

## Panama Papers only a glimpse into 'astonishing' wealth stashed offshore

Some estimates suggest between 8 and 14 per cent of global wealth is kept in tax havens

By Lucas Powers, [CBC News](#) Posted: Apr 06, 2016 11:00 AM ET Last Updated: Apr 06, 2016 1:55 PM ET

The provocative revelations coming out of the so-called Panama Papers are just a glimpse into the murky global network that's keeping "absolutely astonishing" amounts of money out of public coffers.

The 11.5 million files taken from Panama-based law firm Mossack Fonseca show how the financial elite exploit a secretive system to manoeuvre wealth anonymously and ensure the taxman doesn't take his cut.

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The firm is "the world's fourth biggest provider of offshore services," according to the Guardian, with about \$42 million in yearly revenue. The documents contain information about more than 214,000 shell companies, trusts and foundations — usually used to hold or transfer financial assets while obfuscating the identity of their real owner — that were registered with the firm.

"That gives a sense of the tremendous scope of this in terms of the flows of money into these largely mysterious companies, and this is only one firm," says Nicholas Shaxson, an investigative journalist and author of *Treasure Islands: Tax Havens and the Men who Stole the World*.

It's difficult to delineate what constitutes a tax haven but it's generally agreed that, depending on the criteria, there are between 70 and 92 of them worldwide. And there's an estimated two million shell companies registered with offshore firms in these states.

"For a long time, people thought of tax havens as an exotic sideshow of the world economy. Now it's clear they are absolutely central to it. We're talking about absolutely astonishing, mind-boggling amounts of money," Shaxson says.

Estimates of how much wealth is currently stashed offshore vary considerably, a reflection of the opacity of an industry that some economists contend has grown exponentially in recent decades.

Gabriel Zucman, author of *The Hidden Wealth of Nations* and a professor at the University of California at Berkeley, puts the figure at least \$7.6 trillion.

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But the Tax Justice Network, an international research and advocacy organization, says the number is far greater. The group estimates that as of 2010, there was between \$21 and \$32 trillion kept in offshore holdings. That would represent between eight and 13 per cent of total global wealth.

## Resource drain

Perhaps most troubling, according to one economist, is that somewhere in the ballpark of \$1 trillion is illegally funneled out of developing nations each year into mysterious shell companies.

It's a system that bolsters kleptocracy and corruption, says Matt Salomon, chief economist with Global Financial Integrity.

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"It's a real resource drain in countries where the money is needed most. At the same time, wealthier nations are standing by as this is happening, insisting that they support development in these places," he says.

"It's possible that the \$1-trillion figure only represents a drop in the bucket since the data is so murky."

Many of the dealings facilitated by offshore firms are entirely legal and are encouraged by major financial institutions the world over. Canada's biggest lender, RBC, was named in the Panama Papers, having used Mossack Fonseca to set up at least 370 shell companies for clients.

There's a searing public anger over a system that so blatantly favours the wealthy and operates with near impunity, says Shaxson. It's putting pressure on governments to finally crack down on tax dodgers that cost countries billions each year.

Canada alone loses between \$6 and \$7.8 billion annually to offshore tax havens, according to a report in the Toronto Star. In response, the federal government dedicated \$440 million over four years in the 2016 budget to probe tax evasion and what the Canada Revenue Agency called "aggressive tax avoidance."

Even before the Panama Papers prompted public outrage though, more than 100 countries since 2014 had committed to increasing transparency around the financial holdings of foreign customers.

The U.S. is among the countries resisting these changes. States like Delaware, Nevada and South Dakota allow for levels of anonymity and secrecy that "rival any of the countries we usually think of as tax havens," says James Henry, former chief economist at the consulting firm McKinsey.

## 'The level of anger is higher than ever'

"It's insufficient to just say 'offshore tax havens' because the industry has expanded so aggressively to countries around the globe," adds Henry, now a fellow at Columbia and Yale.

Despite big promises from governments, real reform will not come easily. Tax havens and all the perks that come with them "are the projects of some of the world's wealthiest people," says Shaxson.

There's a lot of money to be made by interests with considerable political clout, Henry notes, and the very nature of the business makes it difficult for so-called crackdowns to be effective. Financial institutions rarely face any significant consequences, and past investigations have ended up completely toothless.

"Look, for decades, governments have known about this, law enforcement have known about this and the response has been pretty pathetic. I think the reasons for that are pretty clear at this point," Henry says.

"But the level of anger is higher than ever, and it will probably only intensify as more stories come out of the leak."

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