

# BAHAMAS AT ECONOMIC CROSSROADS?

By Gilbert NMO Morris



For 50 years, the Bahamas has been the “investor magnet” of the Caribbean. In fact, several Caribbean jurisdictions gained their economic opportunity from the early overwhelming interest in The Bahamas in the middle of the 20<sup>th</sup> century. Bermuda got its now –globally dominant – insurance industry from The Bahamas, Cayman edged into a funds and legal service powerhouse in business that melted away from The Bahamas. BVI did not really grow as an IBS Companies Centre, until Robert Mathevious, brilliantly, exploited the lack of focus in The Bahamas and the leader of Turks and Caicos will tell you that the initial investors in Turks and Caicos’ multi-billion dollar resort industry came to the island in utter frustration from The Bahamas. In this way, The Bahamas gave birth to much of the non-agricultural Economic Development in the Caribbean, and along with Cuba and the Dominican Republic, The Bahamas is still the Caribbean national with economic potential in the greatest possible disequilibrium to its natural resources.

In the respect foregoing, The Bahamas is less alike to its neighbours and CARICOM partners in developmental potential, and more alike to Estonia, Singapore, Oman and Switzerland. Yet, The Bahamas has not fulfilled its potential, nor capitalized upon it, not even near 25% relative to the jurisdictions to which it ought rightly to be compared.

One could give a litany of reasons why this is so. It is usually the case, that I identify problems as I see them, and then offer solutions. Here however, I am less concerned with the causes or at least proselytizing them as I care for the solutions.

There is one preliminary consideration: Everyone knows the saying in The Bahamas, that “if the US sneezes, The Bahamas catches cold”. I want the reader to understand something significant here: This ought to be less of a slogan, and more of a guide to policy development. That is, rather than pulling this statement out as some sort of sharp analysis, we should use this statement as a jumping off point. So, ‘if when the US sneezes, The Bahamas catches cold’ what are the 5 or 10 things we could do to become less susceptible to getting that cold?

It seems that we have never thought beyond that statement, and have been satisfied merely to use it to define our situation, even when perfectly viable solutions to our utter dependency have availed themselves.

A final preliminary caution: In The Bahamas (and the Caribbean generally) whenever new ideas are presented, apologists, beneficiaries or lackeys of the status quo reject the ideas as being “impractical”. “Man we must be practical” is the recitation in our region for dismissing innovation and doing nothing! Their practicality got us to where we are now rather than where we belong; next to Estonia, Singapore, Oman and Switzerland. I mean this in terms of economic development and standard of living, but also in terms of income and quality of life. It is your option reader, if you are willing to repeat that which has failed and expect a different outcome.

The US is now sneezing and The Bahamas, along with much of the rest of the world is catching cold. The rest of the world, Brazil, India, China, Japan, less so Europe and Russia are positioning themselves strategically, to be able to off-set the influence of the US economy. The Bahamas, at long last, must use this protracted downturn to do the same.

As I wrote in 2003, the US will face long-term inflationary pressures as result of printing money to cover debt, emoluments and the balance-sheet problems of US financial institutions; which are being treated as liquidity problems. Beneath all of this, the main, direct virus producing economic flu symptoms in The Bahamas and the region is the fall in house values (not prices as many people keep saying), foreclosures, bankruptcies and job losses; which altogether means less tourists. And since our economies are one-legged, we cannot hope to see recovery in 2009, or perhaps well into 2010.

I think the US economy is in more trouble than is realized. The issues are too long and complex to discuss here. But in the case of The Bahamas here is what should be done on Monday morning:

- i. Take 25,000 acres of Crown Land and create a Bahamas Premium Development REIT Fund. Get the land valued by an international survey company working under a Bahamian firm. Only that land should be included that is valued at \$20,000 an acre. The (book) value of this fund should be \$500,000,000.00 dollars.
- ii. Go to the Banks, seek an 18-month moratorium on mortgages for Bahamians who apply, pledge the shares of the fund to the banks in exchange for the moratorium. If they do not do it use an international bank. (The objective here is to get it done. I am not interested in the policies of specific banks. Rather, we must show that we are dynamic enough to get it done).
- iii. Require every family applying for the moratorium to pay 25% of their monthly mortgage payment into the fund for shares. There are ways to use these quarter-payments to create value for Bahamians, but they are too complex for this short note. So regard the main benefit as a ‘forced savings’ strategy.

*Note: I think this is a better approach than employment relief. This is a more efficient means of stabilizing the flow of cash through the economy.*

- iv. Do the Petro-Caribe deal. Ordinarily I would have said no. But Petro-Caribe is a long-term, low interest \$1billion dollar loan (or deferred dollar export) to the country. The billion dollars will open up opportunities for capital-intensive public works.
- v. Buy \$100 million dollars in Gold. (I advised this in 2003 when Gold was \$319 per ounce). Take half in ETFs and split the other half between Bullion and Special Drawing Rights (SDR) at the IMF. (Currently Bahamas SDRs are about \$130 million. We should convert it to Gold to obtain a spot price). Additionally, We should sell off 25% of Gold holdings at spikes in aims at acquire at least \$3 billion in Gold. Altogether, this is a hedge against the US dollar.
- vi. Convert 10% of the national reserves to Gold for the next 3-years.

*Note: During the Bush Administration - which was hostile to "Alternative Energies" - the Bahamas and regional nations were negligent in not drawing the best companies to our region. (True too for Stem Cells). In the Obama economy, it now makes no sense for those companies to come to our region, since he will likely put \$250 billion in alt-energy development.*

- vii. Use \$900 million of the Billion dollars as follows (If we understand finance, we should not have to use any of the actual cash):
  - a. Re-develop Bay Street
  - b. Build a new 1000 bed hospital in North Andros for Medical Tourism.
  - c. Build a new community in North Andros constituted by 10,000 homes and a 3,000 home retirement community.
  - d. This should be the "Greenest" development anywhere in the world
- viii. Convert the Bahamas to Electronic Government. This means all business licenses, driver's licenses, traffic fines, and access to all government documents must be over an electronic platform.
- ix. Convert every elementary school to an IT Learning and Language Centre.
- x. Institute a National Critical Reading Programme aimed at getting every child (or adult who wants to) up to O-Level Reading. Allow teachers and other persons to run their own Reading Workshops. Pay them.
- xi. Set up a \$50 million dollar entrepreneurial fund for new businesses that are interested in working on these government programmes.
- xii. Set up a national Bond Facility to issue and sell bonds in each of the ventures.
- xiii. Put the following people on the Board of the REIT Fund, The Entrepreneurial Fund and The Bond Facility. They would have three years to complete the work.
  - Branville McCartney
  - Brent Dean
  - Raynard Rigby
  - Phillip Simon
  - Owen Bethel
  - Carlos Smith
  - Christian Saunders
  - Sean Stuart
  - Guy Gibbs
  - Pat Hermans

S&P credit analyst Olga Kalinina said recently in the S&P Report on the Bahamas: "The country's inherently weak economic structure exacerbates the current downturn and puts more pressure on the policy response". Many Bahamians have been saying this for decades, myself amongst them. We have a form of "patronage socialism" that undermines the potential of The Bahamas, which when coupled with our passive, so-called "practical" approach to innovation, (here practical means patronage), means we suffer more in downturns than we should.

These initiatives discussed here would eliminate the need for employment assistance, generally and they would offset the impacts of the US downturn. (77 million people will retire in the US no matter what happens). In this way, we lock ourselves into a growth trend that will be active in the US beyond 2050. Therefore, instead of coping with the downturn, we would benefit from it indefinitely.

I am often questioned as to why I never include BTC, BEC or ZNS in these discussions on innovation. My reason is I regard them as failed companies. BTC ought to have been the dominant Multimedia Company in the Caribbean. BTC's opportunity for example was to do what DIGICEL has done in Haiti or ORASCAM is doing in Cuba or LIME is now doing across the Caribbean.