HOW TO PROTECT THE BAHAMIAN BANKING SYSTEM FROM THE NEXT WORLD BANK COLLAPSE AND MAKE IT SAFE FOR FUTURE GENERATIONS.

With the current threats to the state of world economies:

- Sovereign debt at levels unprecedented,
- Governments unable or unwilling to deal with levels of expenditure,
- Taxpayers beginning to revolt,
- Gold at an all-time high, and
- Highly destructive natural disasters on the increase.

Who knows what event is going to trigger the next collapse? We can only be confident that something will.

When it does, we can also be confident that American Banks will, once more, be found to be wanting. They remain holding massive levels of sovereign debt. Massive levels of toxic mortgages still remain on their books. A new avalanche of foreclosures is heading in their direction.

In Europe, Greece approaches another bail-out, Portugal is receiving one and other countries are on 'watch'.

The world is awash with debt: sovereign debt, corporate debt and personal debt are each at record and barely manageable levels.

No banking system is currently risk free. That includes the Bahamian banking system. Although it, along with Canada, managed to survive the downturn of 2007/2008 reasonably well, as the Bahamian banking system is currently structured, it too, is subject to failure. The next international banking collapse, however, is likely to be massively larger and more severe.

Can we protect our banks and our deposits? Yes, I believe so. That's what I'm here to discuss tonight.

Before we attempt to look at solutions, however, I would like briefly to review the history of money and banking so that we may better understand what needs to be done.

Historical Perspective.

I am going to go into some very basic detail here to remind ourselves that God did not create money. Man did. Money is not some God given inexplicable entity over which we have no control. Man created money in response to having settled on the land and making human beings dependent on exchange for survival. If there are problems with money we can and must sort it out ourselves.

From the moment we are born we expend energy. We replenish it initially from our mother's breast. Then we replenish it though eating.

There is a relationship in nature between the energy we receive from what we eat and the energy we expend to both get the food and to eat it. For instance, if we expend more energy finding, picking, cleaning, biting, chewing, swallowing and digesting an apple than we receive from it, we are unlikely to do it twice.

When we were nomadic we were free to pick an apple eat it.

Then we settled on the land. With that came property rights and laws to protect property. Some people then owned and controlled land and others didn't. Those who didn't had no legal access to apples. They had to ask the owner of the land if they could pick one.

The owner of the land could then require the hungry person to pick two and leave him one or, perhaps even to pick one hundred and leave him ninety nine.

In both cases, the owner of the apples would have required the hungry person to expend more energy than nature intended: either twice the energy or one hundred times the energy. That is contrary to nature.

Throughout the course of history, whenever those in control of the essentials for human survival have required those who are not in control to behave too unnaturally - just to survive - revolutions have occurred. (The Tea Party movement in the USA, is an early sign of a voters revolution arising today)

However, the most significant change occurs when the second hungry person asked for an apple. The owner of the apples will **not** need him to pick two or even one hundred. **The owner will already have apples from the previous person. Therefore he would ask the second hungry person to make something else or to perform some other service in exchange for an apple.**

<u>**That is how we became the only species (of which I am aware) that busies itself producing what it doesn't want in order to exchange that for what it does want.**</u>

Astonishingly, it is in the production of what we <u>don't want</u> that we destroy the environment upon which we depend for our very survival! We claim to be the most intelligent species on the surface of the earth. Do you know any other species quite so stupid???

I hope we are all clear that, <u>**from the moment we settled on the land, we have all lived in a MANDATORY EXCHANGE SOCIETY from within which we have had to exchange to survive**</u>. (This is the change about which Henry George, the founder of Georgian economics, wrote with such great concern. Amongst his followers were Winston Churchill, Albert Einstein and Leo Tolstoy.)

The reality is:

<u>**WE DO NOT LIVE IN A VOLUNTARY EXCHANGE SOCIETY.**</u>

We at the Nassau Institute (who come from the Austrian school of economic thought) are believers in the free market economy. The free market or voluntary exchange society is what we seek. In order to attain it, everyone must be free to make or not to make any choice.

Our current state is **a mandatory exchange economy and the ground rules are different. Some people are not free to expend or not to expend their energy as they wish.**

A free market is our goal. It is not our current state of existence.

When I hear advocates of imposing free market practices in the absence of first attaining for everyone the opportunity for free choice, I am reminded of the story of the tourist in Ireland. Finding himself lost, he asked a local how to get to Dublin. The local paused, thought and then replied: "You know, if I were to go to Dublin, I don't think I would start from here!"

So, our settling on the land led to two different understandings of the marketplace. Those who already have enough are free choose which exchanges they might wish to make in the marketplace and are free to refuse those they don't wish to make. Those who don't yet have enough are not free to so choose. They must produce what their employer or proposed employer wants. They need to provide the basics for themselves and their family.

Arising from these two different sets of experiences are followers of both the 'free market' ideology and the 'socialist' ideology. Followers of the 'free market' ideology advocate a system based on voluntary exchanges and followers of the 'socialist' ideology - recognizing that some are not free to choose - advocate a system that seeks to provide sufficient for each individual to survive in a dignified manner. Unfortunately, followers of the socialist model base their thinking on confiscatory and punitive practices. Without these practices, socialists argue, they would have nothing with which to help those who have insufficient to survive. These ‘collectivist’ practices, themselves, erode individual liberty.

Henry George referred to these practices when he said:

"The necessary relation between labor and land, the absolute power which the ownership of land gives over men who cannot live but by using it, explains what is otherwise inexplicable the growth and persistence of institutions, manners, and ideas so utterly repugnant to the natural sense of liberty and equality..”

Unfortunately, and too often omitted from the thinking of those of us who advocate voluntary exchanges, most people are not free to make voluntary choices. In this respect, Henry George had it right.

The fact that historically neither socialism nor capitalism has worked satisfactorily ought to have led us to seek a new ‘ism’. Instead, we have swung between the two alternatives. How to attain a free market is a different discussion for a different time.

One of the requirements for any fair market is an accurate measure of exchange value. We need to know what the fair value of the product of our own expenditure of energy is compared to the fair value of the product of someone else’s energy.

In the first instance we judged through barter. Barter, of course, didn’t work for every exchange and the need soon arose for a commonly accepted medium of exchange. **Accuracy of the measurement of exchange value was – and remains – the key to fair exchanges.**

Many products were tried. Some deteriorated over time and their exchange value diminished. Tomatoes, for instance, wouldn’t work. They deteriorated over time. Nor would grains of sand – which might not deteriorate overtime, but were so easy to obtain in large quantities that they had little exchange value and a large amount would be needed for the most minor of exchanges.

Eventually gold became accepted throughout the world as the most accurate and useful product or commodity to use.

1. It did not deteriorate over time.
2. It is homogeneous. Therefore, it can easily be divided into smaller portions of equal purity and used for exchanges of smaller exchange value.
3. It is scarce. Therefore it takes a great deal of human energy to find and refine.

In most matters gold has the attributes of a successful medium of exchange. That is why gold lasted for centuries as the most trusted and most accurate “money”.

Security was another thing altogether. If you had one gold coin, you could carry it with you and sleep with it and protect it. Ten got a bit lumpy! One hundred became downright uncomfortable.

Even for one hundred gold coins, it might not have been practical to build a strong room or a strong box. People began to consider where to store their gold coins safely.

Goldsmiths had sufficient stocks of gold to be able to afford to build a strong room. They stored their gold on shelves in their strong rooms. Some of them had extra space on their shelves.

Some people began to store their gold on the shelves of their local goldsmith and goldsmiths would charge them a storage fee.

The goldsmith would give each person who stored gold with them a receipt for the amount of gold stored and a form, upon which they would accept instructions to deliver that gold, or part of it, to someone else. Today, we call that form a cheque.

Those who stored their gold on the shelves of their goldsmith found it very convenient and believed it to be secure. The practice grew.

A shelf in those days was known as a ‘bank’. The goldsmiths who stored gold for others eventually became known as ‘bankers’ and their businesses as ‘banks’.

As their businesses grew and more and more people stored their coins with them and their shelves became fuller and fuller, bankers soon noticed that, as people brought new coins for storage and others withdrew their coins or issued cheques which the bankers honoured by giving coins to the payee, only the first few rows of coins moved. Some came and some went from these first few rows but the coins at the back remained on the shelves and did not move.

Bankers, driven by their own greed, soon began to take some of the gold coins which sat at the back and loaned them to earn themselves ‘usury’ or ‘interest ’as we call it today. They reasoned that no-one would be the wiser and that they could return them before the people to whom they belonged might notice or claim them back.

The bankers who did this knew full well that what they were doing was wrong, fraudulent and illegal. They also knew that, if this treachery were to be discovered, they would no longer be trusted to store other people’s gold.

Therefore they developed the practice of always behaving impeccably; always appearing to be circumspect and extremely prudent. This was the beginning of the need to maintain confidence in banks.

Of course, the reason it became necessary to maintain confidence in banks was that, upon examination, there was absolutely no reason whatsoever to be confident. The banks were misrepresenting the amount of gold they had on their shelves and for which they had issued receipts.

What fraud? What misrepresentation? You may well ask. Well, the person who received the borrowed gold coin would have bought something with it and the seller would have received the borrowed gold coin in the exchange. The seller would have lodged this "borrowed" gold coin with the bank for safekeeping. The seller would then have received a new receipt for the "borrowed" gold coin. But, the original depositor would also still have his receipt for the same gold coin. Thus, the banker would have issued two receipts against the same gold coin! That is a clear misrepresentation, and a clear fraud.

As the volume of deposits increased, bankers began to issue standard receipts. They would pre-print a number of receipts for, perhaps, one, two, or three gold coins payable to the bearer. When one or more gold coins was deposited, bankers would give the depositor one of these pre-printed receipts with the precise number of gold coins already printed on it.

In the belief that these pre-printed receipts were fully backed and freely exchangeable for gold, people soon began to trade these receipts rather than the gold itself.

Of course, banks soon began to lend their paper notes as well as gold coins and when the recipient deposited the paper notes in the bank, the bank would issue them with a receipt for the paper money. Thus, banks would have issued three receipts against the original gold coin deposited. The fraud became larger. Today there are few limits to the amount of misrepresentation that is permitted.

From the day the first banker loaned the first of his depositors' gold coins, it was impossible to reconcile the total of all receipts issued with the amount of gold available to honour them. The gold-backed monetary system was finally destroyed by this impossibility.

This destruction happened in stages, beginning with a series of re-valuations over the centuries. These re-valuations purported to be re-valuations of gold. They were nothing of the sort. They were re-valuations of the receipts, continually reducing the amount of gold each piece of paper money actually represented as the number of receipts issued against each gold coin grew.

The gold-backed monetary system finally ended in 1971 when President Nixon had to close the 'gold window' because he could not convert all of the dollars tendered by foreign governments for gold under the terms of the Bretton Woods agreement.

Under the terms of the Bretton Woods agreement, US dollars were guaranteed freely exchangeable for gold at the rate of $35 per troy ounce. They were only convertible by governments, however. Individuals could not exchange their dollars for gold. This was a privilege reserved for governments only. Thus it was intended to maintain the illusion that paper money was still freely exchangeable for gold.

Before President Nixon became President, President Johnson embarked upon a war in Vietnam. It was an unpopular and expensive war. Johnson knew the war was unpopular and that taxpayers would not be happy with the increased taxes required to pay for it. Instead, he borrowed. This new lending to the government increased the money-supply and would have led to increased inflation. At the same time, while the government was borrowing at such a high rate, President Johnson strongly encouraged his industrialists to go overseas and buy businesses. This was the beginning of the serious growth of multi-national companies, and these overseas purchases removed money from the domestic marketplace and lowered inflationary pressures.

When an American company bought a foreign company, it paid in US dollars. The seller would then take his dollars to his bank to convert them to local currency. His bank would then take the same dollars to the central bank to exchange them for local currency. The central bank would then take the dollars to New York and exchange them for gold. That's how the system was designed to work under Bretton Woods.

However, President Johnson managed to convince these foreign governments not to present their claims until the war was over.

One of the many good things President Nixon did was to end the Vietnamese war. Of course, as soon as the war was ended in 1971, the French sent a battleship to New York with all of their US dollars to exchange them for gold. There was not enough gold in Fort Knox to exchange all of the dollars outside the US at the rate of $35 per troy ounce. President Nixon had no choice but to stop the exchanges. This became known as the 'closure of the gold window'. Following the closure of the gold window, the amount of gold for which each piece of paper money was freely exchangeable finally reached zero. So, the exchange value of each unit of paper money had diminished from full backing by gold to zero.

At each stage in this destructive process, gold itself was blamed by the bankers for being too restrictive on their ability to lend.   As we can now see more clearly, the reality was that banks were too busy producing fraudulent receipts purporting to represent more gold than the banks or even Fort Knox actually held.

In 1811 and 1848, two judicial decisions in the UK legitimized this fraudulent practice by determining that the instant that a depositor puts money into a cheque account, title transfers from the depositor to the bank. From that instant, the bank actually owns the money and can do with it as it sees fit. From that instant depositors became no more than unsecured creditors of banks and secured creditors now have first claim on the money in your cheque account!

Did you know that the money in your check account is not yours? Did you know that secured creditors of your bank have first claim on your deposits? Did you realize that banks are gambling with your budget money?

SINCE THOSE DATES, BANKS THEMSELVES HAVE OWNED ALL THE MONEY IN THEM. IT IS NOT YOUR MONEY ANY MORE. THE BANKS CAN DO WHAT THEY WANT WITH IT.

THE MONEY-LENDING OPERATION OF BANKS IS NOW PERFECTLY LEGAL. IT IS NO LONGER A FRAUD – LEGALLY.

BUT, THE MECHANISM HAS NOT CHANGED AND THUS STILL PRODUCES THE SAME MISREPRESENTATION. <u>MISREPRESENTATION IS A FUNDAMENTAL PART OF THE ONWARD LENDING OF DEPOSITORS' FUNDS.</u>

<u>HERE IS THE ROOT CAUSE OF BOTH RISK AND MORAL HAZARD IN THE BANKING SYSTEM. IT IS THIS ROOT WE MUST ATTACK TO MAKE BANKS COMPLETELY SAFE.</u>

What are some of the most serious side-effects of the onward lending of depositors' funds by the banks?

1. **All of the money in the banks belongs to the banks – not to depositors.**

   That gives bankers enormous power. If you or your business needs money, banks can provide it – but, on their terms! If you don't meet their criteria you have no access to it.

   One of their criteria is that you must already have sufficient other assets to repay any money borrowed easily, if necessary. Those without sufficient assets (the poor) are thus excluded from access to the bulk of the money-supply.

2. **Purchasing power is being removed from the poorer members of society.**

   The poor are also excluded from the redistribution of purchasing power the banks make daily. For instance, in 1971, when

President Nixon closed the gold window, the entire money supply of the UK was £31 billion Pounds Sterling. That means that, since the inception of the UK, through the building of the Commonwealth, through industrialization, through all the wars of the 19th century and the great wars of the twentieth century, over the centuries all the way up to 1971, the UK needed only £31 billion to fund it all.

Today the money supply in the UK is in excess of £1700 billion Pounds Sterling. In 40 years the moneylending practice of banks has created £1669 billion Pounds Sterling for their own use out of thin air, for their own benefit. The total money supply only 40 years ago is but 2% of the money supply now.

It follows that the poor have been excluded from access to 98% of today's purchasing power. By the time the less fortunate receive this newly created money in exchange for their labour, it would already have been substantially reduced in purchasing power.

Are you aware that at 3% inflation pa, money loses 1/3 of its purchasing power every ten years? (That is the level of inflation many economists and governments believe is an acceptable level.)

That's enough history. What is the position today?

1. **No banks hold enough 'cash' to meet all withdrawals simultaneously.**

   In 2007/2008 the Western banking and monetary system faced massive collapse. Why? For the same reason the gold system collapsed. Every time banks issue new loans, they create new money. Today money is a digital figure. Banks credit the borrower's account with the amount of the loan. The total deposits increase and the money supply increases. But, the amount of 'cash' available to meet the now increased claims doesn't increase. No bank holds enough cash to meet all withdrawals at the same time. When a 'rush' occurs, banks look to 'lenders of last resort' to bail them out.

The quality of 'collateral' held by many banks in the US today remains suspect. Many banks continue to hold 'toxic' assets in the form of foreclosed mortgages at their original loan value. They have not been required 'to mark to market'. They can afford to continue to hold them because the Federal Reserve lends them money at the rate of 0.0025 % whilst banks lend it to the government at 3.5%. These two combined, have hidden the real state of too many American banks for too long.

2. **The system of Central Banks as lenders of last resort has failed.**

   Banks used to depend upon Central Banks as lenders of last resort to bail them out in the event of a rush. In 2007/2008 the Central Banks alone couldn't do it and the taxpayers had to bail them out.

   Bankers have always lent to their point of imprudence in pursuit of maximum profit. This pursuit first destroyed the gold standard. Then it destroyed the Central Bank standard. Now they are dependent upon taxpayers. But, taxpayers are in revolt. Will they continue to bail out banks? I think not. I hope not.

3. **The world is awash with debt.**

   Yet, there is a hue and cry to 'get banks to lend again'. We don't need more debt. The last thing we need is more debt. What we need is more investment. Equity investment can get the economy moving again without the drag of repayments. Repayments take capital back out of a company limiting its ability to grow and employ more people. Contrary to popular belief, banks do not provide capital. They provide debt and debt is a burden. Capital is not a burden. Capital is an asset.

4. **The authorities are <u>not</u> trying to remove risk from the banking system.**

   Bankers are too powerful – they control access to all the money and they provide governments with the loans with which governments buy voters. The authorities are not trying to remove risk. They are merely trying further to mitigate risk in the banking system as it is. They are not trying to remove moral hazard. They are merely trying further to mitigate moral hazard.

   Both risk and moral hazard arise from the UK court decisions of 1811 and 1848. If you want your deposits in the Bahamian banking system to be safe, to be protected from the next banking and monetary collapse, both risk and moral hazard must be removed from the Bahamian banking system.

   This will require a change of law which returns title of their deposits to Bahamian depositors. Ownership of the money in your cheque account must be returned to you!

5. **The prospects for the US dollar are not looking good.**

   The Federal Reserve Bank continues to print money to support government overspending. The effects of the money already printed have not yet fully worked themselves through into wages and prices. The money-supply thus continues to increase and, as banks begin to lend once again, the rate of increase will accelerate enormously. The value of the US dollar will then plummet to new and unprecedented lows.

Do we want the Bahamian dollar to plummet as well? I certainly hope not. The cost of living will skyrocket. The social and economic consequences are unthinkable. If we wish to protect the Bahamian dollar, I believe we have little choice but to sever our present ties to the US dollar.

To make our banking and monetary system completely safe, the Bahamian government must also enact new legislation. [i]

To make the UK banks safe, Lord Caithness put a Bill (that I had had drafted) into the House of Lords on January 30, 2008. That Bill was not enacted and expired at the end of the last parliament. Had it been enacted and thus become law, the UK banks would not have failed.

In the new UK parliament, a new Bill has already been introduced to the House of Commons to return title to depositors and the Earl of Caithness is ready to introduce another Bill (to return title to the depositors) to the House of Lords following a debate on the banking system. This new Bill will make a good template for legislation in the Bahamas. I have copies of the draft Bill with me and am very happy to make them available to you.

Passage of a Bahamian Bill to return title to depositors will reverse in the Bahamas the effects of those mistaken judgments made in 1811 and 1848 in the UK. Then, your cheque account deposits will once more belong to you. It will be your money – not the bank's money. Banks will then have a fiduciary responsibility to you. They will not be able to lend your money. Only you can do that!

You will, of course, have to pay for the services of storing and distributing your money. Storing your money has never been free. You have paid for it through inflation. As I hope I have demonstrated, the largest producer of inflation is, in fact, the onward lending of depositors' funds. That will stop. The only inflation produced after that will be from government printing of money.

The current rate of inflation is in excess of 3% pa. No bank will charge you 3% pa to store your money for you. Most likely, you will be paying 1% or less.

You are currently paying distribution fees. That will continue.

Banks will not be able to lend your deposits. They will need to set up funds in which you may buy shares or units. These funds will then make investments. They will invest the money you transfer to them when you buy shares or units. Instead of the banks investing their money, you will be investing yours. You will be entitled to your share of the investment profits that banks have been making and keeping for themselves.

Your money will come out of your cheque account and enter the cheque account of the fund in which you invested. Total deposits will not change. Under the new legislation, each bank will be required to maintain its own cheque account. Then, when you pay bank fees, that payment will leave your account and enter the account of the bank. Total deposits will not change. The Bahamian dollar will not be being debased and the money supply will be able to be accurately measured and controlled.

ONCE THE GOVERNMENT HAS ENACTED THIS NEW LEGISLATION AND BANKS MAY NO LONGER LEND DEPOSITORS' FUNDS, THERE CAN BE NO INFLATION IN THE BAHAMIAN BANKING AND MONETARY SYSTEM UNLESS THE CENTRAL BANK PRINTS NEW MONEY.

Do you realize what this means?

1. **The Bahamian banking system will then become the strongest banking system in the world.**

2. **There will be no circumstances under which the Bahamas will need to call upon the IMF to bail it out. The Bahamas could then withdraw from the IMF. Not many are aware that under the rules of the IMF, members may not back their currencies with gold.**

3. **The Bahamas could return to the gold standard if it so wished.**

As a result, the Bahamian currency could become in demand as a reserve currency – it certainly would be sought as a 'safe haven'. **The financial services sector would boom. Investment in the Bahamas would increase significantly.**

Other currencies will continue to depreciate. The Bahamian dollar will not.

- The price of all imports will decrease. The price of foodstuffs, gasoline, medicines and other basics will fall and wages will purchase more. Everyone will feel better – as if they have had a wage increase.

- Existing foreign currency debt would be repayable with fewer and fewer Bahamian dollars.

- Exports will become more expensive – and that includes the costs to tourists. Tourism will need to focus more and more on higher-income tourism. They will demand better services and thus we will have to train our workforce accordingly. Canada had to make similar adjustments when its currency jumped 50% rather abruptly.

The alternate is less appetizing. The thought of remaining tied to the US dollar and allowing the Bahamian dollar to join the US dollar as it heads toward oblivion is very frightening indeed.

After having enacting the required legislation, there will still be an imbalance that will need to be addressed. At the moment of conversion of the Bahamian banking system, the banks will still not have sufficient cash to meet withdrawal.

We in the Bahamas are very fortunate because the Central Bank of the Bahamas has been very careful in its supervision of banks here, and this shortage of 'cash' can be easily resolved.

At the end of last year, December 31, 2010 the banks had deposits of **B$1,205,033,000** in cheque accounts. They held cash of **B$113,117,000** plus deposits with the Central bank of B$518,706,000. This left them short by **B$631,833,000.** [ii]

Banks also hold **B$1,093,244** of Treasuries and other Bahamian Government securities.

If the Bahamian Government bought back **B$631, 833,000** of those securities for cash, the banks would then hold **B$1,205,033,000** in deposits for depositors and **B$1,205,033,000** in cash.

BAHAMIAN BANKS WOULD THEN BE 100% FREE FROM RISK AND 100% FREE FROM MORAL HAZARD.

BAHAMIAN BANKS WOULD THEN BE FULLY SAFE, WHATEVER HAPPENED TO THE BANKING SYSTEM IN THE REST OF THE WORLD!

In addition, as you will see on the attached balance sheet and P&L:

- **The government would save $30 million per year on interest costs.**
- **The banking sector would increase its profits by $33 million.**

THOSE ARE ALL PRETTY POSITIVE CHANGES!!

What of the investment sector?

The investment sector will now need to be completely separated from the cheque account sector. They must have no direct connection. In that respect, the investment management division of each bank will become like – and compete with – any other investment management operation and should be governed by the same rules.

At the moment, banks are restricted to lending. As investment managers, they will need to be given wider options to compete with other investment managers. They will also need to be able to make equity investments. Bank regulations will need to be changed accordingly.

The funds they operate will need to seek investments in the local communities – as Bahamian banks always have. Some of the funds will seek investments in Bahamian start-up companies, others will seek investments in Bahamian growth companies, others will focus on income producing investments and others will seek investments in housing stock or commercial property. As a depositor, you should have a wealth of choices for investing the money upon which you have chosen not to pay storage charges.

Those seeking money for their businesses should also have a greater choice than they have now. Rather than having to borrow money, they should be able to seek direct investment by offering shares in their businesses. They could offer both ordinary shares and preference shares. For those who wish to retain full control of their businesses, the shares offered could be voting or non-voting.

Preference shares can carry a fixed rate dividend which must be paid before ordinary shareholders receive any payment whatsoever. Preference shares also have first claim on all of the assets of the company. In these two respects, they are much like a loan – except preference shares need not be repayable. The money can remain in the company for other uses. Preference shareholders who wish to regain their money can sell their preference shares to someone else who is looking for an income producing investment.

Where preference shares are cumulative, if a company has a difficult year and cannot pay its preference share dividend, it cannot pay any dividend to ordinary shareholders until the omitted preference share dividends are all paid. This gives preferred shareholders protection and allows businesses to keep key personnel during a downturn – ready to take advantage of any upturn.

With loans, on the other hand, the principal must be repaid and the money must come out of the company. If a business borrows money and fails to meet interest and principal payments, the business can be shut down causing everybody to lose their jobs.

Housing finance should continue through funds established for that purpose. Some housing finance funds will continue to offer mortgages. In these funds, should a home-owner fail to make payments and a foreclosure occur, any loss by the fund, will be borne by the investors in that particular fund alone. There will be no lender of last resort. The banking system will not be on the hook. Your deposits will not be at risk.

When all of the money in a housing finance fund has been invested, the fund will not be able to issue any new mortgages until more money is raised. Other forms of housing finance should develop to fill any demand for more housing finance. We may well see programmes develop along the lines of the many shared-ownership programmes which now exist around the world.

Car dealers may well operate their own leasing companies as they used to.

Shops may offer their customers credit in a variety of ways. Some may return to the programmes of accepting deposits and setting items aside until they have been fully paid for.

Debit cards will become the normal means of payment.

New and vibrant markets will emerge, so long as there are no restrictions on their development.

These markets will be driven, on the one hand, by the desire of all those who wish to minimize the cost of storing their money thus increasing the demand for investments. On the other hand, the need for money to develop and expand business activity will create a demand for investment funds.

These new markets could drive the economy of the Bahamas to new and unseen heights.

<u>**In summary:**</u>

1. The world banking system is likely to suffer a much larger collapse than that of 2007/2008. Therefore, we ought to take the necessary steps **now** to strengthen the Bahamian banking system so that it can withstand any future international financial collapse.

2. The banking system needs to be fully protected because we use it to store our money – the money we set aside to meet our family and our business budgets. We need it stored safely. 'Safely' means both free from theft and free from loss of purchasing power.

3. We can and should strengthen and protect the Bahamian banking system by passing new legislation which returns title of their deposits to depositors and liquidating sufficient bank investments to ensure that banks hold sufficient 'cash' to return every deposit simultaneously. **The banks will then be fully protected and your deposits will be 100% safe.** Banks can be more profitable. The government can reduce its interest costs.

4. The Bahamian dollar is currently tied to the US dollar. The US dollar has been falling in value and, as a result, so too has the Bahamian dollar. I believe the US dollar is set to fall precipitously. Do we wish to allow the Bahamian dollar also to fall precipitously? I do not. I hope you too, do not. I hope the government does not.

5. The Bahamas can withdraw from the IMF.

6. The Bahamas could then return to the gold standard.

7. Economic growth could then continue in the Bahamas regardless of the state of the rest of the world.

All of the above is achievable if we can encourage the government to pass legislation to return title of their deposits to depositors. Once this is accomplished and the banks are fully protected, we will still have to remain vigilant and pro-active to ensure that an open and free market is developed and maintained. This is a necessary precondition for all the remaining economic benefits to occur.

Achieving a fully free market, as I said earlier, is a discussion for another time.

Thank you very much for allowing me the time to share my beliefs with you.

John Tomlinson, May 18, 2011

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[i] See draft "Fully Secured Current Accounts Bill" (pdf) here…
http://www.nassauinstitute.org/files/FullySecuredCurrentAccountsBill.pdf

[ii] To see spreadsheet Bahamian Banking System Under 100% Safe Cheque System (pdf) here…
http://www.nassauinstitute.org/files/BahamianBankingSystemUnderSafeChequeAccountSystem.pdf