

The Panama Papers & Capitalism Today: Neo-liberalism's World of Corruption

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Phil Hearse examines the corrupt state of capitalism.

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The Panama Papers' revelations about the rich and powerful hiding untold billions in 'offshore' tax havens may be shocking, but it's hardly a surprise to anyone who knows the first thing about the way that big business works. We are living through a blitzstorm of allegations and controversy about corruption. In the few years alone we've had:

- The revelations in the Panama Papers that hundreds of companies and thousands of individuals, including 72 (!) present or former heads of state, hid their fortunes offshore. The names so far revealed include associates of Russian President Putin, and numerous members of the leadership of the Chinese Communist Party.
- The 'Lux leaks' revelations about how the Grand Duchy of Luxemburg conspires with big business conspires to launder its profits through tax minimal Luxemburg and how major companies like Amazon and Starbucks shift their British profits to Luxemburg and pay little or no tax.
- Revelations that bankers in Britain conspired to fix the 'Libor' rate - the inter-bank lending rate - so their banks could profit from trades or the impression they were worth more than they actually were.
- Repeated allegations of corruption in sport - including athletics, tennis and cricket, either in terms of result fixing or unfairly influencing results through drug use.
- Accusations against prominent politicians, including South African President Jacob Zuma and Turkish President Recep Tayyip Erdogan, that they used vast amounts of public money to build huge residences.
- British bank HSBC was in 2012 discovered to have received at least \$880 billion in investments from the Mexican Sinaloa drug cartel.

A lot more things could be added to this list. The world seems to be awash with corruption. So what is it really all about?

The highly sanitised versions on the BBC would give you the impression that there's a few bad

apples out there who are giving the international business and finance communities a bad name by some sharp practice. Nothing could be further from the truth. Corruption is endemic in neoliberal capitalism. It is fundamental to the whole way the system works, and it is the method by which trillions is stolen from the poor and given to the rich. Here's why and how.

Effects of Neoliberalism: kleptocracy

Of course corruption has always existed in capitalism. But neoliberalism, the 'free market' system that started in the 1980s, promoted it on a vast scale for two reasons:

1. Neoliberal deregulation and privatisation promoted the dominance of financial capital and the expense of industry and the state. Financialisation and low capital gains taxes have turned big companies and utilities into cash cows, virtual banks with huge wealth, looking to maximise the interest on their money and minimise their tax. Finance capital is, after all, basically about swindling. In the middle ages they called it usury.
2. The shift to the right crashed 'socialist' command economies and undermined nationalist governments in the third world, replacing both with corrupt and usually highly authoritarian neoliberal regimes. Getting hold of the state apparatus has become a royal road to mega-wealth for dozens of dictators and their cronies through simple theft.

The core of it is the banking system. European and American banks receive (read: launder) billions of dollars every year from international mafias, and in particular from drug dealers. Sometimes by accident some of this comes to light. In 2006 Mexican soldiers intercepted a drug shipment in Ciudad del Carmen and found a cache of documents showing the Sinaloa drugs cartel had made payments of \$378 billion to the American bank Wachovia, a subsidiary of the financial giant Welles Fargo.

Roberto Saviano, the author of the best-selling *Gomorra* which exposed the workings of the Neapolitan crime organisation Camorra, claims that London is the centre of money laundering for Latin American drug money. Even the British National Crime Agency says:

“We assess that hundreds of billions of US dollars of criminal money almost certainly continue to be laundered through UK banks, including their subsidiaries, each year.”

Saviano says that Mexico is the 'heart' of the drugs trade and London its 'head'. Antonio Maria Costa, head of the UN Crime and Drugs Agency, says drug dealers invested \$352 billion in Western banks in 2008, and this was key in keeping some major banks from collapse.

So corruption - receiving money from crime and drug cartels - is deeply ingrained in the culture of US and European banks. And this is not going to stop, given the vast profits involved.

Controlling the state - and looting its assets

The kleptocratic state is an old story. It's reckoned that no Mexican president leaves offices with less than \$100m. Key Western allies from the 60s and 70s, like Mobutu, president of Zaire (DRC) from 1965-97 and Suharto, president of Indonesia from 1967-98, both established murderous regimes and systematically looted their respective peoples of billions of dollars.

But these were in the 1960s and 70s stand out, atypical, cases. Now looting the state by right wing

regimes, often military-controlled regime, is an epidemic.

Nigeria is a classic example today. A PWC report reckoned that \$100 billion of public money, much of it oil revenues, had been stolen by corrupt politicians and officials in 2014. The result of this massive theft is that in a rich country, 62% of the population live in absolute poverty.

That's the problem with the Peter Mandelson view of being comfortable about some people being 'filthy rich'. Some people are filthy rich because millions are dirt poor. Nigeria is an example of something even more corrosive. Corruption at the top, backed by the army, creates corruption throughout society. Nothing happens at all without the payment of a bribe to some official or other. People who have no money to pay bribes stay at the bottom of the heap.

Corrupt Nigerian state officials have no problems finding a bank to launder their money, but if in doubt the London property market is a good option. James Ibori a state governor in his homeland, stole \$250m from Nigeria, and much of the money was laundered through the UK to fund a luxurious lifestyle. He acquired a string of high-end properties in prime central London (see below on real estate corruption).

Mexico is an example of the synergy between crime proceeds, state corruption and international banks. Nearly all the drugs produced in Latin America have to go through, around or over Mexico to get to the US.

Except in the case of drug cartel turf wars, drug shipments are protected by the police and the army, and officials of the Mexican states and top politicians in the national government are all paid off. The Mexican national state is corrupted with drug money from top to bottom: it is a narco-state pure and simple. The result is that even prosecutors have to look the other way. Border guards and junior police and army personnel have a stark choice: which do you prefer – a small bribe to look the other way, or torture followed by a bullet in the head? When everyone at the top is corrupted, local and junior officials are powerless.

The British media have been keen to highlight evidence from the Panama papers of offshore investments by people close to Russian President Vladimir Putin and relatives of top Chinese leaders President, Xi Jinping, and two other members of China's elite Standing Committee, Zhang Gaoli and Liu Yunshan. Despite the West wanting to divert attention to ex-Communist rivals in a one-sided way, nonetheless these regimes of course are deeply corrupt.

Corruption in Russia goes right up to the Kremlin and the oligarchs who lead that country are linked to organised crime. Loyalty to the Putin state apparatus is ensured by the carrot and the stick. The carrot is the reward of state contracts to those who keep tight with Putin: the stick is the fear of violence at the hands of state-linked mafias.

In China there has been a major 'anti-corruption' drive since the Communist Party congress in 2012, launched by Xi Jinping and endorsed by his predecessor Hu Jintao. In fact over the last decade there have been repeated calls to fight corruption. But given the naming of top Standing Committee members as controllers of offshore accounts, it seems hardly likely that this campaign is really inspired by a desire to 'fight corruption'. More likely it is a mechanism for purging factional opponents – like the 2012 show trial of former minister and mayor of Chongqing Bo Xilai, accused of fomenting 'egalitarianism' and other pro-worker attitudes. It seems likely the campaign is also aimed installing fear and loyalty to the present leadership into the Communist Party's 90 million members: that's why more than 300,000 party members have been sanctioned so far.

Outdistancing these super authoritarian/corrupt states are the 'patrimonial states', countries where

the state is virtually owned by a single family. Examples of this were Libya under Gaddafi and of course Syria under the Assad family. Turkey's Erdogan is trying hard to build that kind of state.

Influencing the State

Direct corruption by the state is one thing, influence is something else. In western democracies influence is stacked in favour of the rich and powerful. In the United States and increasingly in Britain it is professional lobbyists who fight their corner. The *Atlantic magazine* in the US points out:

"Corporations now spend about \$2.6 billion a year on reported lobbying expenditures—more than the \$2 billion we spend to fund the House (\$1.18 billion) and Senate (\$860 million). It's a gap that has been widening since corporate lobbying began to regularly exceed the combined House-Senate budget in the early 2000s.

"Today, the biggest companies have upwards of 100 lobbyists representing them, allowing them to be everywhere, all the time. For every dollar spent on lobbying by labour unions and public-interest groups together, large corporations and their associations now spend \$34. Of the 100 organizations that spend the most on lobbying, 95 consistently represent business." [1]

The above account doesn't include the direct payments and other gifts given to members of Congress by big companies, not least the health insurance and healthcare companies who have fought so long and so successfully against a universal US healthcare system.

Britain is going in the same direction. As in the United States, business and politics are often revolving doors with former minister joining the boards of companies they dealt with when in power. Seumas Milne says:

"...lobbying doesn't begin to cover the extent of corporate influence. More than ever the Tory party is in thrall to the City, with over half its income from bankers and hedge fund and private equity financiers. Peers who have made six-figure donations have been rewarded with government jobs.

"But the real corruption that has eaten into the heart of British public life is the tightening corporate grip on government and public institutions – not just by lobbyists, but by the politicians, civil servants, bankers and corporate advisers who increasingly swap jobs, favours and insider information, and inevitably come to see their interests as mutual and interchangeable. The doors are no longer just revolving but spinning, and the people charged with protecting the public interest are bought and sold with barely a fig leaf of regulation." [2]

Legalised corruption?

Corruption everywhere has the effect of transferring huge amounts of wealth from the poor to the rich. If poor individuals are not directly robbed, then their economic situation, their public services, their health service, their transport, their education – all these are robbed when taxes are avoided and government revenues robbed.

You can't analyse corruption today by looking for illegal activity alone. Many of the practices that happen in rich and poor countries are legal or in a grey area where it's difficult to tell criminal from the lawful.

For example, property dealing in Britain is profoundly corrupt. House prices in London (and thus in

the whole country indirectly) are pressured by the huge amount of hot money from corrupt Russian oligarchs and assorted gangsters of various nationalities invested in the expensive end of the market. But nothing here is illegal, as far as the house purchases in Britain are concerned. It's just that they are bought with corrupt money and force up the living costs of millions of ordinary British people.

Look at the purchase of rare earth minerals from the Congo, essential for computers and mobile phones. Much of this mineral wealth is controlled by war lord armies, guilty of war crimes and crimes against humanity. The companies who buy the mineral products they control – the moral equivalent of blood diamonds – have no contact with them at all. Dealers act as a buffer and through their transactions – perfectly legal – wealth based on rape and murder is miraculously washed clean.

Finance capital is by definition corrupt. The investment banks typically do not disclose their fees to investors in advance (they call their charges 'consideration') by deduct self-decided amounts as they go along. Free charging professionals like lawyers, and in many countries doctors and dentists, make up their own huge fees. Isn't this corrupt? But there's nothing illegal about it.

The tax dodges by major companies like Amazon, Facebook and Starbucks, are perfectly legal. They pay all the tax they are required by law – or by agreement – in countries like Ireland and Luxemburg where they are registered. Whether these practices are illegal in the UK for example is a very grey area. But corruption it certainly is.

All these examples have the same effect: robbing the poor to further enrich the wealthy.

Corruption in Sport

So why do we have this rash of allegations and disclosures about corruption in sport? The money poured into sport by television and sponsorship deals is truly vast. Corruption in sport, including taking banned drugs, is about the division of the money coming into the game, or about gambling on the results.

Corruption around the edges of rich sports has always existed. For example, think of the exotic fees charged to some football clubs by the agents of players being transferred, some of whom it later emerges have close links to club managers.

But today the profits from winning at sports are mind-boggling. Take Maria Sharapova. What she has won on the tennis court pales into insignificance to the sponsorship deals she's gained from Porsche, TAG Heuer, Nike and Evian. Performance enhancing drugs are definitely worth it if they get you into the top earning bracket. Each athlete and their coaches and managers want to maximise their share of the cash coming into sport.

Fifa and Sepp Blatter is something else. World soccer is the richest sport. Fifa had the ability to make people very rich by its allocation of contracts and competitions and was therefore always a prime target for bribery.

But the bigger question is why all this corruption became a widely accepted or tolerated part of sport. Why would the South African cricket team under Hansie Cronje throw a match for a few hundred dollars per player?

The answer comes down to the zeitgeist, the spirit of the times. We live in a world where wealth and luxury are worshipped, where to have money is to be someone important, where to be a celebrity or

a major sports star is to be worshipped. A world in which competition for wealth and celebrity is universal and where the rich are almost always keen to become even richer. And where not to be rich is to be a nobody.

Nothing exemplifies this more than the gift lounges and gift bags organised for Oscar nominees by big companies. Stars worth tens of millions of dollars stagger under the weight of free cameras, watches, jewellery, electronic goods picked up at these events. When being rich, being one of the 'lords of humankind', is all that matters, then how you gain your wealth and keep it doesn't matter. Whoever it hurts or impoverishes,

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P.S.

* "Neo-liberalism's World of Corruption":
<http://leftunity.org/neo-liberalisms-world-of-corruption/>

Footnotes

- [1] <http://www.theatlantic.com/business/archive/2015/04/how-corporate-lobbyists-conquered-american-democracy/390822/>
- [2] <http://www.theguardian.com/commentisfree/2013/jun/04/corporate-britain-corrupt-lobbying-revolving-door>