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# Why did the Panama Papers (not) shatter the world? The relationship between Journalism and Corruption

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## Introduction

The Panama Papers by the International Consortium of Investigative Journalists (ICIJ) marks the biggest fraud-related data leak in the history of journalism (Obermayer, Obermaier, Wormer & Jaschensky, 2016). The economic costs of the revealed tax evasion affect the poor disproportionately: it is estimated that tax havens cost poor countries at least \$170 billion in lost tax revenues each year (Oxfam International, 2016). Among the persons exposed were famous athletes but also political leaders and public officials from various countries. Some politicians have faced considerable criticism, such as the former Prime Minister of Iceland Sigmundur Davíð Gunnlaugsson, who was forced to resign amid public protests following the Panama Paper revelations. And even though the ICIJ strategically withheld parts of the data to publish them periodically, public interest has faded relatively fast (see Figure 1). Many accuse the media for the lack of public outcry. Indeed, in order to grasp the sheer size of the revealed data, but also to understand the meaning of the information, news media play a crucial role. But is the media to blame that the Panama Papers did not shake the world?

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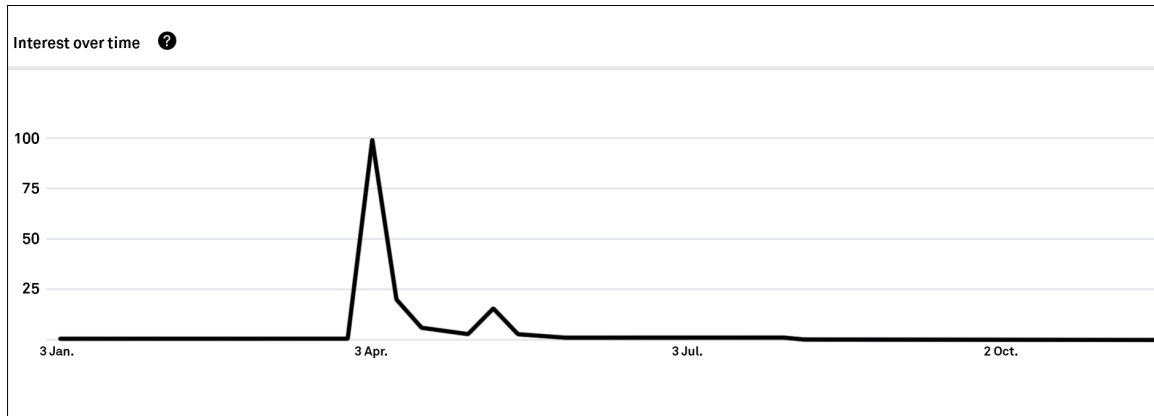


Figure 1 Google Trends chart illustrating the number of search enquiries for “Panama Papers” within the year 2016

In order to enable an informed discussion about the media’s role in the public response to the leak, we first provide a short introduction to the Panama Papers. After that, we briefly review the existing theories on the role of media in society in general and for anti-corruption in particular. Finally, we outline how scientific research, journalism, and other anti-corruption efforts can make use of the Panama Papers in their efforts to understand and fight corruption. One goal of this contribution is to put the Panama Papers on the map of corruption research and illustrate its potential for interdisciplinary collaboration.

## What are the Panama Papers?

The way the Panama Papers came into being reads like the script of a spy movie. It all started in 2014 when an anonymous source reached out to the German Newspaper “Süddeutsche Zeitung” (Obermaier et al., 2016). What this source offered was classified and encrypted documents from the Panamanian law firm Mossack Fonseca. Since the amount of data was too large for one newspaper outlet to process, the Süddeutsche Zeitung opted to analyze the data in cooperation with a cross-national investigative journalism project, the International Consortium of Investigative Journalists (ICIJ). This work on the Panama Papers spanned over 80 countries, involved more than 100 media organizations and 400 journalists. The documents indicate that Mossack Fonseca has been selling more than 200,000 anonymous offshore companies around the world.

Owning an offshore account is not illegal per-se and as Stephenson (2016) points out “firms like Mossack Fonseca might also often provide services that are (appropriately) legal”. Yet off-shore accounts are an integral component when engaging in illegal financial operations

such as tax evasion, money laundering and kleptocracy. Ostensibly offshore accounts or shell companies appear as legitimate businesses. They have founding documents, a CEO and documented employees. However, their managers – often made up of lawyers and accountants – only perform duties in order to keep up the appearance of a legitimate company. These shell companies pose an immense challenge for international financial oversight authorities because the real owner of the company’s assets often remains unknown. Such practices can only flourish in an environment where a strict banking secrecy framework is paired with very lax, to non-existent, national oversight laws on financial transactions. Such conditions predominantly exist in small island countries such as Panama or the Cayman Islands, hence the name tax havens (Hines Jr & Rice, 1990).

Although such offshore dealings have been long suspected to exist, the Panama Papers provide extensive hard data on the subject and illustrate a wide dissemination of the practice. They provide “a window into the shadowy and often sordid practices that the very wealthy - including corrupt public officials and their cronies - use to hide their assets” (Stephenson, 2016). The most publicly debated example of corruption linked to the Panama Papers was Iceland’s Prime Minister Sigmundur Davíð Gunnlaugsson walking out of a television interview when asked about his offshore accounts. More recent revelations indicate that the populations of many African countries have suffered severely under tax evasion and corruption enabled through offshore accounts at Mossack Fonseca as “entrepreneurs and corrupt officials across Africa have used shell companies to hide profits from the sale of natural resources and the bribes paid to gain access to them” (Shane, 2016). Given the immense societal costs, such as missing tax revenues, that have been exposed through the Panama Papers, how come there has not been more consistent public outcry about it? In order to answer this question, we first have to take a look at the role of the media in society in general and as an anti-corruption force in particular.

## A brief primer on journalism and anti-corruption

In democratic societies, media are part of checks and balances and fulfill normative political functions (e.g. information, socialization, articulation, control). Often referred to as a ‘fourth estate,’ the media monitor compliance with democratic laws, values and rules (Starke, Naab, & Scherer, 2016). However, in contrast to the legislative, executive, and judiciary, mass media have no formal means to sanction misconduct by corrupt public officials; therefore, they exert their public control indirectly. Stapenhurst (2000, p. 3) distinguishes between tangible and intangible “ways in which journalism serves as an impediment to corruption”.

Tangible effects describe the media's normative role as a watchdog to hold political decision makers accountable for their actions (Norris, 2004). One way to do so is to expose wrongdoings by public officials such as tax evasion and corruption. This way, mass media can support "the prosecutorial institutions by investigating and reporting incidences of corruption" (Camaj, 2012, p. 2-3). In the ideal case media spur investigations by official bodies and convictions of corrupt political actors (Stapenhurst, 2000).

Mass media also provide a civic forum for voicing complaints and thus contribute to forming public opinion. By "highlighting policy failures, maladministration by public officials, corruption in the judiciary and scandals in the corporate sector" (Norris, 2004, p. 119) the media can generate public pressure to force corrupt politicians to resign and to lose political power. A demonstrative example of this type of influence by the media is the aforementioned resignation of the former Icelandic Prime Minister. A loss of reputation of corrupt politicians as a result of media coverage can also be considered to be a means of indirect control since reputation is a major power resource for politicians. Such media effects require investigative media to go beyond just being passive observers and, instead, actively engage in uncovering misconduct (Starke et al., 2016).

A controlling press can also have a preventive effect (Stapenhurst, 2000). Deterrence theory (Becker, 1974) is a standard external cost-benefit perspective that generates three hypotheses as to the forces that are expected to increase the frequency and magnitude of corruption: (1) high magnitude of external rewards, (2) low probability of detection, (3) low severity of punishment. If the media fulfil their watchdog role, there is an increased likelihood for incumbents that their misconduct is exposed and consequently for them to suffer criminal prosecution, a loss of reputation or power. Thus, the personal benefit of corruption decreases, and potential perpetrators are deterred from engaging in corruption in the first place. However, in order to successfully deter corruption among public officials, exposure via media, strict anti-corruption laws, and effective prosecution via strong institutions of justice need to complement one another. If official sanctioning institutions are weak or even corrupt themselves, potential perpetrators do not have to fear punishment (Persson, Rothstein & Teorell, 2013). Related to the Panama Papers, in order for the revelations and the ensuing media coverage to produce tangible effects, the governing institutions need to possess sufficient means to prosecute powerful offenders, be it of tax evasion, corruption or other forms of criminal activity.

Besides such tangible effects, media can also have intangible anti-corruption effects. They can be described as "those checks on corruption which arise from the broader social climate of enhanced political pluralism, enlivened public debate and a heightened sense of accountability among politicians, public bodies and institutions that are inevitably the by-product of

a hard-hitting, independent news media” (Stapenhurst, 2000, pp. 2–3). Empirical support stems from studies that show that information supply has a positive impact on government responsiveness (Besley & Burgess, 2002) and accountability (Khazaeli & Stockemer, 2013) and that public access to information is a powerful deterrent of local capture (Reinikka & Svensson, 2004). Moreover, journalists can raise awareness of problems associated with corruption and shape social norms about prevalence and moral evaluation of corrupt behavior within societies. Empirical evidence highlights the importance of a general anti-corruption culture (Fisman & Miguel, 2008), corruption awareness (Goel, Nelson, & Naretta, 2012), and perceived social norms (Köbis, van Prooijen, Righetti, & van Lange, 2015; Starke, Köbis & Brandt, 2016) as important means to fighting corruption.

### Why did the Panama Papers (not) shake the world?

These different ways in which investigative journalism might curb corruption are of course very normative and paint a very optimistic picture and some of these mechanisms also apply to the Panama Papers. In this case, the role of the watchdog was performed by the ICIJ, “a global network of more than 190 investigative journalists in more than 65 countries who collaborate on in-depth investigative stories” (International Consortium of Investigative Journalism, 2016). The data leak and the resulting exposure of widespread misuse of shell companies on a global scale triggered not only public protests (e.g. demonstrations against the PM of Iceland), or parliamentary questioning (e.g. of the PM of the United Kingdom) but also policy changes. In the aftermath of the Panama Papers, the German secretary of finance Wolfgang Schäuble proposed new tax laws in order to cut down on the use of offshore account for tax evasion. These cases exemplify the potential of watchdog journalism to induce changes in the political system. Whether or not the Panama Papers have any preventive effects by deterring potential perpetrators from engaging in offshore accounts in the first place is still debatable at this point, but the enforcement of stricter tax laws most probably will. However, the concrete implications witnessed in Iceland, the UK and Germany provide some best practice examples. Of course, in majority of cases, the culprits implicated in the Panama Papers were not legally prosecuted or even investigated and in most countries policies remained unchanged. Such cases elucidate the oftentimes limited power of the media as an indirect control mechanism. Changes in policies can only occur if policy makers attend to that matter as a result of media coverage. In this regard, an active civil society plays a crucial role by applying pressure to political decision makers to introduce new or improved policies. Since the onset of social media platforms, it has become easier for citizens to contact public officials directly, to make

their voices and opinions heard and to partake in political debates (Sundar, 2004). In terms of political content, Social Networking Sites (SNS) such as Facebook or Twitter are predominantly used to receive information about politics, to engage in political discussion with other peers or to observe conversations between politicians and other users (“background listening”, Crawford, 2009, p. 528). However, active participation in political issues and direct interactions with politicians are on the rise (Ancu & Cozma, 2009; Emmer, Wolling, & Vowe, 2012; Gustafsson, 2012). Taken together, the media can play a crucial role in the fight against tax evasion, corruption and other forms of criminal activities by public officials. However, the effectiveness hinges on the respective level of corruption in which the media platform operates and consequently the effectiveness of formal prosecution institutions. It is often assumed that media furthermore influences whether and how the public reacts to such scandals, yet extensive empirical data on this issue is lacking. In the next paragraphs we thus outline a current research design that tackles that question.

### How the Panama Papers can be used as a source for corruption research

Besides being a source for research on illicit cash-flows, tax evasion and corruption, the Panama Papers have also inspired a research project on the role of media framing on readers’ inclination to act against corruption. We outline this particular research project, which emerged from the Interdisciplinary Corruption Research (ICR) Forum. An interdisciplinary team of researchers investigates potential media effects on the perception of responsibility and collective action in response to different forms of corruption (Köbis, van Prooijen, Righetti & Van Lange, 2016). We draw on the framing theory (see for more details on framing theory, Iyengar, 1991) that distinguishes between thematic and episodic news frames. While episodic news frames rather focus on single events, instances, and certain individual actors, thematic news frames provide more background information and cover an issue in a more analytical way (Papacharissi & Oliveira, 2008; Starke & Flemming, 2015). Thus, both types of news frames tend to attribute both causal (Who is responsible for causing the problem?) and treatment responsibility (Who is responsible for solving the problem?) differently. Iyengar (1991, pp. 15–16) concludes that “episodic framing tends to elicit individualistic rather than societal attributions of responsibility, while thematic framing has the opposite effect”. Building on this theoretic approach, we investigate the influence of media framing on responses to public scandals such as corruption and tax evasion. More specifically, we experimentally test to what extent episodic and thematic framing impacts moral emotions and perceived responsibility with regard to political scandals.



For that purpose, we generated and pre-tested a total of four newspaper articles: Two articles depict a case of tax evasion through a Panamanian Law Firm ('Panama Paper article') and two describe an instance of revolving door, a form of public corruption ('Revolving door article'). For both the Panama Paper article and the corruption article, we then manipulate whether an individual is portrayed as the primary culprit (episodic frame) or whether the incident is primarily described as the result of loopholes in the system (thematic frame). Using a between-subject design, we then assess the responses to these different articles. To be more precise, we measure a) emotional reactions, both using a classic scale and a novel more intuitive measure of emotions, b) perceived responsibility c) reported willingness to engage in collective action and d) actual inclination to support anti-corruption. We hypothesized the following:

1. Episodic news frames induce people to feel stronger moral emotions compared to thematic news frames.
2. Episodic news frames induce people to perceive lower public responsibility on corruption eradication compared to thematic news frames.
3. Thematic news frames induce people to engage in collective action more strongly compared to episodic news frames.

With this research project, we hope to obtain crucial new insights into the way in which media portrayals of public scandals contribute to emotional responses and collective action.

## Summary

The Panama Papers mark an unprecedented data leak. The last time such large-scale corruption was caught red handed was the Nixon era Watergate Scandal where the media actively exposed the internal corruption of the administration and eventually that exposure led to not only to the introduction of the Foreign Corrupt Practices Act (FCPA) in 1977 but it also became a starting point for USA to lobby for legislation similar to the FCPA in Europe and the rest of the world. Whether the Panama Papers will trigger comparable efforts to fight corruption remains questionable. To enable a better understanding of what the Panama Papers actually are and how they can be used as a subject and source for corruption research we make a threefold contribution. First, we provide a short overview about the emergence, size and consequences of the Panama Papers. Specifically, we zero in on the role of the media. We illustrate how the media contributes to anti-corruption in general and its role in shaping the response to the Panama Papers in particular. This way, we discuss factors that shaped the media's reaction

to the Panama Papers. Second, we illuminate how scientific research, journalism, and other anti-corruption efforts can make use of the Panama Papers in their efforts to understand and fight corruption. Third and finally, we conclude by outlining an interdisciplinary research project that brings together scholars from three different disciplines (social psychology, political science, communication science). The study is based on the Panama Papers and investigates the effect of news media framing on public perceptions of responsibility for corruption.

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