

**Discussion Paper on  
Bahamianisation and Economic Growth**

**This document is an independent discussion paper drafted for The Bahamas Financial Services Consultative Forum. The goal was to marshal ideas and stimulate debate with a view to developing effective policy proposals for the government. The original paper was prepared by Larry Smith and Rick Lowe with assistance from Ralph Massey and Joan Thompson.**

**The edited version included was produced by Larry Smith for the press.**

**January 19, 2003.**

## **The Origins of Bahamianisation**

Bahamianisation refers to a nationalist immigration policy implemented by the Progressive Liberal Party (PLP) government after it first came to power in 1967.

It was aimed at achieving greater economic and political benefits for the majority of Bahamians. This was in response to a perception of discrimination in the job market arising from the open immigration policies pursued up to that time.

Stories abound from those days of expatriates recruited to serve as secretaries, bank tellers, or even waiters. Jobs that many Bahamians were considered capable of performing.

Dr. Dexter Reno Johnson recently noted that Bahamianisation represented the wishes of the Bahamian people, “and it is imperative that this process be completed by the current PLP government.

“We must be considered as having the only right to whatever is available in the Bahamian job market. Given the enthusiasm with which Bahamians have embraced the educational opportunities which have presented themselves since 1967, there are few jobs for which Bahamians are not qualified.”<sup>1</sup>

The counter argument was that with such a tiny population (130,000 in 1963 rising to 169,000 in 1970) of under-educated, unskilled people, the Bahamas could not provide on its own the manpower, skills and capital needed to support the economic boom generated by tourism and offshore banking.

Perhaps the most memorable event involving Bahamianisation occurred in 1969 when the new PLP government extended immigration controls over Freeport as “a sovereign right”. Under the 1955 Hawksbill Creek Agreement, Freeport on Grand Bahama was developed as an American-owned private enclave populated by mostly white expatriates.

Against this historical backdrop one can understand the emotional attachment to Bahamianisation. However, going forward, we need to analyse whether such a simplistic approach is relevant to modern challenges.

## **The Effects of Bahamianisation**

People often promote the illusion that Bahamianisation was the sole impetus for the growth of the middle class and the expansion of economic prosperity in the Bahamas over the past 30 years.

While such protectionism may have helped achieve specific short-term benefits, there were also negative consequences that still linger today.

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<sup>1</sup> Bahamas B<sub>2</sub>B

A nationalist approach to political and economic affairs is much less of an option in today’s interdependent and highly competitive world. But despite the pivotal role played by foreign investment in our economic life, Bahamian society retains a pervasive antagonism toward foreign investment. There is a profound disconnection between the reality of what has occurred and what people and politicians believe and desire. This makes the adoption of sound economic policies more difficult.

Foreign investment has made a huge contribution to our modern development. In the past decade alone foreigners invested more than a billion dollars in resort projects that revitalized our tourism industry and helped cut unemployment in half.

Tourism is an industry that relies on attracting millions of foreign visitors who are catered to largely by big capital-intensive resorts, airlines and cruise lines, mostly owned by foreigners.

This industry alone accounts for more than half of our income, the money we use to build and maintain roads, hospitals and schools, and to provide social services and law enforcement, among other things.

Our financial services industry relies heavily on foreign expertise, institutions and clients. This industry creates significant opportunities and benefits for a large group of well-educated Bahamians who in turn circulate money through the economy for the benefit of even more Bahamians.

These familiar facts clearly show that the argument that we can do without foreign investment and foreign investors has no basis in reality.

The following table provides some telling information about the growth of economic prosperity based on government statistics:

**Bahamas Distribution of Household Incomes**

Percent of Households	Percent of Household Income		
	1973	1986	1999
0%-20%	4.6%	2.6%	4.1%
21%-40%	9.4%	7.5%	11.1
41%-60%	16.1%	14.5%	17.3%
61%-80%	24.0%	26.7%	24.6%
81%-100%	45.9%	48.6%	42.9%

Source: Department of Statistics, Annual Surveys of Household Income

As we all know, the key investor lured to the Bahamas in recent times was Sun International and the prosperity generated as a result was stunning. GNP over five years (from 1995 to 2000) grew at 4.3% per year in real terms—an outstanding achievement.

And even more importantly, the benefits of that prosperity were more widely distributed. The lower-income 60 per cent of the population (per Department of Statistics data in the

above table) got a bigger slice of the growing economic pie; the top 40% got a reduced share; and the top 20% had the largest loss of share.

Over time, all Bahamians were able to take advantage of more opportunities that were in turn provided or made possible by foreign investment.

### **International Immigration Policies**

Virtually no country (except for a few basket cases like North Korea) actively seeks to close itself off from the world. Even the People's Republic of China has begun to eagerly compete for foreign business and investment.

But in the Bahamas there remains a xenophobic flame that is stoked, usually at election time, with catchy phrases like 'the Bahamas for Bahamians' accompanied by sinister accusations about 'selling out' to foreigners.

The negative results of trying to close an economy to the outside world are easy to cite these days. Even a country the size of India, with its millions of educated and industrious people, suffered decades of economic stagnation after Independence due to short-sighted protectionist and nationalist policies.

This is perhaps an understandable result when you consider that at one time it took an Indian businessman two years and 50 trips to see bureaucrats in the capital just to import a single \$1500 computer.

One economist<sup>2</sup> put it this way:

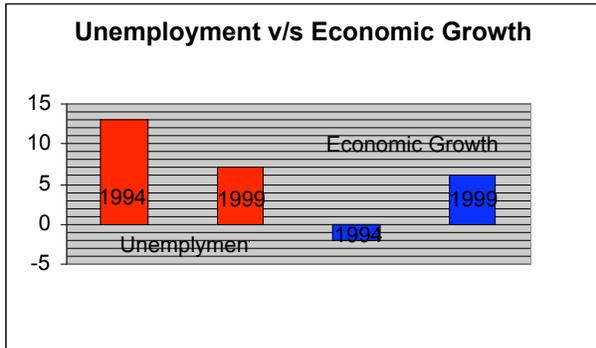
...India's experiment in industrialisation along national lines bred 'national champions' that actually championed their own interests at the expense of ordinary Indians. Big companies fleeced consumers, selling shoddy goods for inflated prices. Rather than investing their profits in better technology, they chose to lobby for more special favours from government. Bureaucrats who thought they knew best tied the economy up in red tape – quotas, tariffs, permits, licences – that distorted incentives, stifled entrepreneurship and bred corruption. The state poured vast sums into white elephants. The fat cats lived the life of Riley; the poor, often literally, starved. Indian companies did not invest enough. Nor, without the spur of foreign competition or signals from world prices to guide them, did they invest wisely. The economy stagnated.

Bahamians will not succeed without allowing and encouraging immigration and foreign investment to help create the jobs future generations will need. Our leaders need to make this obvious point clear to those citizens who are still living in the dream world of the past.

Comparative data from 1994 and 1999 on the correlation between unemployment and economic growth in the Bahamas, as shown in the following graph, is instructive:

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<sup>2</sup> OPEN WORLD:/THE TRUTH ABOUT GLOBALISATION



It would be even more useful to assemble data from the Bahamas and selected regional countries to explore the relationship between immigration policies (work permits), foreign investment, unemployment and economic growth as follows:

### Bahamas

Year	Population	Work Permits	FDI	Unemployed	Economic Growth
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1957

1967

1977

1987

1997

It would be important to compare the above data in The Bahamas to say Jamaica and Barbados, two Caribbean countries that to the outsider appear at opposite ends of the spectrum.

Europeans of 10 nations now move from country to country in search of better lives without any work permit restrictions. And the European Union will soon be extending these rights to several more countries.

It would be interesting to look at statistics on the number of Bahamians living and working in Canada and the United States. In fact, America and Canada are magnets to migrants from around the world.

James Dale Davidson and Lord William Rees-Mogg had this to say in 1997 about *“The Extranational” Age Ahead*<sup>3</sup>:

As the era of the ‘Sovereign Individual’ takes shape, many of the ablest people will cease to think of themselves as party to a nation, as British or American or

<sup>3</sup> The Sovereign Individual. Mastering The Transition To The Information Age.

Canadian. A new transnational...understanding of the world and a new way of identifying one's place in it await discovery in the new millennium. As indicated before, early evidence of this emerging mind-set was provided in the finding that almost half of the teenaged viewers of MTV expect to leave the country of their birth in order to achieve the life they want for themselves. This new equation of identity, unlike nationality, will not be a product of the systematic compulsion that made nation-states and the state system universal in the 20th century.

The Bahamas needs look no further than the College of The Bahamas to realise that we are already part of a transnational world. In a recent speech, Dr Leon Higgs boasted of the success of the COB's training programme for nurses while lamenting the nation's critical nursing shortage because the new graduates take up jobs in South Florida hospitals.

Some web sites of interest relating to the immigration policies of America and Canada are:

[www.usais.org](http://www.usais.org)

[www.cmsny.org](http://www.cmsny.org)

[www.brook.edu/gs/projects/immigration](http://www.brook.edu/gs/projects/immigration)

[www.rand.org/education/crip.html](http://www.rand.org/education/crip.html)

[www.ins.usdoj.gov](http://www.ins.usdoj.gov)

[www.law.cornell.edu/topics/immigration.html](http://www.law.cornell.edu/topics/immigration.html)

[www.fairus.org](http://www.fairus.org)

[www.canadafirst.net](http://www.canadafirst.net)

[www.missouri.edu/~socbrent/immigr.htm](http://www.missouri.edu/~socbrent/immigr.htm)

[www.usnis.org](http://www.usnis.org)

### **A Lesson From the Automotive Industry**

The American auto industry has always been a source of national pride for Americans, not only because of the jobs it creates, but also because of its association with the national character and technological achievement.

However, in the 1980's the US automotive industry was coming under tremendous pressure from Japanese competitors. Sales of Japanese imports were rising while US-made vehicle sales were falling.

Because of the importance of the automotive industry to the American psyche at the time, the US government pursued a trade policy of "voluntary constraints" with Japan. This was designed to give some relief to the automakers while they set about improving the quality of their product in order to become more competitive with the Japanese.

Unfortunately the Americans used this period to increase short-term sales volume rather than to implement product improvements, which most analysts saw as necessary for the long-term health of the industry.

The result was that the US manufacturers didn't become serious about competing effectively until after their 10 years of wriggle room had elapsed.

And by then, the Japanese began building car and parts plants in North America and Americans continued to buy the higher-quality Japanese products in record numbers.

In 1987, Professor Thomas DiLorenzo presented an analysis of the spare parts manufacturing industry<sup>4</sup>:

Now that American suppliers are faced with greater competition from abroad, they will have to either meet the competition or go out of business. This challenge is healthy for the American auto parts industry, for its managers have more incentive to invest in product improvements and cost-cutting measures. By contrast, protectionist legislation that would temporarily guarantee American suppliers a larger portion of the market would reduce such incentives and thereby weaken the industry. There would be no reason for suppliers to be imaginative and invest money in product improvements if their market were guaranteed by law.

Only after looking down the barrel of bankruptcy did the North American automakers take stock and begin to give American consumers what they wanted.

### **The Role of Education**

In any discussion of economic growth it is essential to examine the role played by education. We need to review the results of our educational system to establish some benchmarks and promote accountability in this area.

A strong argument can be made that the simplistic approach to Bahamianisation has created a false belief that no matter what we achieve in school and no matter what our performance after we leave, as Bahamians we are entitled to the good life.

This view is counter-intuitive in terms of what we all know is needed to keep the economy functioning and growing.

It is most disconcerting that tens of millions of dollars are spent on public education each year and yet there is absolutely no accountability for the results.

Thomas Sowell, an analyst at the Hoover Institution<sup>5</sup>, made several interesting observations in his 1993 study of American education:

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<sup>4</sup> Cato Institute Policy Analysis No. 83

<sup>5</sup> [www-hoover.stanford.edu](http://www-hoover.stanford.edu)

All the ingredients for a successful educational system already exist in the United States – some of the leading scholars in the world in numerous fields, masses of college-educated people capable of teaching in the public schools, and a public whose willingness to provide financial support for education has far outstripped educators' willingness to buckle down to the task of teaching academic skills to the next generation.

***The problems are fundamentally institutional. Changing those institutions is the key to changing behaviour and attitudes too long insulated from accountability.*** (emphasis added)

The political task is enormous, but no more so than the task of others before who have made vast changes in the social landscape of the United States, or who created this country in the first place. The stakes today are our children's future – and nothing should be more worthy of the effort.<sup>6</sup>

There are many initiatives we could take in the Bahamas to address the educational problems that haunt our future. All it takes is a commitment from the public sector to actually consider and implement change.

The following ideas are no panacea. But these proposals can provide a starting point for self-reflection by policymakers and the country at large:

1. Implement vouchers for the public school system that can be redeemed by parents at the school (private or public) of their choice. This will introduce competition and establish freedom of choice.
2. Reduce the cost and inefficiency of non-productive educational bureaucracy by selling public schools to interested teachers and investors.
3. Reduce vacation periods so failing students can be brought up to proper grade level standards.
4. Extend school hours for managed homework and participation in youth programmes that teach civics, community service and law and order.
5. Provide special facilities for the brightest children to help them succeed in an environment that encourages academic achievement.
6. Raise the school leaving age to 16 for non-achieving students.
7. Provide a challenging curriculum for non-academic students that would include the fundamentals of reading, writing and arithmetic, in addition to basic computer and work-related skills.

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<sup>6</sup> Thomas Sowell. Inside American Education.

8. End the system of social promotion, which produces graduates that are functionally illiterate, and provide more vocational training.
9. Base teacher pay on results. Reward good teachers and make bad teachers more accountable for their failings.

If we do not take dramatic action to improve the educational system, new generations of Bahamians will graduate unprepared for the borderless world that is on the horizon.

### **Towards a New Approach**

More than 30 years ago a commission of inquiry into the development of Freeport-Lucaya reported that the government had the right to control immigration for security reasons and to give job priority to qualified Bahamians.

The report noted that 99 per cent of Freeport's real estate sales had been to non-Bahamians, only 155 of 1400 business licenses were held by Bahamians, and only 34 per cent of the labour force was Bahamian.

In terms of job categories, only 22 per cent of clerical workers, 14 per cent of managers and 11 per cent of professionals were Bahamian.

The commission reminded the Port Authority of its contractual obligation to train Bahamians and to employ expatriates only if no qualified Bahamians were available. It called on the government and the private sector to provide more funds for the training of Bahamians, especially in key technical areas.

The principles discussed in this report have served as the basis for the government's immigration policies ever since. And hundreds of millions of dollars have been invested in education, scholarships and training programmes over the years.

Yet there are persistent complaints about the shortage of technical skills in the country, the general lack of productivity of Bahamian workers, the antagonistic attitudes towards innovation, and related factors that seriously retard economic growth.

After this report was issued the government's application of immigration policies became increasingly hardline and, some might say, unimaginative.

Illegal Haitian labourers were rounded up and deported, The legal rights of Belongers, many of whom had lived in the country for decades, were abridged or ignored. Licensed workers were often harassed and humiliated. Work permit fees were increased substantially, and permits were not renewed beyond five years except in special circumstances. Non-Bahamian spouses were denied citizenship and sometimes even residency rights. And even Turks Islanders were refused the preferential treatment many thought they deserved.

The clear objective was to re-homogenise and exert greater political and economic control over the Bahamian population.

The once positive goal of bringing more Bahamians into the mainstream of society to fuel growth became one of preventing foreigners from bringing about change that was “alien to traditional social and political norms”.

In today’s world, this kind of insulation is no longer tenable – economically, socially or politically.

We live next door to an impoverished nation of 7 million people, all desperate to leave. Our primary economic activities cannot be maintained or expanded without foreign investment, foreign expertise, foreign imports, foreign guests and foreign workers.

With our well-known lack of natural resources and industry, the Bahamas relies on international services to maintain living standards for a rapidly growing population of over 300,000.

We are in fact, very similar in some respects to the island nation of Singapore, a former British colony in Asia. On independence in 1965, Singapore was an impoverished city-state of 3 million racially divided and poorly educated people. It had no national identity and lots of crime.

But over the years, Singapore made a crucial commitment to education, modernisation, and international commerce. The government recognised that the country was too small to go it alone, so it created an environment conducive to business and encouraged foreign investment and technology transfer. Today, Singapore is one of the world’s most successful small economies.

The ideas of the immediate postwar era such as glorification of public enterprise, resentment of private capital and promotion of nationalism have undergone dramatic revisions in the past 20 years. They could not stand up to the realities of the world market.

Today’s realities are the retreat of government, large-scale privatisation, developing and using the market rather than repressing it, fewer controls, promotion of competition, less barriers to trade and investment, tax reforms, and public spending that is driven by economic returns rather than political exigencies.

As the Malaysian Prime Minister Mohammed Mahathir wrote about his country’s participation in a globalised world which brought his citizens a much greater standard of living:

"There is no question of opting out. You don't step off the world...we are dependent on the rest of the world...we need the world."

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## **Citations**

<sup>1</sup> Bahamas B<sub>2</sub>B Commentary by Dr. Dexter Reno Johnson posted September 29, 2002.

<sup>2</sup> Cato Institute Policy Analysis No. 83 by Thomas J. DiLorenzo dated February 24, 1987 titled, Foreign Manufacturers In the United States: Should They Be Told To Buy American?

<sup>3</sup> James Dale Davidson and Lord William Rees-Mogg. THE SOVEREIGN INDIVIDUAL. MASTERING THE TRANSITION TO THE INFORMATION AGE. 1997. Touchtone.

<sup>4</sup> Cato Institute Policy Analysis No. 83. February 24, 1987. Thomas J. DiLorenzo. Foreign Manufacturers In the United States: Should They Be Told To Buy American?

<sup>5</sup> [www-hoover.stanford.edu](http://www-hoover.stanford.edu)

<sup>6</sup> Thomas Sowell. Inside American Education. 1993. The Free Press.

Daniel Yergin and Joseph Stanislaw. The Commanding Heights. 1998. Touchstone.

## **Bahamianisation and Economic Growth (Edited version)**

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Stories abound from those days of expatriates recruited to serve as secretaries, bank tellers, or even waiters. Jobs that many Bahamians were considered capable of performing.

Dr. Dexter Reno Johnson recently noted that Bahamianisation represented the wishes of the Bahamian people, "and it is imperative that this process be completed by the current PLP government.

"We must be considered as having the only right to whatever is available in the Bahamian job market. Given the enthusiasm with which Bahamians have embraced the educational opportunities which have presented themselves since 1967, there are few jobs for which Bahamians are not qualified."<sup>7</sup>

The counter argument was that with such a tiny population (130,000 in 1963 rising to 169,000 in 1970) of under-educated, unskilled people, the Bahamas could not provide on its own the manpower, skills and capital needed to support the economic boom generated by tourism and offshore banking.

Perhaps the most memorable event involving Bahamianisation occurred in 1969 when the PLP government extended immigration controls over Freeport as "a sovereign right". Under the 1955 Hawksbill Creek Agreement, Freeport on Grand Bahama had been developed as an American-owned private enclave populated by mostly white expatriates.

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Against this historical backdrop one can appreciate the emotional attachment to Bahamianisation. However, going forward, we need to analyse whether such a simplistic approach is relevant to current circumstances.

#### The Effects of Bahamianisation

People often promote the illusion that Bahamianisation was the sole impetus for the growth of the middle class and the expansion of economic prosperity in the Bahamas over the past 30 years.

While such protectionism may have helped achieve specific short-term benefits, there were also negative consequences that linger today.

A blinkered nationalist approach to political and economic affairs is much less of an option in today's interdependent and highly competitive world. But despite the pivotal role played by foreign investment in our economic life, Bahamian society retains a pervasive antagonism toward foreign investment.

There is a profound disconnection between the reality of what has occurred and what people and politicians believe and desire. This makes the adoption of sound economic policies more difficult.

Foreign investment has made a huge contribution to our modern development. In the past decade alone foreigners invested more than a billion dollars in projects that revitalized our tourism industry and helped cut unemployment in half.

Tourism relies on attracting foreign visitors who are catered to largely by big capital-intensive resorts, airlines and cruise lines, mostly owned by foreigners.

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These familiar facts clearly show that the argument that we can do without foreign investment and foreign investors has no basis in reality.

The key investor lured to the Bahamas in recent times was Sun (now Kerzner) International, and the prosperity generated as a result was stunning. Gross national product from 1995 to 2000 grew at 4.3% per year in real terms—an outstanding achievement.

And even more importantly, the benefits of that prosperity were more widely distributed. The lower-income 60 per cent of the population (according to government statistics) got a bigger slice of the growing economic pie.

Over time, all Bahamians were able to take advantage of more opportunities that were in turn provided or made possible by foreign investment.

#### International Immigration Policies

Virtually no country (except for a few basket cases like North Korea) actively seeks to close itself off from the world. Even the People's Republic of China has begun to eagerly compete for foreign business and investment.

But in the Bahamas there remains a xenophobic flame that is stoked, usually at election time, with catchy phrases like 'the Bahamas for Bahamians' accompanied by sinister accusations about 'selling out' to foreigners.

The negative results of trying to close an economy to the outside world are easy to cite these days. Even a country the size of India, with its millions of educated and industrious people, suffered decades of economic stagnation after Independence due to short-sighted protectionist and nationalist policies.

This is perhaps an understandable result when you consider that at one time it took an Indian businessman two years and 50 trips to see bureaucrats in the capital just to import a single \$1500 computer.

One economist put it this way:

"...India's experiment in industrialisation along national lines bred 'national champions' that actually championed their own interests at the expense of ordinary Indians...Bureaucrats who thought they knew best tied the economy up in red tape – quotas, tariffs, permits, licences – that distorted incentives, stifled entrepreneurship and bred corruption...The economy stagnated."

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Yet there are persistent complaints about the shortage of technical skills in the country, the general lack of productivity of Bahamian workers, the antagonistic attitudes towards innovation, and related factors that seriously retard economic growth.

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"There is no question of opting out. You don't step off the world...we are dependent on the rest of the world...we need the world."

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