

The value of political confrontation, transparency and national reputation in a crisis

INTRODUCTION:

Ladies and Gentlemen, Good Evening.

I begin first with a word of thanks to the Honourable Cynthia Forde, MP, for organising and maintaining this annual lecture series in memory of my late father. It is an honour that he, looking upon us tonight from some parliamentary bench in the Great Beyond – possibly a front bench if he had anything to do with it, surely appreciates.

Let me introduce the lecture with a general remark on the nature of politics in Barbados, as I perceive it. It is at one and the same time the cruellest and the noblest of callings. Cruel for its personal vilification whereby critics unwilling to fault ideas and logical argument instead turn to the basest of insult and innuendo.

Such critics, such Apostles of Smear, make hypocrites of us all. Their goals have little to do with a battle of ideas. They chase the ignoble object of transmitting the names of their targets to posterity with disgrace and dishonour. “Let him who is without sin” has never applied here and not because we are a uniquely saintly nation!

Fortunately, elections are about delivering prosperity and who has the integrity, ideas and competence to do it best. The stone pelting merely adds to the theatre of the event - however often it goes beyond the pale.

And so there is great nobility in politics. It consistently produces men and women committed to public duty despite the considerable personal cost. Some of these altruistic souls even manage to avoid the curse of ‘bending in the wind’ that befalls so many in politics. They do not promise what they know cannot be delivered. And they undermine the cynical adage that ‘you can lead an MP to parliament but you cannot make him think’.

Be these unusual politicians on the Government side, the opposition side, independents or of that remarkable but not unknown “all of the above” breed, I tip my hat to them. They, and their families, pay a disproportionate toll for their work; and for their efforts my remarks, criticisms and observations are offered in the following spirit: may our political partisanship not exceed our humanity.

SUMMARY ARGUMENT:

Tonight I am going to argue that the value of political confrontation and the transparency it engenders, together with the power of national reputation are in this crisis – this calamity of global financial irresponsibility and incompetence – values that are being neglected by policymakers and underrated more generally.

They are qualities that have served us faithfully in the past and are necessary both for effective economic fire fighting and for the investments future prosperity requires.

As allegories of **confrontation**, **transparency** and national **reputation** I intend to use two historical figures. In this the choice was rich with a field stretching back to at least Samuel Jackman Prescott. But in the end I settled on two close to my heart; and although family modesty forbids any praise singing beyond the purposes of this argument it is the examples of some GH and JMGM Adams traits that will serve my purpose.

Finally, I will overlay these values on four topical economic issues in a brief discussion of each.

REMINISCENCES:

However, by way of preamble I first ask that you indulge some meandering reminiscences. This is, after all, a 'memorial lecture' and part of the pleasure of assembling this set of remarks has been rediscovering many dormant memories of my father; and I would like to share a few of these.

He was a great card player and loved card games. He taught me many. The probabilities. When to play the cards. When to play the man. I learnt these lessons the

hard way. Many times, as he steadily won my pile of matches away from me in poker games, I would feel compelled to make up the lost ground with some particularly reckless bet. Of course, he was waiting for this. I would lose again and he would lean in and offer some very sound but infuriating advice for those in the loser's chair: "Rawds" he would say "To win, you've got to give yourself a chance". How true!

He was the man who, without a cautionary lecture, tossed me the keys to the family car when I passed my driving test with the simple words "Let's go for a drive out to Bathsheba". To parents wanting to surprise and impress their teenagers toting brand new driving licences there are few more effective ways to do it than this. Especially if an older brother had already blazed the trail and written-off an earlier family car.

He was also my enthusiastic cricket playmate with whom all broken windows, smashed light bulbs and other collateral damage could go unexplained and without punishment. It was like running with the police! And before anyone sends for Commissioner Dottin, I mean that in the nicest possible way.

My father's love of cricket ran deep. He had, like many of us, the disease for which there is no cure – that of being a West Indies supporter. As diligently as the West Indies Cricket Board and the WI Players Association have in modern times attempted to produce a vaccine for this condition as far as he was concerned there was no inoculation.

It must be said that my father's fondness for cricket – and I don't think what I am about to say renounces membership of the Father Son Trade Union – was exceeded only by his lack of ability to play it well. This, I can safely say both from yard games and the fact that his real cricketing career, if it can be so called, is best remembered for a remarkable declaration during a civil service game. Many captains have declared in the history of cricket. But not too many have done so batting first in a limited overs game in order to avoid coming in at number 8 and facing a motivated pace attack.

Away from cricket there were the long hours tolerating his music. This encompassed classical, Gilbert & Sullivan, Country & Western, Sinatra-style ballads, Ace Cannon

(and if you know who that is you may have some sympathy for me), Boney M, Abba, the Carpenters and a double album of something called Disco Italiano he curiously found value in. There were also old-time calypsos. Indeed, I once thought if I had to listen to “Chiney Children calling me Daddy” just once more that it would have been cruel and unusual punishment.

[“At first I shame I don’t tell nobody,
Chiney Children calling me Daddy” etc etc]

Today the jingle returns only fond memories but back then there were few chances to escape – he faithfully recorded all his records onto cassette so we could have a soundtrack on the way to school in the car.

On the occasions when there was no music in the car the space might be filled by Berlitz teach-yourself-French tapes. And upon the French language we jointly spent many hours. One of us willingly; the other an automobile captive praying for light traffic on Beckles Road. I believe we ran tape one of that 7 cassette series, both sides, for 3 months every morning bar weekends without being able to move on to tape 2.

Evidence, perhaps, of a thirst to learn and educate that came from his mother, a teacher. If he’d gotten a vote for every time he attempted to make me learn some classical verse or the other he would never have needed to canvass; likewise for the occasions he mimicked my rank Bajanisms in an effort to craft some measure of orthodox spoken elegance. Despite limited success two, at least, of his turns of phrase stayed with me.

I believe it likely, for example, that I was amongst the first in my primary school to understand the verb ‘to mitigate’. A good lawyer’s term – but one not all 6 to 10 year olds are walking around with. Yet by sheer force of his repetition the full definition of the phrase ‘unmitigated naughtiness’ eventually dawned on me: ‘unmitigated naughtiness’. It was not only naughtiness. It was the ‘Special Reserve’ order of naughtiness conferred upon children who repeatedly did not come when called.

Unfortunately, as all parents know, certain phrases earn diminishing returns in the world of child correction. New ones must be formulated. And thus it was that for incidents of particular gravity was coined the expression 'wilful disobedience'. Disobeying was bad. But wilfully doing so made my transgressions almost particularly fiendish.

You may be thinking by now I was an unruly child. What I will admit on this count is liberal use of a favourite riposte. My father would ask for some chore to be done. I would look at him, assess whether I could get away with it; and I would reply: "Daddy, this ain't Cabinet yuh know."

There would follow the lecture, brief but a stock favourite of most parents, that goes like this: "Rawdi, do you think I would have EVER spoken to my mother or father like that?" I at least always recognised the wisdom of not answering this; and although I suspected the truth I lacked the proof to repudiate. Until tonight when with the spirit of my father present I can take an 'unmitigated' and 'wilful' pleasure in sharing some extracts of family letters:

The first is a letter from Grace to Grantley Adams dated October 1st, 1937 and I ask that you note that this is in the days when callers spoke first to an operator who would then connect their calls. She says:

"And now for little Tom. His angelic period has passed. Yesterday Mr Gomez was fixing the buzzer...and Tom was crawling all around...so Mr G said he'd chop off his head. What d'you think the child you got did? Ran to the telephone and called for 47 and said he wanted a sergeant."

And the second is dated July 29th, 1938, also Grace to Grantley Adams, was written from Saint Vincent. She says:

"Tom keeps well but I shake in my shoes before each meal because he shouts in a loud voice that he doesn't like this or that and he usually ends up by eating it"

Now, in the same envelope is my father's contribution, somewhat at odds with the picture painted by his Mother. He says:

“My Daddy, I kiss Mummy a lot...and I am very nice to her and I miss you and I wish I was with you. With love, Tom”

I can't tell you how much I laughed when I read that masterful mix of truth and spin.

REPUTATION I:

But let me meander no further. With that brief portrait of my father in mind I want sketch some of the social context in which he grew up and from which derive the modern origins of both our national reputation and our democratic tradition of confrontation and transparency.

When my Grandfather returned to Barbados from Oxford in 1925 he was quickly marked as a man of argument – opposing for opposing's sake as his critics might have said.

There were his battles with Clennell Wickham and the Democratic League of Dr Charles Duncan O'Neal for which he was cast as a supporter of the status quo. Then came his attacks on the same status quo, the plantocracy, in the House of Assembly in 1934 one consequence of which was the near ruin of his legal practice.

And in between the two, somewhat less known, was another, more personal confrontation.

The following are excerpts from an anonymous, poison-pen letter sent to my Grandmother, Grace Thorne, shortly before her marriage to Grantley Adams in 1929.

It goes:

“You must remember my dear girl you are practically a white girl a fact of which you ought to be very proud...while your 'friend'...is to all intents and purposes a full blooded Negro...

...a certain lady mentioned that you had been seen in queer company, while another said she understood you were engage [sic] to a black lawyer...some

people are wondering whether you have a moral twist...whether in short you have not a greater hankering after Africa than Europe.

Your black friend is said to be clever and brainy but he is certainly unscrupulous in matters of public interest. And his continued intimacy will only harm you. What will your father say when he finds out about it”

The answer, as it happened, was that Mr Thorne was not too impressed. And I can think of few greater spurs that would have motivated GH Adams, as he then was, to escalate his social and political agitation. And yet, as he demonstrated for over 40 years, no provocation was great enough to turn him into a reactionary or an advocate of bloody revolution and violent retribution. He stuck to his Liberalist philosophy imbibed during his Oxford days; and of such history a national reputation was made.

But where did he find the restraint? His family background and the related story of his entry into the House of Assembly go some distance to answering the question.

On the paternal side, Grantley Adams' grandfather was an estate cooper in Vauxhall, Christ Church; and his great grandfather was a slave owned by Thomas Maxwell Adams, proprietor of Adams Castle plantation. But on the maternal side were white and mixed race roots sunk in Branchbury and Coffee Gully, St Joseph. And in 1934 it was to St Joseph and these ties that he turned as a way into the House of Assembly.

That 1934 contest is remarkable for several reasons. St Joseph had been the constituency of Sir Conrad Reeves and was one of the few at that time to have ever elected a black man. But it was also a bastion of planter controlled country politics. So much so that the senior member for the parish, the planter Aubrey Williams, was abroad when the general election took place partly, presumably, due to an expectation of being returned unopposed. Certainly that seems to have been the assumption of Mr Laddie Challenor who nominated him.

Grantley Adams had noted this, put himself forward and was in turn nominated by McDonald Chandler. He had also planned ahead and chosen his alliances carefully: another politically influential white planter of the parish, Mr ET Cox, openly supported him.

Aubrey Williams' supporters saw the danger too late. Laddie Challenor protested that the political ambush was unsporting. But come polling day Adams won by 4 votes and went on to represent the parish for 28 years in all. Williams retired from politics and spent the rest of his days at Blackman's House. And, in an exquisite twist of fate, upon the site of where Blackman's House once existed now stands a secondary school bearing the name Grantley Adams Memorial School.

None of which would have been possible without cross-racial support, including that of his maternal family, in 1934. It was no secret what Grantley Adams stood for and yet he still got that support.

I put it to you that a growing number of Barbadians at that time accepted that our racial, social and political heritage is too intertwined and complex for prejudice to accommodate on anything but the flimsiest foundation. In this regard a 2006 study undertaken in the United States by Dr Henry Louis Gates, an African American professor at Harvard University is circumstantially pertinent. Using DNA samples he found that over 60% of African Americans owed at least 12% of their ancestry to European origins. What, I wonder, would be the results of a similar study, were it ever to be made, in a small community like Barbados?

We all know how it got that way. It was, for the most part, no love story. This was the country, after all, where less than 150 years before that 1934 election the punishment for the murder of a slave was a derisory £11 fine. But social evolution continues – sometimes majestically so – and becomes an irresistible tide. You cannot fight the future.

Grantley Adams, mindful of his family heritage, was very aware that there is much middle ground in Barbados' racial history and, therefore, in its social, political and economic history also. It tempered his approach to politics and tempered his approach to governing. It was the source, I suggest, of a great deal of his restraint.

This is far, as Dr Gates' DNA studies imply, from being an awareness unique to my family. That is why the bulk of our influential politicians have collectively been policy makers marked by reasonableness. Within a relatively uniform cultural experience that is perhaps unsurprising; and this has given rise to an extraordinary national asset: namely, our **reputation**. Our reputation for stability. Our reputation for fairness. For pragmatism. And for the application of and respect for the rule of law.

To my mind, Sir Grantley's public career is a fitting allegory of this priceless national reputation of which we are guardians.

CONFRONTATION & TRANSPARANCY:

Now goats, as the saying goes, don't make sheep. GH Adams' career came with a blunt and **confrontational** parliamentary style. A style that became more gladiatorial when passed on to Tom Adams. It was an approach that is most effective when munitioned by facts, flair, and attention to detail - and of these the son generally had the keys to the arsenal.

But JMGM Adams brought two additional qualities to the mix that enhanced the **transparency** of our system. One was a pleasure to do battle borne of his will to win and astounding self-confidence. My brother Douglas tells a revealing story of the BLP's 1971 election defeat. The day after the result he was playing at the top of our gap in Sunset when a lorry load of DLP guys celebrating stopped and said:

"That's where Tom Adams lives - leh we go down there".

Douglas pelted home with the news. His father was gardening and did not break for a moment. He just said, "let them come" and went on with the plants!

Allied to this fearlessness was the second telling quality: a dedicated commitment to the political system and profound recognition of its value. When asked about his political philosophy in the wake of his 1976 election victory, he said:

“My father was the main contributing factor in forming my political philosophy. He, like myself, was a democratic socialist i.e. one who is prepared to make the necessary compromises to preserve democracy”

Prepared to make the necessary compromises to preserve democracy. That commitment hand in hand with what was his delight in confrontation and intellectual battle, was a combination that made a greater democratic coliseum of parliament. The House of Assembly became, as it should be, the place where bright lights are fixed on the issues of the day and where rough debate is made to test the policy of incumbents.

This rough, transparent debate within the adversarial walls of parliament is a precious form of shared counsel. It might appear a strange form of co-operation but it compels, on pain of ridicule and electoral penalty, that policy be robustly crafted. Which is why providing it with no more than the bare minimum of information and fact is so politically tempting to incumbents.

It is worth bearing in mind these tensions in our democracy when issuing vaguely defined calls for ‘unity’, a ‘team approach’, ‘bipartisan understanding’ and a halt to ‘opposing for opposing’s sake’. These are rapidly becoming hackneyed and politicised expressions that debase the call to patriotism. Definitions matter and we might end up getting what we wish for. When asked what his idea of an ‘agreeable person’ was, 19th century British Prime Minister Benjamin Disraeli replied:

“My idea of an agreeable person is a person who agrees with me”

No surprise a Prime Minister would say such a thing; but calling for a sort of institutionalised sycophancy under the guise of ‘pulling together’ is desperately misguided. Governments must be prepared to make the necessary compromises to preserve democracy even at the cost of partisan political capital. Hear instead the words, two-and-a-half millennia old, of Pericles of Athens, the birthplace of modern democracy:

“Rather than seeing discussion as an obstacle to action, we think it an indispensable preliminary to any wise action at all”

Our parliament requires detailed and timely information to serve as a place of shared counsel. Denying it that **transparency** is to invite poor policy and allow the very Apostles of Smear of the introduction to fill the vacuum with innuendo and insult. To quote “Tom” as I never dared call him to his face:

“Politics and economics are a means to an end, and not the end in themselves”

CLICO:

I now turn to the first of the four economic issues mentioned in my introduction; and of those four it is the one that contrasts most poorly with the ideals of sound reputation and a confrontational but informed parliamentary system.

The insurer Clico International Life has provided much political mileage since early last year. It has become a ‘political’ issue rather than what it is at heart – a financial issue. It is a financial threat to a great number of savings plans. It is a potential threat to our financial system. And it is certainly a threat to the recently announced medium term fiscal plans of the government. But an absence of detail and fact has kept the issue strongly partisan. As a result much related commentary has contained precious little humanity towards government, opposition or Clico management. There are no winners with this relatively opaque approach.

Parliament was the place to define the national threat the company potentially posed - all the more so once its policyholders were issued a public guarantee - for it would seem self-evident that taxpayers be informed in dollar terms as to what their representatives are underwriting.

Such guarantees are material contingent liabilities – this is not pretend money - and must be transparently assessed. And it is notable that a guarantee of Clico's customers did not inject confidence in the firm itself. It does little, for example, to staunch cash withdrawals from an over-leveraged enterprise.

Perhaps it would have been more prudent – and cheaper - to underwrite further falls in the market value of the better part of the insurer’s asset base in exchange for an

ownership stake. This could have buttressed Clico's commercial viability, smoothed the path for a recapitalising trade sale and set up a return for the taxpayer.

But we may never know what the best solution would have been. And we may not know because the financial facts of an issue affecting 38,000 policy-holding Barbadian households and 42,000 non-holding but taxpaying guarantor households have, at the cost of Pericles' wisest action, largely been kept from parliamentary scrutiny.

Last month on February 3rd it was reported in the Advocate newspaper that Dr Worrell, the new Governor of the Central Bank, had announced that such risks will be reported fully in the future. I believe he said starting from December 2010. This is perhaps tacit acknowledgement of a need – a policy need - for transparency.

As long ago as 2005 Dr Worrell co-authored an IMF Working paper with Karen Chase, Winston Moore and Kevin Greenidge that concluded that the vulnerabilities of our financial system to insurance company exposure needed analysis. In the interim the horse has bolted and the full extent of the problem has been underplayed and, in some quarters, even denied. Better to worry about who would win Party Monarch this year - for suggesting greater **transparency** is, apparently, akin to being a traitor.

Doubtless those assurances were well intentioned, if spectacularly ill-conceived. But once the IMF informed the entire world during the September 2009 Article IV consultation with Barbados that Clico's statutory deficit was well over \$200m or 3% of GDP this was no longer a view that bore scrutiny, if it ever did at all.

If a \$200m problem of such wide-reaching potential is not grave enough to place before Parliament something is going terribly wrong; and it should not shock anyone if the 70-odd thousand who voted DLP in 2008, or of the 61-odd thousand who voted BLP, start to think they are being asked to shut up, lie back, close their eyes and think of the national interest.

Small wonder some conclude that parliament has been marginalised and is, in St Peter-speak, ‘poor rakey’ syndrome. But whatever one’s partisan view it is a dangerously upside down world when the IMF gets the facts before the House of Assembly.

REPUTATION I, DELAYS:

There is a further cost to count and it is measured against our reputation as a sound place to do business. Uncertainty in regulating any part of our financial services industry – such as that which has prevailed with Clico International Life – is a shot in the foot. The last thing we need is for the IMF to publish statements like these:

“The lack of adequate supervision of the insurance sector exposes the sector to material risks”

and this:

“...the sector remains largely self-regulated owing to continuing shortages of qualified staff, inadequate regulation, and out-of-date financial reporting”

Now, clearly, this is an issue that stretches over more than one administration - the IMF made those remarks in early 2008. But it is not obvious that Parliament has since served as the forum to demonstrate to the wider world that we are the masters of our own affairs.

Yet it would be unfair to say nothing at all has been done. Twenty-one months on from those statements the Government announced last November its intention to have a Financial Services Commission in place by the second quarter of this year. One of its tasks would be the regulation of the insurance sector.

Assuming “the second quarter” to be this April would make it over two years since those warnings from the IMF. The original, November 2009 Government Information Service press release concerning this timing is instructive:

“Government is moving swiftly to have the much-touted Financial Services commission, (FSC) in place by next year.”

Perhaps that was intentional irony from the editor of the release. Things can move slowly in government. But in matters concerning the reputation of the nation that is too slowly. Thomas Paine, one of America's Founding Fathers, said,

“Character is easier kept than recovered”

With the IMF feeling obliged to comment negatively on our regulatory system we are in danger of falling the wrong side of that adage – and it could matter greatly.

REPUTATION II, FINANCIAL SERVICES:

The most striking concern in this regard relates, of course, to financial services itself, the second economic topic of this lecture.

When the amended Offshore Banking bill was introduced in 1980 by Tom Adams – a bill which evolved in 2003 to become the International Financial Services Act – the opposition spokesman, Dr Richie Haynes, forcefully suggested the benefits would be minimal and far outweighed by the ills. Employment benefits were in particular given short shrift; and the spectre of criminality and money laundering was raised.

If I mention Sir Richie Haynes, as he now is, it is not to criticise. Quite the opposite. By being a ferocious opponent in Parliament he played his part in ensuring the legislation that emerged was robust. It was the form of counsel that parliamentary scrutiny alone can issue.

But the proof of that is in the eating. So fast-forward to November 2009 when the current Prime Minister welcomed Canadian bullion broker Kitco to our shores with these words:

“As part of the movement towards economic emancipation, my government is committed to strengthening existing institutions and attracting new players in the financial services sector.”

What a difference a few general elections make. The international business sector today accounts for over 60% of corporate tax revenues and provides over 3,500 mostly skilled jobs. It overlaps with the tourist industry, brings in foreign exchange and builds our local knowledge base. It is an accepted part of our economy and our future.

None of these are particularly contentious points. The crux of the matter today is the urgency demanded to build on Barbados' financial service product in order to take some of the weight borne by the pillar of tourism.

Tourism has had an extraordinary run over the last 16 years. Seasonally adjusted, average quarterly stop-over arrivals rose from 100,000 in 1993 to a peak of almost 150,000 in early 2008. This 50% growth closely correlated to personal wealth as measured by the stock indexes of our top three visitor markets. In the case of the United States, for example, the correlation with the Standard and Poor's 500 index is around 75% - that is, three quarters of the movement in the value of stocks and shares explains the ebb and flow of our tourist arrivals.

In plain language, when people have more money they take more holidays. But as quarterly arrivals in recent times head southward below the 130,000 mark we ought to consider this question: is the economics that underwrote the boom giving way to capital scarce conditions that will have a long term structural – and negative - impact on tourism?

There is the tendency to treat this crisis as a statistically discrete event. A one-off. Thus we get headlines such as, 'the worst is past' and 'there will be recovery in 2010'. But political economy is a continuum and it looks very much as though the financial disaster of the private sector has merely been transferred into the public sector.

To modify a famous 19th century line, 'the Angel of Debt has been abroad through out the land; and you may almost hear the beating of his wings.'

The structure of the 16-year tourist boom rested on historically low real interest rates, relatively low government deficits, benign inflation and soaring asset prices – a quite different scenario than that which lies ahead. It makes good sense, therefore, to hedge the possibility that a structural shift in the global economy is taking place that will crimp the free-spending ways of tourists for some time to come.

Expanding the financial services sector is at least a part of that hedge. Yet, and this is admittedly anecdotal evidence, there is a perception amongst clients and potential clients of our financial services of a lack of urgency, a general tardiness and an absence of co-ordination between administrators.

Fair comment or not, the fact is that others in the region and beyond will copy our existing blueprint of tax treaty networks. With better service and efficiency they will take our market. Bermuda and the Cayman Islands might serve as early warning in this regard: both are losing reinsurance business to competitors as far away as Ireland, Dubai, Singapore and Switzerland.

Yet one significant advantage Barbados retains, the aforementioned IMF comments notwithstanding, is its good name and reputation. Character is easier kept than recovered. This asset, jealously guarded against attacks from the OECD by the last administration, must be built upon and differentiated with. ‘Minding the shop’ and tinkering at the margins of what we have may not be sufficient.

What specific area might we contemplate for attack?

Consider investment fund administration. In this era marked by financial excess, Allen Stanford, Bernie Madoff, swindles and poor regulation the pendulum has swung, so far as retail investors are concerned, sharply in favour of transparency and well-regulated jurisdictions.

That is what a surprisingly small Luxembourg is capitalising on today. Luxembourg is well organised, efficient, has a strong track record in fund administration and gets in line swiftly with whatever European Union financial directives demand. Investor

protection and risk management are paramount. One of the world's largest hedge funds, Marshall Wace moved its eligible funds there in 2008. At a stroke these became part of a recognised and effective oversight regime.

There is opportunity in this trend away from no-tax, light-touch jurisdictions for the nimble of good repute. Barbados has also the geographic advantages of being near the time zones of the United States and one of the world's most fiscally sound emerging economies, Brazil. And in our workforce there is an abundance, for better or worse, of lawyers and of accountants - many of them with foreign language skills. They could be the backbone of any expansion into fund administration.

Thus the ingredients for potential expansion are partly in place. But having the IMF state bluntly that parts of our regulatory regime lack adequate supervision is a clear sign of the work to do. The challenge is immense but so too is the pay-off.

As we fight the fires lit by this economic crisis it is tempting to neglect investments in future prosperity. This was one of the dangers perceived by the 1976 administration as the second energy crisis began to bite in 1978 whilst the effects of the first still lingered. Developing the finance sector was far seeing at the time; and it was a policy that had to withstand intense parliamentary attack. Judged from today's perspective that parliamentary process and scrutiny has paid handsome dividends. The sector's further concerted expansion today might in the next 25 years also be judged as favourably.

INVESTMENT IN THE FUTURE - OIL:

The mention of energy crises may have turned some thoughts to our offshore oil prospects. It is the third economic topic of this lecture and another where transparency in hand with flexibility could produce material future benefits, sooner rather than later.

During the first oil crisis in 1973-74 the French Government launched an energy efficiency campaign with a slogan so effective it is still heard today:

“On n'a pas de pétrole, mais on a des idées!”

“We have no oil, but we've got ideas!”

At least here in Barbados we have the oil.

In 1982 the Woodbourne field in the south east of Barbados produced about 1,100 barrels per day. At the time that represented roughly 30% of Barbados' crude oil consumption.

Today, with broadly the same output, Woodbourne meets only 12% or so of our crude oil consumption. The difference is imported and, in a good year like 2006, we spend something like \$370m on energy. In a bad year, like 2008, the figure nearly doubles to \$730m or about 10% of our GDP. 10%!

But Barbados has a trump card: a proven offshore petroleum system sourced from Venezuela's Orinoco complex.

Yet exploration has, it seems, lost its high place in the administrative 'to-do' list without convincing explanation or much transparent information. In November 2009 the government announced that it had “deprioritised” the programme. I am not sure what “deprioritising” means in concrete terms; but the most prominent explanation offered to justify whatever it does mean was that current oil prices could not justify the necessary capital expenditure explorers would have to lay out.

That is not quite right. IHS Incorporated, the energy consultants who assessed our offshore prospects, suggested these would be economic with oil as low as \$40 per barrel. The minimum government take at that level would be BDS\$60m over 7 to 9 years. Now, the last time the price of oil was at the \$40 level was in December 2008. Today, it is above \$80 per barrel.

The discouragement felt by administrators stems from the fact that Barbados' bid round concluded at one of the very worst moments of the credit crunch. Of the large companies that bought seismic data – which included BP, Exxon-Mobil, Hess,

Newfield, Petrobras and Shell – the reasons given for non-submission of final bids did not relate to the quality of the prospects but to the uncertainty produced by the financial crisis.

Now, that has abated somewhat; and a cursory scan of the financial press shows that bidding activity by explorers has picked up around the globe. Just last month Venezuela accepted bids on the same Orinoco system from Repsol, Chevron, India's ONGN and Malaysia's Petronas.

It is puzzling, therefore, why paying an energy import bill which, once the data is released for 2009 will total about \$400m or around 6% or so of GDP, is acceptable when the possibility exists to prioritise its offset by bid revenues. Reasonably priced energy is, after all, a crucial part of economic growth.

Let me put that \$400m number another way: if the energy bill could be offset by just 20% there would be enough savings to pay off Mr Al Barack, including penalty fees, and still have enough change leftover to pay for another NHC office block, if not an additional lawsuit.

Should one still reject the viability of a market-based approach there is a further avenue the government might explore as part of, or separate from, another bid round. China has a thirst for energy motivated not by market forces but by power and desire for energy independence. Is there anyone who imagines they have lent Angola \$7.5bn – twice the value of our own annual GDP - because Angola was the best risk/reward investment profile available? These loans are repaid entirely in oil and that is the only reason they are in Angola – and why Angola is their number one oil supplier.

China last year provided the likes of Barbados, a friendly nation with whom it has enjoyed uninterrupted diplomatic relations since 1977, a favourable precedent: one of its major oil companies, Sinopec, acquired supposedly uneconomic licenses in the deep water off the coast of Sao Tome in West Africa. Previously stalled, test drilling accelerated and as of January 2010 4 test wells as deep as 12,600 feet had been sunk and are currently being assessed for viability.

Barbadian taxpayers have also, bravely in the current budgetary context, sunk resources in the new diplomatic mission in Beijing. It seems straightforward enough to put that investment and the cash spent teaching our diplomats Mandarin to revenue-chasing use. Some of those same diplomats helped the previous government secure our offshore territorial rights in the fishing dispute with Trinidad. Open a dialogue. This is no begging game: in a world of peak oil the rights to explore for energy are precious. We are in a position of strength, not weakness.

As a final comment on this subject, there is a salutary history lesson you may not be familiar with. In 1968 Norway had been searching for oil for 5 years with no success. Indeed, the country's own Geological Survey had dismissed the possibility of ever finding any. Politically the issue was dead. Oil companies were leaving the country as every test well proved dry.

Phillips Petroleum, later part of Conoco Phillips who drilled off Barbados' shores a decade ago, was by 1969 the last left and asked the Norwegian government to be released from its contract in order to avoid the cost of drilling the final exploration well remaining in its work programme. It was refused, and knowing that the penalty fees were as much as the drill cost, Phillips drilled.

It hit the Ekofist oil field, one of the world's largest offshore oil basins.

Now, Barbados is no Norway. The geology is more difficult. Yet Norwegian history shows that with no proactive government initiatives the odds are that much slimmer on anything at all being found.

It is true all efforts might prove for naught – perhaps there is no commercially viable oil to tap. But as an importer of nearly 90% of our energy needs we ought to find out as soon as we can. And if the government has a better explanation than that offered for not pushing forward hard it ought, transparently, to set it out fully.

NATIONAL INSURANCE SCHEME:

The last area of the economy I want to say a few words on is Barbados' National Insurance Scheme.

Some of the questions I found myself asking as this credit crisis took grip were how are the 2002 pension reforms implemented by the previous administration coping with being put in harm's way? Are the assumptions that were made about future investment returns looking vulnerable? Is the NIS undertaking any currency diversification away from the US dollar? What has been done to diversify away the 91% geographic concentration of the portfolio? And so forth.

The NIS website holds the 2007 annual report and nothing newer. Ask the question why and the reply comes that the 2008 – and presumably by now 2009 – reports have not yet been laid before parliament. Therefore they cannot be released to the public.

A little context is appropriate. The costs of ageing – both in terms of health and pensions – dwarf the fiscal outlays being engaged to cope with this crisis. The IMF released a paper late last year for the G20 nations estimating these costs to be ten times the size of the fiscal stimuli plans of the group. Another study, from Standard & Poor's and a couple of years older, concluded that an absence of action to close pension gaps would result in the ratings of 16 of 32 of the world's advanced economies hitting junk status in 20 years. And 26 of those 32 would fall to the sub-investment level in 30 years.

Perhaps such studies contain some hysteria in order to command attention. But the fact remains that we have a demographic profile remarkably similar to many of those in that S&P analysis. The main difference concerns only the timing of when costs will start to hurt. Every time we see Sir Clifford Husbands toasting yet another centurion in the press someone, somewhere, in the NIS is probably having mixed feelings about improving trends in Barbadian longevity.

Now, the NIS has between 50% and 60% of its portfolio invested in Barbados Government debt of varying maturities. In a fiscally embarrassing 2010 context,

which Barbados entered with a credit downgrade, alarm bells ring. A sovereign credit downgrade instantly lowers the value of that entire debt holding.

The point is not that there is another pension problem brewing – the NIS probably holds most of that local debt to maturity rather than trading it. The issue is that financial conditions have changed so drastically in the last 30 months that pensions are an area parliament should be keeping a close eye on with, at the very least, timely and **transparent** reporting to citizens. These funds are right in the front line of this crisis – let's have a look at how they are doing.

NIS FINAL REMARKS:

Within that broad commentary there is a further observation concerning the nation's budgetary position and the operations of the NIS that, perhaps, might spark a little useful debate.

The NIS has for many years been an important supplier of capital to the state and our development goals. That is how it came to hold over half its portfolio in Barbados Government debt securities; and how, for example, it helped over time to finance expansion of the electricity grid in exchange for 28% of Barbados Light & Power.

As the fiscal debt debate gathers momentum and the Government tests political appetite for divestment, it may be that the NIS can serve as a reliable and politically palatable counterparty. This is surely preferable to the fire-sale mentality that appears to be seeping into some recent discussions of divestment.

Given the necessity to reduce the country's debt burden any potential transactions might usefully take the form of a debt for equity swap. On the one hand, the NIS cancels certain of the shorter dated Barbados bonds it holds. On the other, the Government makes over hard assets to the fund that contribute to the NIS' long-term funding needs.

It is conceivably, for example, that the NIS might on this basis take up a partial privatisation of the airport, marked for the purpose since 2003. The Barbados Port

Authority, another valuable long-term infrastructure asset, might be considered in the same way. And so on.

There are a number of potential benefits to a debt for equity process: the country's budgetary position is strengthened; the vulnerability of the NIS' remaining debt portfolio to sovereign credit downgrade reduced; the threat of such a downgrade is itself diminished; nationally important assets remain under public ownership; and pension assets can be better aligned to pension liabilities.

I do not pretend that these are anything more than discussion points. But it might be no bad thing that our parliament open the debate on the NIS and the three other issues I have spoken to tonight bluntly, transparently and with honour.

CLOSING REMARKS:

Ladies and gentlemen, in times of great upheaval there exists a threat to the ability to adapt, a tyranny of convention and, in some ways, of mediocrity arising from the customs and practices of less challenging times.

It is a tyranny that inhibits recognition of the scale of new problems and of the structural changes that may be occurring. Feelings of caution and timidity prevail even as conditions continue to degrade. Leaders make recourse to comforting platitudes; and precious time may be lost.

Since the end of 2007, this phenomenon has been evident all over the world with monthly reassurances from many governments that the worst has past. Our own press archives and parliamentary Hansard reports reveal that Barbados has not been immune to the tendency.

The cost of this tyranny has fallen due in some of the most important parts of our economy; and the main lesson to date that this crisis has taught us – apart from the dictum ‘never buy anything that an American investment banker is selling’ – is how imperiously events can move from the inconceivable to the irresistible without once pausing at the possible.

When a country like ours, built on a reputation for fairness, respect and pragmatism; and which has enjoyed the fruits of a robust and open parliamentary tradition forgets those strengths the irresistible events of an upheaval tend to be associated with great risk. The risk of complacency. The risk of fixation upon political self-exoneration. The risk of inertia. The risk of neglect.

Conversely, when we play to our strengths – with policy makers accepting the necessary compromises to preserve the best of our democracy – then our vision is **elevated**. Policy solutions become bold. Timely. Conceived **not just with survival** in mind but with an eye on our children's prosperity. And their children's. These are the outcomes that begin to appear irresistible.

And that is the end to which politics and economics must strive.

I thank you.