

## It's Good to Be the King

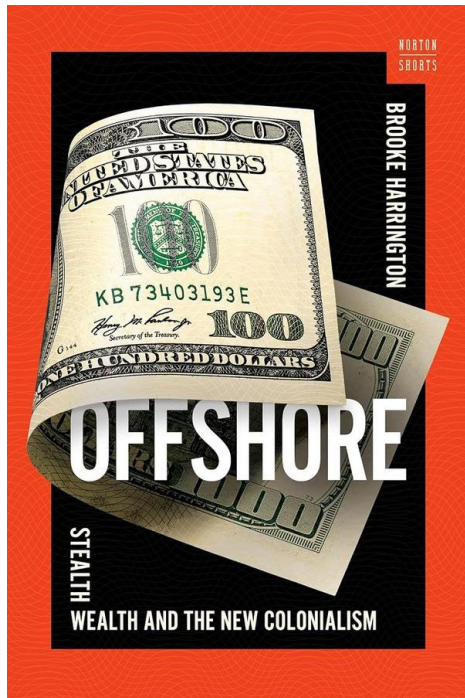
The ins and outs of how the mega-rich wall themselves off from government's prying eyes

BY HELAINÉ OLEN

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The greatest observers of how money influences people and corrupts institutions are not, as a general rule, those who possess it. They are instead those who, as F. Scott Fitzgerald recognized a century ago, live and work in close proximity to them. This is the insight that both inspires and



informs sociologist Brooke Harrington’s trenchant new book *Offshore: Stealth Wealth and the New Colonialism*.

Harrington grew up in the extremely monied Chicago suburb of Lake Forest, a place so familiar to Fitzgerald he drew on it when writing *The Great Gatsby*. But even though she attended the same public school as the heirs to great American fortunes, Harrington comes from the wannabe class, with a working mom, a dad whose attempts to make a fortune eventually only earned him a term in jail, and a sister so severely disabled that the family was forced to rely on state funds to get by financially. The cognitive dissonance must have been overwhelming.

In the manner of bright and somewhat neglected children, Harrington intellectualized this conflict. She studies the stealth-like ways of the richest among us, first to survive attending school with these young scions, and then in adulthood as a sociologist researching the impact of inequality.

This, in turn, leads her to the extremely opaque area of offshore finance, a world that encompasses everything from anonymous Delaware corporations to “peripheral fiscal paradises” like the Cook Islands, Panama, and the Bahamas, where a not unsubstantial part of the economy consists of “helping wealthy foreigners break their own countries’ laws.” Economist Gabriel Zucman estimates total offshore wealth accounts for 10 percent of global GDP and that this institutionalized tax evasion is costing \$200 billion in global revenue annually.

Needless to say, it’s an area where scholarly study is desperately needed. Everyone from Russian oligarchs to Third World dictators takes advantage of the ever-growing, secretive financial world of anonymous shell companies and arcane interpretations of murky laws. A rogues’ gallery of governments and lawyers and accountants assist the globe’s wealthiest men and women as they hide their money—from not just the taxman, but also political and business rivals, not to mention the occasional ex-spouse.

Harrington quickly and unsurprisingly runs into brick walls attempting to learn more about this secretive system of wealth, until she recalls something she first noted about the rich families she encountered as a child: They rarely do anything for themselves. They need help, even with something as mundane as changing a light bulb. (This is literally true. Harrington tells us she went to summer camp with a chewing gum heiress whose parents were unable to perform this basic life task.) The same is the case when it comes to something as significant as managing and investing money. So Harrington gets credentialed in wealth management, specializing in her target, offshore finance. She'll study the rich by studying their financial consiglieres and enablers.

As an academic, Harrington is granted no access. As a peer, even though she isn't working in wealth management and informs everyone she is doing academic fieldwork, she's viewed as not just an equal, but someone with whom secrets can be shared. In sociological terms, she performs immersive fieldwork, gaining the trust of wealth managers so she can reveal this world to the rest of us.

While conducting fieldwork research in this system, the rationalizations she hears are endless. Offshore finance was pitched to newly independent nations after World War II as a way of financially prospering while sticking it to their former masters. Call it a form of "postcolonial resistance." Many—though not all!—of the wealth managers enabling offshore finance deny the gravity of what they are doing. "Most of what we do is paperwork," one such financial factotum tells Harrington, but that's yet another bit of excuse-making. It's not just paperwork, any more than Hannibal Lecter is simply an expert in adventurous dining.

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Instead, these occasionally conflicted but often boastful men (they are not infrequently men) are inadvertently facilitating the destruction of fair and just economies, not to mention political systems, around the globe. A number identify more with their über-wealthy clients. "Social democracy," one sniffs, "is creating too big demands on the wealth creators." The resulting missing money (at least from public coffers) is no small part of the ongoing collapse of both our public services and political culture. Democracy, as a rule, decreases as wealth inequality rises. It

distorts the economics of day-to-day life as well. Anonymous money has sent the value of everything from fine art to real estate skyrocketing, as the wealthy shelter money in alternative assets and in pied-à-terre condos in cities like New York and London.

While the rich obviously benefit immensely, it doesn't really help the residents of the assorted global tax havens. The inflow of cash rarely trickles down to them. Instead, many continue to live in poverty and near-poverty, even as the open contempt for the tax laws of other nations leads to an increase in contempt for the laws of their own, and everything from petty corruption to violent crime soars. A fisherman in the Cook Islands tells Harrington, "Everyone calls us the Crook Islands now," while Panama City, another favored destination, at one point had one of the highest murder rates in the world.

If this sounds vaguely familiar, it should. The term "offshore" itself is something of a misnomer. The United States is the *premier* destination for those who would hide money, courtesy of some of our national virtues: regulatory laxness and, bluntly, legalized corruption. Why bother with the Bahamas if a black-box Delaware corporation will do?

Here in the U.S., these rich evading Uncle Sam probably increase the taxes the rest of us pay by at least 15 percent, even as we are still routinely told "we can't afford" for the government to do everything from spending on mass transit to offering paid maternity leave. White-collar crime is common, while prosecutions for it are less so. A recent investigation by the International Consortium of Investigative Journalists revealed that even though the IRS has had explicit authority since 2010 to go after offshore maneuvers undertaken to avoid taxes, it rarely took action until recently, seemingly as a result of a combination of BigLaw lobbying and agency employees being aware that their greatest chance at riches was to take advantage of the revolving door and go work for the firms doing their darndest to cheat the American public.

This secrecy is corrosive in another way too. The same laws and financial investment techniques that enable tax dodging are also in no small part responsible for the flood of dark money into our politics. It is yet another reason why we've got the best government money can buy—for the monied elite, that is. A study conducted a decade ago by Martin Gilens, then at Princeton University, and Benjamin Page of Northwestern University found that American government

actions and policies are much more responsive to the sentiments of the wealthy than the majority. The anti-democratic thrust of offshore finance offers up a reason why.



The Cook Islands is one of the new independent territories after World War II that turned to offshore finance to prosper.

*Offshore* is not Harrington's first book on the topic—that would be 2016's *Capital Without Borders: Wealth Managers and the One Percent*—but her latest benefits from almost a decade's worth of knowledge and events. Donald Trump's election to the White House led many to ponder how much of his wealth came not from smart investing strategies but by turning his eponymously named real estate residential towers into a parking lot for Russian oligarchs' prodigious wealth. Leaks like the Panama Papers and the Paradise Papers also revealed to the public in excruciating detail how everyone from Queen Elizabeth to high-ranking elected officials hid their funds in complicated offshore financial arrangements. We know a lot more than we used to about the consequences of offshore finance, and Harrington has more secrets to tell. But it's still not enough.

*The Hidden Globe: How Wealth Hacks the World*, by Atossa Araxia Abrahamian, is another attempt to unravel this secretive space, albeit from a different vantage point. Abrahamian's concern is the growth of what she describes as the extraterritorial state—a place where, in significant ways, it can be said the rules don't apply, at least not the way one would think they should. This world encompasses the world of offshore money that is Harrington's concern, but it is bigger than that. Whether a person or nation wants to get around money-laundering laws, the taxman, environmental or labor regulations, or rules governing asylum requests, there is a geographical place where it can happen.

As Abrahamian explores Swiss banking laws, fine art storage, factories on the African island nation of Mauritius where workers earn a fraction of what they would in developed countries, or Australia's penchant for stashing migrants offshore so it doesn't need to consider possibly legitimate claims for asylum, it's hard not to suspect all this is an extralegal version of "What happens in Vegas stays in Vegas," but with much more consequence.

These books are, in many ways, mirror images of one another. Harrington's book is short—a mere 120 pages—and can be read in one sitting. Abrahamian's is more discursive and reads like a series of connected magazine articles. I wished Harrington's book was longer, while Abrahamian's, overflowing with descriptions and histories, could have benefited from an editor with a more merciless red pen. Neither, unfortunately, spends much time parsing the world of cryptocurrency, though the "currency"—note the quote marks—opens up new frontiers in cash laundering, tax avoidance, and incentivizing criminal behavior.

Abrahamian echoes many of Harrington's critiques, pointing to the inequality endemic to these places. (The lack of labor rights enforcement in Mauritius? A feature, not a bug.) But she also believes they've existed for hundreds of years for a reason: They serve to reconcile the competing imperatives of nationalism and globalism. These two competing views lead to something of a cop-out at the end of her book: a declaration that they cannot be viewed as "all good, or all evil" and instead offer us an alternative way of viewing our world and how it came to be. All true, but given some of the financial human horrors described in the book, a sterner conclusion is called for.

Harrington is tougher. She concludes her book by making the commonsense suggestion that we need not just a return to shame culture—make cash laundering and tax dodging embarrassing again!—but also more enforcement. Returning to her childhood, and the insight that started her curiosity about wealth managers, she calls for governments to make it partially or fully illegal for licensed professionals to assist the rich in shielding their money in offshore vehicles.

This stuff is enormously complicated. It requires knowledge of not just finance, but laws in multiple jurisdictions. Few billionaires have the wherewithal to comprehend it without the aid of trusted and discreet experts. But a salaryman, no matter how well paid or well credentialed, is still just the staff. We will never, to riff off F. Scott Fitzgerald, be able to fully stop the wealthy from smashing things up and wanting to retreat back into a world cushioned by their money. But we sure can make it harder for them to find enablers to smooth their path to doing just that.

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