

# NATIONAL REVIEW

## What the Panama Papers Actually Show

Michael Tanner

April 13, 2016

For the past several days, much of the liberal media has been abuzz with the news that more than 11.5 million documents from a Panamanian law firm had been leaked. The documents showed that many of the world's wealthiest people had set up Panamanian shell companies to hide their income and avoid taxes.

For the Left, the discovery has been a field day, feeding any number of fantasies. For some, this was proof that capitalism was corrupt. For others, it was a lesson in inequality and how the rich don't pay their fair share. Still others saw a potential windfall of money to fund their pet projects. "The Panama Papers do put the lie to the politics of austerity," pronounced Colin Holtz of the Roosevelt Institute, suggesting that finding and taxing the hidden income of the rich could finance a basic income for all Americans, among other projects. President Obama used the scandal as an excuse to call for legislation to make it more difficult for Americans to shift their income out of the country.

Virtually no one bothered to look at what the Panama Papers actually showed.

First, it should be noted how few Americans were included in the Panama Papers. Out of the data released so far, the consortium of journalists studying the papers has identified only 211 people with U.S. addresses, and not all of these people are American citizens. There are no Americans among the so-called "Power Players," a list that includes 140 politicians from more than 50 countries. In fact, according to University of California–Berkeley economist Gabriel Zucman, even if you cast a wider net, looking at offshore financial assets worldwide, U.S. citizens and companies keep only about 4 percent of their wealth offshore, tying us with Asia for the lowest percentage. By comparison, Europeans stash 10 percent of their wealth offshore, Latin Americans move 22 percent out of their countries, and Russians keep an overwhelming 52 percent in overseas accounts. Even Canadians hold more than twice as much of their financial assets offshore as Americans.

Zucman also points out that owning stock in a Panamanian corporation or depositing money in a Panamanian bank may be done for many entirely legitimate reasons. And it is likely that much of the money uncovered through the Panama Papers, at least for Americans and American businesses, has been declared and subjected to U.S. taxes. But even if 80 percent of U.S. offshore wealth had been hidden in foreign accounts in order to evade taxes, the lost revenue would amount to less than \$28 billion, which is less than 1 percent of what the federal government will spend this year. Sorry, folks, that's not going to finance your next spending project.

But something else does stand out from the Panama Papers. It should come as no surprise that people living in high-tax jurisdictions like Europe do everything in their power to reduce their tax burden. In countries like Denmark and Finland, the top statutory personal-income-tax rate can exceed 50 percent. History should have long since taught us that tax rates of that level yield relatively little revenue, because people avoid paying them. Hint: If you want to bring this money home, drop the “soak the rich” attitude and lower tax rates.

What is surprising, though, is the number of government officials and aides — and their relatives — who have apparently accumulated vast fortunes, and often in countries that self-consciously preach equality, even socialism. This includes president Mauricio Macri of Argentina, as well as a former government minister in France, the former commander-in-chief of Venezuela’s armed forces, the brother-in-law of the Chinese president, the daughter of the former Chinese premier, the president of Iceland, and virtually everyone who has ever met Russian president Vladimir Putin. The list goes on through a host of government officials, high and low. One needs to ask how government officials — who, unlike businessmen and entrepreneurs, create nothing and generate no wealth for society — are among the richest people in their supposedly egalitarian countries.

We see something similar, if less dramatic, in the United States. There is a reason why five of the ten counties with the highest median incomes in America are suburbs of Washington, D.C. This isn’t an indictment of capitalism, but rather an indictment of big government. After all, when government claims the power to reward its friends and punish its enemies, corruption is guaranteed to follow.

Yes, of course there are crooked businessmen. And, in today’s crony-capitalist culture, too many businessmen are in bed with big government. But, by and large, the rich in the United States achieved that status by providing the rest of us with goods and services that we want. Now it appears that many of those who spend their time lecturing us on how that is a bad thing turn out to be using, or misusing, the power of government for their own benefit.

Should we really be surprised?

*Michael Tanner is a senior fellow at the Cato Institute and the author of [Going for Broke: Deficits, Debt, and the Entitlement Crisis](#).*