

US Economic Implications for Bahamas: Catchin Cold



Professor Gilbert NMO Morris lecturing at the CATO Institute's Global Forum on The Future of Financial Centres – at the CATO Institute, Washington DC. (Seated is Anthony Travers of Cayman Islands).

By: Gilbert NMO Morris

Chief Economist: CBR

Fr. Professor: George Mason University

Fr. Sr. Economic Advisor: Ministry of Finance – Turks and Caicos Is.

Fr. Publisher/Editor TC Freepress

Fr. Chairman: TC Invest

Disregarding our own Forecasts:

Two months before the 2008 Presidential Elections in the US, I wrote that US unemployment would likely remain at an average above 8.5% for 5 years. I repeated this forecast on Jeffrey – the talk show ran by distinguished Bahamian personality, journalist & lawyer, Mr. Jeff Lloyd. On that show (and subsequent shows in 2009 & 2010), I argued that it is our custom in the Bahamas to say “*When the US sneezes, we catch cold*”. What is of interest to me is, given that fact, the governments of the Bahamas should have - and have had - as central to its economic policies two permanent components:

- a. A highly developed expertise on the US economy; its short, medium and long term prospects
- b. A set of developing policies to offset downturns in, or catastrophic collapse of the US economy in a manner that impacts the economic viability of the Bahamas negatively.

Here is what I am and was saying in essence: We ought not to have been satisfied merely to make that statement above, without seeming to think, ever, about its actual meaning or worse, without ever having taken action to prevent what it implies, so obviously. To put it critically, the statement: *When the US sneezes, we catch cold*", means an economic crisis in America could mean economic death for the Bahamas. And this potential for "economic death" could only have been true after all these years, if we have been unthinking, lazy and self-indulgent; happy to depend on decisions by the US government that impact us and never having imagined for ourselves what we can, could and ought to have been doing to unhitch the Bahamas from the US economy as much as possible.

In this respect, we have mouthed and foretold our own fortunes and for all these years we have done nothing meaningful or sustainable to prevent the effects of the very fortune or potential misfortune we have foretold.

Once & Future America:

America is the greatest most successful economic and military civilization in human history. In economic terms, America has provided more prosperity for more people, at home and abroad than any nation, also in human history.

America will remain, always, the most significant military power on earth. And economically, it will continue to be the world's largest consumer of high value goods and services.

But if you are a thinking person in The Bahamas, here is what you should know for the purposes of imagining how the Bahamas should position itself against the worse impacts of the US economy, whilst benefiting from its more positive impacts:

The real story behind the current US economic problems is that we are seeing the emergence of a new America. One that is militarily powerful and deliberate, but that is economically beneficial for only about 60% of the population.

We know this because rather than reading the nonsense spewed by either side of the political divide, (Democrat & Republican) we observe the following:

- a. The number of people below the poverty line has increased in the last 25 years.
- b. The gap between "rich" and "poor" has widened.
- c. College affordability has decreased.

But there are more compelling facts that show that this situation may not be correctable:

- d. Yields on US Bonds are rising. Whilst the yields themselves are generally returning to past spreads (moving toward 4%), it means that America's creditors are demanding a higher return on lending the US money. They are – in my view – losing faith in the US as a debtor.
- e. Nearly 50% of US debt instruments must be rolled over in the short-term, which gives Foreign Creditors leverage against the US, and can influence interest rates paid by the US.
- f. Debt as a percentage of GDP is about 66% for Public Debt and 32% for intergovernmental debt. Total debt is about 100% of GDP.

Let me make just a note about the last point. Commentators like Niall Ferguson – who wrote the excellent book “Colossus” about the American Empire – when he speaks of debt, mentions only the 66% of public debt. But for us in the Bahamas – who are likely to ‘catch cold’ when the US sneezes – the 32% represents a “sneeze”, because should that debt burden become unbearable, the US will prove an uncomfortable place to live. Taxes will increase along with social unrest. And our “one-legged” economies, so dependent on vacation pay > which relies on people having vacations > which means they must have jobs, cannot survive a jobless America.

Vanishing Work:

However, jobless is what America will be for sometime to come. And just as China assumed wrongly – at first – that Americans could continue to consume at their previous insatiable pace, countries in the Caribbean, particularly the Bahamas behaved as if there would always be American tourists, automatically available.

We know that is not so, and I have made this point for 18 years now: Any credible Minister of Finance of the Bahamas is one who (whilst he prays for America’s economic health):

- a. Recognizes our over-dependence on the economic well-being of the US,
- b. Who because of that, designs an economic programme to limit the negative impacts of economic crisis in America,
- c. Whilst providing strategic incentives for investment and growth.

There are those who will say that there are investment policies, providing incentives for investors. The problem is these are general “cookie cutter” incentive policies, none of which are aimed at making the Bahamas a market leader in a specific area.

To put the point more plainly: the energy, time and talent we wasted on CSME, FTAA & WTO would have been better spent (let us say) during the “Bush Administration” enticing the most efficient, advanced and innovative players in the STEM CELL research and the Solar Energy business into the Bahamas. Bush was hostile to these groups and a first class high-level government courting of these industries (headed by someone like Phillip Simon), would have put the Bahamas on a 25 to 50 year growth path; with new technologies and training occurring in the country right now.

The aging US population almost guarantees the growth of STEM CELL initiatives and the shrinkage of the US Economy means advanced alternative energy technologies will come to be more and more in demand.

Neither CSME or FTAA or WTO aids us in either of the industries above. Moreover, our off-the-shelf “incentive programmes do nothing to make the Bahamas more amenable to these industries.

Again, permit me a note so that I may be more specific about the dismissal of these trade programmes, which too many people see as being meaningful. I will take them in turn:

- a. CSME – I will make only a few points here:
 - I once asked the Secretary General of CARICOM- as part of a panel at COB – What is your 10-year vision of CARICOM? What are the 4 or 5 industries our region will focus upon? What are the financial and human resource needs of those industries?

And how will they survive a financial crisis in America. There was no answer. I do not mean to scandalize him, but this is and has been typical of Caribbean Institutions.

- Why does CSME take as a tenet the “Free Movement of Labour” in a region suffering from “Brain Drain”? Why would we entice labour to move from smaller Caribbean nations to larger ones when this is already a critical problem? But worse, why does labour have to move in the age of the Internet? For instance, in Mumbai, India, they are running the banking system of the US and the IT & Internet platforms of 25,000 American companies? Why does CARICOM have a pre-Internet policy?
 - When asked at that meeting what currency will be used for the “unified CARICOM currency”, the answer was the US dollar. I cannot go into all the reasons here. But this is the silliest idea I have ever heard. Had CARICOM nations followed my own advice in 2003, and converted 10% of their reserves to gold when gold was \$319 per ounce, and converted their Special Drawing Rights (SDR) at the IMF, together with taking receipt of foreign balance of payments income in gold, we would be better off by 25 to 40 billion dollars.
 - It may have been possible then to develop the basis for a single currency; but as usual in the Caribbean, the wish exceeds the execution.
- b. FTAA – I can only say one thing here: It is a nonsense too unbearable for comment to think that the United States would ever give power over its trade decisions to a host of weak, meek and *also-ran* countries. I argued 10 years ago that Brazil had too much self-respect and too much going for it to go along with such nonsense as was being proposed. In 2003, Brazil – as was forecasted – rejected the comprehensive FTAA, and switched to bi-lateral options within a multi-lateral framework. Giants do not suffer midgets for long.
- c. EPA – One point: Same issues as FTAA, but in addition, you simply do not secure rights to foreigners in your country before you secure opportunities for your own people. Why:
- You end up pricing your people out of the market you create.
 - Every concession you make, limits your capacity to provide opportunities according to needs.

Moreover, with Lord Peter Mandelson – the EU Trade Commissioner – threatening Guyana, that hardly sounds like the beginning of an equal partner relationship. Think about it, if the UK can exercise its independence to remain out of the EURO for its own reasons, where are our reasons for doing what is in our best interest?

- d. WTO – again one point: most of our Caribbean neighbours are members of WTO. What have they got that we are missing and are in any way or degree in the Bahamas?

Here is what I am saying: it takes, insight, courage and drive to ignore the “fish-market of acronyms” (CSME, FTAA, EPA, WTO), and to reject their invitations because we KNOW where we are headed. The two industries mentioned above – STEM CELLS and Alternative Energy – would have done more for the Bahamas by now, than 50 years of CSME, FTAA, EPA or WTO combined.

The Coup de Grace:

The Bahamas has been independent for 37-years. We no longer have the excuse that we are “new to the game” or “just starting out” or “that we should be allowed our growing pains”. All of that is barking nonsense. Singapore gained its Independence 2 years after Jamaica in 1965. Prime Minister Lee Quan Yew visited Jamaica and studied the Bahamas to figure out what options were available for small island nations, suffering social unrest and facing regional military threats.

Look at the difference today: Singapore government owns more than 100 companies with a ‘market cap’ of over \$1billion dollars; whilst we are selling off ours. Its investment agency loaned Barclays’ Bank \$10 billion in the financial crisis. Its National Reserve is \$900 billion.

For an example closer in time frames, look at Estonia. 15-years ago, it was a dark, damp backwater of the Soviet empire. Today it is light and clean. It invented Skype, which has half a billion people on line, and it held its last general election on the Internet. Emerging from the greatest financial crisis in its modern history, Estonia has a well-educated citizenry, a balanced budget, debt-free, has a simple flat-rate tax, low crime and a stable, convertible currency backed by currency board and a strong peg to the euro and it has the most advanced electronic government in the world, all in 15 years or the time we wasted trying to sell BTC.

This means we must stop saying we need more time. We must stop saying the country is young. There are no excuses available for us now.

We have failed to reach our potential compared to what was available to us. And having hitched ourselves unthinkingly to the US economy, without once thinking about what that means, and now we may find ourselves without the means to put our country right.

For those waiting for the “pipe dreams” of the return to tourism’s heyday in the Bahamas, forget it. Those days are gone for good. We may build massive temples to excess in Cable Beach and West End, but know this: that model of hotel development died in the 1980s and belongs to the 1960s Las Vegas. More importantly, the people we are expecting to pay to arrive as tourists in these monstrosities are busy losing their homes and jobs, or preparing for higher taxes.

How do we know that these times in which we depended on 78 to 80% of our tourists coming from America will never return?

Here is why, in America:

- a. Unemployment is up, and nearly 10% (I believe its closer to 18%).
- b. But corporate profits are not just up, but breaking records.
- c. Productivity is also up by record levels.

This means that those profitable corporations do not need the people who are unemployed. They are successful without them. There are other issues that suggest a hard future for those who have actually jobs:

- d. 77 million Americans will retire in the next 16 – 25 years.
- e. 80% of them are not financially prepared¹.
- f. For those depending on Social Security, the US must go further into debt to support them.
- g. With that many people retiring, nearly one-third -1/3 of the population, figure another third 1/3 are children. As such, the final 33% of the population must work and pay taxes – generally – for 67% (or children and old people).

What does all this mean?

Well when you add to this that 16 states have created tourists boards to compete specifically with Caribbean tourism, it means, no tourists, less tourists and cheaper tourists.

It is for this reason - in part - that I question the wisdom of the Bar Mar deal:

My immediate thoughts are that Mr. Ingraham has given a reasoned explanation of the project, which it seems, he and his colleagues have considered thoughtfully. I think it demonstrates a level of professionalism.

Having said that, I have two points:

1. This is a deal for a hotel and resort model that died, finally, 10-years ago. All the large-scale Las Vegas hotels are in deep financial trouble; and those hotels are in places (such as Macu) where they can build more cost effectively than the Bahamas. In fact the extensive use of foreign "cheap" workers is an attempt to match the cost matrix of Las Vegas developments. I doubt any success there. However, it is critical to understand the dynamics and economics of adding 3,000 rooms to a hotel sector where the concept and philosophy is seriously outdated.

2. Mr. Ingraham will 'catch flak' for any perceived problems with this development. However, both parties still believe in this *dead concept* of Vegas style tourism development; particularly in a situation where relevant costs and impacts on quality of demand are totally out of their control. The people we expect to visit Bar Mar (and West End type developments) routinely are busy losing their homes and jobs in the US. Perhaps, the Chinese will put on 2 or 3 long haul flights per week. But remember, the Chinese economic model is based on the US capacity to consume. And as I wrote before the US Presidential elections, the US economy will not come back for 5 to 8 years; if at all. And if it does, it will have a much more limited capacity to support the economic aspirations of as large a number of Americans as it has in the past.

That money borrowed, risked and spent in hopes of Bar Mar's success, would have been better invested in a Global Technology Centre in North Andros; which would have produced longer term economic growth (and actual tourism) for the Bahamas.

Take your pick, but these decision are how we "catch cold".

¹ <http://www.annuitydigest.com/forum/80-percent-americans-not-prepared-retirement>

Either way, we shall now pay the price for knowing that “*When the US sneezes, we catch cold*”, and doing nothing about it. We will pay a price for making excuses for routine failures of imagination, foresight and execution and we shall pay a price because we have been so blessed – with no earthquakes or volcanoes or Tsunamis or relatively few direct hits from hurricanes in the last 37 years.

Yet, while we sat on these blessings making excuses and speaking of routine advances (a few computers in an office, etc), other nations that began their independence with us, and after us, facing greater difficulties than we have, have out-paced us in every way.

Whilst we defend “d” grade national averages, Singapore and Estonia are leading in educational league tables.

In the Bahamas there are two centres of excellence to which I refer often: Our Bahamasair Pilots are spoken of with reverence for their skill everywhere I travel in the world. Second, our athletes are held in high regard everywhere I go as well.

It is ironic, I think, that our pilots and athletes don’t make the excuses our governments and their party hacks have made over the years? Instead, Bahamasair pilots developed their skill whilst working for a bankrupt airline and our athletes succeed against countries with an actual National Sports Plan, in spite of their situation in the Bahamas. If we could only match them, our future would be matchless.