Capital without borders: Wealth managers and the one percent

By Brooke Harrington

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Capital without Borders: Wealth Managers and the One Percent by Brooke Harrington will be published by Harvard University Press in August 2016.

How do the one percent hold onto their wealth? And how do they keep getting richer, despite financial crises and the myriad of taxes on income, capital gains and inheritance? This book takes a novel approach to these questions by looking at professionals who specialize in protecting the fortunes of the world’s richest people: wealth managers. Brooke Harrington spent nearly eight years studying this little-known group – including two years training to become a wealth manager herself. She then “followed the money” to the 18 most popular tax havens in the world, interviewing practitioners to understand how they helped their high-net-worth clients evade taxes, creditors, and disgruntled heirs – all while staying just within the letter of the law.

Harrington’s research offers the first glimpse into the tactics and mentality of a secretive profession that controls astonishingly large flows of capital around the world. Based on 65 practitioner interviews – conducted in the traditional wealth management centers of Europe and the Americas, as well as the up-and-coming offshore financial centers of Africa, Asia and the South Pacific – this book gives voice for the first time to an elite that has worked quietly and unobtrusively to enrich the one percent.

Capital without Borders reveals how wealth managers use offshore banks, shell corporations, and trusts to shield billions in private wealth not only from taxation but from all manner of legal obligations. And it shows how practitioners justify their work, despite evidence that it erodes government authority and contributes to global inequality.

As recent research on stratification has shown, just one percent of the world’s population now owns half of its wealth. Harrington’s research details the financial and legal innovations behind this dramatic concentration of resources, showing how wealth managers are the key actors in both capital flows and public policies affecting taxation. The book also sheds light on headline news such as the Panama Papers, explaining why so many of the world’s elites use offshore finance, and how such activity remains perfectly legal, however ethically questionable it may be.

With regard to stratification, Capital without Borders argues that wealth managers and their firms don’t just make the rich richer: they make the poor poorer. Elites incur real costs when they fail to pay their fair share of taxes, or to pay back their debts to creditors. Those costs fall mainly upon the poor and the middle class. Indirectly, everyone pays in the form of reduced public services, in terms of slashed budgets for education, health care and transportation – all of which are important factors in upward mobility for those at the lower ends of the socio-economic spectrum.

Wealth management techniques also impose direct costs in form of surcharges on honest taxpayers and borrowers. In terms of taxation, research in the US and Europe suggest that this surcharge varies from 7 percent to 15 percent in additional costs to the rest of us in order to compensate for underpayment by the rich. At the same time, lenders – including both banks and firms that provide financing, such as car and appliance dealerships – raise the costs of borrowing to make up what they lose from high-net-worth individuals, who can default on their debts without penalty by using wealth management strategies. That increase in borrowing costs hits the poorest members of society hardest, deepening their already dire indebtedness and making advancement even more difficult.

These developments have ominous long-term implications for human capital, national development and political stability. We see this not only in the deep cuts in state services occurring now in Greece, Spain and other EU
countries where tax avoidance depleted public coffers and made those nations particularly vulnerable to the financial crisis. We are also witnessing a “brain drain” of highly educated and skilled citizens from those countries, further dimming hopes of recovery. Those left behind are ripe – in the words of economist Thomas Piketty – to be “tempted by nationalist solutions, ethnic divisions, and the politics of hatred.” In other words, the rising inequality created by wealth managers can develop into deep social fractures that threaten democracy itself.

**Brooke Harrington** is Associate Professor of Economic Sociology at Copenhagen Business School. Her book *Capital Without Borders: Wealth Management and the One Percent* will be published in August 2016 by Harvard University Press. Harrington has worked on diverse aspects of finance, from global wealth management and its impact on socio-economic inequality to the sociology of fraud and of stock markets. Her 2008 book *Pop Finance: Investment Clubs and the New Investor Populism* (Princeton University Press) looked at the effects of diversity and decision-making processes on investment groups’ financial performance. In a series of articles with Gary Alan Fine, Harrington has developed a theory of small group behavior and networks, expanding models first created by Erving Goffman. She has also written a series of articles on ethnographic methods. Harrington’s work has appeared in a wide range of academic and policy publications, from the Socio-Economic Review to the OECD Observer, and has received broad media coverage.