NOAH BERGER

People in Economics

Scourge of the Rich

Prakash Loungani profiles Berkeley's **Gabriel Zucman**, a strong advocate for higher taxes on the most affluent

IN 2012 THE FAMOUS FRENCH ACTOR GÉRARD DEPARDIEU moved his home across the border to Belgium to avoid paying a hefty surtax on incomes over 1 million euros. The ease with which Depardieu avoided taxes made international news. A young French economist named Gabriel Zucman followed the events with avid interest, as he had recently written his master's thesis at the Paris School of Economics (PSE) on how tax rates affect flight by the superrich.

Fast-forward to July 2024, when the Group of 20 countries (G20) discussed a proposal for a global minimum tax on the world's 3,000 billionaires. Coordination across countries would ensure that the superrich could not simply pull a Depardieu by fleeing to a different country. The blueprint for the G20 proposal was drawn up by a still-young Gabriel Zucman.

In the less than two decades since his master's thesis, the 37-year-old Zucman has established himself as one of the world's leading experts on measuring incomes and wealth, and on how—and how much—to tax very rich people and corporations. "We have to fix the mistakes we've made in taxing the superrich, not simply throw up our hands and give them a free pass," Zucman told F&D.

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Political trauma

Zucman grew up in comfortable circumstances in Paris, the child of two doctors. He attended prestigious schools for his undergraduate education. What turned this scion of the rich into its scourge? One event was the 2002 election in France, when right-wing leader Jean-Marie Le Pen reached the final round of the presidential race; Zucman has described it as the "traumatic political event of my youth." Appalled by Le Pen's views and proposed policies, he says his political thinking was shaped by the desire to keep "this disaster from happening again."

In an early sign of the thrust of his career, in 2006 Zucman launched a journal to help "economists establish a dialogue with other social sciences, like political science and sociology, and to connect their work to policy debates." *Regards croisés sur l'économie*, which is still published today, has helped inform debates in France and elsewhere on taxation and other issues.

In 2008, Zucman finished his master's thesis at PSE on flight from French wealth taxes, supervised by noted economist Thomas Piketty. Unsure about continued academic study, he began work at a French brokerage company, Exane, coincidentally on the same day that Lehman Brothers went bankrupt. His experience in the financial industry, where he worked with data showing vast international capital flows to small jurisdictions, triggered his interest in tax havens. "Realizing the magnitude of offshore wealth and the extent of tax evasion radicalized me," Zucman told F&D. It also convinced him that analyzing data and policy issues required solid training in economics. He returned to PSE and by 2013 had completed his PhD, again supervised by Piketty.

Zucman's PhD work, however, did not fit the mold of a traditional economics dissertation, according to Emmanuel Saez, a professor at Berkeley and a mentor and frequent collaborator of Zucman's. A couple of its chapters were devoted to measuring the wealth hidden in tax havens and how best to counter such evasion. A third chapter, written jointly with Piketty, constructed new historical series of capital income and wealth for many countries. This chapter formed the backbone of Piketty's 2014 blockbuster book *Capital in the Twenty-First Century*, says Saez.

These two themes—measuring tax evasion and the wealth of the very rich—have been carried forward in most of his subsequent work. What makes Zucman stand out is that he combines attention to novel data sources with "great concern for the big picture," says Piketty.

Hidden wealth of nations

In 1975, when the *Economist* magazine's bookshop in London first offered a book titled *Tax Havens and Their Uses,* by Caroline Doggart, a line of customers several blocks long formed outside to buy it. It reflected a time when airline magazines carried ads from tax planners offering various evasion schemes. This tolerant attitude toward tax evasion started to change in the 1990s as countries saw they were losing tax revenue to financial centers that attracted the wealth of the superrich, with scant scrutiny of their activities.

Even with the changed attitude, figuring out the extent of wealth hidden in tax havens was difficult. Zucman's 2013 thesis chapters were among pioneering efforts during the 2010s to fill this "daunting" data gap, according to Gian Maria Milesi-Ferretti of the Brookings Institution. The increased scrutiny led some financial centers to release information on bank deposits held by foreigners from various countries. In a 2018 paper, Zucman and his coauthors pounced on this data to provide some estimates on how the wealth hidden in tax havens varied across countries. For Scandinavian countries, offshore wealth amounted to only a few percent of their incomes, but the figure rose to 15 percent for continental Europe and to 60 percent for Russia, the Gulf countries, and some Latin American countries.

Zucman's next breakthrough came because of data leaks—the Panama Papers and HSBC Swiss Leaks—and the results of tax amnesties. Merging this information with countries' tax records, Zucman and his coauthors were able to show, in a 2019 paper, what everyone suspected: the people with offshore wealth were the superrich people in their countries. Their estimates, which were for Scandinavian countries, found that 90 percent of offshore wealth belonged to people in the top 1 percent of the income distribution; the top 0.01 percent held 50 percent of all offshore wealth. Zucman's work has also found that the rich evade taxes much more than conventional audits suggest. In Scandinavian countries, the top 0.01 percent evade about 25 percent of their taxes, compared with only 5 percent identified by audits.

Hidden wealth of companies

It's not just rich people who try to escape taxes, rich companies do it too. Like billionaires skipping countries, multinational corporations (MNCs) can report profits in low-tax jurisdictions, lowering their overall tax burden. MNCs employ complicated strategies

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to carry out this tax avoidance, making it difficult to trace it and estimate its magnitude. But Zucman's work "has made strong inroads into measuring some of this MNC activity," Milesi-Ferretti told F&D.

Zucman has shown that, in the 2010s, between 30 and 40 percent of the foreign profits of MNCs were reported in tax havens. Moreover, MNCs claim that their operations in tax havens are far more profitable than what local firms report in those same locations, and these high profits are mysteriously generated with limited amounts of capital and labor. For instance, US MNCs are able to generate half of their reported profits in tax havens, but only 10 percent of their foreign wage bill goes to workers in these same economies.

Such findings are starting to lay bare what people have long suspected but couldn't prove: the profits reported in tax havens are not the result of genuine economic activities by MNCs but rather inflated paper profits. Thanks to Zucman's work, policymakers are finally admitting that the "reality of tax competition is that countries compete to become the financial home of paper profits," Saez has written.

Things may be starting to change. Countries around the world, including tax havens, have now agreed to common standards for reporting the wealth of their foreign clients to the tax authorities of home countries. And in October 2021, over 130 countries signed on to a proposal for a global 15 percent minimum tax on multinationals; this development "in part is inspired by Gabriel's work," Saez told F&D.

Top-heavy

The other major strand of Zucman's research, building on the third chapter of his dissertation, is the measurement of how much income and wealth go to the very top. With Piketty, Zucman has estimated that the share of US income going to the richest 1 percent of households has doubled from less than 10 percent in the 1970s to 20 percent today. And since 1980, the bottom half of the US population has seen hardly any income gains in inflation-adjusted terms, though low-income groups have benefited from increased in-kind support, such as Medicaid. Income disparities are also reflected in increased wealth concentration. Saez and Zucman have found that the wealth share of the richest 1 percent of US households had increased from about 25 percent in 1980 to about 40 percent in recent years.

Zucman's work runs counter to the dominant thrust of economics, which focuses on efficiency—growing the size of the pie—rather than on equity, worrying about the size of the slices going to various people. The narrative in mainstream economics is that markets reward people according to the contributions they make. Tinkering with this allocation is unfair and counterproductive: it risks discouraging hard work and entrepreneurship, reducing the size of everyone's slice, rich or poor.

Zucman takes a very different view. "No one becomes a billionaire without public support and society's contribution," he says. Deciding how much to tax the rich should "be up to society and democratic deliberations." He also notes that the schemes under serious consideration for taxing the superrich are fairly modest and not likely to discourage their effort. "If implemented, they would ensure that billionaires pay the same share of their income in taxes as teachers and firefighters; this is hardly punitive."

Acrimony and awards

Given the extent of its departure from the norm, it is not surprising that Zucman's work has drawn more than its fair share of criticism. In 2019, two US Treasury economists claimed that, instead of increasing sharply as claimed by Zucman, the income share of the country's top 1 percent had not changed much since the 1960s. The dispute centers on assumptions about how to allocate "unobserved" income (the difference between national income and the income observable in tax returns), much of which is untaxed business and capital income. Zucman and his coauthors have defended their assumptions, arguing that it is the Treasury authors who "erroneously allocate a large and growing amount of untaxed business and capital income to the bottom of the distribution."

Zucman's estimates of US wealth concentration have also generated controversy. In 2018, they were the basis for a claim by presidential candidate Elizabeth Warren that the wealth tax she was proposing would raise $2.75 trillion over a decade, paid by the 75,000 richest American families (less than 0.1 percent of the population). Former US Treasury Secretary Larry Summers wrote an op-ed in the *Washington Post* claiming that the revenue estimates were greatly exaggerated. Zucman and coauthor Saez have defended their position, noting that their estimates of wealth concentration are "not contested" by Summers; "where views differ is on the scale of tax avoidance" from a wealth tax.

In June 2019, the controversies proved sufficient for Harvard's president to veto a decision by the university's Kennedy School of Government to hire Zucman. Despite his critical op-ed, Summers "regards Mr. Zucman as highly talented, and was among the economists who argued strongly in favor of his hiring at Harvard," the *New York Times* reported. Zucman himself shrugged off Harvard's decision, saying that it "should not discourage young scholars … to publicly defend new ideas."

Since then, the economics profession has also very clearly expressed its view on the value of Zucman's work. He had already been awarded, in 2018, France's top prize for a young economist. In 2023, he received the John Bates Clark Medal, the profession's top award outside of the Nobel Prize. The medal is awarded to young economists and has proved to be a good predictor of a future Nobel. Saez, himself a recipient of the Clark Medal, says that Zucman has shown a path for economists—"careful measurement that is not wedded to a specific theory. He has inspired many young scholars to follow in his footsteps." F&D

PRAKASH LOUNGANI *is the director of the applied economics master's program at Johns Hopkins University.*