



Are the Panama Papers really such a scandal?

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What, exactly, is the scandal with the Panama Papers?

You might have read in Time that it "could lead to capitalism's great crisis" and the Guardian that it depicts "the corruption of our democracy".

It's easy to draw political conclusions from the leak of 11.5 million files from the Panamanian law firm Mossack Fonseca - even take a guess how it will play out in Australian domestic politics, which we will come to shortly - but put aside the hyperbole for a moment.

Is the scandal that Vladimir Putin's inner circle has extracted billions of dollars of the wealth of the Russian citizenry and state? Or is it that they are trying to avoid paying the Russian statutory income tax rate of 13 per cent?

Is the scandal that you can accumulate incredible wealth as a member of the Chinese government? Or, then again, is the scandal that some of that fortune isn't being taxed domestically?

Twenty-nine per cent of all active companies represented by Mossack Fonseca were set up by its Chinese offices. But this doesn't inherently suggest criminality. Wealth in China risks expropriation by the state. Investing offshore is good risk management.

Indeed, most of the foreign leaders named in or connected to the Panama Papers come from countries that are high on corruption and low on the rule of law.

Scan your eyes over the nationalities of the "power players" in the Panama Papers. Georgia, Iraq, Jordan, Qatar, Sudan, Saudi Arabia, the United Arab Emirates, Ukraine, Azerbaijan, Syria, Egypt, Pakistan, Ghana, Morocco, the Palestinian Authority, Cambodia, Kazakhstan. This is not a list of the world's liberal democracies.

Some are, though. The prime minister of squeaky-clean Iceland, Sigmundur Davíð Gunnlaugsson, stood down last week after he was named in the Panama Papers. When his wife

invested the proceeds of a sale of her father's business offshore, Gunnlaugsson failed to declare his interest in the company. The company also held bonds in the very same Icelandic banks that the government was responsible for winding up after the Global Financial Crisis.

But Gunnlaugsson's true crime is hypocrisy. Having professed an Iceland-first economic policy of capital controls, retaining businesses in Iceland and protecting the Icelandic *króna*, it understandably galls to see his own wife utilising global offshoring to - legally - maximise her wealth.

David Cameron is having similar trouble after his father was named in the papers. All evidence suggests that Ian and David Cameron paid all taxes on the dividends they received in Britain from this offshore investment. But the British government has spent the last few years trying to whip up a frenzy about complex tax arrangements. Not a great look.

Still, hypocrisy is a moral violation, not a legal one.

Tax havens perform an important function by putting downwards pressure on domestic tax rates. They are the global economy's escape valve - preventing sclerotic Western welfare states from pushing taxes up and up.

As the Cato Institute's Dan Mitchell wrote last week, the fact that law firms like Mossack Fonseca create corporate structures is no scandal. Even though what they do is completely legal, they are now being tagged with a vague sense of criminality. But Mossack Fonseca does not acquire the money, hold the money, or invest the money. And it is required to do due-diligence on its clients.

Most importantly, for all the impressive scale of the Panama Papers (11.5 million files comes to 2.6 terabytes of data) it tells us little about the extent to which offshoring erodes the tax base of non-haven countries. It is remarkably hard to identify any serious detriment to the revenue from offshoring, as even the OECD, the multinational body pushing the crackdown on tax avoidance, admits.

This is where the politics of the Panama Papers and their actual policy significance sharply diverge.

In Australia, Bill Shorten has made a crackdown on corporate tax avoidance the pillar of his economic policy. As Lenore Taylor writes in the Guardian, Shorten is relying on the revenue gained from closing tax loopholes to fund new social spending, and close the budget deficit.

Labor thinks it can squeeze another \$2 billion in revenue from a crackdown on tax avoidance, but won't release Parliamentary Budget Office estimates it says shows this. My Institute of Public Affairs colleague Sinclair Davidson has often pointed out that the Australian government is much better at writing press releases announcing how much extra revenue it will collect from a crackdown than actually collecting that revenue.

The Panama Papers helps Shorten keep the Turnbull Government on the back foot. Even though the Coalition has tried to beat up the tax avoidance issue itself, economic populism is not a game that nominally market-oriented parties can win. As the prime ministers of Britain and Iceland have learned, the politics of offshore investments is about impressions not policy.

To be mentioned in the Panama Papers looks bad. That the Panama Papers exist looks bad. It's the vibe. It's the optics of the thing.

Every article on the leak has a sentence saying something like, "There are legitimate uses for offshore companies", but who reads the fine print? And in the middle of a frenzy about the super-rich and what they do in foreign, exotic countries, who would want to?