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## OFFSHORE PILOT QUARTERLY

*Commentary on Matters Offshore*

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### **Can't See the Wood for the Degrees**

Isn't it strange? With all the emphasis on education, seemingly with the variety of degrees competing in number with new software apps on the market, we find so many mismatches in professions where square pegs have been pulverized by being pounded into round holes. This at a time when experience in the offshore financial services business in many cases has taken the seat behind education instead of sitting alongside it.

The late, extraordinary English author, Graham Greene, who was courted by many of the old guard of both left-wing leaders and dictators in South America because, at the time, they thought it politically prudent to treat the famous author well, once said that he "didn't particularly care for academics, their life begins with the Adam's apple, goes upwards – never reaches the pants". Accepting the author's hyperbole, it is true that what the pants hide is certainly what men (with or without degrees) in business need in the offshore business today; but that's another subject for another OPQ.

The word "experience" has one letter more than "education", but that one letter can be far more important than the letters put after a person's name. Speaking of which, I have often wondered why American lawyers, of both genders, purloined the word "esquire". What statement this makes, I am not too sure, but it is a medieval word from Old French that referred to a young nobleman apprenticed (more on apprenticeships later) to a knight. In the United Kingdom it is common in polite society (which is contracting at an alarming rate) to use it when addressing a letter to a man; my banker still affords me that courtesy. Be that as it may, besides experience

there is wisdom and common sense, two intangible qualities possessed by some, regardless of education, but which can make all the difference.

As for computer technology in the workplace, those two qualities will never be replicated by it because it is far more difficult to automate what we do with our minds than what we do with our hands. A computer scientist turned economist, Charles Jonscher, refers to the "non-digital quality of wisdom" – not to mention human creativity. The same, of course, applies to knowledge (not to be confused with education). As one senior executive at an international computer services company put it: "Knowledge is a flow, it is about what is in people's heads rather than what is in a database". I would also suggest that after obtaining a degree, there is no guarantee that what is in a person's head will equip him with the knowledge needed.

A reader's comment in The Economist newspaper is apposite and merits repeating, in part: "In my grandfather's day it was common for people to be hired out of school and trained for positions which now require a university degree. Why should public universities be doing this job?" In all this, however, one cannot be blind to the benefits of a university education. It's just a question of getting the balance right and avoiding assumptions.

Even if you have not decided on the vocation you wish to follow, the benefits derived from a spell at university can be significant because, after all, achievement builds confidence; and, in many instances, the environment promotes and encourages a rich cultural and social experience which can serve you well in later life. But, there again, there's no guarantee that an individual's type of personality will benefit appreciably from the exposure. In theory, university also promotes

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independent thought; I say in theory because the absence of it is in abundant supply today amongst graduates.

Still, an assumption that ability is guaranteed within the confines of a campus, whether student or professor, has been proven to be wrong time and time again. So let's reverse the belief which says that it is life's journey, not its destination, that is important; the journey taken when knowledge is your destination – and the roads are many – doesn't matter; just getting there does. I am not alone in my opinion.

### ***Enchanted Circles***

A good example is Frédéric Bastiat, who was born in France in 1801 and orphaned at the age of nine. He was brought up by his grandparents and before eventually inheriting his grandfather's estate he had already worked in commerce, farming and insurance; with his inheritance he became a farmer, yet he devoted a great deal of time to reading about economics, especially the writings of Adam Smith and Jean-Baptiste Say. He was never a scholar but his studies in economics had an impact on those who were and he produced a stream of articles, pamphlets and books which abruptly ended with his early death at forty-nine years of age in Rome on Christmas Eve in 1850.

Never a theorist, but a realist always applying the practical, he delighted in exposing economic fallacies. Henry Hazlitt, a founding board member of America's Mises Institute, called him "the master of the reductio ad absurdum". His wit and skill with words were the props that supported his persuasive logic. He made no important original contribution to abstract economic theory, but because of his expressions of economic truths, Joseph Schumpeter, the late economist and political scientist, at the time described him as "the most brilliant economic journalist who ever lived." He, literally, shed light on false logic, as you will see in a moment or two.

When it comes to Adam's apples, Bastiat once argued for the abolition of French university degrees considering, in his view, the state of public education at the time. He said that education is the transmission from generation to generation of the knowledge acquired by society and should not be "monopolised

and enclosed in an enchanted circle by university degrees". He saw that on the road to knowledge the travelling was never more important than the arrival.

Universities still to this day practice their own form of protectionism, discouraging the many alternatives to joining the "enchanted circle". We have tenured professors, often the products of the hot house syndrome (because they have never been exposed to experiencing the vagaries of commerce), teaching, of all things, business studies when usually all they can offer is theory which is not balanced by practice. Schumpeter may have seen no problem with this but Bastiat would have, and the advent of Massive Open Online Courses are spooking some universities that see them as weapons of massive destruction threatening academia; but smart universities (such as Harvard and Stanford) have embraced the concept and are profiting from it.

### ***The Dark Side of Competition***

With insight and common sense, Bastiat addressed two contentious subjects at the time: competition and efficiency. The government had levied tariffs to protect domestic industries from competition, forcing people to pay more for domestic goods when cheaper foreign imports were available; French businesses thrived with natural competition blocked, but at the expense of everyone else. Rather, Bastiat believed that money should be put into an industry where domestic companies do have a competitive advantage; we see today how some financial services have moved offshore because of such advantage much to the chagrin of domestic providers (not to mention many of their governments).

To make his point and to reinforce the free market arguments of Adam Smith, Bastiat wrote a satirical essay entitled "The Candle Maker's Petition". The petition involved the French lighting industry, including manufacturers of candles, tapers, lanterns, sticks, street lamps, snuffers, as well as producers of other related products, including tallow, oil, resin and alcohol. Bastiat describes how they all come together to call upon the government to take protective action against the unfair competition coming from the sun during daylight hours.



He proposed that people be forced to close “all windows, dormers, skylights, inside and outside shutters, curtains, casements, bull’s-eyes, deadlights and blinds” which would lead to a higher consumption of candles. Everyone involved in the lighting industry – especially the candle makers – would have much greater sales if the sun’s benefits could be curtailed and the petition reads: “We are suffering from the ruinous competition of a foreign rival who apparently works under conditions so superior to our own for the production of light, that he is flooding the domestic market with it at an incredibly low price...” To some degree (pardon my pun) this applies to online degree courses which should not be shut out any more than the sun when, compared to a university education, the cost is also incredibly low.

And as for the issue of creating jobs at the expense of efficiency, Bastiat suggested that the king be petitioned to forbid people from using their right hands – or, he posited, perhaps they could be chopped off. With one hand rather than two, it would follow that labour, because not everyone is ambidextrous, would require more than twice as many people, and twice as many jobs, to get an equal amount of work done (assuming that consumption remained the same).

In the case of the world’s bureaucrats today, with the plethora of confounding rules and regulations, one wonders how effective this could ever be for them when, on most occasions, the right hand never knows what the left hand is doing anyway. But what I do know is that we are sorely in need of a hand from Bastiat.

### ***Performance and Delivery***

Let’s look at some splintered, mashed square pegs in key commercial roles. We’ve read and heard about the incompetence of international bankers during the last several years, but when looking at monetary policy it becomes all too clear that not enough has been spoken about the track record of central bankers. By all accounts it is economists and lawyers who fill the top jobs at central banks in the West (the same people, incidentally, who seem to suffer from a dearth of practical banking knowledge, unlike those at the battlefield).

Top slot goes to America’s Federal Reserve. In the dark and distant past members of its board had bank experience and therefore could understand that bank profits and people’s prosperity went together, translating into dividends paid and loans made, boosting consumer spending and, of course, business investment. What we see is a deposit rate so low that banks are either penalised for, as it has been described, “pumping liquidity” (America) or being bled with negative deposit rates (Europe).

Janet Yellen, the Chair of the Federal Reserve, steeped in academia, has never worked in a bank, while other members include former professors and a presidential cabinet member; no one has direct experience in retail banking. If we consider the European Central Bank and the United Kingdom’s Monetary Policy Committee there is no cause for optimism there either. The UK’s nine-member committee has only four members with any (but no retail) banking experience. And of the 25-member ECB governing council, just five of them have worked at a bank (mostly, however, as staff economists).

Bastiat, speaking from the grave, might conclude that they know laws, banking models and politics, but little reality. Although Schumpeter recognised Bastiat’s gifts, he sniffingly said that the Frenchman was no theorist, reminding him more “of the bather who enjoys himself in the shallows and then goes beyond his depth and drowns”. Perhaps so, but it is that realistic, practical approach which we now need, and from what I can see it is the central bankers, primarily theorists, who have got themselves into deep water when not all of them can swim.

So how do you avoid this mistaken cross-pollination of professionals? There is no way of doing that, but what you can do is avoid taking advice from the wrong source; this is particularly important in the offshore financial services arena because at its apex is estate and succession planning, when total reliance is usually placed on the advice given. The professional assumes, in such circumstances, the guise of a priest hearing a confession; he is privy to sensitive information and the client, reposing complete confidence in him, must feel reassured that after confessing his concerns he will get a solution, if not absolution.



The performance and delivery, not their framed diplomas, is the yardstick I use when I judge the professional people with whom I must deal in my own chosen vocation. My judgement looks to those knight apprentices of yore; a combination of education, training and mentoring (whether college tutorials or not) is required, and the standard university model (which is showing signs of cracks) is, in many ways, becoming outmoded. Universities do not want to hear this, and that's fair enough.

Perhaps Bastiat, in his study of Adam Smith, considered this observation: "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices". A quote taken from *Wealth of Nations*. Discouraging competition is understandable, whether it's natural like the sun or not, but it is at the consumer's expense. It is similar to the hold that medieval guilds had, and is similar to the one today that corporate America has on the country's politics. America's Supreme Court has done the ordinary voter no favours by giving practically unlimited rights to corporate intervention in the country's electoral process. What an opportunity for businessmen to conspire, where instead of votes being weighed they are only counted.

It is no coincidence that Germany is synonymous with quality products. More than 40 per cent of Germans in 2013 became apprentices whereas just 0.3 per cent of the US labour force followed that route. A study by the Center for College Affordability and Productivity showed that 15 per cent of taxi drivers in the US had a

degree: in 1970 it was 1 per cent. Similarly, 25 per cent of sales clerks (compared with 5 per cent in 1970) were graduates. It points to a country (it is not alone) that has too many square pegs.

Returning to those medieval guilds, a big part of the problem is that in so many instances power rests on professional prestige rather than proficiency. Universities are especially adept at nurturing this sense of exclusiveness because education is big business, particularly in America. Those with a lot less training can still be highly effective and a review of studies of nurse practitioners in the UK, South Africa, the US, Japan, Israel and Australia that was published in the *British Medical Journal* found that patients treated by nurses in the general wards were more satisfied and no less healthy than those treated by doctors who should devote their skill to complex, not routine, tasks in line with their highly trained abilities.

So in offshore – or onshore – financial services you must assess your choices carefully. Whether the letters after the name are "Esq" or other ones, they do not guarantee that a lesser known English word is more applicable: *ultracrepidarian*. It means "acting or speaking outside one's own experience, knowledge or ability". In the trust field, as an example, you can describe yourself as a trust accountant, trust adviser or lawyer, but that doesn't make you a specialist; to be a proper trust practitioner means that at the core of your skills is a solid knowledge of bookkeeping as well as estate and trust law. You might not have a clue how to balance the books for IBM or about divorce law, but then you don't need to.

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*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](http://www.privateclientadviser.co.uk).*

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