reasons I mentioned, don't have the resources that would allow them to duke it out in court with the best lawyers in the world who work for the billionaires. So they just let it slide, and that's why we're not seeing very many prosecutions, much less convictions. By my count, since the Panama Papers dropped in 2016 there have only been fewer than 12 convictions worldwide, based on this wealth of data that's been released. That's kind of astonishing, but it's a testament to the fact that what you get when you hire the best lawyers in the world as a billionaire is you get people who can walk right up to the line of illegality, but not cross over by even a millimeter.

**Brancaccio:** What about the argument that if countries don't want their rich people going overseas to havens, they should lower taxes?

**Harrington:** You know, the funniest thing about offshore finance... I don't know if it's funny to other people, but it is to me. Dollar for dollar, the biggest users of the offshore financial system are people from countries that don't impose taxes. One of my little personal crusades is to try to explain to people that the word tax haven is actually a misnomer. What the offshore system actually sells is not so much tax relief as secrecy and escape from the rule of law. So people from Saudi Arabia, from the United Arab Emirates (UAE), are among the biggest users of the offshore financial system, and they're not subject to tax at all. Why do they use it? Well, there are lots of laws they want to evade. For example, there are some benign reasons. I interviewed wealth managers who work with billionaires in Saudi Arabia or Dubai who have very lucrative family businesses, but under Sharia law, those businesses will be distributed unequally among their children according to gender. The daughters will get a much smaller share, for example. So if you're a billionaire in the UAE and you want your daughters to inherit equally to your sons, you have to take your fortune offshore, because that's the only way to get it out of the clutches of the Sharia courts that will distribute it according to Sharia law.

If you live in a country where, being gay is criminalized, for example, but you have a long-term same sex partner and you want them to inherit your fortune when you die. If you live in

a country where your sexuality is illegal and your partnership is illegal, you can't do that. So you have to get your assets, at least the ones you want your partner to inherit, you have to get that offshore. So advocates of the offshore financial system often point to those kinds of examples, plus the idea that most foreign direct investment as we know it simply wouldn't happen without offshore finance to sort of provide security for the investors. For example, Indian and Chinese billionaires who want to make investments in Africa often run their money through places like Mauritius and Seychelles, those islands in the Indian Ocean. They're not just geographically on the way to Africa, they are these kind of secure spots where investors say that they feel that their money is better secured by the rule of law and less in danger of being seized by corrupt officials or heads of state. I'm not commenting on whether or not that's factual, but that is apparently their belief. So the people who say we need an offshore financial system give examples like that, but what that shows you in the big picture is that there's way more going on here than tax evasion. In fact, if you think that that's what offshore finance is about, you're really missing the point of it, which is to evade the law. Because lots of wealthy people don't want to pay their debts either, and offshore finance provides a way to escape debt repayment pretty much in perpetuity.

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