

Transparent governance is key to our survival

● *Ratings agencies are part of a global village in which good business practice is crucial to get rid of junk status*

Ismail Lagardien

Shocking events and states of affairs flash on television screens and on social media daily. We can run from them, but we cannot hide. The best example is the downgrading of SA to junk status by S&P Global Ratings and Fitch.

It has to be dealt with on the basis of presenting reality and not on an imaginary world of conspiracies.

It has been difficult to understand the high levels of misunderstanding and the conspiracy theories about ratings agencies that abound. I may be critical of the things they do, but conspiracy theories are not helpful.

South Africans may not like them or be interested in them, but they have an interest in SA. The institutions, agencies and actors that shape the structures of the global political economy take them very seriously.

Never mind the dangerous pull-back into the politics of identity and ethnic nationalism, events in one part of the world are relayed to other parts through contagion mechanisms such as investment, trade or capital flows.

A defining feature of the liberal international global political economy is precisely that states have opted into the system, through transnational institutions, regimes, agreements or treaties, as opposed to having chosen isolation.

The last remaining communist superpower, the People's Republic of China, chose to become part of the global political economy and mostly adheres to the system's rules – compared to North Korea's isolation or “decoupling”.

Should things be broken simply for the sake of breaking them, or should something better be built – and what are the costs of either?

THERE CAN BE NO JUSTICE IN REVENGE, MALICE OR IN THE WILFUL MANIPULATION OF LEGAL SYSTEMS

It is not unreasonable that the #FeesMustFall movement has positioned itself as a movement for justice over order. Generally, people take to the streets when they believe all legal challenges for justice have been exhausted.

Wilfully presenting impossible demands does not help the search for justice. Arguments over differences about justice and order, about stability and continuity can continue without conclusions ever being reached, but ethical lapses cannot be delayed indefinitely on the basis of short-term gains, because of exclusion and notions of revenge and recrimination.

There can be no justice in revenge, malice or in the wilful

manipulation of legal systems. Ethical lapses cannot be allowed to become normalised, especially not in the education system, on the basis that bodies of knowledge are the preserve of one group and that access to these bodies of knowledge has to be policed.

SA faces challenges to power, to abuse of power, of dominance and abuse of dominance threatening to roll back even further the achievements of the past 23 years' democracy. These threats are global in many ways. Some are shaped by the structural and historical forces of the longue durée, in which the focus is on long-term conditions and progressive change rather than brief political or military events. Assuming citizens lack agency is, however, a mistake.

There should be no intellectual surrender or shirking of responsibilities as active citizens. A gleaming city cannot be built on the hill on the basis of iniquities and injustices. It does not matter how slick and smart people are, if they operate on an unethical basis and conceal injustices, they are part of an unjust system.

The public sector faces enormous challenges, ranging from supply-chain management to fraud and corruption. Across the world, and especially in SA, there have been increased calls for greater efficiencies, transparency and for clearer lines of responsibility and accountability as means of preventing and



Activism: Amid abuse of power and of dominance threatening the achievements of the past 23 years' democracy, there should be no intellectual surrender or shirking of responsibilities as active citizens, the writer says. /Reuters

exposing corruption and lapses in ethical conduct. What are presumed to be strictly calculative practices, notably those applied in accounting, have come under greater scrutiny and expanded the boundaries of scholarly inquiry. These present large ideational and social challenges. They are inexorably linked and will severely test the limits of political, economic and intellectual abilities.

It is disingenuous to assume that illicit management or accounting practices are problems purely of the public sector. The response to these challenges in the short and long term will determine whether the world and the country can be turned away from a generation of worsening precarity – and the shifting of money into the shadow economy. The shadow economy is made up of a range of legal and illegal activities. This includes money laundering, underreporting or nonreporting of transactions and activities where no money is involved.

While this absence of money

has typically been conceived as bartering, the start of what has been described as the fourth industrial revolution has enabled a global spread of electronic transactions that never touch the ground, so to speak.

There are many methods and techniques for hiding the proceeds of crime including transporting cash across national borders, purchasing businesses through which funds can be channelled, acquiring valuables that can be moved from place to place, transfer pricing and shadow banking.

Evidence suggests shadow banking is growing globally, partly because of GDP growth and a low interest-rate environment. The largest shadow banking networks are in the US and the EU, but the rest of the world is catching up rapidly.

Shadow banking has increased significantly in China, where banking regulation is proceeding progressively.

Globally, shadow banking is estimated to amount to about \$75-trillion. In SA, it was esti-

mated to be more than R2-trillion in 2013. Amid reports of attempts at demoralising SA's banking regulators, challenges to banks and banking authorities and about dodgy bank accounts, the fact remains the shadow economy thrives on shadow banking, money laundering and corruption in general.

Because the public is unaware of people being bought off, banking or financial systems can become corruptible when oversight slips. It is especially dangerous when vast sums of money leave SA unchecked.

The world remains in the worst global political economic crisis since the Great Depression. The financial crisis that started in the US in mid-2007,

THE SHADOW ECONOMY THRIVES ON SHADOW BANKING, MONEY LAUNDERING AND CORRUPTION

due to increasing default rates and the devaluation of real estate and of financial assets linked to subprime mortgages, has given renewed force to the debate about the architecture of the global financial system. It has also drawn attention to the likely systemic risks to the global architecture and to mechanisms for supervision and regulation.

Through contagion mechanisms, this architecture turned a classic credit crisis into a financial and banking crisis of vast proportions, reaching a systemic dimension.

Accounting regimes differ across jurisdictions, some of which indicate clearly whether assets on borrowers' balance sheets are out on repo, but others do not, regardless of regulation. An understanding is vital of the contagion mechanisms in the architecture of the global political economy and particularly how ethical lapses in one part of the globe can affect institutions, practices and societies on the other side.

There is incontrovertible evi-

dence that less-than-ethical accounting practice contributed to the so-called Lehman's Repo 105 that contributed to the collapse of Lehman Brothers, one of the catalytic events that contributed to the crisis in the global political economy in 2017-18.

For sharing greater prosperity in Africa, intra-Africa trade has to be increased and South African investments be encouraged across the continent.

As political economies are integrated and regionalisation is advanced, accountability and transparency in the management of funds must be ensured.

This is not just a matter of balancing the books in the narrow sense of the term, but contributing to good governance, enhancing national and international investor confidence, furthering social stability and foreign investment and placing SA on a virtuous cycle.

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