



**Financial Services Commission
Mauritius**

AMCHAM Forum

“Economic Liberty: laissez faire or regulated?”

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Ms Mary-Ann Philips, Chairperson of AmCham, Executive Committee members, Representative of the US Embassy, distinguished guests, ladies and gentlemen, it gives me great pleasure to address you this lunch time. Indeed I am honoured to be your speaker.

Many of you would have asked why this title. This talk is going to be neither a philosophic discourse nor a debate of an economic hypothesis. I'll only be sharing with you my compass on achieving economic justice.

When I first came back to Mauritius, after my University days in England, I was lucky enough to join an organisation here in Mauritius with its roots in St Louis – Missouri, USA - the Junior Chamber (JC) and the JC creed became mine. I am particularly glad to share this one line of the creed with you today **“Economic justice can best be won by Free Men through Free Enterprise.”** This same organisation (Junior Chamber) allowed me to make friends around the world and celebrate the fall of the Berlin Wall and the end of apartheid during an African regional conference. Such experience anchored my belief in “economic justice through free enterprise”.

The search for economic justice led me to another US star, William Graham Sumner (a strong proponent of the US Constitution – the Bill of Rights - shortly before the end of the 19th century) who advanced four propositions:

1. Justice equals perfect liberty;
2. Perfect liberty equals economic liberty;
3. Economic liberty is founded on private property; and
4. Property accrues to the most deserving individuals

However, on the other side of the Atlantic, a man who would influence the destiny of millions argued that such liberties brought an economic system which caused alienation and that to solve the social problems brought by alienation, changes needed to be made to the economic system, the state and society. Of course, I am talking of Karl Marx.

But can there be laws which will condition everyone's behaviour in the appropriate ways? Is it worth it to give so much attention to philosophers of the past?

Fortunately, we'll not continue – this lunch time – along this track.

Today, the unrestrained capitalist systems of 19th century have – almost - everywhere ceased to exist. Overtime legal and other institutions have modified the economic system of capitalism considerably. In many countries – America and Europe, there has been a step-by-step reform. Even in countries where there was Marx's "once-for-all" revolution – like the USSR and the People's Republic of China – there have been reforms which now promote free enterprise. Time has shown that with free market, the conditions for life for most people have vastly improved.

Coming back to the theme of my talk, "Economic Liberty: laissez faire or regulated?", let me apply this question to financial services – an industry of interest to all of us. The financial services – the fastest growing industry – not just in this country, but all around the world encompass a wide range of individual businesses and many different skills. It is, above and beyond anything, concerned with money – in small amounts and in huge quantities. As an industry it has changed working practices, business ownership and regulation. It is an industry that has much to be proud of, but which has not always presented itself to the public in general in the most favourable light.

- In the late 70's and early 80's we witnessed the laissez-faire or libertarian economics of Margaret Thatcher and Ronald Reagan which was based on the belief that freedom of mind (to imagine possibilities) and freedom of action (to try to actualise them) would bring greater wealth. Indeed this laissez-faire brought the Big Bang Stock market developments – the shake-up of existing order by deregulation.
- Like in the film "Wall Street" where Michael Douglas – as the investment Banker, Gordon Gekko said "**Greed was good**". But things did not remain good. By the end of the 80's, there were banking crisis, energy crisis, political uncertainty, stock

market decline – the calm before the storm – collapses and of course, Black Monday (19 October 1987).

- The desire of some people to relieve their fellow countrymen of goods or money has been around for a long time and is unlikely to be solved until the human race becomes something different. This is not simply a cynical view, but an acknowledgement that while crime pays, there will be criminals.
- So regulators multiply and many thought that the 1990's would be a period of greater personal responsibility – but still, a handful of people bent the rules, lied and cheated. We have the 1990's Insider dealings (Levitt – poor financial controls) and Pension issues (Maxwell).
- Again, the knowledge that Maxwell was able to plunder schemes maintained for the benefit of thousands of his workforce was a disturbing revelation. The industry went soul-searching and for Government intervention and regulation. The role of the regulator – as new guardians of professional financial morals – changed. Regulators were given teeth and the grip tightened further.
- At the beginning of the 21st Century, better trained regulators and more sophisticated surveillance inevitably were not enough for the rapid changes and modernisation of the technology – paperless systems, globalization, new products dominated by quantitative investment finance¹. The financial market downturn in 2008 has called for increased financial services regulation and greater cooperation among regulators around the world.

Probably in the next ten years, we'll be seeing how efficiently the regulators can run themselves and how competently they can keep the industry on the straight and narrow.

- Economic liberty is not a call for anarchy.
- Economic liberty is not an absence of government constraints.
- Economic liberty is about the creation and maintenance of a sense of liberty for all.

As individuals enjoy the blessings of economic liberty or economic freedom (the more modern terminology), they in turn have a responsibility to respect the economic rights and freedoms of others². Governments have to put in place regulations which provide societal as well as individual defense against the destructive tendencies of others.

¹ People would notice the imperfections and by acting on them, remove them (*Roberts H.V. (1964) Stock Market 'Patterns' and Financial Analysis: Methodological Suggestions*)

² Promoting Economic Opportunity and Prosperity – The 2011 Index of Economic Freedom (<http://www.heritage.org/ondex/>)

The three fundamental principles of economic liberty are individual empowerment, non-discrimination and open competition. According to Heritage – promoting economic opportunity and prosperity”, applying regulations evenly and transparently lowers the regulatory burden by facilitating long-term business planning and promotes entrepreneurship.

You will be glad to know that according to **2011 Index of Economic Freedom**, Mauritius ranks 12th out of 183 countries (1st in Africa (76.2) with Botswana at 40th position (68.8) and Zimbabwe 178th just before North Korea and 4 unranked countries). This Indicator provides a meaningful insight into a (broader) state of affairs – the competitive edge which the Mauritius jurisdiction must keep.

My return to Mauritius – this time from Africa – is at a time when financial regulation is being revisited and where the post financial crisis is leading to a regulatory renaissance with a stronger and more effective regulation while at the same time there is need to look for economic growth.

The challenges currently facing the Mauritius jurisdiction are many folds:

- International
 - Disclosure and Exchange of Information
 - Adherence to International Norms & Standards
 - Recognition as equivalent Jurisdiction by other jurisdictions
- Regional
 - Emerging IFCs – Maintaining our Competitive Edge
 - Mauritius – the Hub to Africa?
 - Competitive products
- The local scene
 - Capacity Building
 - Financial Literacy
 - Consumer Literacy & Protection Initiatives
 - Financial Inclusion & Access to Finance

Despite all we can say about changes providing opportunity, we still have the impression of many of professionals nervously contemplating an uncertain future.

As Milton and Rose Friedman said “... *reliance on the freedom of people to control their own lives in accordance with their own values is the surest way to achieve the full potential of a great society*”. However, we must not blind ourselves about human nature and accept that government action and regulations are necessary for the peaceful evolution of a civil society.

To succeed,

- We need standards which lay down the acceptable minimum while allowing a blend of daring and caution.

- We need to promote accountability which in turn strengthens social responsibility and ethical behavior.
- We need regulations to be non-discriminatory and be applied to all.

Regulations cannot carry a disclaimer to the effect that “*some of this material may not be suited to x,y,z...*”

The opinions I express here are strictly my own. Even if our opinions differ, I hope that you have found that your interest in this exciting industry matches mine.

Thank you.