



GOVERNMENT OF BARBADOS

## **FEATURE ADDRESS**

**BY**

**THE RT. HON. FREUNDEL J. STUART, Q.C., M.P.  
PRIME MINISTER**

**AT**

**THE BARBADOS CHAMBER OF COMMERCE  
AND INDUSTRY LUNCHEON MEETING**

**AT**

**HILTON BARBADOS**

**ON**

**WEDNESDAY, JANUARY 28, 2015**

Madam President

Members of the Cabinet

Members of the BCCI Council and other Members

Members of the Diplomatic Corps

Distinguished ladies and Gentlemen

Members of the Media

I feel more honoured than I can describe to have been invited by members of the Barbados Chamber of Commerce and Industry to share this luncheon occasion with you, the first for the year 2015. When I have addressed you on previous occasions, I have always felt enriched by the charm of your manner and by the warmth of your hospitality, that hospitality invariably expressing itself in your ensuring that I am fed before I am asked to speak. The French General Napoleon

would have had no difficulty with this order of business since it was his settled conviction that, ultimately, "*an army marches on its stomach!*"

You have invited me to address you in the month of January, a month that got its name from an ancient Italian deity, Janus, who, in Roman mythology, was the guardian of gates, of doorways and of beginnings. He was always depicted as having two faces, one that allowed him to see ahead of him and the other that allowed him to look behind him.

I can be forgiven, therefore, if I use this opportunity not only to look ahead to Barbados' prospects but also to look back at where we have come from. In that regard, I am being faithful to both the thinking and the

approach of the founder of the Political Party I now lead, National Hero The Rt. Excellent Errol Walton Barrow. He, like his good friend Lee Kuan Yew of Singapore, believed that *"if you do not know history, you think short term. If you know history, you think medium and long term. To understand the present and anticipate the future, one must know enough of the past, enough to have a sense of the history of a people. One must appreciate not merely what took place, but more especially, why it took place and, (why it took place) in that particular way. That is as true for individuals as it is for nations"*. We have had enough short term thinking in Barbados. Short termism and quick fixes have got us nowhere but have covered us in a fig leaf, easily torn away whenever we have had to face a crisis.

Barbados, no one will deny, has been passing through very difficult economic times over the last six years. Those difficulties however, have been taking place within a particular context of which we should not lose sight. What is that context?

In answering that question, I do not want to rely on my own wisdom but will defer rather to the more disinterested wisdom of a World Trade Organization Report on Barbados dated as recently as December 16, 2014. I quote in part: "*Barbados is a small and open economy located in the Caribbean. Barbados has a population of approximately 278,000 and a GDP per capita of around US \$13,600. The relatively small size and island location makes the country highly dependent on imports. Merchandise imports accounted for*

*approximately 40% of GDP in 2013, while the share of merchandise exports was around 18% of GDP.*

*Barbados has a narrow economic base with the tourism sector and related activities responsible for over 50% of economic activity, and government and financial services accounting for most of the rest..... The lack of diversification, high dependence on imports and a high level of debt leave Barbados extremely vulnerable to exogenous shocks.*

*As such, the global financial crisis in 2008 seriously affected Barbados."*

Now, against the background of the constraints identified in that quotation, Barbados has over the years

arrived at a core of settled conclusions in relation to its political economy.

I deem it obligatory, today, to restate to all present these conclusions because they inform daily every policy choice we make in the pursuit of the goal of national development.

First, we determined that we would settle for a mixed economy with clearly defined roles for both the state and the private sector. We have never believed that command or centralized economies can produce results as impressive and durable as economies that give free scope for innovation, enterprise and initiative. While there are areas of social and economic life in which the presence and oversight of the state are definitely

required, we have accepted that the enterprise, the initiative and the innovation required for the growth and development of Barbados can best come from the private sector.

Nevertheless, the peculiar history of Barbados and other post-colonial societies in the Caribbean has dictated that the state has had to play a forefrontal role in the forward movement of our countries over the last seventy-five years. The publication of the Moyne Commission Report on the enquiry into the disturbances of the 1930's revealed such a level of social and economic backwardness in our societies one hundred years after slavery had been abolished, that political parties and trade unions were forced to partner in an



effort to correct that wholly unsatisfactory state of affairs.

So in every facet of the national life the state was forced to take the initiative to plan and execute programs that should have been pursued in the 100 years after emancipation. But that fact notwithstanding, across the political divide in Barbados there is a general commitment to the mixed economy. Differences there always will be on the issue of the nature of the balance of that mix. That is understandable! There will always be a difference between a rum and coke and a coke and rum. The secret is always in the mix.

So far as government is concerned, areas like education and health cannot be left to chance; cannot be left, that

is to say, to the play of market forces and the movement of an invisible hand. For the better part of our history that invisible hand became all too invisible. No return therefore to the bad and dark old days when the market thought that primary education was enough and that those who dared to want secondary education should be made to pay for it. Of course, tertiary education, on the other hand, has always been a matter of choice for the individual, even when supported by the State.

Beyond involvement in areas like health and education, social security, law and order and the environment, my government believes that the role of the state should be to create the kind of operating environment in which the

enterprise, the initiative and the innovation of the private sector can flourish with uninhibited vigour.

But the creation of an enabling environment has never meant that there should be no Town Planner or Town and Country Planning Department; it has never meant that at the border Customs Officers should ask no questions or should not insist on receiving truthful answers to those questions; it has never meant that the Immigration Department should be a department of uniformed robots approving every application for work permits or any other status without question; or that the Exchange Control Authority should be nothing more than an institutional ornament.

The physical development of Barbados must continue to be ordered and the Town Planning Department has therefore to be allowed to do its work efficiently, always operating within the provisions of the law which may govern its operations from time to time. The Customs and Immigration Departments are not merely revenue streams but are intimately linked to our national security apparatus and, for countries like Barbados, national security is in addition to everything else, a developmental issue. If you were to remove our sense of national security, all of our economic gains would disappear in short order.

The movement of foreign exchange cannot be left to chance, to whim or to caprice since access to foreign

exchange is the means by which we protect both our quality of life and our standard of living.

Nothing which I have said on this matter is intended to suggest that there is any justification for unnecessary obstacles being placed in the way of the private sector by the agencies named. Facilitation and the improvement of our competitiveness are non-negotiable commitments of the government of Barbados.

The second issue on which we have a settled understanding in Barbados is our fixed exchange rate in relation to the U.S. dollar. We took this decision back in 1975 after delinking from the pound sterling.

For the last forty years we have defended this exchange rate with all the vigour at our command. We have done so because, in good times and in bad, this exchange rate has served us well. Those who blithely and glibly argue that our currency is over-valued have not been able to show us how devaluation has improved spectacularly the situation of those of our neighbours who have pursued that course. I have certainly heard no argument credible enough to persuade me that it is a course of action to which we should have resort.

Devaluation, as I understand it, is supposed to be a policy response to a chronic disequilibrium in a country's balance of payments position. Its rationale is to correct that chronic imbalance by making imports more expensive and exports cheaper. Resort to it, however,

is not without risk or peril as the venerable economist, Sir Arthur Lewis so discerningly observed.

He reminds us that: *"Devaluation raises the cost of imports, and therefore the cost of living. This provokes demands for higher wages and other incomes. If these are granted, part or all of the devaluation will have been cancelled out by the increase of domestic costs ..... one devalues if costs are out of line in export industries, for the alternative, a wages subsidy, is too costly for the budget. .... There is no point in devaluing unless this will increase the volume of exports; so the elasticity of supply of exports, and the elasticity of world demand are the two factors which determine whether a country should devalue or apply import controls instead ....."*

This argument is as valid today as it was when first expressed. The passage of time and personalities has done nothing to sully the freshness of that piece of analytical rigour.

Against the background of that kind of understanding, it is clear that objective conditions in Barbados today do not justify any tampering with our exchange rate. The Government over which I preside will, through its policy choices, continue to make the preservation of that exchange rate a matter of continuing priority. I give this assurance, well aware that this will serve neither as a deterrent nor a discouragement to that small coterie of alarmists who continue to believe in economic witchcraft and are therefore preoccupied with and intrigued by this brand of necromancy.



The third issue on which I posit that there is general agreement in Barbados is the ultimate objective of national policy, the **development** of our country. I approach this subject at a time when one hears very little about the word "**development**" which for the last twenty-five years, has had to yield all of its ground to the word "growth". Growth, it is thought, is a rising tide that lifts all boats. That biased emphasis has now created a global situation of very grave concern to every thoughtful observer. The wealthiest one percent of the world population now owns more wealth than all the rest of mankind combined.

The US President has been talking about this frightening gap; so too has the Managing Director of the

International Monetary Fund; so too have officials of Oxfam, and a host of others too numerous to mention. The big issue in international political economy today is that of **inequality**. Growth of course is always important and its achievement should be sedulously pursued. But what happens to the fruits of that growth is a matter of equal importance.

Distribution is as important an issue as is growth. For the better part of Barbados' history, for example, there was growth but no distribution. Only in the last 75 years has the issue of distribution featured seriously in our political economy and the results have been nothing if not splendid. Growth will tell you how much the pig weighed at the time of slaughter but only development

can tell you how many people managed to get a piece of the pork.

So the government is committed to ensuring that those measures required to return the economy to growth feature prominently in our policy making while sparing no effort to ensure that the fruits of that growth are equitably shared. For while the concept of growth may highlight issues of efficiency, the concept of development accentuates the issue of fairness. We need both efficiency and fairness in Barbados.

I have thought it necessary to remind you of these areas of broad understanding in Barbados because sometimes I do not recognize the Barbados I hear being discussed in the public domain among those whose

chosen vocation is to pursue the spread of alarm and despondency.

It is true that we have been passing through a very challenging period economically. As I have said elsewhere, Barbados has never enjoyed any special dispensation under the laws of international economics. We have had to share the difficult challenges faced by western economies over the last six years.

Just Tuesday last week, President Barack Obama, the leader of the largest and most powerful economy in the world, stood up, and announced in his State of the Union address that the financial crisis was over in the United States of America. He was speaking just upwards of seven years after the crisis broke in that

great country. Only in the month of September, 2014 did the United States get its employment figures back to 2008 levels. Only in July, 2014 did the United Kingdom get its output levels back to where they were in the year 2007. The French economy has been at a virtual standstill for the better part of the financial crisis. These three are all G-8 countries with strong merchandize export sectors; and London, New York and Paris are three of the most powerful financial centres in the world.

If it has taken countries like these, seven years negotiating the crisis, how can it be expected that the fragile Barbados economy described in the WTO Report which I referenced earlier would cruise through the same crisis without major dislocation?

So, like most of our regional neighbours, we have had since around 2009 problems of debt and deficit and these have naturally had implications for the management of our foreign reserves. Like the rest of the western world we were always uncertain about both the depth and the duration of the crisis. As I speak the European Central Bank has had to resort for the first time to printing money, also called quantitative easing, of course doing no more than the Federal Reserve of the United States of America has had to do for the better part of the crisis.

Problems of debt and deficit led to a series of downgrades by the rating agencies, an experience, may I remind you, upon which we were embarked since the year 1999 long before any global financial crisis existed.

Facing expenditure on wages and salaries of 54% of revenue, the government was forced to retrench workers in the public sector and to introduce a suite of revenue raising measures to shore up its finances.

It is little broadcast that in a document dated February 19, 2001 our predecessors in office were alerted to the need to progressively downsize the public service by 10,000 workers by the year 2010. It was envisaged that the process of downsizing would take place primarily through attrition, privatization, outsourcing of certain services and insisting that commercial public enterprises become self-financing.

That Report contains the following stunning paragraph:

*"The downsizing of the Public Sector would also make a virtue out of necessity since current government outlays on wages and salaries are fiscally unsustainable even in the medium term. Civil Services wages and salaries for 1980/81 of Bds. \$173.1 million or 32.4% of total government expenditure (TGE), had more than doubled by 1999/2000 to Bds. \$659.1 million or 36.5% of TGE. Should a recession occur, Government would no doubt have to cut its labour force drastically, as it did during the 1991-92 IMF Structural Adjustment Programme. ALTHOUGH GOVERNMENT MAY, IN DIFFICULT TIMES, ACT AS EMPLOYER OF THE LAST RESORT, IT CAN NO LONGER BE SEEN AS EMPLOYER OF THE FIRST RESORT."* That was the year 2001, seven years before the onset of the global financial crisis.



Suffice to say that the fiscal deficit resulted from both revenue and expenditure challenges and had to be confronted. The government embarked upon a nineteen month programme, the object of which was to stabilize our fiscal situation and to lay the foundation for growth. On present indications the programme is working and by the end of the fiscal year, we would have achieved a reduction of the deficit by between 5.3% and 5.6 % of GDP for the year 2014-15. The stabilization programme has been extended for one (1) year by the end of which, all things being equal, we should have arrived at an eminently more manageable fiscal situation.

The government has, in addition, committed itself to the introduction of a Fiscal Responsibility Bill in Parliament,

the object of which will be to impose realistic fiscal obligations on all future governments in the management of this country's public finances.

Not unnaturally during such an unprecedentedly difficult period, from time to time the spirits of some have weakened and faith has, occasionally, faltered.

With determined persistence we have heard during this period of downturn much about a loss of confidence. As Prime Minister and as a citizen of Barbados, I cannot afford the luxury of losing confidence in this nation's capacity to recover from its present challenges. I have an implicit faith in the discipline, the stick-to-itiveness and the patriotism of the people of this country.

Barbados' vulnerabilities did not begin in the year 2008. That year, once again, exposed our dependence on tourism and related services, our dependence on foreign energy sources, and our dependence on foreign food. Our strong merchandise import bias and our weak export bias did not begin with the onset of the global financial crisis but was exposed by that crisis. Since we did not reach where we are overnight, it was always unrealistic to expect that we could get from where we are overnight.

It is not the talk about a perceived absence of confidence that will get us back on track, rather it is the projection of an emphatic and assertive confidence that will get us back to where we want to be. In that connection, I should like to thank all those members of

the private sector who, throughout this downturn, have steered clear of murmur and complaint, have followed closely what has been going on in other parts of the world and have never, therefore, lost their perspective on either the limitations or the possibilities of Barbados.

I shall resist the strong temptation to call names, since to do such would be invidious, but they and I know who they are.

Thankfully, the youth in our schools and in programmes across the country, the mothers and fathers in our homes, the workers at our workplaces, the worshippers in our churches, the members of our exemplary public service, the aged and the disabled have all in their own ways contributed to that treasury of courage, of faith

and of confidence always needed at times of trial and adversity.

There are others prepared to demonstrate their confidence in Barbados for the year 2015 and beyond based on information provided to me in writing by Barbados Tourism Investment Inc. just one week ago.

Let the following examples of tourism related projects suffice:

- (i) Sandals Casuarina invested U.S \$65 million in a renovation to make 280 rooms available from today January 28, 2015.

- (ii) There is, also, the redevelopment at a cost of US \$20 million of Sandy Beach Hotel at Worthing, Christ Church which, subject to all the necessary approvals, should start in the first quarter of the year and account for an additional 120 rooms.
  
- (iii) Also on the cards is a Downtown Hyatt Hotel at Bay Street at a cost of U.S. \$100 million and accounting for a further 190 rooms. Subject to all approvals being secured this project is scheduled to start in June.
  
- (iv) The Settlers Beach Redevelopment at a cost of U.S. \$70 million is scheduled to start by April this year. This project will be benefitting from facilitation by the BTI.

- (v) Thanks to the confidence of the Chinese Government in Barbados, the redevelopment of Sam Lord's Castle at a cost of U.S. \$225 million is scheduled to begin in the third quarter of the year and will account for an additional 450 rooms.
  
- (vi) Beaches Barbados at a cost of U.S. \$200 million will account for 400 suites and is scheduled to start by 2016.
  
- (vii) The long talked about Pierhead Marina, at a contemplated cost of U.S. \$110 million, is under active negotiation for as early a start as possible. Notably, legislation passed fourteen years ago, with the most generous concessions and eight years

before the global financial crisis, failed to excite the appetite or interest of the private sector.

I have not set out to be exhaustive in my recital of the list of projects on the cards which are evidence of confidence in Barbados.

Feeding *the loss of confidence frenzy* also, was the recent announcement, hard on the heels of a Rating Agency downgrade, that Sagicor Financial Corporation was to re-domicile its registered office to a location outside of Barbados. Those who are inclined to pause neither for breath nor for thought pounced on the issue and immediately framed it as an additional item of evidence that there was a loss of confidence in Barbados.



Sagicor Financial Corporation is a corporate descendant of the Barbados Mutual Life Assurance Society which came under the microscope in Barbados in 1989 over the issue of its structure and the seeming permanence of its leadership. The role of the policy holders and their strategic importance featured prominently in that debate but as far back as then the possibility of demutualization at some time in the future and the conversion of the Society to a Limited Liability Company under the Companies Act, Cap. 308 of the Laws of Barbados was put on the table.

That issue was to rear its head eventually in the year 2001 when policy holders were asked, after energetic debate and discussion, to choose by vote whether the demutualization of the Society and its incorporation as a

Limited Liability Company should take place. Policy holders voted overwhelmingly for the Society to be demutualized and, in the wake of that decision Sagicor Life Inc. and Sagicor Financial Corporation were born. Sagicor Financial Corporation would be a holding company while the former Barbados Mutual Life Assurance Society would become Sagicor Life Inc., with shareholders and a Board of Directors.

From the year 1902 when the case *Percival v. Wright* was decided by the English Courts, it was a firm principle of the law that the primary duty owed by the directors of a company is to the company itself. It is not owed to a country, to any individual shareholder or set of shareholders or even to employees. It is owed to the company. That principle is firmly established also at

section 95 (2) of the Local Companies Act. When directors sit to make decisions, therefore, the question that must always guide them is, “what do the best interests of the company require at this time?” So was it with Sagicor’s directors!

That WTO Report to which I have referred earlier in this speech states at page 9 Para. 22 as follows: **“The offshore financial sector is large, comprising 45 banks, 228 captive insurers, 12 holding companies and 21 managements companies. In addition, there are nearly 4000 international business companies licensed in Barbados ....”**

The directors of all of these, before deciding to come to Barbados, had to ask and answer the question, “what do the best interests of our company require?”

The decision to come to Barbados does not mean that they have no confidence in their countries of origin, whether Canada, United States of America or the United Kingdom. The strategic objectives of these companies dictated that their best interests would be served now by doing business from Barbados. Sagicor has strategic objectives as well, and those objectives have dictated that the interests of the company would be best served by being domiciled elsewhere at this time.

That is not a loss of confidence in Barbados! Barbados will benefit from Sagicor's improved performance in the same way that Canada, United States and the United Kingdom benefit from the improved performance of their companies which are now domiciled here! Directors have to make hard business decisions, and not

decisions based on sentimentality! I wish Sagicor well, as we all should, as it continues to make its presence felt not only around the region but beyond it and I look forward to the benefits that will flow to shareholders from this change of domicile.

Madam President, I am aware that if I do not end soon, you may be at risk of having to feed me again, so let me conclude.

This is our Barbados and we have to defend it. Human beings, from time to time, face health challenges which slow them down, cause a loss of weight and, not infrequently, prevent them from doing those things they otherwise enjoy doing. In those circumstances, they have to be nursed gradually back to a robust state of

health. So has it been with nations down through the course of history. We have been facing our own acute challenges recently and are being nursed back to a robust state of health. The process of nursing requires patience. Who knew this better than William Shakespeare who put it in the mouth of one of his characters in the play Othello, to observe:

*"How poor are they that have not patience!*

*What wound did ever heal but by degrees?*

*Thou know'st we work by wit and not by witchcraft;*

*And wit depends on dilatory time".*

We now live in a world more unsettled and more volatile than at any stage in the lifetime of most, or perhaps, any of us. Technological changes have been taking

place at dizzying speed making it very difficult for developing countries like Barbados to keep up.

Climate change, terrorism and economic turmoil constitute a trinity not only unprecedented in their coincidence but also most disruptive in their reverberation. Vulnerable countries like Barbados are not allowed the luxury of exemption from their potential impact. We have to fight on the same battlefield as larger and better resourced countries.

In all of this we cannot run away from the battlefield but must claim our space and fight to defend it. I have spoken over and over again since becoming Prime Minister of the government's commitment to private sector led growth. That commitment has not abated. Private sector led growth cannot continue to mean,

what else will the government do? We have to reach that stage where we at last hear from the private sector what its vision is for its own development and how it will use the enterprise, the initiative and the innovation which are agreed to be a private sector's characteristics to accelerate the growth and development of Barbados.

In your efforts, I assure you, the goodwill, the support and the cooperation of the government are at your disposal. "Give me a place on which to stand" said Archimedes, "and I will shake the earth."

Let us search for that place on which Barbados' government, private sector and trade unions can all stand, together, so that we can shake the earth around us! Thank you.