Speaking In Riddles – The Panama Papers and The Global Financial Services Sector

On the cusp of the global financial crisis in 2007[1] an article appeared in Growth and Change entitled 'Shadow Europe: Alternative European Financial Geographies' (Brown and Cloke, 2007). The article contributed to a trend in analysis focusing on geographies of corruption and was intended to make a set of proposals for future research into the financial services sector to add to the wider debate on corruption.

Amongst the suggestions made were that "corruption and illicit finance are to all intents and purposes a "normal" part of the European political economy" (2007: 305); that "corruption should more usefully be considered as part of the "mainstream" economy, equally prevalent in the private and public sectors and extremely important as an instrument of capital accumulation and policy." (2007: 306) and that "If we fail to understand the long-term role that Europe has played in the development of illicit financial flows, then we lack vital understanding of the role that those flows have played in various financial crises" (2007: 320).

Before the GEC, distinct discursive terms appeared in the literature that acted to distance a shadow/informal global financial sector from a symbolic 'normal' one. Gutmann (1977) outlined a 'subterranean economy' whereas Feige, (1979; 1980) called it the 'irregular economy' or the 'unobserved sector'. Tanzi (1983) preferred the 'underground economy' and since the GEC 'shadow banking' has become popular.

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[1] The article was published in June 2007; on 9th August 2007 BNP Paribas froze three of its' funds because it could no longer value its' Collateralized Debt Obligations (CDOs), a day with "all the resonance of August 4 1914." (Larry Elliott, Guardian Economics Editor, Guardian 7/8/12, accessed 3/5/17 at https://www.theguardian.com/business/2012/aug/07/credit-crunch-boom-bust-timeline

Far from being analytical descriptors however, these tend to be politicised attempts to construct a false financial services dichotomy and distance a symbolic 'formal' sector from these proposed others. The GEC however has put the real-world seamlessness of the whole sector into perspective in a number of ways; according to UNODC head Antonio Maria Costa, for instance, liquidity from the drugs trade was a critical factor that kept the global financial system from collapsing in 2008:

> "In many instances, the money from drugs was the only liquid investment capital. In the second half of 2008, liquidity was the banking system's main problem and hence liquid capital became an important factor"
> (Guardian, 13/12/09)[2]

Revelations from the release of Panama Papers in 2016 describe yet more layers within a global financial services facade. To date analysis has tended to dwell understandably on the size and extent of the hoard and Mossack Fonseca (MF)'s operations globally - but this is far from the most interesting aspect. For instance, the roughly 214,000 shell companies set up by MF over 45 years[3] gives an idea of the size of the market from estimates that MF managed 5-10%[4] of the global market in such secrecy products.

The proprietors of the 214,000 companies included over 500 banks, including HSBC, Credit Suisse, UBS and Société Générale, all in the top 60 of the Forbes 2000 global financial

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[2] 'Drug money saved banks in global crisis, claims UN advisor', UK Guardian 13/12/09 accessed 5/6/17 at https://www.theguardian.com/global/2009/dec/13/drug-money-banks-saved-un-cfief-claims

[3] O'Donovan et al, 2016.

[4] The Economist. April 9, 2016. 'A Torrential Leak', accessed 8/6/17 at http://www.economist.com/news/international/21696497-huge-trove-documents-has-revealed-secrets-offshore-business-presaging-tougher

services companies by revenue; these banks alone were responsible for setting up nearly 15,600 companies through MF. Using the higher market share figure for MF of 10% still leaves 90% of a global market run through other firms and jurisdictions, in which banks of global importance are involved as a matter of routine and in which licit and illicit financial flows intermingle ceaselessly.

This vastness and inseparability of financial flows in the observed/unobserved economy (*de facto* sides of the same coin) constitutes such a serious problem that it has disrupted measures of national income accounting. For instance, officially some $11 trillion (Hendriksen, 2016) moves through the economy of the Netherlands annually, equivalent to twenty times GDP - notwithstanding, this flow has no economic effect because it is never physically present or invested. Given the involvement of many EU countries in offshoring, similar patterns can be expected in all EU countries. A critical point is not just the untracked movement of financial flows themselves, but that their ubiquity undermines critical measuring indicators of national economic activity, which depends on ratio indicators (Feige, 2015) such as per capita GDP and government debt/deficits to GDP:

> “A thriving shadow economy makes official statistics (on unemployment, official labor force, income, consumption) unreliable. Policies and programs that are engendered on the basis of unreliable statistics may be inappropriate and self-defeating.” (Karacas, 2016: 73).

Indications of development guided by the profitability of and move to an unobservable economy are everywhere. Although in 1998 there were 10,909 MFIs in Europe, by March

2017 this had decreased to 7,517[5] - concentration within the financial services sector has continued apace despite EU widening, more remarkable when it is realised that, within this shrinking sector the number of Financial Vehicle Corporations[6] (FVCs) has increased steadily; whereas in 2010 there were 2,935 such corporations in the EU, by the beginning of 2017 these had grown to 3,733, over half total MFIs. These specialised socio-technical vehicles are essential to unobservable financial flows and have little/no role to play in the 'real' economy of production goods, employment, investment and manufacturing.

The operation of FVCs is highly dependent on offshore financial centres (OFCs), but what Amin (2002: 320) refers to as "disparate geographies of offshore flows" demands first of all a dissection of the term 'offshore'. There is literature on re-evaluating the term (see Cobham et al, 2015; Sharman, 2010; Maurer, 2008), but we suggest that the term 'offshore' is currently a black box term, Bourdieu's (1972) *doxa*, something that "goes without saying because it comes without saying". In particular, governmental discourse is suffused with the distinction between a 'good' offshore characterized by legitimate, legal privacy practices, and a 'bad' offshore of drugs, arms and corruption.

Even more in 2017 than in 2007: "Strategically important flows of capital derived from complex underground production systems that have seldom been analyzed in detail move through the European financial networks that connect to offshore tax havens (Christensen 2003)." (Brown and Cloke, 2007: 319) Far more urgently-needed research into OFCs will be vital in mapping topological understandings of globalisation through dependent financial

[5] ECB, accessed 9/6/17 at
http://sdw.ecb.europa.eu/quickview.do?SERIES_KEY=187.MFI.M.D0.100.T.1&periodSortOrder=ASC

[6] ECB, https://www.ecb.europa.eu/stats/financial_corporations/list_of_financial_institutions/html/index.en.html

services relationships, but more essentially in understanding how financializing capitalisms themselves evolve as social network systems.

‘Offshore’ is effectively being deployed as a meme that acts to externalise specific sets of flows and processes in particular geographic areas outside the ‘formal’ financial services sector, whereas in reality OFCs are cyber-portals internal to the evolving system of creating new forms of capital fundamentally important to the functioning of the global economy. The ‘offshore’, ‘shadow’ sector is not the tail that wags the dog, it is the tail becoming the dog as the dog becomes unmeasurable.

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