



T H E R E V I E W
O F

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Important Issues

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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
- For wages and prices to be market driven rather government controlled
- Against a minimum wage
- Against price controls

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“Stazification”

by Gilbert N.M.O. Morris, Visiting Professor at George Mason University, Washington, D.C.

The following E-mail combines several from Gilbert Morris, a Visiting Professor at George Mason University, Washington, D.C. to the Institute for Economic Freedom.

“Hello Everyone:

“I know that we are all committed to the founding and protection of freedom. But we must now say in all candor that the Bahamas has failed in its 28-year project of Independence if the advancement of freedom was a goal of that movement.

“I accept that this is difficult for we citizens to hear, and difficult for policy experts who are not inclined toward objectivity.

“A review of the recent legislation, the nine acts relating to the Blacklisting crisis, suggests a more pernicious effect than ‘mere’ unconstitutionality and this is foreboding.

The definition.

“This hoard of new laws will have the effect of plunging the Bahamas into the ‘*stazification*’ of its society. This refers to a system of government of the former East Germany and its secret police, the ‘Stazi’, that made espionage mandatory for its citizens. The Bahamian legislation, on penalty of criminality, will cultivate a similar cult of suspicion in which its citizens

must spy and report upon one another against the possibility of their own incrimination.

"This is different from the civic virtue that compels the good citizen to support investigations that contribute to the civil peace. Writers from Aristotle to J. S. Mill exalted that sort of participatory citizenship. What we have here is where one person's perception of what may only be the ordinary activity of another becomes the basis for criminal suspicion. And this is now guaranteed by law without appeal provisions or judicial review.

The new impulse and civil dysfunction.

"In our country we already have too high a level of everyday corruption, such as having to pay the telephone man to do his job or turning a blind eye to persons displaying the proceeds of ill-gotten gains. The introduction of this new 'impulse' may drag us down to a level of civil dysfunction as yet unknown in the Bahamas.

"In Russia as in the wider political theatre of Eastern Europe, citizens have not yet passed beyond the impulse of acting as agents of the state. In the freest societies, the models of suspicion by legitimate police agencies are constantly under review. In such places - America and Canada - the best minds well attuned to the vulnerabilities of freedom have had a hard go of it, when the right calibrations of state interference in personal affairs have come into question.

So what's new?

"There are those who will say that this 'new impulse' is not new. This not true in either substance or scope.

"First, the new impulse - a term meant to emphasize the arbitrariness of the new FATF inspired rules - is that now, unlike before, the individual banker will be under suspicion for not being suspicious. He or she is now - by the new rules - not called upon to be a banker, but to act as a discretionary agent for the sake of an external authority.

"The old rules of banking were passive. These rules are not. In my view they will prompt the sort of inquiries which citizens in a free society ought rightly think of as an undue intrusion - in which dealing with their accounts may end arbitrarily in being investigated.

"Second, this legislation as a result of broad definitions of 'facilities' and 'transactions' applies not only to banks and trust companies but to all who act as financial intermediaries including lawyers, accountants, financial consultants and even realtors.

"This raises another point. Suspicion may now be guided by actions perceived to be unfamiliar to Bahamian cultural ways. Now with the FATF or other foreign bodies in our banks, our own perception of what is suspicious ceases to be the benchmark. That will now be determined by others to whom we have given sovereign authority over our affairs - which is itself unconstitutional. As such, a culture of suspicion - indeed a 'stazification' - of Bahamian life is underway. When added to the usurpation of freedoms by successive Bahamian governments, the story of freedom in the Bahamas begins reading as tragedy.

"Suppose it turns out that what I fear does not occur at all. Marvelous! However, it is the foolish citizen who accepts laws

that permit undue intrusion, on the ground that no one will go as far as the law permits. The danger is that bad law, like power, abhors a vacuum. I merely submit that it is a plain question of freedom, the decline of which is never static...it moves either upward absolutely or downward terminally.

“Cheers”

The Consequences of Blacklisting

by Ralph J. Massey

The Bahamas is in the process of digesting the nine legislative acts that should get it off the financial blacklist of the U.S. and the Organization for Economic Cooperation and Development (OECD). Everyone is concerned about the economic consequences since the rapid expansion of the financial services industry was one element driving the country's recent prosperity.

Administrative costs and the financial intermediary.

One must recognize that before the blacklisting crisis the Bahamas developed over a long period of time a wide range of financial service intermediaries to meet the needs of individuals, corporations and funds. The individuals included high net worth people seeking financial privacy for a great number of reasons...safe haven against political retribution, refuge from excessive taxation, etc. It also included those who supply the seemingly insatiable demand for drugs in the

developed countries and who are not apprehended, arrested and convicted at the point of sale on city streets. The "War on Drugs", like the "War on Tax Evaders", when carried to our shores, evidences in part that failure and also their political need to put the "hot potato" on someone else's plate.

What the nine acts do is to impose on Bahamian financial intermediaries...ranging from banks to independent financial advisors...a wide range of laws, bureaucratic processes and controls. European banks already had these rules in place. In contrast many...and possibly most...Bahamian intermediaries did not and operated more informally...capitalizing on the their lower administrative costs. However, these advantages now disappear with one large bang.

In the very short run the low cost Bahamian financial intermediary must catch up, staff up and pay up or get out of this business. Two groups benefit...those that have the size to absorb the higher operational costs and foreign governments.

What the bills do.

The bills create three regulatory powerhouses that are likely to produce long term penalties unique to the Bahamas.

1. The Central Bank. One act transforms the Central Bank from a passive regulator to an "aggressive" one. It will now have its own Inspector Corps to police a bank's organization, credit systems, staffing and capital adequacy in addition to suspicious transactions. The latter is the focus of the Wars being fought by the OECD.

2. The Compliance Commission. Two acts extend the same aggressive oversight to all other financial intermediaries...

lawyers, accountants, financial advisors and realtors. This represents a quantum leap in government regulation.

3. The Financial Intelligence Unit (FIU). This entity will meet the needs of foreign governmental plaintiffs and combines the responsibilities previously located in the Police Department and the Attorney General's Office. It has extraordinary powers and operates outside the normal judicial processes.

In the longer term these regulatory powerhouses are likely to work to the country's detriment. The Bahamas is noted for its managerial ineffectiveness whether that is the justice system, business licensing, Bahamasair, Batelco or the Post Office. Only a miracle by "the best and the brightest" will eliminate a competitive disadvantage relative to those other financial centers whose cultures are more favorable to efficiency and the rule of law.

Supply and demand.

One of the effects of the legislation is to reduce substantially banking secrecy. If a person is being investigated elsewhere, he is not likely to have banking privacy here. But this loss of privacy is occurring everywhere...suggesting a "level playing field" and no competitive disadvantage. Also...since the Bills do not change the tax system, the "no income tax" advantage remains.

Nevertheless, the only conclusion one can safely make is that the sparkling growth in the offshore banking industry has probably ended and some decline should not come as a surprise. Come to think of it...supply and demand are like gravity...raise the price of a product and demand goes down.

Cultural Isolation

by Andrew Allen

It sometimes seems like the Bahamas (like many developing countries in this part of the world) is torn between two contradictory impulses. On the one hand, we are conditioned to take an inward looking, isolationist view of ourselves and our culture, while on the other we never stop talking about getting to the "first world."

What is peculiar is that, to so many, there is a contradiction in this state of affairs. In fact, as the tone of the furor over the blacklisting issue demonstrates, it is often the loudest champions of isolationism who are quickest to make political capital out of our failure as a nation to anticipate global trends and react to them in advance.

Work permits and e-commerce.

Nowhere is the contradiction more acute than in the area of human resource development, most specifically the highly politicized issue of work permits for foreign workers. No politician may be addressing the minutiae as yet, but if we are really going to get anywhere in the new e-commerce industries that we like to talk about, then the workers and professionals available to our budding industry must be far more than the best in the Bahamas. They must be among the very best in the world.

E-commerce is a pipe dream unless we are prepared to revisit, depoliticise and seriously liberalise the nationalistic employment regime that now exists in the Bahamas.

Culture & competition.

The problem is that there is a vast culture of Bahamians out there who are isolated from first world work ethics and first world mores regarding honesty and respect for property. They cannot speak standard English; and their basic social and cultural bearings are ill suited to competing in a first world environment. If and when globalization comes to the Bahamian workforce, many such Bahamians will find themselves squarely at the bottom of the pecking order in their own country.

Even now, with the high cost of work permits, we often hear stories of foreigners being brought in to do jobs for which Bahamians are "qualified." I would conjecture that behind these stories lies something more than a mere irrational preference on the part of employers; that many Bahamian workers and professionals who are on paper eminently "qualified" are in fact at a cultural disadvantage in comparison to counterparts from first world societies. Of course, since culture cannot be measured in degrees or exam results, employers' response to it may simply look like prejudice.

A failed populism.

How did it come about that Bahamians could be a victim of their own culture?

It came about because yesterday's politicians shamelessly hoodwinked and bamboozled us for their own purposes. They sold us a small-minded, myopic and cheesy idea of what it means to be a Bahamian and encouraged us to wallow in it while the rest of the world moved on. They hid us from our own deficiencies by sheltering us from competition (they called

this “Bahamianisation”) and lulled us into believing that, as Bahamians, we could get by with a different, lower, standard of conduct.

A particularly sad and contemptible example of this came when the lawyers defending the PLP administration before the 1993 Commission of Inquiry sought to exempt Bahamian ministers from international norms of conduct by suggesting that a distinctly slack “fiscal culture” obtains in these islands.

End cultural isolation.

If we are serious about entering the First World, then it falls to today’s and tomorrow’s leaders to wean us off the Third World identity that is a legacy of failed populism. This G7 business is a bed of roses in comparison to the future shocks we face should we fail in this.

The dilemma is whether, in the interim, we hang onto “Bahamians only” quota policies (which ultimately undermine the country’s competitiveness) in order to let those at the rear catch up, or we concentrate instead on remaining competitive as a nation (i.e. opening up further) at the risk of condemning many Bahamians to perpetual underclass status. In absolute terms, neither option is acceptable.

Thanks to earlier policy mistakes and excesses, there is no unproblematic option. Rather, we now face a difficult, messy balancing act. We need to phase open our nation’s economy to more competition, more liberalisation and, yes, more foreigners. And at the same time we need to phase out of the minds of Bahamians the idea of entitlement and replace it with cultural idioms that, to many Bahamians, still seem “foreign”;

hard work, punctuality, honesty and respect for the property of others (even the boss!).

Only when we've committed ourselves to this balancing act will the Bahamas rise – without leaving Bahamians behind.

Anti-Capitalism

by Rick Lowe

Periodically an anti-capitalist mentality becomes apparent, as was the case in a recent call-in radio program. In this case, numerous callers voiced resentment against foreign investors and foreign workers. Regrettably those callers fail to make the connection between these "investors," – whether the investment is labour or money – and the consequential growth in the economy since 1995.

In spite of the fact that Bahamians are hospitable and well meaning on the whole, a "fear of the foreigner" syndrome manifests itself in anti-capitalist rhetoric, which is not to be confused with racism.

"An 'anti-something' movement displays a purely negative attitude. It has no chance whatever to succeed. Its passionate diatribes virtually advertise the program that they attack. People must fight for something that they want to achieve, ..." (Ludwig von Mises, *The Anti-Capitalistic Mentality*, 1956)

Foreign direct investment.

While the FNM, PLP, CDR or BFA say little to contradict these caller's views out of the fear of losing votes, a July 2000 study by the Organisation of Economic Cooperation and Development (OECD) had this to say:

"The 1990s brought considerable improvements in the investment climate, influenced in part by the recognition of the benefits of FDI (Foreign Direct Investment). The change in attitudes, in turn, led to a removal of direct obstacles to FDI and to an increase in the use of FDI incentives. Continued removal of domestic impediments through deregulation and privatisation was also widespread. Deregulation and enhanced competition policy made mergers and acquisitions more viable in the telecommunications, electricity and other public utilities and financial services sectors, while privatisation programmes provided opportunities for international investment. The sale of state-owned companies to foreign investors represented a large share of the source of FDI, particularly among new members to the OECD and in some emerging economies."

What do developed countries do?

There is competition among countries; and in the case of a single country, competition exists between individual provinces and states to attract billions of dollars in foreign direct investment from around the world. Various incentives are offered targeting specific industries. For example, in the Bahamas, hotels are exempted from import duties on materials for building hotels to encourage expansion of tourist accommodation, thereby helping to gain a competitive advantage over other countries reliant on tourism.

Learning from the rest of the world.

Closing the country off from foreign investment and labour and the expertise they bring is clearly wrong. Exaggerated cultural ethnicity, epitomised in remarks like "the Bahamas for Bahamians only," if taken to extremes risks significant social and economic costs in a society already limited by its smallness (population and land mass) and low educational standards.

Dr. Thomas Sowell, in his 1994 book "Race and Culture. A World View" gives us examples of the benefits of adopting ideas from different cultures. He notes:

"The long-run costs of exaggerated 'identity' can be especially high to groups lagging behind their contemporaries in education, income, and all the social consequences that flow from these. Throughout history, one of the great sources of cultural achievement, both for groups and for nations and even civilisations, has been a borrowing of cultural features from others who happened to be more advanced in given fields at a given time. Medieval Jews in Spain copied the science and mathematics developed in the Islamic world, and only later began to make their own original contributions. Western civilisation as a whole absorbed both technologies and science from China and the Islamic world (including parts of the Indian subcontinent) as the foundation for its own ascent to world leadership in these fields."

Create Bahamian foreign direct investment.

The modern Bahamian economy was built on tourism and offshore banking. The two initiatives to build these industries were deliberate attempts to induce "foreigners" to come and

invest in the Bahamas. Everyone has benefited from the resulting investments.

The reality is, if the Bahamas is to continue to prosper it will need to continue to induce people and capital to come to these shores.

With the improved ability and expanded opportunities that come from encouraging foreign investment and labour, Bahamians will be in a better position to invest in the Bahamas or other countries to run hotels, cinema's, waste companies, offshore banks, Internet service companies and the like.

One might wonder how Bahamian investors and workers in other countries would feel if faced with the attitudes expressed on local talk shows.

Value for money in Education

by Rick Lowe

Since 1992 we have spent over \$480,000,000 (that's right, over four hundred and eighty million dollars) on education. Even though the public pays these taxes, the actual student test results from the government run schools are considered "confidential" and are never tabled in the House Assembly, as any transparent government would do. It is a given, at least it is not denied by the Ministry of Education, that the mean grade is no higher than a D, which in the real world, is a failing grade.

Several suggestions for improvement.

So what can we do to help ensure value for the tax dollars we pay? Here are a few suggestions that we trust the Ministry of Education will implement so our children are not continually left with skills that are marginal to say the least:

1. Develop a voucher system, where the government will issue slips to parents for the amount spent per student in the public system. These vouchers could be redeemed at a school of the parent's choice (private or public), for the promise of better results, to slowly transform the Ministry of Education into private schools.
2. Government schools could be "sold" off to interested teachers and investors. This will help eliminate the horrific bureaucracy at the Ministry of Education, or at least simplify it and put the focus back on education.
3. Reduce Summer vacations to three or four weeks from the present eight weeks and restrict the Christmas break to two weeks to help ensure that children are brought up to their proper grade levels. Teachers are paid for the holidays, so here again, we could get better value for money spent.
4. Extend school hours from 3:00 PM to 5:00 PM. The extra two hours could be used for managed homework and participation in youth programmes. It is imperative that civics, community service and law and order are stressed to at least have these ideas shared with our children.
5. Segregate fast learners and the brightest children in a new Government High type system used in the early 1900's. There will always be children that are smarter than others,

and these kids should have every opportunity to succeed in an environment that encourages learning.

6. Raise school leaving age to sixteen (16) for kids that are falling through the cracks. The important aspect of Education is that when a student finally stops going to school they should be in a position to be a productive member of society. Children, who are not academically inclined, should face a challenging curriculum that would include the fundamentals of reading, writing and arithmetic, in addition to basic computer and a wide range of skills. The present system of social promotion should be stopped immediately. While this may help with a child's self-esteem today, it leaves them functionally illiterate when they are "pushed" out of the educational system. For a student that is not academically inclined a trade is where they must turn and this deserves more than the lip service we get about the Bahamas Technical and Vocational Institute (BTVI).
7. Base teacher's pay on results. We all have to be held accountable for what we produce. Those teachers that excel by producing students with passing grades should be rewarded somehow. Conversely, those teachers that do not perform to the agreed standards should be shown the door if they cannot or will not improve.

Challenge educational mediocrity.

Rev. Floyd H. Flake said, "I am not against (government run) public schools. I am against (government run) public schools where educational mediocrity goes unchallenged." This is a mantra that should be expressed by many parents in our country, particularly those parents who are left with children

that cannot read or write and who have very little hope for a relatively successful life of work.

Expect more than bricks and mortar.

While it is lovely to have nice new schools and day care centres, most of our citizens would be better off if the Ministry of Education concentrated on results.

An example of concentrating on results is Healthy Start, one of 34 charter schools in North Carolina. Mr. Thomas Williams, the headmaster there says that: "We fly in the face of all the bureaucratic excuses. Seventy percent of our kids are on welfare. Of the 170 kids, 168 of them are black. A hundred and twenty don't have daddies. Their mothers bring them up alone. They came to us far below grade level. So they have all the excuses for failure, don't they? In public school, they'd be put in a corner. He's black. He's poor, so he has to fail..."Here we have proved that excuses don't work. The kids succeed. We have a strict discipline code. The kids wear uniforms. If they don't have daddies, we say to them: OK: $2 + 2 = 4$. Do you understand that? We hold up a lantern of expectations. We say: 'It's this high. Reach it.' And they do."

All this happens in a church basement with ten rooms divided by thin walls. This is an environment where a public school in the USA would never be allowed to operate.

If the nearly 50,000 children in our government run school system are to be in a position of self-reliance, we had better begin demanding more than bricks and mortar. We should expect no less than value for the \$65,000,000 budgeted for the Ministry of Education this year.

Resource Problems – The Dutch Example

In dealing with resource problems “it is not only the human mind and the human spirit that are crucial, but also the framework of society.”

David Hume, the philosopher, wrote this about Holland in 1742: “Multitudes of people, necessity, and liberty, have begotten commerce in Holland.” The important things in human progress are –

- *Economic liberty*, which comes from a country being ruled by laws rather than men that allows people to make the most of their individual talents and opportunities;
- *Necessity*—that is, in Holland’s case, the lack of great stretches of fertile land on which to grow crops easily, and therefore the necessity of creating new fertile land by fighting the sea for that land; and
- *Multitudes of people*, the human talent to invent new ways of doing things and organizing an effective society.

Julian L. Simon, *The Ultimate Resource 2*, Princeton, 1996, page 584.

Highlights

In our country we already have too high a level of everyday corruption...The introduction of this new 'impulse' may drag us down to a level of civil dysfunction as yet unknown in the Bahamas.

In the very short run the low cost Bahamian financial intermediary must catch up, staff up and pay up or get out of this business. Two groups benefit...those that have the size to absorb the higher operational costs and foreign governments.

The problem is that there is a vast culture of Bahamians out there who are isolated from first world work ethics and first world mores... If and when globalization comes to the Bahamian workforce, many such Bahamians will find themselves squarely at the bottom of the pecking order in their own country.

Closing the country off from foreign investment and labour and the expertise they bring is clearly wrong. Exaggerated cultural ethnicity...if taken to extremes risks significant social and economic costs in a society already limited by its smallness...and low educational standards.

Since 1992 we have spent over \$480 million...on education. Even though the public pays these taxes, the actual student test results from the government run schools are considered "confidential"...It is a given, at least it is not denied by the Ministry of Education, that the mean grade is no higher than a "D", which in the real world, is a failing grade.