

Peering Through the Clouds: The Murky World of Offshore Finance

by Agatha Bordonaro

In her new book, sociologist Brooke Harrington details how the super-rich utilize offshore finance to eschew taxes and avoid responsibility—ultimately undermining democracy.

Growing up in Lake Forest, Illinois, the suburban Chicago town that inspired F. Scott Fitzgerald's *The Great Gatsby*, Professor of Sociology [Brooke Harrington](#) rubbed shoulders with some of the world's richest families. From meatpacking magnates like the Armours and the Swifts, to media and banking tycoons like the Smiths of Northern Trust Bank, Harrington's school classmates were "scions of fantastic wealth," she says.

Her own family, meanwhile, was "solidly middle class." Harrington and her sister, who suffered from severe spina bifida and hydrocephalus, were supported by their mother, who worked in downtown Chicago. Their father was mostly absent. And there were large bills to pay, as Harrington's sister required expensive private care.

"I grew up around wealthy people, but my family wasn't wealthy. There was always this interest on my part in, 'How does that world work?'" Harrington says.

In her new book, [Offshore: Stealth Wealth and the New Colonialism](#), Harrington provides some answers. The book traces the use of offshore finance by the super-rich to eschew taxes, get around financial restrictions, and avoid legal consequences—and "undermine democracy, as well as capitalism" in the process, she says.

As part of her research, Harrington earned her own wealth management certificate and spent nearly eight years interviewing other professionals in the field, as well as visiting the 18 most popular tax havens in the world—from Mauritius, off the southeast coast of Africa, to the Cook Islands in the middle of the South Pacific.

(This interview has been edited for clarity and length.)

In the book's introduction, you mention becoming aware of—and intrigued by—a "secret language" spoken by the ultra-rich. How would you describe this?

One of my seventh-grade friends lived in a very nice house right by Lake Michigan. Her grandmother pulled up one day in front of the house in what seemed like a plain American sedan. It was probably a Chrysler or something similar. But I noticed the driver's side door had these little flags, these little colorful squares—three of them—on it. I didn't know what they meant. So after her grandma drove away, I asked my friend, "What was that on her car?" And my friend said, "Oh, that was her monogram."

I later learned that some of the uber-preppy use what are called signal flags for their monograms. They're familiar to people involved in yachting: signal flags are used to communicate visually at sea, and there's a different flag for each letter of the alphabet. So you can make a monogram out of signal flags, but only someone in the elite sailing world would be able to read it. That always stuck with me as such a secret handshake way of signaling to other people of your status group.

There were all kinds of things like that where I grew up. And it fascinated me because I knew that they were speaking a language that I did not know.

In 1980, Lisa Birnbach published the Official Preppy Handbook, a satirical guide to high society that you say helped you decode your peers.

It was like the Rosetta Stone for these people whom I didn't understand. That's one of the reasons I read F. Scott Fitzgerald so voraciously, because he had a background similar to mine. He grew up plainly middle class in Minneapolis-St. Paul, but he was surrounded by people who came from real money. He was always the guy with his nose pressed against the glass, trying to describe what it was that made these people different.

Despite your deep interest in understanding those around you, you didn't set out to become a sociologist. In fact, you were an English major at Stanford and spent years working first as a journalist and then as a writer of marketing manuals.

I didn't come to sociology—or even realize that it was a thing you could study—until I'd been out in the world for a couple years.

While working as a writer, I had time to read books. *Do What You Love, the Money Will Follow* kind of became my Bible. It was written by a woman named Marsha Sinetar who spoke about the fact that she had a PhD in organizational psychology. Long story short, I applied to and miraculously got into Harvard's PhD program in organizational behavior.

In my first year, I was exposed to this field I didn't know existed called economic sociology. And it was like this "shazam!" moment where I realized that all those things I'd wanted to study—about growing up in Lake Forest and being surrounded by rich people with this different culture and language—I could do as an economic sociologist.

In the book, you examine how the rich utilize foreign accounts, properties, and transactions. Why should someone who isn't hiding a fortune overseas care about offshore finance?

Offshore is so dangerous because it delegitimizes the rule of law. It delegitimizes the democratic process. It allows ultra-wealthy people to avoid playing by the rules that bind the rest of us. If people believe there's one set of rules for rich people—for example, that they can avoid paying their taxes and debts by going offshore—and another set of rules for everyone else, they are going to lose faith in democracy.

Famous French economist Thomas Piketty has explicitly linked the existence of offshore finance and the use of it by elites to the rise of far-right populist movements. Piketty says it's because people realize that there's this massive disconnect between what they vote for and need and what they get. This disconnect is caused by the fact that these ultra-rich people have successfully gamed the system of democracy and bought governments, bought representation. And what they have now is representation without taxation. That not only delegitimizes democracy, it makes it impossible to have a functional society.

You're quick to clarify that offshore finance propagates wealth inequality, not income inequality, and that wealth inequality is the issue here. Why?

I'm much more concerned about wealth inequality than income inequality because part of what enables a lot of our modern billionaires to be billionaires is that they had what I had to start, but with a couple more zeroes attached to it. There was a foundation of intergenerational wealth that made billionaire status possible.

People like Thomas Jefferson and philosopher Thomas Payne were kind of obsessed with this idea of making sure that America never developed a hereditary nobility. The thing that enables people in the modern era to not just accumulate wealth in their own lifetimes, but to keep hold of that wealth—make sure it's not taxed, make sure it's not tapped to pay off debts, and so forth—is the secret offshore system. It enables them to dodge all of the things that even the framers of the Constitution put in place to make sure that we wouldn't have a hereditary nobility in the United States.

And yet, despite its powerful impact, we seem to know so little about offshore finance. Why?

Part of being a wealthy person is being surrounded by secrecy and protection from prying eyes. You have accountants who make sure that most of your wealth doesn't even show up on a tax return because technically you don't own it—maybe it's in a trust and the trust pays your mortgage and your school fees and your doctor bills. Most of what actually makes your life work and makes it comfortable doesn't appear in public records. And you're sure as heck not going to talk to anybody about it except people in your family or your own social set. How do you study people like that? It's really hard.

In your book, you discuss how you came up with a solution to the problem of studying the 1%—and their finances—by recalling a television show you used to watch with your parents.

Studying inequality is central to what sociologists do, but the reality is, the poor are much easier to study than the rich: you have to give up a lot of data on yourself in order to qualify for government benefits, and the data later become accessible to researchers. So the vast majority of sociological research on inequality, over decades, has really been research about the poor: the people at the bottom of the socio-economic spectrum—leaving the upper end of the spectrum almost completely unknown, terra incognita.

It bothered me that our sociology dataset was truncated at that upper end. It was like the peak of a mountaintop, high in the clouds. We didn't know what the peak looked like. I kept thinking, I've got to climb that peak and see what's there. How do I get to the mountaintop?

And then one day in 2007, I had this light-bulb moment where I remembered this old television show that had been very popular when I was a little kid; I used to watch it with my parents on PBS. It was called *Upstairs, Downstairs*. The conceit of the show was that if you really want to know about rich people—in that case, the English nobility of the early 1900s—talk to their servants. And I thought, OK, what do I know about rich people from growing up in Lake Forest? They have servants. They have help for lots of things: to raise their children, to take care of their gardens and their homes, and to manage their finances. They're not cracking books to bone up on the tax code of the Cayman Islands. They have people who do that for them.

So I thought, "I should talk to the help. Actually, maybe I can become one of the help." And I thought, "Oh, that's it! If I can get credentialed as a wealth manager and hang out with other wealth managers, they'll tell me what I want to know about how the rich keep getting richer and what they're doing with

their money." I remember sitting down at my desk and Googling "wealth management certificate" and "wealth management credential."

You got your wealth management credential and spent much of the next decade studying this world. Based on all your research and observations, what is the solution to offshore finance?

I think change starts with informing people. Most people don't even know that this offshore financial system exists, and if they do, they think it's just some "lifestyles of the rich and famous" type thing that has nothing to do with them or the way they live. It does have something to do with their lives, and it's actually corrosive to many of the things that most of us value, like democracy and a healthy capitalist economy. Offshore finance is really bad for capitalism.

Should laws be passed to make it illegal?

I think that's the wrong question. Social norms change faster and are often more effective than legal change. Just as it's become socially unacceptable to use sweatshop labor to make your fortune, it could become socially unacceptable to use offshore finance. It could become socially laudable and praiseworthy to pay your taxes.

When my parents were children, if they went to the movies, they would've seen little cartoons that Disney made showing Donald Duck crowing about how patriotic it was to pay one's taxes. That wasn't a terribly hard sell, because until fairly recently, being a good person and a good citizen meant at least pretending to pay your fair share of the costs of society. And that went double for the ultra-rich, who—before permanent income taxation existed—were expected to donate lavishly to create public goods, in order to justify their wealth morally. It's what motivated the Rockefellers and the Carnegies to found libraries and universities and fellowships. That was the norm for rich people for hundreds of years. It's why the Medici [prominent Italian banking family] bankrolled Botticelli and Michelangelo. If you were a really rich person, you had to at least simulate civic responsibility.

But in my lifetime, starting around the Reagan era in the 1980s, it suddenly became socially acceptable to brag about cheating. You cannot have a modern society like that, where abiding by the rule of law is considered something that only losers do. You can't get up and say, "I haven't paid taxes in 19 years, and that makes me smart," and have people accept that as aspirational. Society falls apart fiscally and legally.

Maybe we should bring back those Disney cartoons.

If I were better at social media, or had the money to hire people who were good at it, I would get people out there making TikTok videos that just teach people about taxes! And while they were at it, go over some basic civics like the three branches of government. I think if more people understood what taxes are for, it would be less acceptable for the ultra-rich to say, "I don't pay them."

Offshore finance leads to something like \$700 trillion per year in unpaid taxes, both individual and corporate. That could buy a lot of hospitals and a lot of schools and a lot of roads. Other sociologists have estimated that if the rich did pay their statutory obligations in terms of income taxes, it would lift every single American out of poverty.

It's not about hating rich people for being rich or saying that inequality is always bad. It's about law evasion. Individuals and corporations not paying their fair share are damaging our world.