Opinion

The New York Times

The Shame of the Pandora Papers

Brooke Harrington

SOME reports on the Pandora Papers have featured colorful and scintillating headlines ("Secret money, swanky real estate and a Monte Carlo mystery"), but there is a drab, depressing familiarity to the nearly 12 million leaked confidential financial records that throw light on the opaque wealth of powerful public figures around the world.

We see the same ominous pattern as in the Panama Papers leak of 2016 and the Paradise Papers leak of 2017: legalized corruption at the highest levels, on an almost unimaginably vast scale. And it appears that the people most empowered to end this nightmare are the most heavily invested in prolonging it for their own benefit.

Each successive leak drives home the same message: Abandon any hope that government will serve the people or that the rule of law will be applied equally to all, the foundational premises of modern government.

Yet there is some cause for optimism, even if it's not in the form we might expect. New laws aren't coming to the rescue, because they probably can't be created quickly enough or made comprehensive enough to effect meaningful change. But there is evidence that technology and public opinion are shifting the balance against elites' use of the offshore financial services industry.

For nearly 15 years, I've researched that world from the inside, earning certification as a wealth manager and then traveling the globe to study practitioners at work. What I learned is that "tax havens" aren't really for avoiding taxes: They exist to help elites avoid the rule of law that they impose on the rest of us. The offshore financial industry is generating much of the economic and political inequality destabilizing the world.

Many of the individuals exposed in the Pandora Papers are politicians — more than 330 of them, from 90 countries, including 35 current and former heads of state — and their lifestyles are made possible by exploiting the nations they purport to serve. The revelations highlight several politicians who campaigned on vigorous anti-corruption platforms, like Prime Minister Andrej Babis of the Czech Republic, President Uhuru Kenyatta of Kenya and President Volodymyr Zelensky of Ukraine.

In 2016, Mr. Babis scolded the wealthy Czechs whose names appeared in the Panama Papers and, in a 2020 interview, proclaimed that a governing philosophy was to "cut off the heads of the 'corruption-Hydra.'" Now he's accused of using a string of offshore shell companies to purchase luxury real estate on the French Riviera, including a chateau worth $22 million. (Mr. Babis has denied any wrongdoing and dismissed the report as politically motivated.)

That so little has changed after the Panama Papers and the Paradise Papers is not lost on the public. By my count, there have been fewer than 10 convictions resulting from previous offshore leaks, and only one involved a politician.

People are angry and they know they are being ripped off, but watching successive iterations of public corruption on flamboyant display, followed by no consequences, is an affront to the spirit of democracy. As the economist Thomas Piketty noted even before the Panama Papers broke, many respond to the appeal of ethnonationalist politicians, who promise to crack down on elite corruption.

MATT CHASE

> Corruption without consequences is an affront to democracy.

Yet we do see forms of accountability being imposed that are effective despite being outside the realm of the law. As my own and other recent research on high-net-worth individuals has shown, reputational costs weigh more heavily on them than the threat of fines or prosecution. The laws are no match for the legal armory that the wealthy individuals in this world can afford. And there is evidence that public opinion is changing quickly, in a way that imposes the reputational costs that matter most.

When Mitt Romney ran for president in 2012, many Americans — even on the left — shrugged at the news that his wealth (estimated at the time at $250 million) increased through offshore investments. But in the wake of the Panama Papers, public opinion has grown significantly more negative toward tax avoidance, which, while often legal, is increasingly regarded as immoral and unpatriotic. This mirrors the rapid change that occurred earlier in the 21st century, in which public neutrality toward corporate tax avoidance turned to public outrage and successful pressure campaigns within a few short years.

The Pandora Papers's reputational impact may deliver some instant karma to Mr. Babis. The Czech police say they will "act upon" his use of offshore shell corporations, and a much swifter public verdict could arrive this week in parliamentary elections that could dislodge the prime minister from power. "He preaches water and drinks French wine," the leader of an opposition party said.

Technology also offers more reason for hope. It has made it much easier to impose these costs, by facilitating the dissemination of vast troves of data to journalists and the public. The past five years have revolutionized the possibilities for whistle-blowers to maintain anonymity through the use of tools like PGP encryption, allowing them to deliver huge quantities of data from offshore while protecting themselves from retaliation. Five years on, we still do not know the identity of "John Doe," who leaked the Panama Papers, nor of the person or people who leaked the Paradise Papers four years ago.

That's remarkable in an era of digital surveillance and will encourage more whistle-blowing. As I found in talking with wealth managers all over the world, a significant number understand that their work has contributed to dangerous levels of economic and political inequality; they want to do something, and many understand that one of the most effective uses of their insider position would be to pull back the veil of secrecy that makes so much of offshore corruption possible.

Formerly, these potential whistle-blowers would have been deterred by the fate of figures like Hervé Falciani, who in 2009 brought forward evidence of widespread tax fraud by private individuals facilitated by his employer, HSBC in Switzerland. Mr. Falciani has been hounded by investigators and caught up in legal limbo ever since, including being convicted in absentia and given the longest sentence ever handed down by a Swiss court for violation of the country's draconian bank secrecy laws.

But it's now possible for insiders to act on their conscience without ruining their lives and careers, as well as those of their families. We already see momentum building in the form of the enormous size of the Pandora Papers, which is even larger than the Panama Papers — formerly the biggest data leak in history — and involves information from 14 offshore sources instead of one.

This suggests that whistle-blowers are not only emboldened now, but also may be cooperating internationally, to do what lawmakers cannot: holding accountable the most wealthy and powerful people in the world in the court of public opinion. □

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