



T H E R E V I E W
O F

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Important Letters

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—
Bahamianization: The Teaching Profession

—
Poverty in the Developed World

and

A Quiz -
Name that Country



The Institute is an independent non-political non-profit institute that promotes economic growth, employment and entrepreneurial activity. It believes that this can best be achieved with a free market economy and a society that embraces the rule of law, the right of private property and the values of family, learning, honesty and hard work.

These beliefs lead to the following policy positions:

- For a balanced budget
- For the rule of "the law"
- For the privatization of the public corporations
- For a smaller government and lower taxes
- For an efficient justice system
- Against government management of the labor market
- Against a minimum wage
- Against price controls

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P O Box N-1688
Nassau, Bahamas

Tel: (242) 322-6300
Fax: (242) 322-1361

In this issue the article on Privatization is a reprint of a speech by Ralph J. Massey and the article on Poverty is a Letter to the Editor by Rick Lowe. The balance of the articles are Letters to the Editor submitted by the Institute.

Privatization: The Bahamasair Case

Anyone who lived during World War II can still remember the stark issues faced by mankind. The world was confronted with "*Deutschland uber alles*", Germany over all. It took five years, tens of millions of lives, enormous expenditures and unbelievable destruction to end this threat to civilization.

Politics "uber alles".

After this great conflict the world was confronted with another reality...politics "*uber alles*". The Great Depression produced a profound distrust of capitalism and a desire to eliminate the disparities in material welfare. The Great War showed that governments could overcome enormous obstacles. So...it was logical to believe that "government" could cure the perceived ills of capitalism and eliminate suffering. In democratic countries voters demanded it.

For 50 years the world was a giant laboratory for economic policy experimentation. The Russians, behind their new found military power, spread beyond its borders the dream of a new society...a society where human needs were defined and satisfied by the state. The responsibility of the individual to provide for himself ended. Literally...Communism attempted to remake the nature of man. It failed to do so at an unbelievable cost in human lives...greater, in fact, than the direct loss of life caused by World War II.

There were very precise national experiments...East and West Germany, the two Koreas and the three Chinas. The colonies sought both political autonomy and economic

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salvation.

Tanzania, for instance, under the aegis of President Julius Nyerere developed a unique socialism called "*ujamaa*". The age-old tendency of Africans to spread out across the countryside ended as poor farmers and herders were forcibly assembled into villages. The government fixed prices and nationalized and expropriated companies. This socialist experiment was lavishly funded...an estimated \$20 billion of foreign aid between 1970 and 1994...on a per capita basis the largest amount ever...the equivalent of one new Atlantis-sized investment every 15 months for 24 years. When he relinquished the presidency Julius Nyerere said, "I failed. Let's admit it."

Today Tanzania remains one of the poorest countries in the world with an annual Gross National Product per capita estimated between \$128 and \$800.

Economists had a field day. It was the Keynesians versus the neo-classicists. In the end the latter triumphed. Their work on wealth, growth and the factors producing growth were instrumental in turning the intellectual tide...and produced eight Nobel prizes. Eventually the failures of central planning and socialist ideology became apparent. By 1996 even the International Monetary Fund...long supportive of statist solutions...formally recognized the primacy of free markets in solving the world's economic ills.

Of course "*politics uber alles*" in non-Communist countries produced government corporations. Mexico, for instance, nationalized 600 companies ranging from telecommunications to kitchen appliance manufacture and even a Mexico

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City night club...all motivated by job protection. The gross inefficiency and financial cost became intolerable. Privatization of these companies became a key element in the country's effort to reduce government expenditures.

The Bahamas.

In the Bahamas the "old" PLP government established controls over private enterprise and government ownership of the utilities, radio, TV, hotels, central banking, commercial banking, social security and air transport. It even mounted disastrous forays into cattle and chicken raising. In 1992 the FNM took the first step by selling off the hotels. But it has not moved beyond this...and the Prime Minister in a December 14th two-page newspaper statement publicly took Bahamasair off the market.

This article will deal only with the privatization of Bahamasair and will comment on his statement and the 1994 audited financial report.

Bahamasair.

His statement reviewed the 24-year history of the company...18 years under the PLP and 6 years under the FNM. The PM pointed out that --

- Prior to 1998 audited financial statements were never presented to Parliament. Statements for the years 1974 to 1986...but excluding 1981 and 1983...were tabled in 1998. There are no audited statements for 1989, 90 and 91 and the auditors are now working on 1995.

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The normal practice in advanced countries is to publish audited financial statements four months after the close of each fiscal year.

- He indicated that the present in-house financial reporting system is "unable to verify receipts, payments, payables, receivables, assets and liabilities."

Auditors cannot produce "unqualified" statements in these circumstances.

- He stated that in January 1993 the Bahamasair General Manager informed him that the company "is, and has been for some time, bankrupt."

The auditor's report for fiscal 1994 was completed in September 1997...three years late. It showed that Bahamasair had an accumulated operating deficit of \$162 million and the country's total investment at risk was \$204 million in capital, loan guarantees and short-term credit. The auditors had doubts about the amounts shown for assets, revenues and liabilities...the statements were "qualified." They concluded with a statement that appears totally innocuous. Coopers & Lybrand had "substantial doubt that the Company will be able to continue as a going concern."

In the world of finance the 1994 audit report by Coopers & Lybrand is as bad as audits get. In business this is the stuff that turns directors and shareholders alike into raging dissidents because they have a financial interest in the company. This is not the case with Bahamasair. The primary focus

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of its “shareholders” is politics; a bad audit does not light a fire...it is simply explained away.

- The PM stated that the annual operating loss is presently \$16 million and he asked for and Parliament approved a \$13.7 million government loan guarantee to enable Bahamasair to purchase two Boeing 737s.

The current financial drain...\$29.7 million...is equal to 62% of the fiscal deficit budgeted for 1998/99. The accumulated operating loss may now be as much as \$226 million and the total investment at risk \$282 million.

Yes! Bahamasair is still bankrupt...and the accumulated deficit goes on accumulating.

The PM made the following comments about staffing levels, management and the corporate culture.

- He stated that Bahamasair remains overstaffed because its management did not follow the manpower directives given it.

This is not the impression of past managers. Except for the period 1992-94 they operated on the assumption... perhaps falsely...that they could not downsize nor retire employees before age 65.

- The PM stated that Bahamasair despite the overstaffing still “lacks adequate, capable management, engineering, marketing and accounting personnel” and has “an established culture of doing things without proper authoriza-

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tion."

This is a sad commentary on a company that has been in operation for 24 years. However, the fundamental truth is that politics dominates this company's culture...destroying discipline, financial control and accountability and emasculating customer service and hiring objectives.

Air safety has been the lone consistent bright spot because, if you want to fly into Miami, pilot proficiency and aircraft maintenance must meet U. S. standards.

Despite all of the above the Prime Minister contends that "Bahamasair is essential to national development...we can't do without it."

This statement just does not ring true when one remembers the efforts of a group of fearless Bahamian entrepreneurs who in the early 1990s started a new airline...Trinity Air. They believed the country needed a small, efficient, service orientated company very much like Southwest Airlines. They leased beautifully refurbished DC-9s and hired beautifully attired, courteous Bahamian stewardesses and experienced pilots. Like all businesses the organization was not perfect and the equity base was limited to the financial resources of the entrepreneurs.

However, no one anticipated the delays caused by the country's non-compliance with U.S. regulations. No one anticipated that Bahamasair during Trinity's critical start-up months would pull some of its Dash 8 turbo-props out of

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service and replace them with a leased Airbus...a jumbo-jet for the Miami-Nassau route with a foreign crew. The cost of this to the Bahamian taxpayer is reported by one informed source to have been \$6.5 million. With its left hand deep in the pocket of the public treasury, Bahamasair squashed Trinity Air with a mighty right hand blow.

Conclusions.

The moral to the story is –

- **Bahamasair is the perfect example of what is wrong with public corporations...they operate without market and financial restraints.**
- **The country can afford the luxury of this government enterprise only by borrowing...by mortgaging the future of its citizens.**
- **Others can and will supply air transport services more efficiently without such a lien on the present and future income of Bahamians...if only given the opportunity to do so.**
- **The government needs to assert fiscal responsibility: it needs to balance the budget, stop the growth in Bahamian dollar debt and reduce taxes.**
- **The Prime Minister should be applauded for his candor in stating his case publicly.**
- **Nevertheless...he should sell Bahamasair, stop the losses and focus on crime, justice and education.**

Like Bahamasair equally compelling cases can be made for Batelco and other utilities including the Post Office.

We must recognize that privatization is neither an easy nor

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politically comforting policy in the short-run. It means confronting reality and breaking the shackles of "*Politics uber alles*." If allowed...however...it will create opportunity and sustained growth

Bahamianization: The Teaching Profession

Bahamianization is the most widely accepted political objective in the country...in some way or other, all parts of the society embrace it. However, reason suggests that there should be a limit to Bahamianization. That limit should be the point beyond which it damages the welfare of the country.

A good example of this is the Letter to the Editor, "It's better for Bahamians to be taught by Bahamians", by Deanne Hanna-Ewers published in mid-December 1998 by *The Tribune*.

Is it always better?

The author contends that --

- It is "better for Bahamian children to be taught by Bahamian teachers."
- Foreign teachers are limited by nature in their ability to provide "satisfaction and fulfillment".
- Students will learn better within a black environment that will "nurture their culture, lift their self-esteem and push their academic ability."
- Bahamian teachers create "a positive empowerment of student self-esteem" and "a sense of oneness, pride and nationalism."
- "Bahamian morals and values will be safeguarded and not blemished with foreign intrusion."

Ms. Hanna-Ewers provided no concrete evidence to support these assertions except the opinion of W.E.B. Du Bois, the eminent Black American leader of the 1930s and 40s, who

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believed "that black children once integrated would be mistreated" and deprived of their growth potential. She also cited the work of Loftus Roker, the former PLP Member of Parliament, who terminated foreign teachers to save "the country's heritage" and create jobs for Bahamians.

Teachers and principals.

The author has presented assertions...pure rhetoric. She should have examined--

- The academic scores of students in the primary and secondary schools. The fact is that students leaving school have an alarming inability to read, write, calculate and reason. The scores most recently published in the press show deterioration over the past four years.
- The data on foreign and Bahamian teachers...their qualifications and numbers.

This data, the analysis of this data and the policy alternatives to reverse the trend lay buried in the Ministry of Education.

The author is avoiding the inescapable...students who cannot read, write, calculate and reason fail in the workforce and have low self-esteem.

This has dire consequences for the country and its ability to compete in the world...and compete it must. An important question, for instance, is "Is the deterioration in student academic performance in any way related to teachers or teaching?"

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Improved levels of student achievement can only be attained with good teachers and principals who reach for educational excellence and are awarded accordingly. There are other elements but this is one of the most important.

Furthermore, the Bahamas is so small that it is unrealistic to believe that it can supply all its teacher needs. The shortage is clearest in the "hard sciences"...mathematics, biology, chemistry, electronics, computer science, etc. It is recognized in the United States that its education system does not meet the demands of its high-tech economy. It imports teachers from abroad.

Any educational program that starts with the proposition that teachers must be Bahamian must lead to faulty policy recommendations.

Rhetoric without reason.

Ms. Hanna-Ewers presents us with an unacceptable dilemma...a choice between Bahamian culture and history and "western" culture and history. This is an unfortunate choice.

Bahamian children should have an appreciation of the history of the Bahamas and the African peoples. There is much to be learned that is valuable here besides adding to one's sense of pride and self-esteem.

The time devoted to this, however, must not take precedence over teaching the basics. Bahamians must recognize

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that the British/ European/American culture has been the dominant world culture for the past 300 years. Ironically, if a unique Bahamian culture is to grow, it must absorb the full range of skills and values that have given the dominant culture an edge in its confrontations with other cultures.

Thomas Sowell, the Black American economist and historian, spent the last 15 years studying race, culture, migrations and conquests over 2,000 years of history. He concluded

“not only individuals but whole peoples have moved from the backwaters of the world to the forefront of civilizations...these peoples sought the knowledge and insights of other peoples.”

Bahamians must do the same since only in this way will they be viable in today's world. They will not achieve this if they allow their educational policies to be determined by the soaring rhetoric of nationalism without reason....a rhetoric that paints them into a cultural box...isolated and anchored in the past.

The public should know more about the state of education today. Hopefully Deanne Hanna-Ewers and the Ministry of Education will address these issues publicly to create a strong public support for policies that protect country's best interests.

Poverty in the Developed World

In the 1880's the Iron Chancellor of Germany, Otto Von Bismarck, had a paternalistic desire to help his fellow countrymen. He implemented a social security system that insured against accident, sickness and old age. He, in effect, tied the self-interest of the individual to the state. The Socialist Labour Party in Britain and President Roosevelt's New Deal in the US would repeat this example.

The Bahamas seems to have picked up the same theme here in recent months with government's pronouncement to introduce more policies like this. It appears that we are going further down the road of Socialism, a path we can ill afford.

Milton and Rose Friedman pointed out some of the pitfalls of this all encompassing compassion in their 1980 "personal statement" titled *"Free To Choose:"*

"Britain and Sweden, long the two countries most frequently pointed to as successful welfare states, have had increasing difficulties. Dissatisfaction has mounted in both countries."

"Britain has found it increasingly difficult to finance growing government spending. Taxes have become a major source of resentment."

Why did the war on poverty fail?

It is estimated that America has spent over \$5 trillion dollars in an attempt to solve the problems of the poor. After all of this, the richest and most resourceful country in the world

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has to admit defeat in the war on poverty.

James Payne, author of *Overcoming Welfare*, leads us through the reasons for welfare's failure. He submits that the "Ideology of Handouts" is the major contributor. He suggests that "the handout feature characterized not only the programs that gave away cash and material resources like food and housing; it was also incorporated in programs that provided training, education, and rehabilitation. Recipients did not have to make significant sacrifice to be admitted to them, and they did not have to make any significant effort to stay in them. Swept up by the rhetoric of the day, program organizers simply assumed that all that recipients needed was opportunity, especially the opportunity to learn a trade and to get a job."

Mr. Payne went on to state that "the war-on-poverty activists not only ignored the lessons of the past on the subject of handouts; they also ignored their own experience with the poor."

"In the early 1950's Michael Harrington (in 1962 the author of *The Other America*...allegedly the book that started the war on poverty) worked at the St. Joseph's House of Hospitality, a shelter for the homeless in New York's Bowery District. The philosophy of the shelter was pure handout. Beds, food, and clothing were given out, as Harrington proudly reported, on a "first come, first served" basis. The shelter didn't require anything in return: no small amounts of money, no work, no effort at self-improvement."

Quite astonishingly Mr. Harrington reported on these tragic lives and their many problems and it would appear made no

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attempt to rehabilitate them. These problems included “alcoholics, degradation, exposure, disease, theft and violence.” In summarizing his experience it is reported he concluded “that alcoholic poverty was not an economic problem but deeply a matter of personality.” Apparently he added, “One hardly knows where to begin.”

With all this Mr. Payne hits the nail on the head in his evaluation of Michael Harrington’s handouts. “For someone so ready to hector others about how easily poverty could be ‘abolished’, Harrington was astonishingly unreflective about his own performance.”

His failure as a social worker among the homeless never lead him to question his handout approach, and his personal knowledge that poverty was *not* an economic problem never shook his ideological conviction that it was.

The rest as they say, is history. “The man who “hardly knew where to begin” in treating the problems of poverty – and who failed when he tried – became the guru for a massive array of government handout programs that, as even the *New York Times* now concedes, only deepened the culture of poverty.”

So what should we do?

First, government, including the Bahamian, should not assume that it can eliminate the inequities of society with handouts or continually increasing the welfare state as many countries have done. Unfortunately government programs,

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no matter how well intentioned, become black holes for the taxpayers hard-earned money. Government agencies tend to get increased budgets each year to simply expand their bureaucracy and the cycle of poverty continues.

Second, government needs to expand the use of free markets. Paul Poirot put this rather succinctly in his essay *Private Enterprise, Government Spending and Welfare*. "One of the characteristics of human nature is an insatiable desire for more – materially, intellectually, spiritually. The more a person understands, the more inquisitive he tends to be. The more he sees, the more he wants. The more he has, the more acquisitive he becomes. Now, the fact that individuals are forever wanting more and tend to act so as to fulfil their most urgent wants largely accounts for the miracle of the free market, the fabulous outpouring of goods and services through competitive private enterprise and voluntary exchange.

Government as the guarantor of "freedom from want" means that "the poorest managers within the society have been put in charge of human affairs; for they always do and always will outnumber those of superior talent. What is now advertised as a war on poverty is really a confiscation of the fruits of production; and the consequence has to be disastrous for everyone, especially the poor."

We must find ways to continue to increase capitalistic behaviour. If that comes with more foreign investment or reducing the tax burden on the rich to continue to expand business enterprises, so be it. The government needs to use its moral persuasion with the less productive of our society. If we "pay"

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people who do not wish to make a contribution, then both the war on poverty and the need to tax the productive sector expand...and...in the end limit the potential of both the rich and the poor.

The Quiz—

Name that Country (Xxxxxxxx)

Almost everyone has a deep attachment to his or her country and people. This affects one's life in so many ways but at times the vision may become distorted. Looking at other countries can provide a perspective for adjusting that vision.

A good country to look at is Xxxxxxxx. In the first 400 years of this millennium Xxxxxxxx, a celtic country, had a society that embraced violent combat, slavery and human sacrifice. This small country successfully defended itself and remained outside the civilizing influence of the Roman Empire (753 BC – 476 AD) and its destruction by Germanic invaders.

Toward the end of the Empire Xxxxxxxx was converted by a former slave. He peacefully transformed it "into Something New, something never seen before—a Christian culture, where slavery and human sacrifice became unthinkable and warfare...diminished markedly." It developed monastic universities that accepted commoners as well as noblemen and became a haven for scholars fleeing the "barbarians". Scribes copied by hand the Greek and Latin classics, the west's written treasury, and Xxxxxx became a written language...the first in Europe after Greek and Latin.

With the return of stability in Europe, these Xxxxxx scholars traveled throughout Europe spreading the learning that was destroyed. "Wherever they went the Xxxxxx brought with them their books, many unseen in Europe for centuries and tied to their waists as signs of triumph, just as Xxxxxx heroes had once tied to their waists their enemies' heads. Wherever they went they brought their love of learning and their skills

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in bookmaking.”

In subsequent years the Xxxxxx successfully defeated the Viking invasions. Then the English invaded in 1169. The Celts still fierce fighters delayed effective British control for centuries...until...the punitive invasion of 1649. Then 40% of the population was slaughtered or died from malnutrition. The mass confiscation of land and oppressive laws based on language and religion made the majority second class citizens. Resistance...persistent and often violent...continued for almost two centuries and led...at the height of the anti-slavery movement in England...to the Catholic Emancipation Act of 1829.

The dire poverty of this period is indicated by an average life expectancy of 19 years—compared, for instance, to 36 years for contemporary American slaves. Bad as these conditions were they became far worse with the agricultural failure of the 1840s. One million people died and two million emigrated. Between 1841 and 1926 the population declined from 8 to 4 million people and never recovered.

The Industrial Revolution and the improved economic welfare associated with it missed Xxxxxxxx. Unlike Scotland after its conquest, Xxxxxxxx did not develop its own entrepreneurial and technological class. The Xxxxxx showed less interest in the science and technology of a modernizing world and more in the political and military skills that led finally to independence in 1922. Overseas its immigrants became especially successful in fields requiring insights into human relations—writing, politics, law and labor union leadership.

In recent years the picture has changed dramatically.

The Quiz

Xxxxxxxx, a third world country on the edge of Europe, joined the Common Market and benefited greatly by the wise investment of development funds. Agriculture boomed and it became a center for computer hardware manufacture and software development, a regional leader in the Information Age.

It became the fastest growing country in Western Europe. In the 1980s its Gross Domestic Product per person adjusted for inflation (+3.3% per year) grew at almost twice that of its neighbors and between 1990 and 1996 (+5.4% per year) more than four times.

During these periods the Bahamian growth rates were +1.3% and -1.7%.

For more information on Xxxxxxxx please refer to –

Thomas Cahill, *How the Irish Saved Civilization, The Untold Story of Ireland's Heroic Role from the Fall of Rome to the Rise of Medieval Europe*, 1995.

Thomas Sowell, *Conquests and Cultures, An International History*, 1998.

James D. Gwartney and Robert A. Lawson, *Economic Freedom of the World, 1997 Annual Report*.

The answer

(See the back cover)

Walter Williams on The Minimum Wage

**“Why is it better for a
youngster to be unemployed
at \$3.20 per hour than to be
employed at \$2.00?”**

Walter Williams was commenting on a \$3.20 Minimum Wage in the early 1980s. Then a dollar was worth a lot more. Nevertheless, he made a good point that is just as relevant today.

From this Review

The country can afford the luxury of [Bahamasair] only by borrowing...by mortgaging the future of its citizens. Others can and will supply air transport services more efficiently without such a lien on the present and future income of Bahamians...if only given the opportunity to do so. (page 7)

The author is avoiding the inescapable...students who cannot read, write, calculate and reason fail in the workforce and have low self-esteem...Improved levels of student achievement can only be attained with good teachers and principals who reach for educational excellence and are awarded accordingly. (page 10)

We must find ways to continue to increase capitalistic behaviour...The government needs to use its moral persuasion with the less productive of our society. If we "pay" people who do not wish to make a contribution, then both the war on poverty and the need to tax the productive sector expand...and...in the end limit the potential of both the rich and the poor. (page 16)

The dire poverty of this period is indicated by an average life expectancy of 19 years—compared, for instance, to 36 years for contemporary American slaves. Bad as these conditions were they became far worse with the agricultural failure of the 1840s...In recent years the picture has changed dramatically...Xxxxxxxx became the fastest growing country in Western Europe. (page 19)