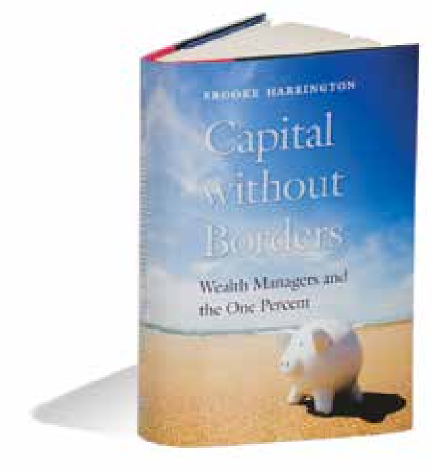
Control the Manager



Brooke Harrington

Capital without Borders

Wealth Managers and the One Percent

Harvard University Press, Cambridge, Massachusetts, 2016, 358 pp., $22.95 (cloth).

Best-selling author John Grisham is famous for his detailed research before he even sits down to write a novel. Sociologist Brooke Harrington, the author of *Capital without Borders*, took the even more immersive approach of ethnography to try to understand wealth managers, who, she argues, helped create today's enormous wealth inequality. Eight years of research, including earning wealth management credentials and conducting 65 interviews with wealth managers in 18 countries, have allowed her to lift the veil of the wealth management profession.

The history of wealth management goes back to the medieval era, when a landowner away on military service would transfer the title of his assets to a trust. The process of recognizing trustees as professionals started later, in the 19th century. In the past 20 to 25 years, protection of wealth from taxes and other regulatory authorities has become a worldwide business, requiring coordination among banks, law firms, and accounting firms. Harrington argues that this change demands a new kind of professional expertise serving transnational and hypermobile capital and clients. Established in 1991, the Society of Trust and Estate Practitioners, known as STEP, counts 20,000 such experts.

Harrington finds that wealth managers have been innovative in developing tactics and techniques that help their clients benefit from legal loopholes and conflicting rules in cross-border transactions (so-called regulatory arbitrage) to minimize tax payments, protect assets from creditors or divorced spouses, and transfer wealth to future generations. The use of offshore financial centers—which shelter trillions of dollars in private and corporate wealth—has become an essential component of wealth management plans for corporations and individuals. Wealth managers place each asset in the jurisdiction most favorable to the client's interests and disperse these assets as widely as possible. Some even draft laws on behalf of foreign governments to enable them to attract more investment from abroad and have mocked Bill Gates's failure to set up Microsoft overseas.

While the profession tends to regard tax avoidance as a form of self-defense against the excessive exercise of government authority, the vast majority of wealth management practitioners avoid criminal acts at all cost, says Harrington. But that does not stop them from adopting strategies that, albeit legal, are socially destructive. It is "a game of playing cat and mouse with tax authorities around the world," says one wealth manager.

Harrington identifies two ways the work of wealth managers exacerbates inequality: by keeping wealth in families for generations and facilitating tax and debt avoidance. Dynastic wealth endures through the intervention of these professionals, contributing to 0.7 percent of the global population holding 41 percent of the world's wealth. Wealth managers' skillful use of trusts and other structures also reduced public awareness of this extreme concentration of economic power.

However, dark clouds are rapidly gathering in the world of the ultrarich and wealth managers, Harrington tells us. In April 2009, Group of 20 (G20) top industrial economy leaders took action to end the era of bank secrecy. This initiative improved countries' capacity to tackle tax evasion through offshore financial centers and banking secrecy. All financial centers committed to comply with the international standards on tax transparency or risk being labeled as noncooperative jurisdictions. Automatic exchange of information is to start by 2018 at the latest. Countries must also provide information on beneficial owners.

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But financial secrecy and opacity are far from dead, writes Harrington. New constraints will engender new financial-legal innovation, or "creative compliance," as wealth managers reorient their services to conform to the law. Harrington concludes by suggesting a shift in attention from the wealthy who want to hide their assets to the professionals who make it happen. "The goal should be to encourage wealth managers to apply their formidable legal, organizational, and financial skills in ways that are less harmful—or even beneficial—to states and societies," she says.

A useful volume for tax policymakers and tax inspectors, the book is also timely: the leak of documents from Panama-based law firm and corporate service provider Mossack Fonseca—known as the Panama papers—led the G20 to improve transparency and exchange of information to stop tax evasion and avoidance by offshore financial centers.

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