Agents of Inequality: How Wealth Managers to the Super-Rich Undermine Society and What We Can Do About It

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Recent years have seen a tremendous amount of scholarship and commentary on the growth of inequality in the United States and what can be done about it. Lots of energy has been focused on public policies that “raise the floor,” or directly help out those at the bottom, by doing things like boosting the minimum wage or taxing high-earners and investing the proceeds in ways that help the public good.

Part of the inequality problem, however, is that trillions of dollars are being shifted off the ledger, hidden from measurement and taxation. Some of this “hidden wealth of nations,” as Gabriel Zucman calls it, is kept in offshore tax havens like the Cayman Islands and Panama that function as secrecy jurisdictions with minimal transparency or reporting requirements. Trillions more has been hidden in trusts and other complex financial arrangements available only to the very wealthy. New research suggests that households in the top 0.01 percent, those with wealth over $40 million, evade 25 to 30 percent of person income and wealth taxes—about 10 times more than the general population.

This process is aided and abetted by professional wealth managers who facilitate and lubricate the process of hiding wealth. Many of them work in private family offices that serve wealthy families. These are not mom-and-pop financial planners who help protect families from running out of money. We're talking about the well-compensated professionals that serve the richest one-tenth of one percent of Americans.

To better understand the work of these wealth managers, and their effect on economic inequality, I spoke with sociologist Brooke Harrington, a professor at the Copenhagen Business School in Denmark, and the author of a new book, *Capital Without Borders: Wealth Management and the One Percent*. Harrington spent several years being trained as a wealth manager in order to gain firsthand insight into the the secretive world of this discreet profession. By obtaining professional certification through the *Society of Trust and Estate Practitioners* (STEP), Harrington built relationships, trust, and access with 65 wealth advisers around the world. To conduct interviews, she traveled to 18 countries, including notorious offshore tax havens like the Cook and Seychelles islands.

Chuck Collins: Why should we care about the role of wealth managers?

Brooke Harrington: One driver of inequality—economically, politically, and legally—is that so many wealthy people avoid taxation. In the United States, there are billions a year that could be invested in building roads, schools, and infrastructure. This level of tax avoidance wouldn't be possible without wealth managers.

For as long as there have been taxes, going back to the early Greeks and Romans, there have been well-to-do people who haven't wanted to pay their fair share and who deploy a variety of strategies to achieve that. As the stakes got higher, a whole professional class of people emerged to accomplish this goal.

If wealth managers disappeared from the face of the earth, there would still be tax evasion. But it couldn't happen on the grand scale that we are seeing today without expert intervention.

CC: Could we fairly say then that the wealthy themselves are becoming stateless?

BH: Yes. Wealth is not just detaching from states but from the nation-state system itself. You have these huge piles of private wealth floating around the world, untouchable by states or state authority, through the machinations of wealth managers. And people who own the wealth also detach from states. There's a certain group of well-to-do people who don't want to be subject to the laws that bind the rest of us. They don't want anarchy, because that would be inconvenient. They still want roads and the rule of law. They want murderers to go to jail. They just don't want the laws to apply to them, because it's a bummer. So, with the help of wealth managers, they put themselves above the nation-state system by changing passports at will, having multiple residences, and bouncing around strategically to ensure that no national laws apply to them.

CC: Would there be a system of "offshore" tax avoidance without wealth managers?

BH: It would be much smaller. The "offshore" system requires expertise to understand the tax systems of foreign lands and which institutions to trust. And it's not just learning to work in one country like the Cayman Islands or Switzerland or the Cook Islands. It's managing wealth in a whole global ecosystem that is orchestrated by wealth managers who often write the laws in these places. It's like a complex instrument or machine that only they know how to operate.

CC: What do you mean when you say that this "offshore" wealth-defense system is on a "collision course with civil society"?

BH: "Collision course" is a quote from a critical-accountancy professor named Prem Sikka, who talks about the ways that legal- and financial-accounting expertise have been developing counter to the common good for a long time. A segment of the very wealthy have been free-riding on the benefits of society while not paying their fair share. This threatens to unravel civil society itself. There are signs of this everywhere, including in a news story about how the city of Omaha, Nebraska, has stopped paving its streets because of insufficient tax revenue to fix potholes.

CC: In the profession of wealth management, you write that the formal training process is part information and part "socialization." What kinds of people become wealth managers?

BH: The Society for Trust & Estate Planners (STEP) talks about this in their training manuals. Frankly, the people who have the easiest time getting into this profession are those "to the manor born"—those with the elusive skills that make them trustworthy to their clients. Historically, this means they were white and upper-middle class—the people born rich but not so rich that they don't have to work.

In his book *Old Money*, Nelson Aldrich talks about the "curriculum of old money." Being born into a family with wealth is not something that just happens to you. There is a training program that starts when you are a tiny child, with nannies, table manners, and private schools. All your life you are taught to interact with individuals and society in a particular way. That gives them an enormous leg up in becoming wealth managers and working with other old-money families.

CC: But the wealth-management profession is now global. Surely it is more diverse.

BH: Yes, and there are people who come from many other backgrounds, even working-class backgrounds, but they have a lot more to learn. And they don't get that training through the STEP program. One guy I interviewed had worked as boat builder and then joined the crew of an America's Cup team. He was stuck for days on boats with wealthy people and developed an ease with wealth that he didn't have before. He said he became culturally bilingual. For example, if he went to a fancy restaurant with his client and the client was rude to the waitress, he would slap his client on the back in amusement. Then, as they were leaving, he would leave a huge tip—from the client's money—and apologize to the waitress. His loyalties were in both places, and he was able to live in both worlds at the same time.

CC: Is part of the socialization a libertarian outlook about taxes, the perspective that the state is always hungry and coming after the money of the wealthy? How does this anti-tax ideology evolve?

BH: Yes, this is part of the socialization and one of the moral justifications for the job. Most of the people who enter into these wealth-management training programs are people who are working in the field. So they already have a point of view about taxation. But the STEP training manuals are very heavy-handed. When I was going through the program, I would just sit there thinking, "Am I seeing what I think I'm seeing? They can't be serious!" It's as if Mr. Burns from *The Simpsons* decided to write a personal philosophy of political economy. It's dastardly!

In *Capital with Borders*, I quote passages of the STEP training materials. In several places the manual authors go off on rants about "unethical state taxation," insisting that taxation is theft and a crime against wealth creators. I'm paraphrasing, but they say things like, Taxation is doubly immoral because it will be redistributed to the poor who then won't learn initiative and will be deprived of the opportunity to bootstrap themselves up. That's when it enters Mr. Burns territory.

About 25 percent of people I interviewed would absolutely endorse this view. They are true believers in this philosophy of libertarian anarchy—that all taxation is theft—and there is no such thing as the common good. They believe these "wealth creators" are the most oppressed people in our society.

CC: How do wealth managers rationalize what they do?

BH: Most wealth managers repeat a mantra as justification: “My work is helping families.” And of course, they are. But they’re just helping a tiny fraction of very wealthy families at the expense of all other families in the world. Some of them know this. They are smart people.

CC: You write how the natural life cycle of wealth disperses over generations, from “shirtsleeves to shirtsleeves in three generations.” Yet wealth managers arrest this process and contribute to the formation of wealth dynasties.

BH: We are witnessing a “re-feudalization” of modern economies, with wealth dynasties expanding. The founding fathers of the United States understood this really well. They came from places where for centuries, economic development had been hindered because nobles controlled most of the land. Which was passed down by primogeniture and entailment, generation after generation, to the eldest son. So wealth didn’t circulate at all. Part of the motivation to do away with noble titles and practices, like entailment and primogeniture, in the founding era was intended to prevent a repeat of the feudal concentrations of power of the old world. Wealth managers are creating the new feudal order by creating artificial constructions of trusts and foundations.

CC: Someone who is aspiring to build personal wealth may not see why this matters. Why should people care about these dynasties of concentrated wealth?

BH: It undermines fairness. In a competitive society, you’re starting a footrace with someone who has a 100-yard lead on you in a 500-yard race. You could be Usain Bolt and you’re still going to lose that race. Part of the problem is that people use their money to make laws and rules that favor the wealthy at the expense of other people who don’t have anything.

Many of the laws surrounding high-end taxes are purposely complex to create loopholes so wealthy people avoid contributing to society without breaking any laws. But first you have to have a ton of money and the resources to hire a wealth manager. They are not accessible to ordinary people.

CC: What’s the role of charitable foundations in protecting wealth dynasties?

BH: It can cut both ways. There are genuinely charitable foundations that accomplish enormous good, like Chuck Feeney and the Atlantic Philanthropies. The dark side is that the wealthy create large foundations and set themselves up as competitors with democratically elected governments. Charity enables some to do an end run around government, setting up parallel systems of governance, sometimes as a rebuke to democratically elected government. That’s really dangerous. You see this in the DeVos family, where they try to remake education to accord with their own ideology. Even the Gates Foundation is accused of undermining scientific progress by advocating narrow strategies instead of following the lead of scientists.

CC: Would imposing fines on planners for aiding and abetting tax evasion help solve the problem?

BH: I think we should explore the power of public stigma. We can pass laws and levy penalties, but they would have to be astronomical. These are experts who love to work around laws, whereas social stigma could be a pretty effective sanction on both wealth managers and their clients.

The Foreign Account Tax Compliance Act (FATCA), established in 2010, is surprisingly effective. It requires US taxpayers to disclose any assets held in overseas accounts if their value exceeds a threshold amount. It’s a real pain for wealth managers. The compliance costs eat away at their profit margins. Many wealth management firms won’t work with US passport holders as a result of FATCA. So you don’t always need fines. The European Parliament is trying to create a version of FATCA and make it more expensive, so that it cuts into business on the continent.

CC: The Israeli government did some things to change wealth management and cut down on capital flight.

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BH: The Israeli government was savvy. They figured out who the real adversary was—the wealth-management industry—and they targeted the enablers. Without the legal and accounting advice, people wouldn't be taking money out of the country. They approached three leading professionals and said, "We're going to change the laws concerning taxation and expatriatization of wealth, and we will hire you to consult with us on how to do that effectively. We want to close some loopholes, but we will leave you some loopholes—they won't be as big—so you'll still be able to do your job." The implied alternative was that if the wealth managers didn't play ball, the government would make some rules they really wouldn't like. So they got inside advice on how to close the worst loopholes that were costing Israel billions.

CC: Can wealth managers be educated or shamed about the harms of elite tax avoidance? Can they see the impact and develop an alternative code of conduct?

BH: The libertarian anarchists are not reachable. But I found another 25 percent of wealth managers are deeply troubled in their conscience. Some try to educate their clients from the inside about other options. One wealth adviser said, and I'm paraphrasing again here, "Obviously, what I'm doing is making the world a worse place. I'm taking tax revenue away from states and that's bad. So I urge my clients to give generously to charity." That is his way of atoning. I think many of these people are ready to change. If we can give them an alternative approach to their work, they would jump in a minute.

CC: Have you come across people who previously did this work, and chose to step away?

BH: I haven't run into any turncoats, but I've met many potential defectors. We need more John Does, like the person who leaked the Panama Papers information from the Mossack Fonseca law firm in Panama. We want to welcome more turncoats and whistle-blowers.