

THE PANAMA PAPERS MUST MAKE US RE-THINK CORRUPTION

In the past definitions of corruption have kept attention and political pressure away from the offshore sector and its professional enablers. The Panama Papers make it clear that this industry is creating a two-tier world of harsh penalties for the majority and corrupt immunity for the few.

The launch of Berlin-based Transparency International in 1993 kick-started a new global conversation about how corruption harms development. Until then, the World Bank and others had danced around the issue, fearing it was ‘too political’ and might annoy their client countries. More than any other organisation, Transparency International put corruption onto the world’s agenda.

But its core analysis, focusing heavily on individual acts like bribery and defining corruption as “the abuse of entrusted power for private gain,” missed a big part of the picture: a global architecture of corruption with tax havens, or secrecy jurisdictions, at its core.

The Panama Papers, a leak of 11.5 million documents from the Panamanian law firm Mossack Fonseca, are the latest lurid exposure that must make us re-think what corruption is and where it happens. The flagship article by the International

Consortium of Investigative Journalists (ICIJ), which co-ordinated media coverage of the Panama scandal, was entitled Giant Leak of Offshore Financial Records Exposes Global Array of Crime and Corruption. Among many other things it noted:

“The files reveal offshore companies linked to the family of China’s top leader, Xi Jinping, who has vowed to fight “armies of corruption,” as well as Ukrainian President Petro Poroshenko, who has positioned himself as a reformer in a country shaken by corruption scandals.”

We feel it in our bones: tax havens are somehow corrupt, and corrupting. But how, exactly? Tax havens enter the debate in two main ways.

First, the offshore world of secrecy is a gigantic, delocalised receptacle for the proceeds of (traditionally-defined) corrupt practices like bribery, and a facilitator of those practices. All those assets looted

by dictators and their corrupt cronies are stashed in (or via) the secrecy jurisdictions.

Second, on a more systemic global level tax havens are corrupting the fabric of our societies and our democracies, and corrupting market economies. They are undermining – corrupting – public faith in the institutions that are supposed to promote the public good. Havens provide the world’s wealthiest and most powerful people and corporations with escape routes from their social responsibilities: from tax; from disclosure and discovery; from crime-fighting agencies; from financial regulation – or from accountability for other forms of bad behaviour. The result is one set of laws for them, and another set for everyone else. If that doesn’t corrupt democracy and society, it’s hard to know what does.

A new debate emerges

The first stirrings of a new corruption debate began just over a decade ago. Groups

feature

Nicholas Shaxson

like Global Witness had set the stage with in-depth investigations into giant scandals in Africa and Asia, with many tangled trails leading to tax havens. But nobody, as far as I know, had yet brought tax havens and corruption explicitly and deliberately into the same analytical framework. In his groundbreaking 2005 book *Capitalism’s Achilles Heel*, Raymond Baker focused on traditional views of corruption but he did hint at something else:

Where did the money go? Into western coffers, where it can be accommodated with all the courtliness and secrecy available to the world’s rich, whether saints or scoundrels.

Shortly afterwards, in March 2006, a UK parliamentary report entitled *The Other Side of the Coin: the UK and Corruption in Africa*, while also largely focused on bribery, got closer to the new corruption agenda. In a section on international financial loopholes and cross-border money laundering, inserted

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at the urging of Baker and TJN's Director, John Christensen, it said:

Accusations of hypocrisy have been leveled against the UK and other western governments for condemning corruption in Africa without addressing their role in supply side and laundering issues.

Christensen, a former economic adviser to the tax haven of Jersey, and Prem Sikka, a professor of accountancy, had been making this argument for some time, to anyone who would listen. In September 2006 Christensen laid out the new analysis in full for the first time, in a paper presented at a Royal Geographical Society conference on the theme of "Geographies of Corruption," Its abstract said:

The elephant in the living room of the corruption debate is the role played by the global infrastructure of banks, legal and accounting businesses, tax havens and related financial intermediaries in providing an offshore interface between the illicit and the licit economies. This interface facilitates capital flight and tax evasion, distorts global markets to the disadvantage of innovation and entrepreneurship, slows economic growth by rewarding freeriding and misdirecting investment, and increases global inequality.

He attacked Transparency International's famous Corruption Perceptions Index (CPI), noting that it ranked the world's most notorious tax havens and repositories for corruptly obtained loot – including

Switzerland, the UK, US, Jersey, Luxembourg or Singapore – among the "least corrupt." The CPI draws heavily on opinion within the business community and while it does help investors decide where to invest, it is of little use to Nigerians to be informed that their country is among the world's most corrupt. They want to know where their stolen money is.

Christensen remembers talking to a TI director after his 2006 presentation, and said he was "visibly shocked". He promised to take it up with his co-directors: a process of discussion and dispute began inside the organisation – a discussion which, insiders tell me, continues today.

At a meeting in Nairobi in 2007 to launch Tax Justice Network-Africa, a small group of us began discussing the methodology for a new Financial Secrecy Index to rank the tax havens in order of importance – a move aimed specifically at countering the CPI. At the same time Christensen published an updated analysis, entitled "Mirror, Mirror, on the Wall, Who is the Most Corrupt of All?" He describes the intentions:

Until then corruption had a black face. It was important to have African voices saying 'Before you point the finger at us, kindly clean up the criminogenic environment created by the West.

Markus Meinzer and Richard Murphy undertook the research for the first Financial Secrecy Index, which came out in October 2009 (and has since been published every two years). The FSI up-ends the CPI:

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the biggest corruption players in our analysis were no longer poor African nations but the largest repositories of illicit loot: in first place was the United States, followed by (in this order) Luxembourg, Switzerland, Cayman and then the United Kingdom – all now widely recognised as among the most important players in the offshore world (by 2015, under a tweaked methodology, Switzerland was at the top, with the U.S. at number 3).

This ranking was a great surprise to nearly everyone back then – and our new index got publicity around the globe. We were greatly helped by the fact that it was dawning on many people, amid a global financial crisis, that the global economy had been profoundly corrupted.

The west finally finds it can influence corruption

Tax havens began to defend themselves, typically through deflection: 'we should be angry at Africa's kleptocrats', they'd say: 'not at tax havens.' Clearly there is blame in both areas – but sixty years of western development assistance and finger-wagging about good governance hasn't delivered the goods, because in a post-imperial age westerners have little influence, other than to serve as agents of further corruption.

The one area where we do have influence, though, is in cracking down on the havens in

our back yard. That is where our policies can have most effect on corruption: both on the pernicious daily stuff that undermines trust in institutions in country after country – and on the more generalised corruption caused by the offshore system's role in undermining public trust in democracies and the world economy.

In building up to the global summit meeting on corruption in London in May, Prime Minister David Cameron has the perfect opportunity to demonstrate leadership by declaring 'Game Over' for Britain's tax haven empire. He has the authority to require Britain's Overseas Territories and Crown Dependencies to create public registries of beneficial ownership, for starters, and he should not hesitate to exert that power if they resist. Anything less would be hypocrisy.

And, while we're at it, let's bring the City of London and all its frauds and misdemeanours firmly into the corruption debate, as David Whyte suggests in his introductory piece to this edition. Now there's an argument waiting to be had.

Nicholas Shaxson is author of Treasure Islands: Tax Havens and the Men Who Stole the World, and Poisoned Wells: the Dirty Politics of African Oil. He writes for the Tax Justice Network.