

VICE NEWS

Why the Panama Papers Scandal Isn't Such a Scandal After All

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April 7, 2016

When news of the Panama Papers broke earlier this week, it was a bombshell. But it later emerged that German prosecutors had reportedly launched an investigation into the Mossack Fonseca law firm at the center of the controversy a year ago. (The investigation is ongoing.) American officials have also for years been trying to track money shifted around the world through shell companies that the firm specializes in establishing.

Though governments around the world have long decried tax havens and have aggressively pursued big banks in Switzerland and other countries, they have not pursued high-profile lawsuits against Mossack Fonseca or its clients despite knowledge of its business dealings.

"They haven't remotely the staff to investigate," said William Black, a University of Missouri–Kansas City white-collar criminologist, referring to federal regulators and prosecutors. "They haven't remotely the expertise. But mostly they don't have the will."

First obtained by the German newspaper *Süddeutsche Zeitung* and released by the International Consortium of Investigative Journalists, the papers contain 11.5 million documents that detail how Russian, Chinese, British, and other world leaders or their associates have socked away untold riches in offshore shelters that help them avoid tax collectors.

Black wasn't surprised.

In February, he noted, the Financial Action Task Force, a body that helps the US and other developed countries set standards to combat money laundering, took Panama off a list of countries with "strategic deficiencies" in curbing the practice.

He also criticized how the US government celebrated the seeming takedown of Switzerland's banking secrecy in recent years, when Swiss banks gave thousands of names of American account holders to federal authorities. In 2013, Wegelin & Co., then the oldest Swiss private bank, closed after pleading guilty to helping more than 100 Americans hide their money abroad to illegally evade taxes for nearly 10 years.

"That supposed breakthrough was overhyped," said Black, a former financial regulator in the US government who pursued wrongdoers in the savings and loan scandal in the 1980s and 1990s.

The US Department of Justice has publicly charged around only "100 account holders and approximately 50 individuals" for owning allegedly illegal accounts in Switzerland and other countries since 2008, said Acting Assistant Attorney General Caroline Ciralo last month in remarks to the Federal Bar Association Tax Law Conference.

The Justice Department doesn't keep a tally of convictions in those prosecutions, but its website says federal lawyers secured five convictions and 55 guilty pleas between 2008 and April 2013. Around 84,000 Americans have fessed up to owning illegal bank accounts and paid \$8 billion in penalties, back taxes, and interest since 2009, Ciralo said at the conference.

But according to a 2014 US Senate report, Americans hiding money in offshore tax havens cost the US Treasury around \$150 billion in annual revenue.

Thomas Ferguson, a political science professor at the University of Massachusetts in Boston and senior fellow of the left-leaning Roosevelt Institute, wasn't shy when asked why prosecutors haven't gone after Mossack Fonseca and its clients, who hobnob with the world's powerbrokers.

"It's clear that, put simply, governments tend to be heavily influenced by precisely the people who are hiding the accounts," he said.

World governments, especially the US government, clearly have the tools to track the money flowing into offshore tax havens, Ferguson added. The Federal Reserve facilitates those transactions. Yet somehow regulators don't have enough information to crack down on wealthy folks moving their money abroad to avoid the Internal Revenue Service.

"We've had this big controversy running for years now about why the federal government needs to vacuum up everybody's phone calls," he said. "Why are they not looking at least as hard at massive money transfers among banks?"

Black noted that the FBI has around 2,000 agents to investigate white-collar crimes — far too few to meaningfully attack tax evasion. British authorities who oversee the British Virgin Islands, Cayman Islands, and other notorious tax shelters are also "chronically understaffed," the Associated Press reported on Tuesday.

It's not clear if Mossack Fonseca or the majority of the firm's clients in the Panama Papers did anything illegal, however, noted Dan Mitchell, a senior fellow at the libertarian Cato Institute.

"Probably the vast majority of it is tax avoidance," he remarked. "Tax avoidance is legal. Tax evasion is illegal. I am not aware of anyone in the world who pays more tax than what they're legally supposed to."

The revelations in the Panama Papers might shock ordinary people, Mitchell continued. But the wealthy — whether they're Hollywood stars or hedge fund managers or African despots — aren't ordinary.

"The reality is, if you are a person who does international business and cross-border investing, you want [financial] structures that are designed for that purpose, and that is what Mossack Fonseca does," he explained. "They are simply a professional services provider."

Mitchell agreed, however, that prosecutors and regulators must be empowered to go after those who break the law and use offshore tax shelters to hide their ill-gotten gains. In that sense, the Panama Papers may be providing the proverbial sunshine that often acts as the best disinfectant, giving policymakers cause to boost efforts to go after tax evaders.

"There is a story here in that you have a handful of politicians and probably dozens of senior-level government officials who use these structures because they have corrupt money," he said. "But that is a problem of corrupt money, and governments and politicians and senior bureaucrats lining their pockets."