

Panama papers

It was only a question of when, not whether. From WikiLeaks to Ashley Madison, from Snowden to Sony Pictures, disgruntled individuals and organizations with access to information about institutions whose values and practices they abhor (for as wide a variety of reasons as there are cases of leaks) have long attacked those establishments through the only mechanism they've found that can cause asymmetrical damage: copying and releasing internally sensitive and proprietary information. This is the much-heralded "new" security threat, a greater proximate danger to the global economy than those posed by conventional, biological or nuclear weapons.

To date, the Panama papers is by far the biggest leak of them all. Just in terms of scale: the initial WikiLeaks data release involved 250,000 documents; the Panama papers: 11.5 million. The target was Mossack Fonseca, a little-known law firm in Panama that set up offshore companies for financial institutions in turn acting as conduits for the world's rich and powerful (often) to avoid taxation. The leak covered some 40 years of business and involves an extraordinary sweep of profiles in the global elite. A dozen heads of state or government, hundreds of sitting and ex-officials, and thousands of others from countries all over the world.

Most of the documents themselves aren't (yet) in the public domain — the leaker provided the information to a German newspaper which worked in association with the Washington, D.C.-based International Consortium of Investigative Journalists (ICIJ) over the course of a year, before they made their initial findings known last week. More are promised; though there's a reasonable, but not necessarily true presumption that the most important disclosures, at least in terms of political figures, were those provided at the outset.

Let's look at the implications, near and long term.

1 – Who's at risk. First, though it's not a source of much attention or concern, **the law firm.** Mossack Fonseca's business model rests on being able to ensure confidentiality. The direct impact on business and the reputational damage is existential for the firm. While in the context of the direct targets a boutique law firm is understandably considered collateral damage, that won't be the case when a similar attack proves fatal to a major bank or other, more systemically important economic or political institution.

Second, a number of the political officials themselves. **Icelandic Prime minister Sigmundur Gunnlaugsson** was caught with an offshore account and was forced out of office. The Panama papers were a perfect storm for him as leader of an extremely small and homogenous advanced industrial democracy that's just gone through the teeth of the Eurozone crisis on the back of a major banking scandal. Gunnlaugsson had to weigh strongly on bankruptcies and who would/wouldn't get paid and how much among his country's citizens, without disclosing his own accounts abroad. Within a day of the initial leak, nearly 10% of Iceland's population signed a petition demanding his resignation. Almost the same amount turned out to protest against him. Disgraced, he resigned a day later. In Iceland that will prove a significant hit to the ruling party and coalition, to the benefit of populists — Iceland's fringe pirate party is now polling at nearly 50%.

British Prime minister David Cameron, for his part, had what could turn into his worst week in office, after revelations that he owned a share of his father's offshore account and profited from it. While the numbers were small (some 30,000 pounds in all), Cameron's history of a strong anti-tax evasion stance against individuals and institutions paints the episode as grave hypocrisy. Unlike in Iceland, there's no chance this

directly brings down his government... but it's a hit to his credibility at the most critical time of his leadership — just weeks ahead of a Brexit referendum. The pro-EU vote's most important figure arrives damaged and distracted in the context of a Europe that's galvanizing British hearts (if not yet minds) against it. There's a somewhat better chance of Brexit accordingly; by far the most important direct implication of the Panama papers.

King Salman of Saudi Arabia. There's no surprise in the head of the royal family having a large sum locked safely away in another country, and there's no threat to the king in what's the antithesis of a representative democracy. But anything that smells like an effort to pull more cash out recently, given the kingdom's financial woes and need for unprecedented austerity, will be seen among elites already unhappy with recent succession moves as a strike against the king. That's important because Salman is in his 80s and ailing... and an effort to elevate his 30 year old son, Mohammed bin Salman, to become next in line for the throne will become more complicated. paradoxically, it might actually lead to more risk-acceptant behavior on the part of the king — an understanding that the move is becoming harder to pull off, so if he wants to get it done, he needs to move quickly. But either way, it's a growing risk factor in the kingdom.

Ukraine president Petro Poroshenko has analogous challenges, as a former Ukrainian businessman/oligarch whose direct economic fortunes have declined precipitously with the Russian invasion and his country's resulting economic collapse. The timing here is particularly problematic; with Poroshenko's accounts being set up literally at the same time in 2014 as the Ukrainian forces were losing a key battle to Russians invading the country. It's understandable in terms of urgency to protect his assets, but it will be seen as at best anti-patriotic, at worst traitorous, by Ukraine's strong populist parties. Poroshenko won't be removed from office for this, but his support will slide faster. The government, which was already looking weak (with pm Yatseniuk quitting over the weekend), will have a tougher time advancing the reforms demanded by western financial backers, putting loan disbursements from the IMF in jeopardy.

Finally, there's **Argentina's new president Mauricio Macri**. A billionaire businessman, his win was a repudiation of the kirchners and their strong anti-west and anti-markets perspective. He wants to bring Argentina in from the cold on these issues, taking his country back to the marketplace and the banks by cutting deals with western creditors and improving domestic economic governance. After the revelations, Macri quickly promised to place all his funds in a blind trust... but it's a hit to his honeymoon with an already skeptical population, forcing him to rely more on the support of the political class. For now, Macri maintains credibility to implement pro-market reforms, but if growth doesn't pick up quickly, the "us vs them" reflected in the Panama papers could come back to bite him.

I don't see any impact on a host of other leaders involved. South Africa president Jacob Zuma has already stood down expansive corruption charges against him, with his own support base successfully rallying around him in parliament. There's nothing in the panama papers that holds a candle to those existing cases. Khalifa bin Zayed bin Sultan al Nahyan hasn't relevant domestic opposition and there's no prospect of backlash from offshore accounts in the financially laissez-faire United Arab Emirates. Three members of Xi Jinping's standing committee were caught up in the scandal and the Chinese government immediately censored anything having to do with the Panama papers. It's an embarrassment in the context of Xi's anti-corruption campaign... but ultimately gives the president more ammunition to consolidate power in next year's party shuffle. And finally there's Russia, where president Vladimir Putin was the focus of all the initial press because of his decision to preempt the leaks with accusations against the west. For Putin, the Panama

papers are grist for a strong anti-American propaganda machine that serves to bolster the president's popularity.

2 – What's next. The broader trend is clear: increasing mass disenfranchisement among educated individuals who have access to technology that can cause ever-greater economic and political disruption. And, also important, who have greater knowledge of the mechanisms by which elites maintain/enhance their wealth and power. There are four plausible (and non-exclusive) outcomes: 1) responses (whether directed policies, a market-driven shift in the beneficiaries of economic growth, or other reactions) that dramatically reduce the level of dissent; 2) new technologies and/or policing that shifts the growing asymmetries in disruptive potential away from individual citizens; 3) an erosion of data privacy to the degree that such attacks no longer pose a threat; and 4) attacks of ever-greater scale and impact.

I've no doubt the Panama leaks are sufficiently great that we will see more impulse from governments, particularly among the G-7 countries, to coordinate more closely in creating a more harmonized regulatory environment in treatment of tax havens, as well as more transparency of those that are using them. Tax evasion has already become a reasonable policy priority on the Oecd and G-20 political agendas; it's set to become a higher priority now. But the broader issues that underpin the problem — namely inequality and corruption — will expand given the fragmentation of standards, the geopolitical environment (which increases inequality), and the impact of technology on labor and capital. The idea of privacy eroding to a degree that there's less danger in transparency is an interesting one given just how much more data is already voluntarily (or at least "voluntarily") shared with corporations — albeit dramatically less with governments — but at best that's a solution for small and extremely homogeneous groups of governance: the Nordic governments' experiments on this front are illustrative for both their utility and their limitations.

So the clear bet is we're only seeing the tip of the iceberg, as ever-greater and more disruptive incidents of forced transparency will continue to be the go-to response to a growing chronic and unaddressed series of policy problems. The longer term implications depend on where you look.

In consolidated democracies, the damage will remain limited to individuals and, if they're in office, the occasional sitting government. While furthering support for anti-establishment political figures and parties, it has much less impact on underlying institutions, which remain both sufficiently resilient and perceived as unencumbered by the behavior of their office-holders. Political scandals increase among developed states, the social contract between governing and governed becomes more transactional and tenuous, leadership has less room to operate strategically and in the long term national interest. But regular elections, due process and rule of law, and the separation and balance of powers all continue to hold sway.

In weak authoritarian states and brittle emerging democracies it's a very different story. There's much more at risk: if you're a dictator and enriching yourself on the back of the people, you really don't want details of that (or whatever other extra-legal favors are required to perpetuate personal rule) getting out. This will more quickly bring down some of the weakest. For example, if Venezuelan president Nicolas Maduro had been caught up in the panama papers, it would have been the straw that broke the camel's back. Maduro's already lost a great deal of internal support and the economy is running on fumes. Hard information that he had socked away a few hundred million would bring out the pitchforks... and even the die-hard Chavistas would have had to stand aside.

Essentially, this push of forced transparency seriously weakens a government's political capital, and so for countries at the "bottom" of my j curve (those governments in between consolidated authoritarian rule and consolidated democracies – here's a link), there's a much greater chance the regime cracks.

While for strong authoritarian states, forced transparency can prove embarrassing and a distraction, but will be effectively used by most as a stick to punish enemies. Blaming leaks on enemies of the state is the most typical response — with tougher restrictions on potential domestic dissidents, foreign media, and non-governmental organizations... all the way to greater restrictions on foreign trade and a willingness to support nationalism towards greater international conflict. A Panama papers-type scandal against the Iranian theocracy could end the opening to the west, despite the obvious and damaging economic consequences of taking such measures.

At the highest levels, China is a little less vulnerable than many other states because their mechanisms for access to information are much more stove-piped: whether we are talking about intelligence and surveillance, state owned enterprise strategy, or top level corruption, individuals with access to critical technology in China would generally have access to a much narrower node of data than in other major economies. On the upside, that's a brake on China's potential efficiency and entrepreneurship; but it also limits the downside impact of forced transparency. And Russia is a little less vulnerable for different reasons: Putin's individual control of all the core media as well as the fact that, at the very top level, the Kremlin has stopped storing many types of critical information on computers at all. That's even more inefficient. But it makes it harder to "get the goods" on the president..

One additional point here: there remains danger of infighting among those closest to strong authoritarian leaders. As one of the issues of greatest importance for the inner power circles of these countries (and where secrecy is most important) is the pecking order for cash and influence. That's extremely closely held, and people would die (and be killed) for that sort of information. as the information comes out, those for whom the personal stakes are the greatest have the most to gain/lose by taking action. Favored and disfavored sons/daughters will face vendettas, and we should expect more elite infighting in even the strongest authoritarian regimes as a consequence. so no, we're not about to see an Arab spring or a color revolution play out in Russia, China, or the Gulf monarchies. But within those systems we're likely to see much more high level conflict, insiders taking on insiders, with increased political risk for those exposed to individual decision-makers as a consequence.

A couple other thoughts. There's an obvious growing vulnerability and cost to multinationals in this environment, particularly those seen as being on the wrong side of educated and organized groups with strong grievances (financial institutions and companies in the energy/food/commodities space would be top on my list here).

Another point worth mentioning: the person with the most to lose, of course, is the actual whistleblower(s). Almost certainly an employee or former employee of Mossack Fonseca. For a year after the initial documents were handed over, a group of 100 journalists at the ICIJ were able to maintain radio silence on the story; and a week after the leak, the source of the disclosure remains anonymous. That matters because if there become credible channels for whistleblowers to leak information without risking their/their families' safety, we'll see an explosion of this sort of activity through those channels. That means more forced transparency, but also more filtering in how they're handled (as opposed to the mass data

dump of WikiLeaks and Sony pictures). It's too early to make a strong call on this, but worth watching. On the other side of the coin, certainly, the ICIJ itself has just become a likely target of many government leaders with something to hide/lose.

And finally, if this continues, there's a strong motivation toward devolution of power away from large centralized government institutions. that's an intrinsic disadvantage for authoritarian regimes long term. If forced transparency is a core truth of the information revolution given growing and unaddressed inequality, big governments probably won't have the ability to monopolize the force required to maintain their positions. That's not an issue for today (or a risk for the coming few years). But it bears thinking about as we consider China's long term transition.