



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.

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- 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) 322-4806  
Fax: (242) 364-7838

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# The Revolutionary Labour Bill

Mr. Dion Foulkes, the Minister of Labour, in meetings with the Trade Union Congress and the Bahamas Employers Confederation, discussed his proposed Minimum Labour Standards Bill dated January 2000. He described it as "revolutionary and historic" legislation that will produce equity for the worker and the industrial peace that is crucial for economic survival.

## *Regulation of the peaceful.*

This comes at an odd moment in the country's history. Under the Free National Movement the country is experiencing economic growth and labour prosperity after ten to fifteen years of stagnation...a period when growth adjusted for inflation and population was flat. And, in fact, this prosperity has occurred without a "revolutionary" labour bill.

In the private sector unemployment is at low levels, wage rates are up and employers are struggling to find and retain qualified people. For Bahamians there are opportunities to improve skills and to use them; and for employers there is an absolute scarcity of qualified job applicants that causes them to improve wages, working conditions and training. The labour market is working to the benefit of all.

In contrast the government-managed sector of the economy is in a shambles. After seven years in office the government is running a Post Office that does not work, an airline that cannot stop its losses and a telephone company that cannot be sold. More importantly...the government-controlled sector of the economy has the majority of the trade unionists. Since 1992 by far the greatest

labour unrest has occurred within this sector and not outside it where up to 70% of the population works.

The logic of the labour proposal seems to be that –

- In the name of labour peace, the peaceful must be regulated...or...
- The regulation of the peaceful is the price that the Trade Union Congress is setting for labour peace.

### *The price of “peace”.*

If prosperity is to be sustained, the country must become more efficient and innovative. Yet the government is proposing legislation that will make this more difficult...not easier. It wants to create two new bureaucracies to regulate labour contracts and worker safety in private enterprise.

- For bureaucrats this Bill provides jobs, a mandate to police private enterprise and favor-granting opportunities.
- For lawyers it handsomely enriches those who promote and litigate this legislation.
- For the businessman and the economy it means added costs in employing people and managing them effectively.

This is a sure way to undermine job security and prosperity.

### *The cost of “peace”.*

This Bill dramatically increases government control over the economy at a moment in time when the world has discovered that such centralized control diminishes economic growth and public welfare. Let us look at the facts:



- In the United States whenever the real minimum wage increases as a result of legislative action, unemployment of teenagers increases; and when the real minimum wage decreases as a result of inflation, unemployment of teenagers decreases.
- In developed countries centrally planned labour markets, mainly continental Western Europe, have substantially higher unemployment rates than more market-directed less rigid labour markets such as the United States, Japan and New Zealand after its reform program of 1984.
- The Economic Freedom of the World Annual Reports show a positive measurable relation between economic freedom and economic welfare ...higher levels of economic freedom have higher levels of economic welfare and growth.
- Corruption feeds and grows on government regulations and control. Furthermore, it diminishes and in time stops economic growth. Citizens in free countries eventually react; and one needs to look no further than the Bahamas in 1992 and Venezuela in 1999.

That's the evidence.

Yet...this Labour Bill gives the Minister of Labour unlimited and extensive powers to set wages, to administer mandated labour benefits and to police working conditions. It creates two new "inspector corps" suitably armed to secure evidence and to level penalties.

As the great economist F. A. Hayek pointed out years ago, it is "both ironic and tragic that governments in trying to shape the economic future of its citizens...often with the most noble intent...unwittingly produce the very opposite of what they intend."

That is the reality of politics.

## ***Why take this road?***

If economic reality conflicts so sharply with the Government's intent, why is the FNM again proposing this legislation?

There are two reasons –

1. **Organized labour is being squeezed by the country's need to shed inefficient government enterprises and its inability to promote militant trade unionism in the private sector.**
2. **The FNM wants labour support in the next election so it passes legislation to solve "organized labour's" problem.**

Neither of these is a sufficient reason to propose such "revolutionary" legislation.

January 30, 2000

## **The Labour Bill and "Economic Rationalism"**

The Bahamas since 1992 has made real economic progress that has benefited everyone in one way or another. Yet...as is evident to everyone...many problems remain. One of those is the Government's intention to regulate the labour market. The proposed Minimum Labour Standards Bill dated January 2000 is controversial and the issues are not simple. It helps, however, to look at the experience of others...particularly a single country and its specific experiences. Such a case is New Zealand.

## *Economic Rationalism.*

In 1984 the country reached a crisis state. With agricultural commodities accounting for 60% of all exports, it lost its favored position in the English market. And there were the oil shocks. But...more importantly...there was the full economic consequences of 100 years of socialism...a marginal income tax rate of 66%, huge subsidies, bloated government payrolls and mandated prices and wage rates. Mr. John Wood, the New Zealand ambassador to the United States, described New Zealand in 1984 as being "as tightly regulated, protected and centralized as any East European country and performed about as well." In 1950, New Zealand had a Gross Domestic Product per capita 26% above the OECD group average and 40 years later it had fallen to 27% below that average.

The country reached a consensus: something drastic had to be done, no significant help would come from abroad, New Zealanders believed they could compete and the sacrifice had to be born by everyone. Under first the Labour Party and then the National Party the country turned to a radical market-orientated program best described as "economic rationalism." Between 1984 and 1996, for instance, government employment shrank 59%, all farm subsidies...whose value once equaled 30% of total output...ended, tariffs were cut two-thirds, the exchange rate was unpegged and banking, foreign exchange, price and wage controls ended.

## *NZ Labour Relations.*

The Journal of Labor Research in a 1996 issue described the New Zealand labour market of 1984 as "a Government-nurtured centralized collectivist and interventionist system." It began with the Industrial Conciliation and Arbitration Act of 1896, the first system of compulsory state arbitration in the world. With this and subsequent legislation the ideological need of the state to regulate and control industrial affairs was satisfied.



And as one would expect trade unions prospered even through the first seven years of Labour Party reform...a period when the reforms were made in agriculture, banking, finance, taxation and government management. During this period unions pushed for worker gains under the compulsory arbitration system. The number of unions peaked in 1985 and the unionized share of the workforce reached 44.7% in 1989.

In 1991 the newly elected National Party passed the Employment Contracts Act and brought labour in line with the reform program. The Act removed government sponsorship of unions, provided for freedom of association, ended compulsory arbitration and established a system of voluntary arbitration of labour disputes outside the Department of Labour.

The unionized share of the work force dropped to 23.4% while the size of the labour force rose 56%...from 892,800 in 1989 to 1.6 million in 1994. The economy that grew at an average annual rate of 0.5% per year for 20 years prior to 1984 increased at 5-6% per annum in the 1990s.

### *The FNM Labour Bill.*

The 2000 Report on the Economic Freedom of the World rates the Bahamas today at 6.7 on a scale of 10 points...virtually the same level as New Zealand before its program of economic rationalism. With this Bill the FNM is introducing the restrictive interventionist labour laws that characterized New Zealand prior to 1984.

1. The Bill assumes that competitive market forces do not determine wages and working conditions and government intervention is necessary. Where "no adequate machinery exists for the effective regulation of wages and working conditions", the Minister is given unlimited power to set minimum wages;



and the Bill sets minimum standards for all major components of compensation because it deems it necessary.

2. The Bill makes no pretense to be even-handed. For instance, it makes no mention of worker obligations or the basis for summary dismissal.

3. Two new bureaucracies are created to police private industry with powers to inspect and levy penalties.

4. The Bill, in effect, makes the Industrial Tribunal the arbiter of all labour/management disputes. It is compulsory insofar as no provision is made in the Bill for an appeal of actions taken by the Tribunal. Equally worrisome is the intention of the Tribunal to get permission to write the first contract in the event that labour and management reach a negotiating impasse.

5. The government in defending the Bill suggests "Tripartite Solutions" where labour, management and the government collude to set wages and working conditions. This is the fascist socialist alternative that will promote economically irrational rather than rational solutions.

One may argue that New Zealand turned to economic rationalism because of a drastic financial crisis that the Bahamas does not have. And one can observe an IMF urging the Government to develop new taxes and a Government that has not yet restrained the growth in its expenditures.

Perhaps like so many other countries the Bahamas will only take action when it is in the type of crisis faced by New Zealand in 1984. That would be both unfortunate and undesirable.

February 14, 2000

## **An Endangered Species – The Bahamian Entrepreneur**

A Bahamian entrepreneur...who considers the proposed Trade Union and Labour Relations Act and the Industrial Tribunal and Trade Disputes Act dated April 2000...can quickly conclude that the Government is stacking the cards against him.

He will realize that this legislation will implant militant and divisive trade unionism in his enterprise. The Trade Union Act, for instance, states that a union will represent his managers or workers if 40% of those in the defined bargaining unit vote "Yes" in a union representation election. The hurdle is now 40%...not the previous 50%...the percent most common elsewhere in the world. The majority no longer rules.

Furthermore —

- If he does not supply the names and capacities of all workers in the bargaining unit to the Minister of Labour within fourteen days, he is subject to a fine of up to \$10,000 and \$1,000 per day for failure to comply.
- Then, if he does not enter into contract negotiations in good faith within two months, he can be fined \$50,000.
- The Industrial Tribunal could award him damages up to \$500,000 if in this process the Tribunal finds that the union initiated an "industrial action". However, the union can avoid any liability by "repudiating" the action.
- And if he appeals the results of the representation election, he must still enter contract negotiations during the appeal process. In this case he may be fined \$50,000 for failure to do so.

During the contract negotiations, he must give the union negotiators information about his company that they need for unimpeded negotiations. The second act instructs the Tribunal to consider in its

awards the need "to assure employees a fair share of any increases in productivity." This substantiates a union need for information that goes well beyond the last annual balance sheet, income statement and the wages and fringe benefits paid. This disclosure requirement is new and opens a Pandora's box of uncertainty. What information will now satisfy the "unimpeded negotiation" and "fair share of productivity" tests? Not mentioned at all is the free market test...the wage that is sufficient to induce an employee to stay with the company.

In being competitive in the market place and earning a profit, a successful entrepreneur must have managers and workers who are honest, hard working and productive. In this community these individuals are often relatives, distant relatives and friends...or relatives and friends of key employees. Support of the legitimate concerns of these employees is in an employer's self-interest and is good labour relations. In almost all situations the majority of such individuals do not want to be in a union.

- Yet this law allows a 40% minority to initiate the unionization process.
- Even though the 60% majority may never join the union, union dues will be automatically deducted from their pay without their consent. In reality this is legalized thievery by the Government for the benefit of the union.
- The majority may eventually nullify the automatic deduction; however, this Act makes the nullification process more difficult.

And if the Bahamian entrepreneur read the January 2000 draft of the Minimum Standards Act, he would remember the "national labour contract"...the set of standards that overrides any past or future private agreement. He won't forget the provisions for the unlimited delegation of power to the Ministry of Labour...a non-elected official...as well as unfair dismissal, health and safety, two new armies of inspectors and the power to penalize for non compliance.

It is no wonder that the Bahamian entrepreneur feels like an endangered species to be devoured by union organizers, a minority of his workers, aggressive lawyers and ambitious bureaucrats and politicians.

April 16, 2000

## **A Call for Change in the Proposed Labour Bills**

The following is a position paper presented to the Technical Committee of the Bahamas Employers Confederation and The Bahamas Chamber of Commerce on April 24<sup>th</sup>.

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One view of the proposed Trade Union and Labour Relations and the Industrial Tribunal and Trade Disputes act dated April 2000 is that they are an extension of the socialist policies of the previous government to today's private sector. It is the type of government intervention and control that was widely practiced by labour parties and social democrats around the world in the 1960s and 70s. While it may still have some political appeal it is an undesirable model for economic development...a fact now known and established.

### ***The Example.***

To demonstrate this it is useful to look at a single "before and after" example where the policy issues are crystal clear. New Zealand is such a case.



New Zealand of the early 1980s with its Labour Party Government was described as the most socialist country outside of the Communist Eastern Bloc with all of their economic deficiencies.

Before 1984 the labour relations system had several major features, some of which are comparable to those contained in the Trade Union Act.

- The union registration process gave specific trade unions exclusive non-contestable rights to bargain in specific occupations and industries. In effect, the government gave the selected union a protected membership pool.
- Once a union representation was certified the employer was required to enter contract negotiations.
- Unions negotiated for members and nonmembers alike and registered collective agreements applied to all employees during the contract term, irrespective of union membership. Employers could not hire labour outside of the union contract.
- Employees were obliged to join the appropriate union and failure to join was a prosecutable offense. Despite this, of the 720,000 workers under union contract in 1984, 610,000 were union members and 110,000 were not.
- All labour disputes and grievances were settled through compulsory arbitration. This system was established in 1894, the first such system in the world, and provided a full century of experience.
- Minimum wage and working conditions were set for each occupation and industry. The guiding principles were "comparative wage and distributive justice".

Twenty years of economic stagnation and the loss of trade preferences in the UK market caused the country to adopt between 1984 and 1991 the most radical program of "market-orientated" basic reforms ever attempted in any developed country.

With respect to labour relations, the changes included –

- Employers were not required to bargain collectively and employees were not required to join a union as a condition of employment.
- The terms of a labour contract applied only to union members unless both parties agreed to its extension to non-members.
- Parties were free to strike or lockout in connection with collective bargaining.
- The Minister of Labour no longer maintained a union registry and “bargaining agents” were “recognized” by employers on the authorization of each employee.
- Voluntary mediation and adjudication using an Employment Tribunal and Employment Court replaced the 100-year old compulsory system.
- The Minister and Department of Labour were excluded from any role in industrial relations processes.

These radical changes were part of a comprehensive market-orientated program that was applied to all economic sectors...from privatization of the utilities to the simplification of tax and welfare systems and balanced budgets.

**The results were truly spectacular. The economy that had grown at an average annual rate of 0.5% per year for 20 years prior to 1984 increased at 5-6% per annum in the 1990s. The unionized share of the labor force dropped from 76% in 1985 to 23% in 1994...from 683,006 members to 376,000. However, total employment grew from 892,800 in 1989 to 1.6 million in 1994, a 56% increase.**

New Zealand is a good example because a Labour Party initiated its reforms. In addition, the stated objective of the Bahamian Trade Union Act...the promotion of a few strong unions and industry-wide collective bargaining...will create in the Bahamas the labour relations system that existed in New Zealand before its reforms.

## *The Call.*

BECON and the Chamber should strongly recommend the following changes:

1. An employer is not under any legal obligation to bargain with a trade union on a collective agreement.
2. The employer is free to lockout employees in connection with contract negotiations if he determines that the negotiations have reached an impasse. A trade union has the comparable right to strike.
3. Union membership is not a condition for employment.
4. A collective agreement applies only to the parties to the contract and can be extended to non-parties only by specific provision in the contract.
5. Union dues can be deducted from a worker's salary only with his prior written consent.
6. The mediation, conciliation and arbitration processes should be entirely voluntary.

Will the legacy of the FNM Government be the politically correct and economically failed formulas of the 60s and 70s? Or...will it take steps to meet the challenge of the very competitive global economy of today and tomorrow? The country must move forward...not backward...and only BECON and the Chamber can be the catalyst for such a change in policy direction.

April 27, 2000



## Are Banks Racist?

One of our political messiahs, while debating a "Bill for an Act to Amend the International Monetary Fund (IMF) and the World Bank Act, skillfully promoted class envy by demonizing the Banks as racial profilers (*The Tribune*, Thursday, February 17, 2000).

"Racial profiling" is a derogatory term used to suggest that black Bahamians get less favourable treatment than white Bahamians when applying for a loan at a "foreign domestic bank." The implication being that black Bahamians cannot become entrepreneurs if the "policies and practices of those banks holding these same Bahamian deposits are for the most part, developed by non-Bahamians."

In any discussion it is important to consider all the facts and the issue of protection of depositors money is not considered with more than a passing mention. However, by their nature, the "foreign domestic banks" being referred to are not in the business of venture capital or investments that can be considered "risky." Their first priority is to protect their depositor's money and of course make a profit. Not unlike any Bahamian business that has to protect its inventory and make a profit to continue to operate.

"Facts" were reportedly laid on the table indicating that the "prejudice of a banking institution put one of our own people on the brink of financial ruin." (*The Nassau Guardian*, Thursday, February 17, 2000). Not mentioned however is why the "bigger bosses" of the Bank officer withdrew the facility. It is not clear however if the "facts" included whether or not –

- a) The client met established criteria or,
- b) The bank officer had the authority to advance the funds in the first place.



## *The Three C's of Credit.*

Most banks' lending practices are guided by a simple formula called the 'Three C's of Credit.' These are Character, Capacity and Collateral.

1. Character is important to ensure that the borrower is legitimate and has a good credit rating. If they are a first time borrower decisions are made based on references, family relations etc.
2. Capacity to repay the money is also important because if the loan is not repaid the bank has to write it off against profits.
3. Collateral is a necessity in many instances if a borrower is not well known to the bank or wishes to borrow the money for a less than conservative venture. If the only collateral available far exceeds the value of the loan, this cannot be laid at the feet of the bank as being unreasonable.

## *Start a Venture Capital Fund.*

The good thing about a vibrant economy and the competitive market place is that there are alternatives to these (so called) racist institutions...people who do not like the conservative nature of policies "developed by non-Bahamians" can start their own venture capital fund. They can take their money out of these Banks that, in their view, stifle entrepreneurship and lend their money to anyone for any project they like.

***"Nothing is easier to find than injustices."***

Dr. Thomas Sowell in an essay to Creators Syndicate Incorporated discussing his book *Race and Culture: A World View* (1994) wrote:

**"Tragically, both poorer countries and poorer groups within our society are often distracted from the task of building up their human capital by being told that their underlying problems are due to other people's**

unjust treatment of them. All sorts of political messiahs make a career out of focussing on such distractions.

"Nothing is easier to find than injustices among human beings, whether in a racially diverse or a racially homogeneous society. But if injustice is going to be your crutch, then you will always find enough to keep you hobbling all your life."

## *Entrepreneurial Development*

Regrettably, many of our political leaders here at home would rather keep us hobbling than see us succeed on our own ability.

The average Bahamian (be they Black or White) has to hurdle regulatory barriers when attempting to open a business. Unwritten laws require us to visit our "helpful" politician or "take care" of the bureaucratic rent-takers, who are created by the same "helpful" politicians, in order to get our business off the ground.

**Free the economy of the trivial licensing requirements and the bureaucratic maze. Build the road to economic freedom and there will be a continuing economic boom from Abaco to Inagua.**

February 19, 2000

*"The hidden order, harmony and efficiency  
of the voluntary free market,  
the hidden disorder, conflict, and gross inefficiency  
of coercion and intervention –  
these are the great truths  
that economic science reveals to us  
through its deductive analysis  
from self-evident axioms."*

*- Murray Rothbard -*

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and  
Open "[www.iesbahamas.org](http://www.iesbahamas.org)"*

## Highlights

"...it is both ironic and tragic that governments in trying to shape the economic future of its citizens...often with the most noble intent...unwittingly produce the very opposite of what they intend." (Page 3)

Organized labour is being squeezed by the country's need to shed inefficient government enterprises and its inability to promote militant trade unionism in the private sector. And the FNM wants labour support in the next election so it passes legislation to solve "organized labour's" problem. Neither...is a sufficient reason to propose such "revolutionary" legislation. (Page 4)

It is no wonder that the Bahamian entrepreneur feels like an endangered species to be devoured by union organizers, a minority of his workers, aggressive lawyers and ambitious bureaucrats and politicians. (Page 10)

Will the legacy of the FNM Government be the politically correct and economically failed formulas of the 60s and 70s? Or...will it take steps to meet the challenge of the very competitive global economy of today and tomorrow? The country must move forward...not backward. (Page 13)

"Tragically, both poorer countries and poorer groups within our society are often distracted from the task of building up their human capital by being told that their underlying problems are due to other people's unjust treatment of them. All sorts of political messiahs make a career out of focussing on such distractions." (Page 15)