Living in the Time of Twitter

The Panama Canal may have opened its locks 100 years ago this year, changing, literally, the flow of world trade, but 450 years ago this year, as I also mentioned in this month’s Latin Letter in the Offshore Investment magazine, William Shakespeare was born and who opened minds across the globe from his flow of words. He has become the most widely read and studied author in the English language and is at the very heart of the United Kingdom’s culture. How he might have handled today’s blogs, rather than books, however, is anybody’s guess.

Reading brilliant lines, such as the ones created by Shakespeare, between the covers of a book is an experience not shared by too many young people with today’s technological terrain presenting so many alternatives for acquiring knowledge and being entertained. The late Allan David Bloom, an American philosopher, classicist and academician, said that “The failure to read good books both enfeebles the vision and strengthens our most fatal tendency – the belief that the here and now is all there is”. Another American, David Mikics, a scholar trained in Renaissance literature, advocates “old fashioned reading”. It requires a full-length book – not a compendium of abbreviated twitter texts – as well as the readers “rapt attention”. Tapping a screen rather than turning a page gives, what he believes, “a flattened version of life”. It also discourages conversation, when fingers, rather than tongues, rule the day. Albert Einstein had his own view on what the future might hold: “I fear the day that technology will surpass our human interaction. The world will have a generation of idiots.”

Blood on the Floor

Julius Caesar, Shakespeare’s play, concentrates on the emperor’s assassination in the Roman senate on 15th March, 44 BC, and follows a warning from a soothsayer to “Beware the Ides of March”. Caesar had asked him about the future and then dismissed the advice which, as we know, proved fatal. On 15th March, 2008 AD, many people were also seeking advice about what the future might be, except that this time it was concerning their savings following the repercussions of the subprime mortgage disaster which led to economic turmoil and saw revered financial institutions crumble. The bankers in the United States of America repeated on the residential front what the Japanese, on the commercial front, had done when that country’s property bubble burst in the 1980s after a period of loose credit and experimentation with new financial products. Many of those people looking for answers already felt that they had been betrayed and stabbed in the back, like Caesar, but by financiers rather than friends. The Roman emperor was replaced by the naked emperor, and much of the killing took place on the trading floor rather than Rome’s senate floor. In 1453 it took 40 days for the pope to hear of the fall of Constantinople to the Turks. The plunge in the world’s stock market values in 2008, which throttled the financial world, reached the Vatican and the world’s financial centres a lot quicker, thanks to the advances in communication technology. Bad news has always travelled fast but never as quickly as it does now via computer, often in a matter of seconds. Coincidentally, the first financial crash in the Western World happened after the Holy Roman Empire in 1622 debased its coins; this started the modern day equivalent of a banking
panic. 15 years later in Holland we had a financial collapse which stemmed (if you will pardon the pun) from the oft-quoted tulip bulb bubble (giving, in retrospect, a new meaning to the old hippy term, flower power). This was to be followed in the next century by the famous 1720 South Sea bubble in England and there were 8 more crashes during that century, ending in the Hamburg commodities bubble of 1799. The 19th century, however, was not to be outdone, with a further 18 financial fiascos in Europe alone. A relatively new member of the catastrophe club at the time suffered banking crises in 1819, 1837, 1847, 1857, 1873, 1884, 1890 and 1896. No, this was not a wobbly South American state, it was the US where some investments, you might say, had gone off the rails because much of the speculation had taken place in the railroad sector; commodities, it must be added, played their part as well. Lessons learned? As America’s current economic health is flaunted, loose credit, the good intention that paves the road to hell, is back in fashion. It was the 20th century, however, that (so far) takes the prize, especially with the stock market meltdowns of 1929 and 1987. Certainly, we know that this century has started off badly in financial terms with the main difference this time being, firstly, the degree to which the capital markets have been affected as opposed to, traditionally, just the banking sector, and, secondly, how the credit risk contagion has spread to a much larger number of investors.

**Incompetence and Impudence**

John Maynard Keynes was of the opinion that economics was a science rather than an art, suggesting a technical ability which he famously compared with the field of dentistry, hoping for the day when “economists could manage to get themselves thought of as humble, competent people on a level with dentists”. Perhaps they can, but, like the rest of us, they remain emotional animals and their judgement will be affected accordingly. It explains those mass, irrational reactions we have seen when grim news has been disseminated so rapidly in this post-Constantinople age. It is nature asserting itself and for which we have no defence because it is part of our make-up and can’t be avoided. Mark Twain, in his inimitable style, put it another way: “If you should rear a duck in the heart of the Sahara, no doubt it would swim if you brought it to the Nile”.

The US subprime débâcle occurred in tandem with the country’s residential property slump – although the financial mess has been attributed to much more than that. There was the addition of a banking and liquidity crisis to deal with – with a shortage of collateral serving as the sting in the tail. Much has changed in banking since Walter Bagehot, the British author and banker, advised the Bank of England in his 1873 book, “Lombard Street: A description of the Money Market”, to lend willingly to illiquid but solvent banks against good collateral, but at a penal rate. Prominent business writers have pointed to the failings of central bankers who have not met, in their view, the fundamental criteria of the job description: firstly, to ensure the smooth flow of the world’s financial system by maintaining sufficient liquidity in the banking system and, secondly, to set interest rates to counter too much inflation but at the same time avoid doing so in a way that will cause the global economy to move in fits and starts.

Bank supervision has also played its part in the scheme of things because it hasn’t kept pace with important changes in the banking business itself. America’s mortgage market, for example, dealt with shaky loans which were recycled and transmuted into complex debt instruments, many of which were bought by foreign (thus the internationalisation of the crisis) banks. These instruments – with echoes of Enron – were placed in off-balance sheet entities which were unsupervised.

Good advice and uncertainty are factors that have equal application in offshore estate planning and the key, when plotting your strategy, is to keep these two factors in the forefront of your mind; particularly the former. Offshore estate planning advice has become a very lucrative business for bankers, accountants, lawyers and related professionals; the emergence of America’s Financial Account Tax
Compliance Act has been described by some professionals – particularly accountants – as the gift that keeps on giving. All of these service providers have varying degrees of ability and there has always been an ample supply of eager ears ready to listen to advice from those who, unfortunately, may not be qualified to render it, but who have, nonetheless, what you might describe as a good delivery.

In “The Cunning Wiles of Bertoldo”, a comic romance by the Bolognese poet, Giulio Cesare Croce, the main character is of peasant stock but is still able to end up at court where, according to the writer, Beppe Severgnini, he was able to disguise himself by becoming “a champion of experience over education and of improvisation over preparation… who survives on his wits, the triumph of unpunished impudence”. He has many imitators today, some of whom are involved in offshore financial services. This is a subject I will address in more detail next month in my Latin Letter column in the Offshore Investment magazine.

God and Gold
Those exercising poor judgement can become hostages to the hoaxers but salvation could be in their own hands; perhaps by just placing them together. After all, it was the poet, Lord Tennyson, who said that “more things are wrought by prayer than this world dreams of.” If divine intervention is the key then it’s getting a lot of support today in the US. Corporate chaplains are in vogue and there are several thousand of them working for small as well as large businesses. There are large companies that have in-house chaplains complementing their in-house lawyers. (White collar crime could take on a new meaning in the case of those priests who wear one and are caught with their hand in the corporate till.)

This mixing of finance and faith in the US is on the increase and churches are, in some instances, creating financial support groups with the aim of showing you how to manage your money. Whilst I accept that religion can serve as a moral compass, I am not so sure if it can set the right course for finances, although from this month’s Latin Letter column you can learn how the Catholic church amassed a fortune from its followers. On the subject of the Catholic Church, as well as morals, Pope Benedict XVI, before his voluntary retirement, whilst not discouraging prayer, had some strong, critical views about the use of tax havens and offshore bank accounts by the wealthy in relation to taxes. So do I. No one, wealthy or not, should evade taxes, whereas those who can lawfully mitigate their tax burden should do so by whatever means available.

Unless there are special circumstances, an American, for example, setting up a company, trust or foundation offshore should do so understanding clearly that the activity will most likely be tax-neutral for him due to the tax regime he must comply with. The actual benefits will spring from such things as insulating assets, providing for heirs and maintaining privacy in the conduct of one’s affairs. Consequently, he has nothing to fear from his country’s FATCA which has stretched across the boundaries of sovereign states in the pursuit of tax cheats; perhaps international cooperation would have been less forthcoming if the US dollar was not the world’s present reserve currency. More on this subject of offshore benefits for Americans beyond taxes in my Latin American blog in this month’s Private Client Adviser.

Let’s not forget that laziness has something to do with the large number of distressed and disillusioned people that the offshore business attracts. Those who don’t get professional assistance in their planning are often the same people who are likely not to have done any research at all and then complain bitterly when their plans collapse like a house of cards. Even when someone is given proper advice they can sometimes refuse to take it if it is not what they want to hear. Remember also that above all other considerations there is a high degree of specialised skill as well as international investment opportunities offshore that people do not always find in their own country. It is often for this reason alone that a large number of them flock to the offshore centres in search of...
expertise and those attractive investments, particularly in the current climate of low interest rates on offer. But don’t join the other flock: those who follow like sheep the opinions of some others that have a foundation no more stable than that house of cards.

In conclusion, let me remind those seeking offshore advice of Cicero’s words: “It has seemed to be more necessary to have regard to the weight of words rather than to their number”. This does not just apply to William Shakespeare. Look for skill and knowledge when offshore advice is needed. It is gold – except that its value never fluctuates, whether the month is March or not.

Offshore Pilot Quarterly (independent writing for independent thinkers) has been published since 1997 by Trust Services, S.A. which is the British face of trust business in Panama where it is licensed under the fiduciary laws. It is written by Derek Sambrook, our Managing Director, who has been Treasurer of the British Chamber of Commerce Panama, a member of the former Latin America and Caribbean Banking Commission as well as an offshore banking, trust company and insurance regulator. He has over 45 years private and public sector experience in the financial services industry about which he has written extensively and our website provides a broad range of related essays including his Latin Letter column which appears in every issue of Offshore Investment, a British professional journal published since 1986. You can also read his Latin American blog on www.privateclientadviser.co.uk.

Engaging an offshore representative is an important decision and we advise all persons to seek appropriate legal and tax advice from professionals licensed to render such advice in the appropriate jurisdiction before making offshore commitments.

Local Bankers
Banco Panameño de la Vivienda, S.A.

Auditors
Deloitte.