

# The Jamaican Road to Prosperity

## How the Labour Laws Will Affect Your Standard of Living

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The “Jamaican road to prosperity” entails **six** main components:

1. Government controls economic decisions.
2. Politics overshadows business and economic efficiency in government decisions.
3. Government refuses to take advice or consult.
4. Business costs rise in the midst of economic downturn.
5. More red-tape and government interference in business.
6. Higher taxes and expanding government bureaucracy

Over the years this approach has led Jamaica into a spiralling cycle of corruption, poverty and violence; with that country moving from one crisis to another. In almost every international economic rating system, Jamaica is sadly regarded as a “basket-case”.

### Has the Bahamas taken this road?

This supplement will answer this question.

# Has the Bahamas Taken This Road?

## Is this Supplement

**Yes.** In a democracy, the way to get at the best ideas is to insure the widest possible debate. The reason is that no one person can know what is right in all circumstances or even in any one circumstance. The Nassau Institute has reviewed the new labour laws, concluding that they have not been debated widely enough, and are not in the best interest of the development of the Bahamas.

## Aren't the labour laws in our best interest?

**No.** Because in the midst of a recession, one does not increase the costs of doing business since it is likely to lead to a loss of jobs. In addition, Government interference in the constantly self-adjusting labour market is harmful to both employers and employees; it creates rigidities that diminish or eliminate economic growth. As the prime minister himself has said, the labour laws will be "expensive" for employers.

## Is this the opinion of the Nassau Institute alone?

**No.** Expert opinion supports the Institute. For instance, one should look at the actual experience of

prominent West European countries and the less developed world over the past 40 to 50-years.

- In 1998 James Gwartney and Edward Bierhanzl produced a study of the labour markets of the Organization for Economic Cooperation and Development for the 40-year period of 1956 to 1996. While unemployment rose in all OECD countries, the U. S. unemployment rate grew up to 1980 and declined thereafter. In Japan the rate grew steadily; but at 2.7% in 1996 it was the lowest in the OECD. The U. S. and Japan have "market-directed" labour markets. In contrast, the "centrally planned" labour markets of Europe, Australia and (until 1984) New Zealand started at 1.5% in 1956-66—below Japan—and were 10% to 21% in 1991-96.
- Robert J. Samuelson, writing in late December on the future of the new European currency said the euro would not address Europe's two main economic problems: high unemployment and expensive welfare states. "Governments cling to social protections (restrictions on firing, high jobless benefits, steep payroll taxes) that discourage companies from hiring and the unemployed from seeking work."

- The French reduced their work week from 40 hours to 35 but found it necessary to give \$18 billion to companies who agreed to go along. Consumers pay for this worker benefit in taxes or higher prices.
- William Easterly, a senior advisor to the World Bank in a book published this year, described 50 years of effort by the rich nations to end poverty in poor nations. He observed that over the past 20 years economic growth in poor nations was zero on average; this is 80 per cent of the world. He attributed this lack of growth to government intervention in the economic affairs of citizens, corruption and "polarization politics". The latter occurs in countries with pronounced "we-they" or "us-them" dichotomies based on historical ethnic, religious or social differences. Income redistribution is often a political imperative in such countries.

The Bahamian labour bills are good examples of government intervention to redistribute income...a pop-

ular political tactic at election time but one with adverse consequences.

It is ironic that this government should take this action now since its growth-oriented policies brought prosperity in the 1990s. The growth in "real" gross domestic product reached 4 per cent per year after adjustment for inflation and population growth. This is in sharp contrast to the stagnation of the previous decade in the Bahamian economy and the 1990s performance in poor countries of the world.

Furthermore, during the 1990s the **Bahamas Department of Statistics' Report on Household Incomes** shows that the lower 60 per cent of Bahamian households took a bigger share of the bigger economic pie. During the 1980s the Department's data show that the lower 60 per cent took a smaller share of a virtually stagnant economy.

This is a legacy that should have engendered pride and a pattern for future development. Instead the Government is following a labour policy that the **International Monetary Fund**, a lender of last resort to governments in fiscal crisis, has specifically warned against in its last two consultations.

**The government is placing the country on the "Jamaican road".**

# The Minimum Wage.

## Worker Benefit or Political Illusion?

### Will the minimum wage cause Bahamians to lose their jobs?

**Yes.** Because artificial increases in the price that are not based on productivity inevitably lead to a reduction of the number of workers employed. The reason for this is that the increases are not related to the business person's estimate of how much they can pay but rather to political judgments on what should be. It is the economic law of supply and demand at work: raise the price of a commodity or service and demand goes down; it substitutes market forces with politics.

Some "for instances" are helpful in understanding this.

- The **Far Eastern Economic Review** (published by the Wall Street Journal) reported: "In the current downturn Filipinos didn't lose their jobs in large numbers... because...struggling employers cut their wages...For example, in early 1999, in the depths of the Asian Crisis, Hong Kong's Legislative Council cut the minimum wage for domestic helpers by 5% to HK\$3,670 (\$470) a month".
- Singapore does not have a minimum wage. Its strategy is economic growth; and its projected growth for the year – even in a downturn – is 6%. That was our rate during the economic boom years. Singapore's per capita income is among the top five in the world.
- A recent **National Bureau of Economic Research** study, *Minimum Wages and Youth Employment in France and the United States*, finds that the minimum wage has had very large negative effects on the group of French and American youths whose low wages put them most at risk. In the French case...a 1% increase in

the real minimum wage decreases the employment probability of a young man currently employed at the minimum wage by 2.5%.

Supporters claim that legislation is a way to fight poverty. The following questions are a good test of this statement: If the minimum wage of \$150 is so good for low-income people, why stop there? Why refrain from an even greater generosity, an even more livable wage, and an even greater fight against poverty? Why not raise the minimum wage to \$500 or even \$1000 a week, so everyone can be better off? Of course, the answer is that such action is not desirable because of the unintended consequences of such actions.

### Will the take-home pay of the employed remain unchanged?

**In the short run, maybe. In the longer run, no.** The opportunity to work beyond the standard work week will be reduced because of the time and a half premium required by law. Overtime is expensive, especially for small businesses or ones that depend on a wage stipend plus commissions. This will mean less pay in the end.

### Wouldn't the Institute reject minimum wage and shorter work week laws in any situation?

**Yes, these labour laws should be rejected.** First, we have grave difficulties in the Bahamas with productivity. We already earn a wage on average higher than our average rate of productivity. This means you get less work out of us for more money than an American worker, a Haitian or a Singaporean. Second, minimum wage is weak policy. It penalizes one group to pay another group.

## So what does the Institute recommend?



**Crisis is opportunity! Instead of cutting up the same pie to give a bigger piece to one group and less to another, make the pie bigger by creating opportunities.**

- 1 • **Take steps now to capture all the benefits available under the Free Trade Area of the Americas.**
- 2 • **Look for new short-term business opportunities abroad. Change the work permit rules and make the Bahamas the easiest place to do business once investor credibility is established. Open up immigration to businesses in troubled countries like South America, India and Pakistan.**
- 3 • **Focus tourism marketing on those areas of the U.S. where defence spending is concentrated. For instance, \$317 billion in defence spending is taking place in four American cities. That's where the jobs and vacation pay are.**
- 4 • **Encourage direct flights from those cities to the Bahamas.**

**The Bahamas should explore these options and develop a pro-growth strategy.**

# The **FREE** Lunch.

## An Example

**Action:** Government mandates a shorter work week and time-and-a-half for overtime.

	Take-Home Pay	Apparent Change
<b>January 1, 2002:</b> 48 hours @ \$10/hr	\$480.00	
<b>February 1, 2002:</b> 44 hours @ \$10/hr 4 hours @ \$15.00 /hr	\$440.00 60.00	
Total	\$500.00	+\$20 or +4.1%
<b>January 31, 2003:</b> 40 hours @ \$10/hr 8 hours @ \$15.00/hr	\$400.00 120.00	
Total	\$520.00	+\$40 or +8.6%

**Problem:** The mandate raises the cost of doing business

**Reaction:** Employers adjust

1. Reduce work week to standard and thus both costs and take home pay.
2. Hire part-time employees to meet needs.
3. Lay off employees and hire independent contractors.
4. Marginal private enterprises go out of business.
5. Remaining private enterprises increase prices to maintain profit margins.
6. Government raises taxes to cover increased costs.

**The apparent winners are:**

1. The politician who creates the appearance that he did something for the worker/voter.
2. New government bureaucrats and labour lawyers.
3. Benefactors of the successful politician.

**The losers are:**

1. Workers with lower take home pay.
2. The newly unemployed.
3. Consumers with higher prices.
4. Taxpayers with higher taxes.
5. The country as a whole.

**The moral of the story is:**

**There is no such thing  
as a **FREE** lunch!**





### Auto Dealers

Bahamians shop for cars on week-days. But an effect of the labour laws is that sales personnel will get at least one weekday off because of the limitation of the work week and the new rules on overtime. For the salesperson this means a reduction not only in actual wages, but loss of commission income.



### Repair Shops

Mechanics that are paid on a commission basis on the work they produce will be forced to work fewer hours per week, thereby earning less money.



### Stores

Retail buyers are not reimbursed on buying trips on the basis of a standard work week. Travel time, for instance, is not included within a "standard work week". The application of the new laws to trainee buyers will simply exclude them from such trips that are a valuable form of on-the-job training.

**Text-book analysis does not explain all economic events. At times we must look to non-scientific information for clues as to effects from economic policy. Alan Greenspan is famous for having said when he was an economic analyst that his favourite economic indicator was cardboard boxes. The more boxes shipped, the more certain he was of positive economic activity. These stories describe the impact in practical terms revealing dimensions that are not readily apparent.**



### Charities and Sport Groups

Businesses will survive by cost-cutting. Money for sporting events and other charitable activities will be less available if there is significant tightening. If business merely raise prices, it may result in less business, which leads to the same conclusion of less money for sporting and other charitable giving (including Junkanoo), and any and all advertising for that matter.

### Restaurants

Labour cost and menu prices are expected to rise by 20%, and customers are expected to drop as the sector becomes less competitive. This will lead to a hiring freeze and existing staff will work fewer hours in staggered shifts centered around peak business hours. This means fewer hours worked and less take-home pay. Many, and perhaps most restaurant staff, now earn (before the enactment of the law) an average of \$6-800 per week and are guaranteed full-time hours.

There will be less flexibility for staff to switch schedule with co-workers. For example, if someone wants to go to Miami, he/she can no longer switch with a co-worker who has already worked 40 hours because the company cannot afford the premium pay. This flexibility has been enjoyed for years.

The Bahamas is the only country that does not set categories for minimum wages. For example, in the U.S. there are separate minimum levels for servers and others working on gratuities and commissions.

Initial lay-offs of up to 20% are anticipated along with increased prices in order to meet government wage controls and other expanded benefits like redundancies and sick leave.

## Here are some of the potential effects of the new labour laws



### Food Stores

Supermarkets are likely to reduce their hours, and move all employees to hourly wages. This will in effect, cut salaries. It means talented and untalented workers are treated the same and there is limited opportunity to negotiate between employee and employer on the basis of agreed targets for advancement.

# Reward for Failure

by Dr Gilbert NMO Morris

## The Fatal Conceit

One tires of taking hard positions on government action, but there seems no end to what successive governments of the Bahamas have been willing to do, even if it is in blatant disregard for law, or the common sense wishes of the majority of Bahamians. The new labour laws are a good case in point.

- The prime minister, in defending the establishment of a minimum wage, implied recently that because America and Europe have minimum wages this made it "right" for the Bahamas. In fact, most governments have them. The significant exceptions are Singapore that has none and Hong Kong that has a flexible law that can move up or down depending on the business cycle. Its widescale use is a direct result of politicians using the power of the state in the labour market for their electoral advantage. Yet the empirical evidence over the past 25 years consistently shows -- without exception -- that increases in the minimums raise unemployment, especially among lesser skilled workers.
- The prime minister recognizes that the Employment Act will significantly raise the cost of labour to employers. The impact of such legislation is clearly documented and previously discussed. Yet the government passed this legislation in conditions of severe economic recession. And in this instance "the government" includes the official opposition that also supports the law.

## Surrounding Conditions

Let us take a hard look at the economic situation: In America, recession is in full effect. Technically, this is defined as two consecutive quarters of negative growth. At the Nassau Institute we take a no frills approach to economic analysis. In our official state-

ment on the US economy going forward for the short term we have said this:

1. Although consumer spending in the US is holding, it is due largely to creative financing deals, severance pay, and tax refunds.
2. However, zero-rate financing and reductions in interest rates will not boost consumer spending as before in conditions of uncertain short term job prospects.
3. Congress is in disarray over an "economic stimulus". The tax rebates already authorized are spread over seven economic quarters and severance pay means people are being laid-off.
4. There are nearly 8 million newly unemployed people in the US in the last three months. This will increase early next year.

**The Federal Reserve** and the **Bureau of National Affairs** admitted recently that the downturn was more severe and more confusing than they had imagined. The rise in consumer sales has been largely because of discounting in the retail sector, the punishment for which will be a profits recession which may result in further unemployment.

### What does this mean for the Bahamas?

Take this to heart: Jobs in the US mean vacation and vacation pay.

And together these may mean tourists for the Bahamas and jobs for Bahamians.

1. As such, any major decline in jobs in the US spells woe for business in the Bahamas. But before we discuss that, let us look at our situation: everyone knows that there was a decline in tourism receipts before September 11. There was the Straw Market fire on September 4 and then the ill-conceived financial handout and Hurricane Michelle.
2. In the midst of this, we had to bear the toll of the financial services legislation, along with the looming prospects of a \$100 million education loan guarantee, almost \$100 million in government loans (plus another \$100 million credit reserve) the effects of which will come into play, just at the time we should be looking to a full recovery four economic quarters from now.

Sales have NOT held here in Nassau, except for patchy upward spikes in some areas, with long periods of abject decline. Major unemployment is due to begin, especially in the hotel and retail sectors, where management has tried to hold on to staff to avoid sending people home before Christmas. Already, unemployment has hit Freeport hard along with growing joblessness in the family islands owing to closures and layoffs.

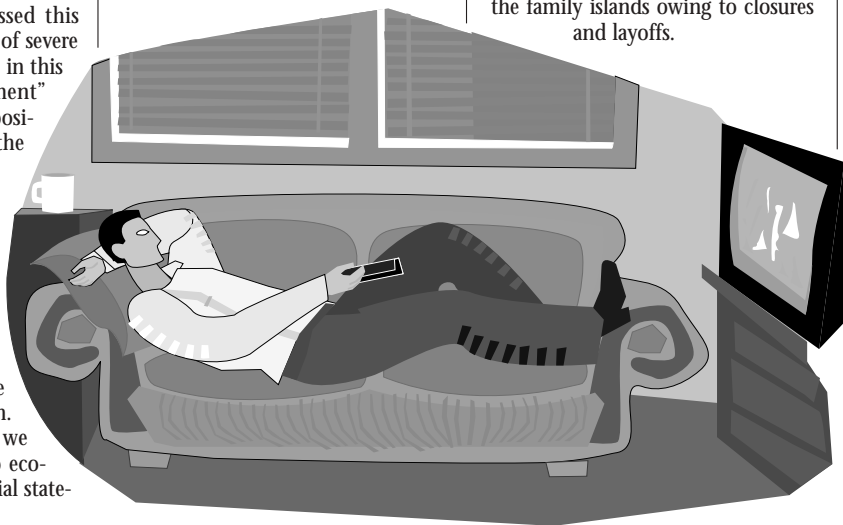
What is egregious about the labour laws and our economic conditions is the stubborn refusal to look at the real cost of doing business in the Bahamas, and to act accordingly. Here are the considerations:

1. A recent report showed that the Bahamas is not only overly expensive as a destination, but sundry government officials have pontificated about sour attitudes, poor work ethic, resistance to training and laziness as characterizing a significant portion of the Bahamian work force.
2. Managers have complained that even in the downturn employees have shown little gratitude for their jobs through more productive work habits.
3. Add to this the high costs of t'eif-ing, the dishonest 'sick slip' scam and the tendency of the police, unions and successive governments to ignore the rule of law to the detriment of business and our international reputation.
4. Lastly, the downturn has hit insurance companies hard. By our best estimation, insurance costs to business will increase by more than 20% in 2002. Again, these costs will be absorbed either by raised prices or labour cut-backs.

In respect of all the above, the new labour laws are a reward for failure.

## Conclusions

- In closing, there are some who will attempt to say that this means that I am saying we are lazy and unproductive. Yes, I am saying that, as too many of us are exactly that. We must stop this juvenile nonsense of defending failure, as if criticism cannot be intended for good.
- Let's again agree to be brutally honest: we cannot continue to expect something for nothing. Only children jump onto new things that seem immediately beneficial because they lack the maturity to think beyond what is before them in any given moment.
- If the Bahamas is going to grow steadily, then we have to become



very serious about a sophisticated approach to our economic health. Taking from one group of people - as if they all have the same, and giving to another group - as if they all deserve the same is not only poor policy, it promotes envy and permits us to avoid taking a hard honest look at ourselves.

- Work has two dimensions, time on the job and effort at the job. We do not do well enough at either. At the previous wage the employer and his employees had reached an understanding about what constituted an hour's worth of work for an hour's pay. Now the law has stepped in and destroyed that market.
- We should spend our efforts correcting the attitudes identified in the tourism report, and being aggressive in developing new investment strategies to bring about genuine sustainable economic growth.
- There are still many Bahamians who think speaking out on policy issues in this way is somehow radical. That is wholly untrue. These are modest positions; and citizenship is not only voting, but includes holding a government to account.
- There are other Bahamians who say that opposing government policy in this way will result in the PLP, or some other party, coming to power. Look around: no party is going to save the Bahamas in the new world we face. Intelligent policy, backed by refined knowledge of the world will do that. Moreover, no one has all of that knowledge; we must work together, each in his proper role.
- Additionally, both major parties (and including the CDR) backed these laws. Not one of them offered a new policy for growth. There is nothing about the future. You may ask why? We may only speculate that they would rather not explain that this is the wrong idea, so long as Bahamians may think it benefits them in the short term. But leadership at times means telling people why you disagree with what seems beneficial, even at the risk of losing.

**Thinking Bahamians must demand a repeal of these laws and oppose the remaining Bills.**

# The Health and Safety Act.

## Necessity or a Costly Alternative?

### What is the reason for this law?

It is not altogether clear. The Health and Safety at Work Act of 2001 is intended to secure the health and safety of workers in the workplace. Such an objective seems to be as correct as boiled fish for breakfast and peas and rice for supper. However, this law was not accompanied by a statement of need, an economic impact statement, a statement on its "constitutionality" or substantive public discussions. Furthermore, there was a short-term lower cost alternative.

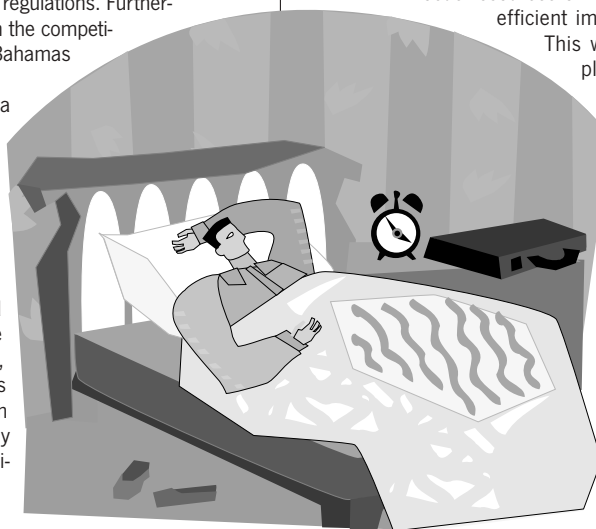
The Act does a number of things:

- It empowers the minister of labour to issue regulations for worker health and safety
- The minister can appoint inspectors to ensure compliance who can issue improvement and prohibition notices
- The minister must consult with a 10-member, tripartite, paid advisory council to issue regulation
- Employers of 20 or more workers must have a health & safety committee whose obligations and duties are not defined in the Act.

### Will the Act achieve its objectives?

Not likely. Because of the lack of full disclosure and a wide public debate, these provisions can only be evaluated as they stand and within the context of certain realities.

1. The new bureaucracy will write and enforce detailed standards on how business is conducted either now or eventually; and...it is likely to copy the laws of Western Europe or the U.S. This is costly and complex and comes at a time when the more advanced countries of the world are beginning to appreciate the full cost of these regulations. Furthermore, it will diminish the competitive position of the Bahamas at a critical time.
2. The Act fosters a needless growth of expenditures at a time when the government has a cash problem.
3. There is an overwhelming lack of managerial and technical skills in the country. In addition, the government has great difficulty in managing efficiently since politics dominates all decisions.



4. Private business has a natural self-interest in the health and safety of its employees. A good example of the responsiveness of business to the reality of the workplace is in the area of on-the-job training. A recent Bahamian business survey shows that on-job-training expenditures have risen over 70% during the past five years without government intervention of any kind.
5. Such legislation creates corruption opportunities. In practice the proliferation of laws and regulations results in an inevitable growth in "rent taking" by public officials. In countries like India, Italy and Venezuela, for instance, the record is very clear...excessive laws and regulations corrupt the governmental function and ultimately produce economic stagnation and political instability.

### The lower cost alternative.

At this stage in its economic development the Bahamas would be better served by a major reform of the justice system. Such reform must include major investments in staff, facilities, procedures and caseload management. In the workplace such a reform programme would give workers a genuine opportunity to sue for damages suffered as a result of any health and safety deficiencies in the workplace.

One of the truly valuable contributions of economists over the past 50 years has been research on sustained economic growth. Virtually all studies identify an efficient and impartial justice system...the rule of law...as one of the critical elements that sustains economic growth.

In fact, an inefficient politicized judicial system is a hallmark of a "third world banana republic". For its economic health it would have been better for the Bahamas if the government had made the strategic decision to focus resources on developing a modern efficient impartial legal system.

This would naturally complement the development of a world class law school and secure the country's position as a good place to do business.

At least in the short run such a system would obviate the need for a costly and intrusive new government bureaucracy.



# The Nassau Institute

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The Nassau Institute is an independent, non-political non-profit organization that promotes economic growth, employment and entrepreneurial activity. It believes 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.

These beliefs lead to the following policy positions:

- 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
- For wages and prices to be market driven rather government controlled
- Against a minimum wage
- Against price controls

The Institute is privately funded, with no connections to any political party, though we are glad to advise political leaders when asked. Research and advice from the Institute is available to Bahamian companies and professional bodies on law, economic

policy, the US and world economy and international financial regulations.

However, the Institute is not limited to the Bahamas. Our executive director has advised governments in Central Asia and Africa on the development of Western-style legal systems. He has advised governments in the Caribbean on the OECD/FATF initiatives and US Congressional and White House Advisory Staff on issues of international law.

In 2002 the executive director intends to appoint a blue ribbon committee of leading international scholars to produce a landmark study on the economies of the Caribbean – with special reference to the Bahamas. The committee will include experts from over 25 nations, and will be chaired by one of the most renowned economists of the 20th century. It will draw extensively on local sources and the results will be available to all sectors of the Bahamas in order to facilitate a broad consensus on our development objectives and methods. This approach contrasts with past practice where such studies were commissioned by the government for government use only.



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