



The silence of the shams

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With the advent of summer in the Northern Hemisphere, people will be reaching for their Panama hats and Pimm's. Back in May, Panamas, in fact hats of every shape and style, were thrown in the air here in Panama by supporters of Juan Carlos Varela, winner of the presidential election, following a tight race in which he won just under 40% of the votes.

In a classic situation, however, that plagues Latin American politics so often, the new president-elect's party got just over 15% of the 71 seats in congress, so working with the opposition will be a fact of life. Following the electoral result, former President Martinelli (who held office until this month), and who is no friend of the new president, beseeched God to now help Panama. The president-elect – who attracted votes from the poor as well as the prosperous – has vowed that his government will be cleaner and more honest and although such clichés are common fare in developing countries, it has equal application in developed countries if we are talking about the private, rather than public, sector.

Deng Xiaoping, known as China's "Paramount Leader", initiated the country's open door policy back in 1978, motivated by the need for investment and Western technology, opening the door to foreign businesses wanting to set up in China; previously, China's main trading partner had been the former Union of Soviet Socialist Republic and its satellites. A consequence, however, of such a policy, as Deng Xiaoping (one of China's most influential people in its modern history) later observed, was that an open door also lets in insects. It is particularly a problem in the case of new, flourishing economies where controls are often playing catch-up.

Last month's magazine focused on fraud and criminal activity and as countries in Latin America spread their economic wings they attract more ventures on home soil; but while foreign investment increases, so do the risks. I have written previously about past swindlers, such as Gregor MacGregor, (most recently last October under the title "Bubble, Bubble, Toil and Trouble" in issue 240) and today's opportunists see the same ripe pickings in countries such as Perú, Brazil, México and Panamá.

Regrettably, regulation and due diligence are no panacea; it seems that no matter the hurdles encountered, someone always leaps over the last one. This is often achieved with aplomb. John Kenneth Galbraith, the late economist, wrote in 1961 about another cliché: that in the financial world everything depends on confidence; we all know that today trust has been shot down in flames, but one of his other comments does remain true: do not confuse good manners and good tailoring with integrity.

Sultans of subterfuge have, as I say, continued to stalk Central and South America since Gregor MacGregor, such as Ivar Kreuger, a Swede, who, in the first three decades of the 20th century built an industrial empire, finding his alter ego in Fyodor Dostoevsky's Crime and Punishment. Like the central character, Raskolnikov, he believed that superior beings were not restricted by ordinary laws; the end always justifies the means. John Kenneth Galbraith, on the subject of charlatans, also said that the Swede: "was the Leonardo of their craft".

It was matchmaking that drew Ivar Kreuger to the region where, at one time, he gained the monopoly of the match industry in Guatemala, Perú, Bolivia and Ecuador. The safety match, a Swedish invention, when struck on the side of a matchbox coated with a non-toxic type of phosphorous, produces a flame. His father owned two match factories and eventually the son would own his own matchmaking business, Swedish Match Company.

Secretly, Ivar Kreuger acquired factories across Europe and beyond. He would lend money to countries that gave him a national monopoly on match production and the loans

were secured against revenues that he controlled. This was a man who, long before modern financiers created a market in asset-backed securities that led to losses on a colossal scale, had mastered the art, selling securities to investors that, in turn, provided loans for governments secured against assets which, as I say, he controlled. In 1929, an ominous year in financial history, he explained that the key to his success was “silence, more silence and even more silence”. The silence of the shams? with apologies to Thomas Harris, creator of Hannibal Lecter.

Far more flamboyant, Robert Vesco’s fraudulent activities in the 1960s meant that America’s Securities and Exchange Commission was after the American for, at the time, the biggest financial fraud in history (over USD1 billion in today’s money). His victims were not in Latin America (although doubtless there were a few) but it is where he sought sanctuary. After his hostile takeover of Investors Overseas Services – owned by a doyen of deceit, Bernie Cornfield – he depleted that company of assets, intending to set up an independent company which he wanted to call RPL (in his own words, this stood for Rape, Plunder and Loot). He was on the run for 35 years, often either on board his luxury yacht or Boeing 707, fleeing to Costa Rica in 1973 until 1978, with stays in Nicaragua and the Bahamas, and eventually going to Cuba in 1982. But Cuba finally imprisoned him in 1996 because he peddled a so-called wonder-drug as a cure for cancer and AIDS to investors.

As we look around us now, a sense of discomfort must prevail when recalling the words of Honoré de Balzac, the French novelist born at the end of the 18th century: “The secret of a great success for which you are at a loss to account is a crime that has never been found out, because it was properly executed”. Perhaps this belief motivates some regulators who see investments controlled offshore as highly suspect, making the burden of the professional practitioner, already assailed by heightened due diligence, that much more onerous.

As a consequence, regulation in many instances has gone too far. More of us should raise a stink about it and this brings to mind the US Senate committee testimony given by John Ashcroft. The

former US Attorney General had just completed a statement, the length of which brought thoughts of a Fidel Castro political speech to mind. “Thank you, Mr. Attorney General, for that extensive opening statement,” began Judd Gregg, a New Hampshire Republican. “It does remind me a bit of a fellow I used to represent when I was practising law named Oscar Payne. He went to church once and it appeared he was the only one at church. And the minister spoke, did three readings from the Bible, and they sang four hymns, and did a sermon – and a full sermon – it was a very good sermon. And they had the offering even. They passed the plate. And at the end of the service, the minister went to the front door and said to Oscar, as he walked out – shook his hand – ‘Oscar, what did you think?’ And Oscar said, ‘Well, when I go down to my field, if I only find one stalk of corn I don’t dump the whole load of manure on it.’”

Sadly, many people have been fooled more than once and, if you are one of them, you can perhaps seek comfort in the fact that an American study determined that even experts in their respective fields can suffer from an important deficiency: they fail to learn from experience. Another study, this time in the United Kingdom, concluded that only two groups of people, in fact, seem to learn from experience: weather forecasters (I’m not so sure about that) and professional bridge players. Apparently, that is because they get feedback quickly and often.

William Shakespeare, mentioned in last month’s Latin Letter, knew a thing or two about human nature, long before there were any such studies, when he observed that the world is a “great stage of fools”. Somerset Maugham, an author and certainly a chronicler of character, was at a dinner party (Noël Coward, a close friend, entertained everyone at the piano) when he watched Ivar Kreuger, a fellow guest, fumbling with his cigarette lighter. The writer proffered him a matchbox with the comment, “It seems you need a match, old boy”; needing one, and never meeting his, were, of course, two different things.

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