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Feature Articles

Remarks before the Bahamas Chamber of
Commerce Business Awards Banquet

by Nicholas F. Brady

Comments on the 1995 Bahamian
Budget Debate

by Ralph J. Massey

Biographical Notes:

Nicholas F. Brady is the Chairman and Chief Executive Officer of Darby Overseas Investments, Ltd.. He was President and Chairman of Dillon, Read & Co., Chairman of Purolator, Inc. and Secretary of Treasury under both Presidents Ronald Reagan and George Bush. In the latter position he implemented the Brady Plan to resolve the Latin American debt crisis and created the Resolution Trust Corporation to resolve the savings and loan crisis.

Ralph J. Massey is an economist and financial consultant. He retired as Vice President of Chemical Bank and prior to that held management positions at Manville Corporation, Kimberly-Clark and Ford Motor Company. He was educated at Case Western Reserve University and the University of Chicago where he was a Research Associate and a Harry A. Millis Fellow.

Remarks of
The Honorable Nicholas F. Brady
Before the
Bahamas Chamber of Commerce Business Awards Banquet
May 13, 1995

Governor General Turnquest, distinguished guests, it is indeed a great pleasure to have the opportunity to address this Awards Banquet of the Bahamas Chamber of Commerce.

It is a particular pleasure for me personally to meet with the Bahamian business community in the Bahamas. My family has a very long and happy association with your country. My grandfather acquired the Old Fort on New Providence in the 1920s. I made my first visit to the Bahamas 46 years ago when I was 19 years old, I have come to the islands nearly every year since, and my grandchildren -- the fifth generation of Bradys -- now come here frequently and are enjoying your hospitality. Through these visits, and interaction with my many friends here, my affection and respect for the Bahamas and the Bahamian people has only increased over the years, and I hope the observations I make here today will be regarded as those of an old friend.

Let me say at the outset that I share your interest in the challenge posed by the theme of the 1995 Chamber Week: "MAKING YOUR BUSINESS THE BEST." This is a very important challenge, for I am firmly of the view that a vigorous and competitive business community is the primary means of improving conditions for society as a whole, through rising standards of living for every citizen.

In this regard, as I was thinking about what to say to you tonight, I recalled two incidents from my past that I believe are instructive, important and interesting.

First, when I was Secretary of the United States Treasury Department, I had the good fortune to attend a private dinner that President Bush held at the White House for Mr. Michael Manley, the former Prime Minister of Jamaica, and to sit next to Mr. Manley at dinner. As you all know, throughout most of his political career, Mr. Manley embraced a socialistic statism. Later in his life, however, Mr. Manley became an advocate of free market reform. This change coincided with the election of Ronald Reagan as President of the United States, who originally had appointed me Treasury Secretary.

This sudden change of view had always puzzled me, and I asked Mr. Manley how he had come to such a dramatic change in his political philosophy. Mr. Manley responded in the following words:

"I had always thought that my job as Prime Minister was to keep as much of the ownership of Jamaica as possible in the hands of Jamaicans, and specifically the Jamaican Government -- even if that meant expropriation. However, with the advent of modern technology and the information revolution -- computers, faxes, and so forth -- and expanded world trade, it soon became clear to me that our world, the world that could help Jamaicans, was larger than our island, and we could make something of it. Invite capital in, privatize, change and restructure, and our standard of living would rise. I know many people think that I changed just to coax a few more dollars of aid out of the United States, but that is not so. I simply saw a new and better life for all Jamaicans."

Let me also relate a second and similar experience. I took a trip to New Zealand two years ago. During that trip, I toured the plant of a large manufacturing company that had a history of difficult labor relations. As you know, labor unions in New Zealand traditionally have exercised extraordinary powers, and among other things had strongly and successfully opposed any sort of market-based economic reforms proposed by a changed New Zealand Government. The unions had always been strong backers of government ownership of the country's resources and enterprises.

But at the time of my visit, the union leadership had markedly changed their position to agree with a particular free market measure that both the Government and their employer had supported. I raised

this point with the union leaders, and asked them: "Why the change of heart?" The response was a simple encapsulation of a very profound idea. One of the union leaders said: "The world had changed, and we live on an island, an island in a far corner of the South Pacific. We have to become a part of the greater world community, or we will wither." I asked whether it was just the union leaders who were convinced that change was necessary, or did the membership agree? He answered that about two-thirds were in agreement that change was needed, and that the number was growing.

In my view, what is true for Jamaica and New Zealand is also true for the Bahamas, and is in fact true for Latin America, the United States -- in fact all the regions of the world as well. The plain fact is that the information revolution and expanding technology have created a modern world in which time has become compressed and natural barriers and national borders have less meaning. Because of these changes, as the union leader in New Zealand said, in fact we all, every one of us, live on an island, and that includes my own country, the United States.

Now, many people, when they think of an island, think of a remote, isolated and self-contained spot of land separated from the rest of the world by the protective barrier of an ocean. But nothing could be further from the truth. The 17th Century poet and preacher John Donne observed: "No man is an Island, entire of itself; every man is a piece of the Continent, a part of the main." This was an observation about people. But just as it is impossible for an individual person to live a completely separate life, it is equally impossible for an island to survive apart.

One only has to look at the history of the Bahamas to realize that the islands are not isolated from the rest of the world -- indeed quite the opposite is true. Dr. Paul Albury has observed in his book The Story of the Bahamas, during the 18th century "trade with the mainland [American] colonies was the life blood of the Bahamas." Indeed, the Bahamians are now, and have always been, a nation of traders and merchants. And your second largest industry, banking and finance, is and must be fully integrated into the world financial system.

So, when I say that we all live on an island, I mean that we all live on an island in the sense that in today's interconnected world, what happens elsewhere has immediate implications for us at home -- implications that we cannot escape. Compare the scope of today's world news in the Guardian and the Tribune with the isolated and insular coverage of just 30 years ago. And look around New Providence at the number of TV satellite dishes where twenty years ago there were virtually none.

Another incident that really hit home to me occurred when I was standing on the Great Wall of China on October 19, 1987, the day of the great Stock Market crash. As I was standing there, a friend of mine who was also in the investment banking business came up to me and asked if I had heard the news that the stock market Dow Jones average had fallen 500 points that day. I thought: "How remarkable. Word about a tumultuous event on the New York Stock Exchange, the symbol of free markets, had arrived instantaneously to this remote area in Communist China across the borders of one of the most closed societies in the world. What changed? What was going on?"

Of course, you know the answer. The Information Revolution led by new technology has changed the world in a dramatic fashion. Much has been written about the information and technological revolution. But it is no longer conjecture, no longer textbook theory -- it is here. Clearly, we still do not understand all the practical implications. However, in my view, today's information revolution with its technological impact will have an even more profound effect on our lives and societies than the Industrial Revolution of the 19th Century, with its then new steam engines and mechanized factories, had on our ancestors.

"But what," you may ask, "does all of this have to do with the Bahamas? Don't we live in a special place, a Paradise, with our sun, beautiful beaches and the azure blue Caribbean?" To digress, but also add to this sentiment, one of the American astronauts once told me that as he circled the globe in space there was no other body of water that had the distinctive blue hue that characterizes the water surrounding the Bahamas. He said it was unique. So, with all of these natural advantages, you may ask: "Isn't this enough?" I'm sorry

to say that, in my view, the answer is no.

Back in the Eighteenth Century, the problem confronting Bahamian commerce was pirates. The first Royal Governor, Captain Woodes Rogers, was able to suppress the pirates and restore order. His early motto for the Islands was: "Expulsis Piratis - Restituta Commercium," which is to say: "Pirates Expelled - Commerce Restored."

Today, however, Bahamian commerce faces a different but not dissimilar situation: the arrival of what is described as the "global village" brings with it global competition. The simple fact is that the world today is a very competitive place -- and the challenge presented by global competition will not be easily suppressed like the pirates. The genie is out of the bottle, and there is no way to put it back. The only choice is to confront it.

Take, for example, tourism -- your number one industry. Jet travel and the new technology means that the Bahamas must compete with many other destinations -- not only other Caribbean nations, but also Mexico, Central America and other places with sun, sand and ocean. In this regard, I believe, the competitive threat that will be posed by a reformed and refurbished Cuba is formidable, and only a few years down the road. There is a dynamic and successful Cuban population in South Florida, and they are already laying plans.

One should also consider banking -- your number two industry. Today, billions of dollars of capital flow around the world at the touch of a computer key. To put this in perspective, consider the Clearing House Interbank Payments System, or CHIPS, which is the network located in New York City and used by commercial banks to clear international payments and settle foreign exchange transactions on a daily basis. It is an accurate barometer of the size of foreign trade and commerce. In 1989, \$700 billion of payments and settlements were cleared through the CHIPS wire each day. This capital mobility has only intensified in the intervening years. In the first four months of 1995, more than \$1.1 trillion of transactions are cleared daily through the CHIPS system -- an increase of more than 50 percent in just five years. In a world in which the size and volume of transactions are growing at these rates, a country's financial sector must be modern, free and nimble indeed to keep pace.

Please do not misunderstand me. I firmly believe that the future for the Bahamas is bright. But it is not uncomplicated. All Bahamians must be willing to put their shoulder to the task of moving forward and meeting the challenge posed by the new, technologically advanced, highly competitive global economy.

Economists tell us that a rising standard of living is most closely allied with an increase in productivity -- the amount of goods or services a person can produce during the work day. And productivity increases are primarily dependent on the availability of capital to improve methods of production. In many countries domestic savings are insufficient, and consequently capital to fund rising prosperity can only come from abroad. That is why so many emerging nations seek to tap into the global capital flows that I mentioned a few minutes ago.

Let me cite just a few examples of the kinds of changes that are needed to attract foreign capital and secure the Bahamas' competitive footing. Steady, affordable electrical power is needed; it is a sign of a hospital nation. World-class, reliable telecommunications capability is vital; it recognizes the attachment to a larger world and is critical if commerce is to flourish.

In the Bahamas where opportunities abound but national debt is high, development capital is in short supply. The need to access world capital flows is clear. The recent sale of a number of government-owned hotels is a step in the right direction, and the privatization of government-owned corporations would be a natural next step.

I am sure that plans to privatize, on the one hand, and reduce barriers to capital entry, on the other, will attract vigorous opposition. It always does. I remember vividly the complaints that were made when the Japanese were investing so heavily in the United States in the late 1980s and early 1990s. Congress demanded that the treasury make a study of the degree to which the Japanese were "taking over America". It didn't last long, however. We found out right away that, in fact, the United Kingdom was our largest foreign investor -- significantly larger than Japan. The British investment went back to the early days of our republic, when Americans had no capital. So we opened the doors and look at the results.

I understand that change is the most difficult of all forces to bring in play. Newton's law of physics states: "A body at rest tends to remain at rest." This is more than true of human nature as well. Change is difficult. It is most hard on those who themselves have to change. Progress requires that things be done in a different way. Economic dislocation is at the center of change, and people understandably have the right to be upset. We are talking about food on the table and aspirations for a decent life. These are difficult issues, and oftentimes involve heart-rending decisions.

But the race for the future is on. It is easy for an observer -- even an observer like me who has great affection and respect for the Bahamian people -- to pose challenges and make prescriptions. I think we all recognize, however, that in the end these choices are ones only the Bahamian people and their leaders can make.

I have always said that a leader is never sure whether he is being followed or chased. Leadership is a thankless job. A leader must explain sacrifices in a way that people can understand and support. It is always easier to say: "Let others do it." But as the American President Theodore Roosevelt once said:

"It is not the critic who counts, not the man who points out how the strong man stumbles or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena; whose face is marred by dust and sweat and blood; who strives valiantly; who errs and comes short again and again; who knows the great enthusiasms, the great devotions, and spends himself in a worthy cause; who at best knows the triumph of high achievement; and who, at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who know neither victory or defeat."

You -- the leaders of the Bahamian private sector -- are the doer of deeds. You are in the arena, and you have a tremendous contribution to make to the future of your nation. It is difficult, but it is worth it. In the end, after all, you are seeking a better way of life for all of the citizens of the Bahamas.

Comments on the 1995 Bahamian Budget Debate

by

Ralph J. Massey

The 1995-96 Budget Communication of the Free National Movement to Parliament and the ensuing debate of May 1995 were pure political theater. The Communication was vague and contained only a smattering of data. The Prime Minister gave a very good presentation; but it was long and came at the end of the debate. Furthermore, it was available in printed form only well after the debate. At the time of the debate one could not easily grasp the structure of the government program; and the comments of the opposition added little.

One wishes that the FNM Government had provided Parliament with a more candid and explicit presentation at the beginning of the debate. The following alternative is based only on public data and was prepared by the author without the review or comment by the FNM or the Government. The data for fiscal 1994/95 is both preliminary and estimated. It will change. Nevertheless, the presentation illustrates a format that could add clarity to any subsequent debate.

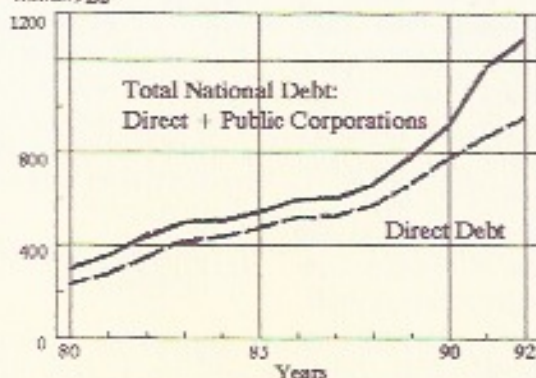
The Speech

"Mr. Prime Minister,...etc.. My brief comments are an introduction to the speeches that will follow. I will try not to overwhelm you with numbers. My data will be presented in a series of graphs that identify the financial trends. These graphs and the supporting data in tabular form, including a five year cash flow, will be available in booklet form(see Tables I - III).

"On taking office the FNM Government was faced with the tasks of bringing order to the government's financial operations and taking the painful first steps to correct decades of neglect and mismanagement.

The need for such actions could be seen clearly both in the pervasive physical deterioration of the country, the growth in the national debt and the cost of servicing it.

Millions B\$



"The growth in the national debt was accelerating. In the five year period, 1980-85, the national debt grew by 81%, in the next five years, 1985-1990, by 100% and the next two years, 1990-1992, by 41%. Debt service that accounted for 8.9% of total government expenditures in 1980 reached 19.4% in 1992, second in size only to personal emoluments. Simply stated the country's finances were out of control.

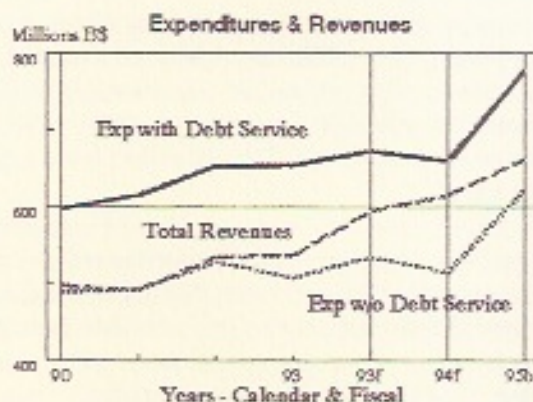
"The FNM Government took important steps to avoid a disaster of the type recently experienced by Mexico. The Cabinet Members and the Prime Minister will review the achievements and programs in detail.

"This government vigorously improved revenue collection, closed loopholes, improved the policing of invoices and levied penalties where appropriate. Revenues rose faster than expenditures and in fiscal 1994/95 the government expects to reach the exact amount planned in the budget. This program had to be done. The alternative was real austerity that could have included government layoffs and new and stricter foreign exchange and capital restrictions.

"Personal Emoluments, the wages, salaries and fringe benefits of government workers, were the fastest growing element in total expenditures after 1980. The government negotiated a new labor agreement on coming to power and held to the policy of no new hiring or wage increases. This has not changed in the 1995/96 Budget. The country simply must use its limited financial resources to address other glaring problems.

"In other areas of spending the FNM made an impact. There were new procedures to reduce waste and increase efficiency. Also there were delays in the flow of invoices from major capital projects. Total spending ran almost \$50 million below that planned in the 1994/95 budget.¹

"The 1995/96 budget shows a sharp increase in expenditures. This is largely the unexpended amounts on capital projects already in progress or approved for construction in the new fiscal year.²



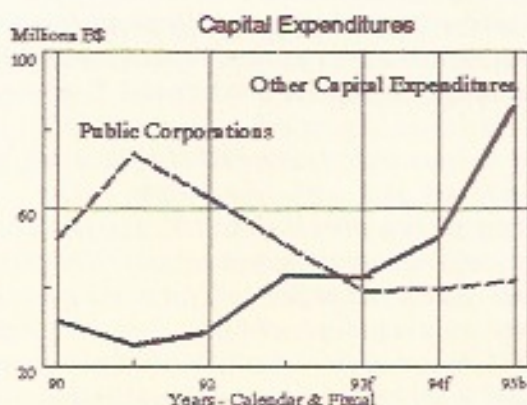
"In presenting this budget the FNM will go behind these numbers to get at the real and measurable improvements that its administration has brought the Bahamas. The most interesting area has been the capital investments in the economy...the roads, schools, medical facilities and public buildings. Under the FNM Government such spending has increased dramatically. The scope and nature of these investments will be covered by the Prime Minister along with a full

¹ In the graph on National Debt all data is for calendar years except for 1995 that is June 1995, the 1994/95 fiscal yearend estimated.

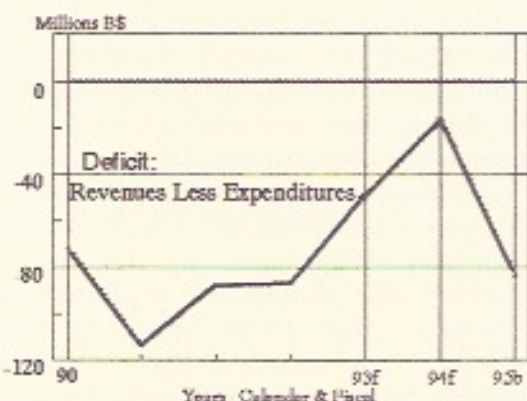
² In the graph "Expenditures & Revenues" Debt Service includes both interest expense and loan repayments. "f" indicates a fiscal year and "b" indicates budget data for a fiscal year.

discussion of their positive long term impact on every Bahamian.

"The main source of funding for the new investments has been the dramatic reduction in spending on the Public Corporations. Specifically, the sale of the hotels by the Hotel Corporation provided the citizen with a valuable tax saving.



"The Public Corporations were a swamp that drained the financial life blood of the country. The PLP's effort to build a government owned hotel industry was a gigantic, failed socialist dream.



"I am aware of the tremendous progress made in fiscal 1993

and 1994 in reducing the deficit from the \$90 million level in the last three years of the PLP government possibly to less than \$20 million in fiscal 1995/96.³ You should recognize that the increase in the deficit shown for budget 1995/96 will occur if all expenditures on all approved capital investment programs are made. This eventually will be a brief interruption in the long term plan for financial stability.

³ In the graph on the Deficit, expenditures on debt service include interest expense only and exclude loan repayments.

"What I have presented is a realistic statement of what the government and country can and must do. The FNM program entails sacrifice to attain important national priorities. But it explicitly rejects the kind of economic shock measures associated with countries that are experiencing extreme financial stress.

"It is important to note that the Bahamas is a small country richly endowed with both human and natural resources. Dignity and progress are in the hands of its people. The FNM wants to unleash the individual from the restraints of government. It seeks a country of law, justice, education and an environment that promotes the long term interests of every citizen. Prosperity itself cannot be achieved by politicians nor can it be stolen from someone else. It can be created only by imaginative, productive, hard work. The FNM Government is a senior partner in this effort."

Conclusion

The Prime Minister in his address discussed the changes that the FNM had already introduced into the budget making process. As noted earlier, however, this year's Budget Communication did not add clarity to the Parliamentary Debate.

Next year the FNM should begin with a communication that presents the budget picture more clearly. Discussion can be more productive when one sees the balance between expenditures and revenues and the magnitude of spending, taxes, the drain of the public corporations, etc.. While such a communication will not guarantee a meaningful dialogue, it can be an important step in this direction.

Table I

Government Expenditures - 1990 to 1995

Millions of B\$				Fiscal Year		
	Calendar Year			Actual 93	Est. 94	Budget 95
	90	92	93			
Current Expenditures:						
Personal Emoluments	290	296	301	314	326	339
Goods & Services	103	122	102	115	83	134
Transfer Payments	32	42	49	56	48	58
Total Current	424	459	452	485	456	531
Capital Exp. & Other:						
Fixed Capital	29	28	42	41	52	85
Public Corporations	33	38	11	7	5	6
Acquisition of Assets	2	1	1	2	1	1
Total Capital	64	67	54	50	58	92
Total Expenditures	489	527	506	534	514	624
Debt Servicing:						
Interest Payments	62	71	77	76	83	86
Debt Repayments	48	55	71	64	63	68
Total Debt Service	110	126	148	140	146	153
Total Expenditures	598	653	655	674	660	777
Memo:						
Pub Corporations						
Capital + Loans	52	63	51	39	40	42
Capital Expenditures						
without Pub Corp	32	29	43	43	53	86

Source:

Quarterly Statistical Digest, The Central Bank of the Bahamas,
Tables 7.1 to 7.3, August 1995 and prior issues.

Table II

Government Revenue - 1990 to 1995

Millions of B\$	Calendar Year			Fiscal Year		
	90	92	93	Actual	Est.	Budget
				93	94	95
Import Duties	289	267	255	294	290	312
Stamp Tax	37	71	83	96	110	104
Sub-Total	326	338	338	390	400	416
Casino & Room	32	26	22	22	20	27
Departure	27	51	53	59	48	60
Sub-Total	59	76	76	81	69	87
Property Tax	19	17	20	22	18	30
Export Duties	6	10	8	10	9	8
License Fees	22	25	26	23	30	28
Motor Vehicle	10	14	14	14	12	14
Refunds & Other	(4)	1	0	(4)	5	5
Sub-Total	54	66	69	64	73	85
Total Tax	438	480	482	535	542	588
Nontax Revenues	60	55	55	59	60	61
Grants & Other					13	13
Total Revenues	498	535	537	594	615	661

Table III

Government Cash Flow - 1990 to 1995

Millions of B\$	Calendar Year			Fiscal Year		
	90	92	93	Actual	Est*	Budget
				93	94	95
Total Revenue	498	535	537	594	615	661
Total Expenditure**	550	598	584	610	597	710
Sub-Total	(53)	(63)	(47)	(16)	18	(48)
Loans to Pub. Corp.	19	25	40	33	35	36
(Deficit)	(72)	(88)	(87)	(49)	(17)	84
Debt Repayment	48	55	71	64	63	68
New Borrowing	134	136	152	107	102	142
Cash (Incr.)/Decr.	14	(8)	(6)	(6)	22	(10)
Debt Outstanding						
Incr./Decr.)	86	80	81	43	39	74

* 11 months actual data and 1 month forecast

** Excludes Debt Repayment

Publisher's Note:

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