

Simple, clear and wrong

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In last month's column (March: the month of expectation) I finished by mentioning the inter-governmental body known as the Financial Action Task Force (FATF) that, inter alia, scrutinises any threats to the integrity of the international financial system. Bearing in mind the past and painful banking implosion in the West, brought on by the American mortgage market, with big banks' wobbly balance sheets holding inadequate amounts of capital, I am reminded of the 1960s hit record by The Grass Roots: "Where Were You When I Needed You".

The lists of offending countries produced by the FATF raise questions about objectivity and subjectivity. Friedrich Nietzsche went as far as to assert "There are no facts, only interpretations". And speaking of bias, I remember the plight of former President Lyndon Johnson in America who said that if one morning he walked on top of the water across the Potomac river, the newspaper headline that afternoon would read: "President Can't Swim".

Let's try, despite the German philosopher's contention, to find some facts behind governmental or inter-governmental bodies' guides and reports, both being frequently condensed into indices. Are they solid or merely a front propped up by wooden beams? A façade, much like the Russian ruse attributed to Count Potemkin who created false villages to impress Catherine the Great as she travelled by train across Russia.

The performance index is especially vulnerable to manipulation when it is tracking data to produce international rankings, whether they relate to social or business issues, and are widely used, covering almost every subject, including happiness; gender inequality; and corruption. They are poured over by governments, think-tanks and campaigners, all of whom might just be tempted to tweak the particular index in favour of their point of view.

The straightforward format of the index is concise and clear, thus from an analysis standpoint it becomes visually very attractive. But as a devotee of H. L. Mencken I adhere to his belief that for every complex problem there is a solution that is "simple, clear and wrong". So it all boils down to measured judgement; don't become a slave (more later) to every index published. Ignore catchy titles and look for a hidden agenda.

Latin America has often been unfairly treated in the perception stakes, although I don't for one minute believe that the World Economic Forum massaged the data to place Panama in the number seven slot when it was ranking the soundness of banks worldwide (see last November's column, *Crumbling Empires and Dreams*, Issue 251). I'm more inclined, being the cynic which I am, to believe that the World Economic Forum would have willingly told everyone Panama can't swim.

The Trafficking in Persons (TIP) report compiled annually by the United States of America's State Department ranks governments on their perceived (there's that word again – one of the most dangerous in the English language) willingness to combat trafficking. A poor ranking not only affects a country's reputation, it could also impact on aid grants and investment.

TIP began life in 2001 and included 79 countries; today the total is 190. The index has been instrumental in highlighting an evil and has been a force for good – provided the information upon which it is based is good, too. Neil Howard of the European University Institute in Florence says, however, that the raw figures are second-hand, unreliable and not comparable from country to country. Worryingly, he goes on to say that in his opinion the influence which TIP enjoys "is out of all proportion to the quality of the data it is based on".

Today the Global Slavery Index (GSI) monitors over 160 countries and when it estimated that almost 30 million people in the world were enslaved, it made global headlines. But the data has been questioned; when no information for either Ireland or Iceland was available, the prevalence rates for Britain were applied and those for America were used for several European

countries, including Germany. Ronald Weitzer of George Washington University in the US went through the methodology and called the substitutions “bizarre”. A word I might have used in last month’s column when writing about Panama being included with Afghanistan, not just Uganda and Zimbabwe, on the grey list produced by the FATF in relation to its criteria.

As for the GSI, what is accurate, without question, is the existence of more than 30 million people who can be put at risk in regions of the world, such as Latin America, if much of their personal affairs become public, a goal of the Organisation for Economic Co-operation and Development (OECD) and the European Union (EU). For some, offshore financial services centres can be havens offering security and privacy much in the same way that Liberia gave succour to former slaves from America. Why so?

Freedom House, which was established 74 years ago in the US to muster support for American involvement in the Second World War, was founded by a diverse and influential group of prominent Americans. After the war it turned its attention to communism which was a direct threat to democracy and by extension it concerned itself not only with freedom of the individual, but the strengthening of human rights and civil rights; over time its original domestic focus took on an international dimension. It should be said that despite its vehement dislike of communism, Freedom House was equally opposed to McCarthyism in the 1950s which launched a series of infamous inquisitions masterminded by Senator Joseph McCarthy; an example, if ever there was one, of overreaction.

The fact remains that most of the world’s population lives in countries where governments fail to provide the basic protections many of us have grown up with. One need not rely on an index; just study a map of the world. So those in danger of such abuse, and who have through dint of good fortune accumulated wealth, do not want it made public (certainly not along the lines, for instance, decided by the European Union). Transparency must have its limitations, especially for wealthy persons who can be targets of oppression, either of a religious, political or ethnic nature. Nazism

spurred confidentiality as Switzerland’s once major export, knocking cuckoo clocks off their perch.

Freedom House has listed 107 countries as being either “not free” or “only partly free”. Ethnic Chinese in Indonesia and the Philippines, minorities in parts of Africa and the Balkan states, to take but a few examples, agree with Jeffrey Owens, former head of the OECD Centre for Tax Policy and Administration, when even he said that tax havens (I suggest relax havens in this instance) are essential for individuals who live in unstable regimes.

Closer to home, and in varying degrees, these concerns come to the fore in Bolivia, Colombia, El Salvador, Guatemala, Honduras, Mexico, Peru and Venezuela. It is little wonder that Panama, the region’s financial services centre, is seen by so many Latin Americans as a financial bolthole. By all means pursue criminal behaviour – whether fiscal or not – and be able to have the controls in place to secure a conviction. But public registers? Of course, it is difficult to transpose living in Paris (headquarters for the OECD) or Brussels (headquarters for the EU) for life in Plumtree in Zimbabwe, a small town I know well; it’s decidedly different, more dangerous, and certainly not where total freedom is enjoyed.

Robert Lowe, often called the father of modern English company law, proposed in 1856 a new law allowing the creation of limited liability companies. He told the House of Commons that it was necessary to give “the greatest publicity to the affairs of such companies, that everyone may know on what grounds he was dealing”. Such companies at the time were primarily for domestic and overseas trade with the public, often with at least several adventurous shareholders; so a case for those dealings to be made public was valid. But an offshore company today, typically with one person’s or family’s personal investments to manage, is a different matter – particularly if a fear of kidnapping, or worse, prevails. I suggest that the degree of caution exercised by offshore financial services centres in this day and age in respect of individuals behind such companies was unheard of in Mr. Lowe’s time.

Victor Hugo said that “nothing can stop an idea whose time has come”; even if it’s a bad one.

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