

Mr. Speaker, Honourable Members,

I rise to make my maiden speech in this Honourable House, aware that a former member, one who gave me my name, who walked these halls, who stood here in this Chamber and commanded respect, even from his political adversaries, by his sheer intellect and wit.

He was born in another land but was appalled by the racial segregation and bigotry he found here, an evil against which he worked during the whole of the rest of his life. He taught Math, English and Latin at the Berkeley Institute. Having risked Nazi U-Boats and bombs to study law in London, he was an inspiration to some of his former students to also study law, names such as Lois Brown (later Dame Lois), Arnold Francis and Walter Robinson come to mind.

His vision was to replace white supremacy with a partnership between the races, to create One Bermuda, to move our island forward together. The manifestation of that vision was the United Bermuda Party, a party which built the modern, prosperous Bermuda we have today.

I am humbled by his achievements and hope, with the help of almighty God, his spirit will be with me as I carry out my duties in this Honourable House, on behalf of the residents of Devonshire East and for Bermuda at large.

Former British Prime Minister, Harold Macmillan, in his famous Winds of Change speech, said: "We are all fleeting, transient phantoms on the great stage of history." Fleeting as our deliberations here may be, now is our time and we must therefore play our part on history's stage.

The United Bermuda Party has already played an enormous role in Bermuda's historical development, working hard as Government to make our Island a better place to live for all our people. Now, as Her Majesty's Loyal Opposition, our role is different but the ultimate objective is the same: To make Bermuda a better place to live for all our people. We will support the Government on initiatives that further that objective but will criticize and offer alternatives to policies that do not.

Mr. Speaker, the issue before us is whether the PLP government in this Budget, and indeed in previous budgets, is really doing what is necessary to help people to get by, to grow and flourish. Is it really committed to meeting the needs of people, particularly those who are struggling? The good intentions may be there but the record is not encouraging.

Over the past ten years, the PLP Government has spent billions of dollars and yet the negative judgment the current Premier made before his party in October 2006 that people were "not better off" under the PLP government remains with us today. Questions can be asked all down the line:

Are seniors better off?

Are students better off?

Are workers better off?

Is education better?

Is housing more affordable?

Are streets safer?

Mr. Speaker, the gap between promise and performance, words and actions is the crux of the matter when it comes to assessing the government's management of the island. There is a lot of money being thrown around, a lot of new programs announced and many lofty words spoken to promote them, but at the end of the day people continue to struggle, gaps continue to widen and the public systems delivering support become less responsive and less effective.

What is missing from the equation, Mr. Speaker, is a government that knows how to deliver on its promises and good intentions; a government that knows how to cut to the heart of the problem and stay on it until it is solved.

The philosophy of the United Bermuda Party with respect to budgetary issues is a simple one, first manage the people's money under the tenets of prudence and second, be responsive to the social needs of the people by taking steps to help those who are struggling to make ends meet.

One of our main concerns in responding to this Budget is that the Government does not feel the significant cost-of-living challenges facing many people in this society. Bermuda's "miracle economy" has not been miraculous for all our citizens. Many have been left behind and are struggling day to day to survive. We believe Government has a responsibility to help these people, not only for the sake of their families but also because it is important to the long-term health of the island we all share. We see this as an area for bipartisan cooperation and so pledge to work with the Government toward programs that can alleviate the suffering.

A second major concern is that the Government does not appear to understand or appreciate forces impacting Bermuda today. In this regard, I would like to use the first section of this Budget Reply to look at some of the important economic issues facing our island before addressing the specific aspects of the Budget and its remedies to improve the lives of people we were elected to represent.

GLOBAL ECONOMIC ENVIRONMENT

Mr. Speaker, Honourable Members of the House of Assembly

Bermuda is somewhat like the remora fish that feeds off the crumbs of great sharks, so it is in our interest to examine the economic health of the big fish we swim with. There has been a great deal of turmoil in global financial markets, turmoil which has been precipitated by the collapse of the so-called sub-prime mortgage market and the many securities that were based on US mortgages. What we have witnessed is the result of a number of major malfunctions that could portend negative outcomes in the real worlds of ordinary people.

There has been much talk of recession, both in the US and in other major economies. Unfortunately, recessions cannot be confirmed until after the fact, but there are many indicators that are more helpful in ascertaining what the state of the global economy is and where we are likely to be heading.

Mr. Speaker, they say a picture is worth a thousand words, and it has been my style over many years to use charts to explain economic trends.

Figure 1, US Housing Starts, shows dramatically the extent of the housing problem in the US. This collapse is not yet showing any signs of recovery despite interest rate cuts which will reduce the carrying cost of home ownership. US home prices are still plummeting.

The loss of confidence in international credit markets, that has affected the entire world economy, is one consequence of the sub-prime debacle. This loss of confidence has caused lenders and investors to retreat from anything that contains so much as a whiff of risk. Indeed, international banks were even reluctant to lend to each other, in what has been referred to as the "credit crunch". While we will show there has been no credit crunch among Bermuda's banks — indeed the opposite is true — the international credit crunch may have the effect of delaying, or derailing altogether, major local construction projects that were to be financed in overseas capital markets.

The US Congress has just passed a fiscal stimulus package designed to give the US economy a shot in the arm through a combination of tax rebates and spending initiatives. However, given government bureaucracy, cheques will not likely be in consumers' hands until late spring. This is not likely to be soon enough to avert a recession, if one is on the cards.

Figure 2 shows a widely followed index of activity in US service industries. It has recently taken a very sharp fall, and since most of the US economy comprises service industries, it is a very ominous sign for prospects for the US economy as a whole.

Mr. Speaker, the evidence is clear, the US is headed for a period of either slow growth, no growth or contraction, and will drag the global economic growth rate down with it. Bermuda does not operate in a vacuum, indeed the Bermuda economy is more dependent on outside economic and regulatory factors than any other country I can think of.

Therefore, it is critical that Bermuda and its Government should adjust its plans, its strategies and its spending habits based not only upon local needs, but also on the imperatives of the global economy.

Mr. Speaker,

There is no evidence that this budget takes the threatening international economic storm clouds into account. It blithely continues the spending spree of recent years despite the real possibility of revenue shortfalls as a result of a weak US economy.

KEY THEMES FOR THE BERMUDA ECONOMY

Mr. Speaker, many of us who watch US network television will be familiar with the occasional news segments called "Reality Check," where the reporter explodes a particular notion with facts. Let us now embark upon our own "Eye on Bermuda Reality Check."

Let us look at Table 1, Bermuda's principal economic sectors, arranged in order of importance to the overall economy as a percentage of GDP. The number one sector, international business (IB) is not a surprise, but look where the sector that represents tourism, Hotels and Restaurants,

is. It's not number two or three or even four, but number eight. If we go back 12 years to 1996, this sector was merely number five. So its decline is not a recent phenomenon.

Mr. Speaker, this is only superficial, let's drill down a bit. If we look at the assets of the Financial Intermediation sector, also known as Banking, it is obvious that their local assets are dwarfed by their foreign assets, so most of this sector is International Business as well. Let's take Real Estate and Renting Activities, how much of this sector is attributable to International Business? Well, perhaps up to half. What about "Construction?" That sector has switched primarily from building high-end condos that were bought or rented by international business people to erecting office blocks in Hamilton. This sector is clearly driven to provide residences and offices for International Business.

The case has been made in the past by one of my colleagues in this chamber and I have made it in the other place, that among the air visitor arrivals attributed to the "Hotels and Restaurants" sector, up to half are business-related guests, if we strip away people visiting friends and relatives.

What does this mean, Mr. Speaker? It means that Bermuda is overwhelmingly reliant on international business for its livelihood, directly and indirectly. Conservative estimates easily exceed the 50% level as shown in Figure 4.

So what is this talk about Bermuda's twin-pillared economy? Mr. Speaker, it has no basis in fact. What kind of structure is held up by two pillars when one pillar is over six times as large as the other?

Now let us look at how this reality check relates to Government policy. The Bermuda Government intends to spend more than \$35 million promoting Tourism, our number eight sector, but not much more than \$2.6 million on our number one industry. By contrast the Cayman Islands, our principal offshore competitor for international business, spends about \$22 million promoting international business, Ireland spends 261 million euros and the upstart Dubai spends \$83 million.

Mr. Speaker, something is wrong here. Do we really think that tourism can regain its former glory of the 1970s by spending mega-bucks, about \$13 million, on advertising. We must applaud the Premier for his efforts in promoting Bermuda as a tourist destination, but this reality check is not about him, it is about perspective.

Bermuda's cost structure is too high to be competitive with other island destinations, starting with the exorbitant cost of property. Our sky-high property valuations are the negative starting point for prospective investors who are comparing Bermuda to other jurisdictions, and it puts us at a disadvantage from the outset. Tourism is property-intensive. We must not be lulled into a fantasy land where we think that if we throw enough money at tourism promotion and dole out special development orders willy nilly we can go back to the good old days. It is most unlikely.

Mr. Speaker, remember this is a Reality Check, not a story about how we would like it to be. No one is saying we should just throw our tourist industry away; not at all. We must make our product as attractive as possible, but the sector is most likely to remain ancillary to international business because of the underlying economics involved.

Even if Bermuda could wave a magic wand and rejuvenate tourism to its former glory, this little Island does not have the carrying capacity to have both sectors, tourism and international business, at full scale simultaneously. It would involve the importation of thousands of global workers that would have to be housed and would further strain our infrastructure.

Mr. Speaker, we need a clear vision of where we are going with tourism. We need a State-of-the-Industry statement from the Premier. What is the vision? What is the plan? What kind of tourism product does the Government want for Bermuda. What projects will support that product? What is the bed numbers target for the island? How many large hotels are envisioned? What are the time lines? Does the Premier expect each SDO that his Government has issued will result in a new hotel being built?

Mr. Speaker, we ask these questions because they need to be asked. People, including those working in the industry, no longer have a roadmap to follow. We cannot allow tourism to drift as it has. We need an industry that can flourish within the economic

realities of Bermuda. The industry needs leadership. It needs a guiding vision, and so we call on the Premier to address these questions and to give people answers.

Mr. Speaker, Honourable Members of the House of Assembly

I must draw attention to the way this Government treats international business - like pariahs instead of partners. It was the partnership approach, first laid down in the 1970s and continued into the 1990s, that provided rocket fuel to this industry. Now that we have this Reality Check as to how important international business is to the livelihoods of Bermudians, the Government must tone down its threatening attitude towards international business.

We must not repeat the same mistakes that caused our once preeminent tourism business to slip through our fingers. Back then, attitudes of complacency and arrogance ruled supreme and allowed us to think that it didn't matter what nonsense we got up to, it didn't matter how we treated our customers, how we inconvenienced them, how much we fleeced them, they would still come back for more because we were allowing them "The privilege of sharing our Island." History has clearly shown that they eventually turned away.

There is vivid evidence that these same attitudes prevail towards today's cash cow, international business. What makes us think that international business will be any different from tourism in this regard if we don't improve our attitudes. The outsourcing of jobs from Bermuda to places like Nova Scotia and Ireland is a worrying trend. These are jobs that could be done here by Bermudians. It is evidence that all is not well in international business.

We need a government that knows where Bermuda's vital interest lies and is prepared to nurture it.

Mr. Speaker,

There is another Reality Check we need to perform relating to the fundamental structure of our economy.

The Honourable Premier was quoted by the media shortly after the December election as saying that "The economy of Bermuda in the private sector is probably 90 per cent controlled by white Bermudians."

Well, he was half right, but the Reality Check is in fact that the Bermuda economy is greater than 90% owned by white non-Bermudians. Very significant foreign ownership of the primary industries in Bermuda is not new. With the expansion of tourism in the post war era, all of the major hotels were owned by foreigners, with only the smaller properties being Bermudian owned. However, white Bermudians controlled the industries that fed off the primary industries and prospered greatly from them.

Moreover, you could see the foreigners' Bermuda assets, they were visible to everyone in bricks and mortar. And because their investments were physical, Bermudians, the old oligarchy, could exert considerable control by legislated and regulatory means.

Today things are different. Today the primary industry in Bermuda is international business which is totally owned and controlled by foreigners, but that's not the only difference. Today you cannot see 99.5 % of these foreigners' Bermuda-based assets, because they exist only in the computer databases of banks, insurance companies and securities exchanges. The impressive local office buildings these companies occupy account for less than one half of 1% of their actual wealth, hardly an amount worth much consideration. The Bermudian people, through their government, whether it happens to be PLP or UBP, have little or no control of these assets.

With the click of a mouse they could be gone. The bottom line is we have no control of the vast majority of the assets and revenues that have a "Made in Bermuda" label stuck to them.

Mr. Speaker, you may ask, what do I mean by vast majority? Government statistics indicate Bermuda has a GDP of about \$5 billion. I know it's an oversimplification, but GDP is like the total revenues of a country: the sum total of the revenues of all the businesses and all the people during a 12 month period equals \$5 billion.

What about an international business reality check? Their latest figures show the insurance industry alone has total revenues of \$100 billion. And that's just insurance. Think about the revenues of all those other exempt companies like hedge funds, trading companies, etc. These revenues are clearly not included in our GDP calculation, but why not.

It is because of the weird and wonderful way in which we calculate economic figures in this country. The assumption is that international companies are in Bermuda, but at the same time, somehow, NOT in Bermuda. Government officials attempt to measure only the impact of this sector on the so-called local economy.

So international business companies are all presumed not to be in Bermuda, even though when we walk down Pitts Bay Road we can see them with our own two eyes. These companies, as far as the statisticians are concerned, are nowhere: they're not in Bermuda, they're certainly not in the United States, they're somewhere in between.

But the reality is that the "mind and management" of these companies is right here on the Rock, they're incorporated here, regulated here and pay taxes here. The "Made in Bermuda" label is firmly affixed.

What's this quirk in our economic statistics got to do with anything?

Mr. Speaker, it has to do with perspective.

- The insurance sector has total assets of close to half a trillion dollars.
- The Insurance sector has shareholders' equity of around \$158 billion.
- The insurance sector has annual revenues of around \$100 billion.
- But we, Bermuda, have a GDP of a mere \$5 billion.
- This government's budget next year is only about \$1 billion.

Now that's a realistic perspective.

So when I say that the Bermuda economy is 90% owned by non Bermudians, I am actually understating the case.

The reality is that the age when Bermuda was controlled by the old white oligarchy, a.k.a. the Forty Thieves, is dead. Yes, today there still exists racism and members of this Honourable House, on both sides of the aisle, must be committed to its eradication.

But let us all be aware that there is a new order in Bermuda. Its name is Globalization and it is much more demanding than anything we have experienced before:

- It doesn't know us,
- Neither does it care about us.
- If we do not compete well and provide value to the owners of those billions of dollars of capital, they will find someone else who does.

This is the New World Order, and the artificial barriers we erected in the 1950s, 1960s and 1970s to protect our local businesses and our fellow Bermudians' jobs are useless against the forces of Globalization. They will just find somebody in India, or China or wherever who is:

- Better educated than we are,
- One hundred times more eager and
- Will work for a quarter of the salary we would find acceptable.

We all marvel at the wonders of our modern age, a digital, electronic age, the age of the Internet, the age of the Blackberry. But along with this technology comes the stark realization that geography has become irrelevant. It doesn't matter whether your co-worker is in a cubicle down the hall or on the other side of the planet.

How do we survive in the new age of Globalization?

- First, accept that it is real and that it directly affects us.
- Second, get the word out to our fellow Bermudians, particularly those who still think they are protected by a cocoon of local laws.
- Third, exhort our people to prepare themselves for the future

Remember that person in India who was better educated, more eager and worked for a fraction of what we would, that guy who is looking to "Eat our lunch?" What do we do about that guy?

Mr. Speaker,

- We can improve our attitudes toward work and become more eager and productive.
- We can improve our education system and turn out more knowledge workers.
- We cannot cut our wages, so we have to double up on the other two points.

This clearly illustrates how vitally important the effectiveness of the education system is to the future prosperity of Bermuda.

ECONOMIC OVERHEATING

Mr. Speaker, Honourable Members of the House of Assembly

For more than two years I have been a voice crying out in the wilderness that the Bermuda economy is, and has been for some time, overheated. It is gratifying today that other observers have joined in the chorus about overheating and its consequences. Figure 5 shows inflation accelerating in Bermuda.

For the economic engine to function there must be something that enables potential suppliers to meet the demand: think of a car engine, there must be something that enables the energy contained in gasoline to be converted into motion. In an engine that enabler is the lubricant, the oil that allows its parts to smoothly move. In the economy the lubricant is credit. Without credit the economy seizes up, with too much lubricant the economy runs too fast and overheats like an engine that is being pushed to rev higher than it was designed for. Overheating causes inflation.

Mr. Speaker, let us first look at some of the sources of this overheating.

Many people blame the rapid expansion of international business for overheating and say that this phenomenon is totally outside our control. There is no doubt that the successive waves of capital that have washed through Bermuda in recent years have been a contributing factor to overheating and to a large extent such events are indeed outside our control.

However, in this Reality Check, when we drill down, we find there are factors, not outside our control, that have also been behind the overheated economy.

Mr. Speaker, we all know that you can have too much of a good thing, e.g. bread is good for you but too much bread will make you fat; sunshine is good for us but too much sun can damage your skin and cause skin cancer. This maxim applies to credit as well. Credit is good because it enables people to own their own homes, it enables businesses to operate, children to be educated, consumer items to be acquired. But too much credit can, at the individual level, cause many people to become overextended. That increases the risk of default and foreclosure. This is precisely what happened in the US between 2002 and 2007, and foreclosures are at levels not seen since the Great Depression. On the macro level, it can cause an economy to overheat and generate inflation.

Figure 6 shows that, historically, there has been a close relationship between Total Bermuda Dollar Bank Deposits and Loans to Residents. That relationship broke down in mid 2004 as loans soared while Bermuda Dollar deposits stayed relatively flat. This meant that Bermudians, instead of borrowing their own money, started to borrow money from external sources.

Figure 7 shows the same data differently. Since mid 2004 the net Bermuda Dollar position, which is the difference between local deposits and loans to residents, fell from a surplus of \$824 million to a deficit of \$495 million in mid 2007.

Mr. Speaker, that is a swing of \$1.3 billion, over three years. A US senator once famously declared, "A billion here, a billion there, pretty soon it adds up to real money." I don't think anyone in Bermuda would disagree with the notion that, in the Bermudian context, \$1.3 billion is real money. No surprise then that the Bermuda economic engine is revving above its recommended rate because it has had a huge injection of lubricant.

Mr. Speaker, who are the winners and losers in an overheated economy?

Generally, business enterprises come out winners because there is a greater availability of credit to stimulate growth. In particular, the construction sector has been a winner. The construction sector has had the highest growth in the number of jobs over the last seven years, even greater than international business. In aggregate, employment levels are elevated in an overheated economy, but most of the new jobs have gone to non-Bermudians. So Government has been a winner as its coffers have risen from payroll taxes levied on these workers' salaries. Clearly the banking sector has been a winner, even though the number of jobs in that sector has fallen over the past six years. Also the real estate and rental sector and property owners have been winners as property values have soared.

The losers have been people at the lower end of the earnings spectrum, that bottom 30%, also seniors and young people.

Overheating has exacerbated the affordable housing crisis in Bermuda, as the rate of increase in rents has outstripped tenants' ability to increase their earnings. Thus even many middle class Bermudians are struggling to make ends meet because what was once affordable has become unaffordable. Some families have had to break up because they cannot afford to live under the same roof, and broken families have spawned negative social, educational and even criminal consequences.

Many seniors, who are living on fixed incomes, and cannot adjust to the spiraling cost of living, have had to make diabolical choices, like rent versus medication.

Overheating has also dented the dreams of our young people who want to own a piece of the rock but cannot afford the lofty prices of property despite earning high salaries. In fact, the last Household Expenditure survey showed that the cost of shelter soared 325% faster than the overall rate of inflation.

In this area Government is both winner and loser. It, and by extension the people of Bermuda, loses because increased public funds have to be allocated for financial assistance and housing subsidies to try to help these struggling families and to build more affordable dwellings.

The overall economy loses because costs have increased faster in Bermuda than in countries that compete with us, thereby making Bermuda less competitive and less attractive for future business and investment.

Mr. Speaker, Honourable Members of the House of Assembly

The irony is that under the Progressive Labour Party Government's watch, benign neglect or downright denial of critical economic developments has hurt the very people they claim to most represent. These struggling people have, by and large, been forgotten by the Government's new budget.

Bermuda cannot allow the unchecked ebb and flow of credit in this economy to further damage the quality of life for the poor and near-poor, its seniors and the hopes and dreams of its younger citizens.

The Minister should immediately launch a review of the banks' lending policies and their impact on the marketplace with a view, in due course, of releasing a plan as to how the Government will address the problem. A caring government must use skilled management to minimize the negative impact of its policies (or lack of policies) on people least able to protect themselves.

Incidentally, Mr. Speaker, as US interest rates are reduced to try to avert a recession, lower rates in Bermuda are likely to ignite yet another surge of local lending, thus over-revving our economy again and putting property even further out of reach. Stay tuned.

FINANCIAL REGULATION

Mr. Speaker, Honourable Members of the House of Assembly

I read with interest the recommendations of the International Monetary Fund (IMF) as to how we should strengthen our regulations against money laundering and the financing of terrorism.

I confess to being conflicted on this issue.

On the one hand we must stop money launderers, terrorists and other international criminals from using our Island for their evil purposes. We must do all we can to prevent this from happening but if we fail in that, we must detect and punish those that do commit such crimes from our shores.

On the other hand, and this may come as a surprise to some Honourable members, I have some unease with the IMF and their motives. In a former life I spent a number of months at the IMF, as a student, seconded from the Bermuda Monetary Authority, and had conversations with a number of their senior officials. I learned their world view dictates that all money flows of all countries must equal zero: the outflows of each country becoming the inflows of other countries.

Much to their irritation, the real life math does not add up, with billions of dollars going missing. They blame offshore financial jurisdictions for that. The whole initiative of "harmful tax jurisdictions" was the upshot of this type of thinking.

They view the offshore Bermuda economy as an aberration, something that should not exist, in an orderly world. So when I hear the Minister declare that we must not have regulation for regulation's sake, I know what she's talking about, I know what she's up against, I hear echoes of my conversations with IMF officials years ago.

There is relentless pressure from organizations like the IMF to pile on more and more regulations, presumably until there will be no reason for offshore companies to come here. That is the risk.

So we must strike a balance between our own economic interests and the demands of supranational organizations like the IMF and we must sometimes have the courage to say "No."

Having established this overview, let us look at the report itself, and when we do, it is clear that the IMF was not entirely happy with the progress we had made since their previous visit. You see, it's one thing if the IMF asks us to do something and we don't want to do it because it would be against our own economic interests. You just politely tell them, "No we can't do that."

It's another thing to agree to do something, then fail to do it. This appears to be the case here, where the Government agreed it would make certain strengthening adjustments to the anti-money laundering regulations but failed to follow through.

The first key IMF finding is that there has not been much change in the Anti-Money Laundering regime here since the UBP enacted legislation in 1998 and the last IMF assessment in 2003. Its report said the Bermuda authorities "have been slow in implementing a number of key recommendations from the last IMF assessment, particularly with respect to the reporting entities in the financial and non-financial sectors." The financial and non-financial sectors, what other sectors are there? Apparently this means ALL sectors.

So this issue indicates a sort of fumbling of the ball on the part of the Ministry that has taken place between 2003 and today; well intentioned I'm sure, but fumbling nonetheless. Was this negligence or was the Ministry asleep at the wheel? The Bermudian public has a right to an explanation from the Minister.

There is a particular point made about how local drug dealers launder their money through the purchase of Bermuda real estate and how our laws restrict such activities by foreigners. The question is how do we, on the one hand, know so much about how local drug dealers launder their money, but on the other hand, have no history of successfully seizing these properties and bringing these people to justice?

If we can't find, prosecute and convict people who live in our midst, people who have a high lifestyle without any visible means of support, people whose assets of choice are fixed in stone, literally, how on earth are we going to detect international criminals, people we don't know, whose assets can fly away with the click of a mouse.

We're in trouble here. We are behind the curve. Clearly there is an issue relating to the lack of resources being brought to bear to prosecute and prevent this activity. Mr. Speaker, we support the staffing increases needed by the Department of Public Prosecutions and the Financial Investigations Unit but recognize it will be some time before these offices will be fully trained and operational. Government has been slow on this front, but we all know they can be quick when they really want to be.

It is particularly troubling to note the IMF's observations that, "There have been no Money Laundering prosecutions in the last three years despite the relatively large number of suspicious transactions."

The Minister in the recent past has declared that Bermuda is the "Gold Standard" for offshore jurisdictions. We all know that solid gold never tarnishes, unless it's cheap gold plate. Well, I'm beginning to think the gold the Minister was referring to might be the tarnishing kind. Certainly Bermuda's shine has worn off in the minds of such organizations like the IMF and Standard & Poors.

No better example can be given than by the recent, less than glowing, comments from Standard & Poors. The negative observations about Bermuda are all not only "Made in Bermuda." They are also "Made by the Government of Bermuda"! Promises of major giveaways with no financial plan were mentioned, as were unaudited accounts of the

Contributory Pension Fund and the Hospital Insurance Plan and the general polarizing tone of the general election. So Government only has itself to blame here.

Mr. Speaker, we live in a globalized world, which is a world of consequences. There are consequences to what the leaders of Bermuda say as well as do. Since there are about half a trillion dollars with a "Made in Bermuda" label on them, what happens here has consequences throughout the financial world. The sooner that realization takes root within the halls of this Government, the better it will be for us all.

ECONOMIC EMPOWERMENT

We support the Government's efforts in the area of economic empowerment, both nationally as well as in North Hamilton. This is an issue in which the Government and the United Bermuda Party are in one accord. During its last session, we brought a motion to this Honourable House outlining draft legislation for economic empowerment, legislation that has yet to be enacted. The Bermuda Small Business Development Corporation was promulgated during our administration to assist in the realization of entrepreneurial aspirations of Bermudians. The encouragement and assistance for entrepreneurs is a tangible way to help narrow that oft-mentioned economic gap. I urge Government to use our ideas in this area, particularly the setting aside of 20% of Government contracts for small business. This is something directly under Government's control and can be easily enacted.

On a personal note, Mr. Speaker, in my very first political speech, as a new Senator in 1997, I chose this very issue to address: that is, the need to beef up the Bermuda Small Business Development Corporation, particularly with a view to helping embryonic black businesses, a segment of our population which had suffered from underdevelopment for many years. As someone who 20 years ago started a small business in an industry that didn't even exist in Bermuda at the time, and had to endure 18 months without a dollar of revenue, believe me, I know about the dreams, troubles and the strains on the family that Bermudian entrepreneurs experience.

But when it succeeds there's no feeling quite like it. More importantly, there would be nothing better for Bermudian society than a new generation of successful entrepreneurs because, on this side of this Honourable House, we understand that it is private enterprise that is the true creator of lasting wealth, not Government. It is Government's role to assist in that process.

Mr. Speaker, in my view, the key points to remember when analysing the Government's budget are these:

18. The external economic environment is deteriorating and, all other things being equal, may result in lower revenues than normally expected.

19. International business, the overwhelmingly important driver of the economy, needs to be nurtured and vigorously promoted in a competitive world.

20. Globalization is the new economic order and mandates, more than ever before, that our educational system produce top notch knowledge workers if we want to continue to have a bright economic future.

21. Macroeconomic issues, like overheating, have a direct negative impact on the bottom 30% of Bermuda's population. Controlling economic overheating will help in the fight to provide more affordable housing for Bermudians.

22. The financial world is watching us. What we say and do in this Honourable House has consequences for our reputation and future prosperity.

THE BUDGET

GENERAL COMMENTS

This is yet another inflationary budget. The Minister appears to have grasped the wrong end of the stick in her remarks about economic stimulus. While Bermuda is profoundly affected by the US economy, our situation is entirely different from that of the USA. Bermuda's overall economy does not need economic stimulation by the Government, in fact, it needs economic restraint from overheating.

Figure 8 shows the percentage increases in Government spending over 10 years. The average yearly increase in spending has been 7.7%, far in excess of inflation and in excess of the growth of the overall economy. In 2006/07 the increase was 18.08%, and this excludes capital spending. This is a huge number representing very significant economic stimulus by way of the Balanced Budget Multiplier. This stimulus, the worst of which has come under this particular Minister's watch, has been neither temporary nor targeted as was suggested in the Budget Statement. It is the identifying fingerprint of a tax-and-spend government that has, on its own, contributed to the overheating of this economy and the misery overheating has wrought on those Bermudians who are struggling to find affordable housing, seniors and those who want to own a piece of the rock.

Mr. Speaker, Honourable Members of the House of Assembly

This Government, in its last five budgets, has collected \$317.6 million more revenue than it budgeted for. What has happened to all this money? Has the Government given it back to the people in the form tax cuts? No. Have they made extra payments on their debt? No. What have they to show for all this current account spending? The truth is that they have nothing to show for it except just bigger government.

That bottom 30% of Bermuda's income earners need targeted economic stimulus, in the form of a tax cut, the sort that the United Bermuda Party proposed during the last election campaign. They need more of their own money in their own hands. Bermuda needs fiscal programs that are targeted to the area where the pain is most severe, not some general, vague, unintentional, inflationary stimulus package.

Mr. Speaker, the Government made a great deal in its Budget Statement about the importance of personal savings. We support any initiative that will help people better manage their money, but we have to question the Government's commitment to it when many of the measures in the Budget will have the effect of reducing people's ability to save.

The increase in average effective duty for cars plus vehicle license fees will hit the broad population, thus helping fuel inflation, an issue the Government has glossed over. Stamp duty increases on properties selling for over \$1 million will increase. The last time I checked the average home in Bermuda sold for more than \$1.25 million, so this threshold of \$1 million does not appear to achieve the purpose for which it was purportedly designed.

The brooding labour unrest within the public service that we witnessed on the day of the opening of Parliament is a direct outcome of this Government's indifference to the fact that many Bermudians, even middle class Bermudians, are finding it increasingly difficult to cope with the high and rising cost of living in this Island, let alone saving for a rainy day.

What's missing with the budget is real restraint on general Government spending. Of course that would be very difficult after the on-the-fly promises of the last election campaign.

TOURISM

Mr. Speaker, even though Tourism is our number eight sector, you still would have thought the Government would have wanted to encourage more visitors to come here, but with a 40% hike in the airport exit tax this is hardly any encouragement. We have added to the cost of their vacation while giving them nothing in return; not to mention the extra expense for Bermudians who want to participate in their favourite pastime: travel. Taking consolation in the fact that competing tourist destinations' exit tax is already \$35 is faulty logic because these other islands are already so much cheaper than we are in virtually every other respect. We cannot afford to tilt the value for money balance any more against ourselves than it already is.

Figure 9 shows the trends in tourism: cruise passengers overtook air arrivals for the first time in 2006. This clearly indicates a deteriorating trend in the quality of the tourist business as air visitors are worth 6 to 10 times more than cruise visitors in their impact on the economy. It is difficult to estimate how many of these air visitors are really here because of business as the Government has not revealed a reliable set of data on the issue, even though it is known that such data is compiled internally. This is yet another example of its determination to avoid transparency.

We note that for the 2007/08 Budget, passenger taxes were originally estimated at about \$30 million but have now been revised back to \$25.5 million. We can infer this means that 2007 was below plan. Even though the total budget for this department has been

scaled back from \$40 million to \$35 million there is huge doubt as to whether Bermudian tax payers are getting value for money. For example, I personally greatly enjoyed the recent, huge, lavish and successful Bermuda Music Festival, but it turned out to be more of an extravagant party mostly for locals. Visitors were very much in the minority. The questions must be asked again: What are we getting for our money? Is it being spent effectively?

Mr. Speaker, \$20 million is to be divided between two tourism-related projects: Port Royal golf course upgrades and the second cruise ship dock at Dockyard. These were expected. What was not expected, and is unacceptable, is the complete lack of information about the bidding process for these contracts. As far as we the public can determine, there was no bidding process, no opportunity for non-insiders to get a look in, no opportunity for a competitive bid which might have saved taxpayers considerable money. The old boy network strikes again, right in their pockets.

The government cannot, on the one hand, claim to support Public Access to Information (PATI) and on the other hand be up to their necks in closed-door contracts worth many millions of dollars. These two positions are totally incompatible. Is the Government for open, fair government or not? If it is, it must lead by example. Do what I say but not as I do just doesn't cut it. Every child knows that.

AUDITOR GENERAL

Standard & Poors highlighted lack of transparency in its assessment, specifically the lack of audited financials for the Bermuda Government Contributory Fund and the Hospital Insurance Plan, as reasons for their mini-downgrade of Government debt.

You would have thought that by now, there would have been some action taken to remedy the situation. However, we see that there is only a \$14,000 increase (less than half of 1%) in the budget for the office of the Auditor General. Moreover, salaries will decrease by 1% as well as Professional Services by 9%. These budget items appear to confirm the continuance of the campaign against the Auditor General. First you arrest him, then you squeeze his budget.

With all the talk about the need for transparency in Government, let us not forget that the Auditor General is the glass through which we look to figure out what goes on inside. The smaller that glass is, the less we see and the more opaque Government affairs become.

Mr. Speaker, as I noted earlier, we live in a world of consequences, and there are consequences, both local and international, for shackling the Auditor General.

GOVERNMENT DEBT

Mr. Speaker, again we note the Government's plans to promote the importance of personal savings and financial management. It is important for individuals to save so they

can create plans for the future and arm themselves to deal with hardship. But we have to question this Government's credibility when it has not been prudent with the public's money. Leadership works best when leaders lead by example.

Mr. Speaker, the United Bermuda Party's philosophy with respect to borrowing is governed by the tenets of fiscal prudence. We cannot find fault with Government for borrowing funds for capital projects. However Figure 10, which shows yearly changes in Government debt, suggests that after about six years of restraint the Government appears to be making up for lost time.

We all know there are plenty of infrastructure projects out there to keep the cement mixers churning for many years, so there should be a phased plan to execute these projects in turn, in time and in a manner that does not contribute to overheating. Figure 10 suggest a kind of schizophrenia: six years of restraint by one Minister followed by five years of "irrational exuberance," as Alan Greenspan put it, by his successor.

HEALTH

Speaking of infrastructure plans, what is the plan for the hospital? A new KEMH appears to be missing in action (MIA). We sure hope it is not KIA (Killed In Action) because you can have all the satellite acute care units you like, you can reorganize the staff at the KEMH all you like, but there remains at the focal point of Bermuda's health care system, at Point Finger Road, an aging facility that just a few years ago this government said must be replaced by 2013.

Mr. Speaker, a brief summary of the Hospital situation provides some insight into the difficulty this Government has managing issues.

- In 2003 Kurron Shares of America carried out a \$450,000 review of Bermuda's hospitals recommending improvements be made.
- In 2004 the Bermuda Hospitals Board announced the hiring of two major design companies, Cannon Design and OBM International, to create a long-term plan outlining infrastructure planning guidelines year by year through 2015 when the hospital overhaul would be completed. The creation of this Estate Plan was to later cost tax payers more than \$1 million.
- In November of 2006, Kurron Shares formed a partnership with Government to ensure its 2003 recommendations were implemented. The cost for this was \$13.5 million.
- Johns Hopkins Medicine International of Baltimore launched a \$200,000 review of the Island's healthcare needs ahead of the rebuilding of KEMH

Mr. Speaker, Bermuda has been paying out millions of dollars on reports and consultants but the new hospital, or at least a new hospital plan, is still Missing In Action.

As the only acute care hospital in this country, the people of Bermuda need to hear the plan for the new KEMH.

Mr. Speaker, we fear the same meandering management effort will affect Future Care, a mid-election idea that government came up with to assist seniors without healthcare insurance coverage. Future Care remains just that, an idea. Who knows what it entails? Certainly not the public, who have been told nothing.

Mr. Speaker,

The hospital saga reveals a fault line that runs the length of this government; the line between promise and performance, words and actions. This government has proven to be a master of activity that leads to not a lot. Think of how many hotel announcements we've heard. Think of the sustainable development initiative and the black males study that got shelved for another study. Think of the frenzied election-time re-opening of the St. George's Police Station that remains closed. The list goes on, but the point is that the Government needs to recognize it is not delivering, and that it takes concerted action and commitment to deliver.

REST HOMES AND RESIDENTIAL CARE

Mr. Speaker, rest homes for our senior citizens are another area where performance has fallen short of promise. We note that funds have been allocated to Lefroy House to repair the roof and the interior after damage from Hurricane Fabian. The outside work has been completed but the interior work has ceased. Space is urgently needed for seniors in this facility who have been waiting since 2003.

The Sylvia Richardson Nursing Home is a new facility that has been under-utilized since it opened over a year ago. Seniors are being turned away from this facility and there is a long waiting list. It often is accommodating just about half of the seniors it was designed for. Lack of nursing staff is the excuse for this unacceptable situation. There are long lists of patients waiting for space at all of our government-assisted nursing and rest homes. How long do our seniors have to wait? Let's face it, for seniors, time really is of the essence.

The United Bermuda Party would make it a priority to improve the conditions of seniors in Rest and Nursing Homes by finishing renovations at Lefroy House, obtaining professional staff for Homes which are short staffed, create legislation that would regulate Residential Homes to protect seniors from abuse and the horror of living in sub standard, unhealthy and poorly regulated environments.

PENSIONS

Mr. Speaker, while we support the 5% increase in pension benefits for seniors under the Contributory Pensions Fund, we must recognize that this will put a further burden on

existing employers and workers as the Government is also increasing their required contributions to the fund by 6.75%.

Unfortunately for our seniors, the benefits of the 5% pension increase are all but wiped out by increases in the Hospital Insurance (HIP) premium. In fact, over the last 4 years, HIP premiums have increased by 61%, an average of 15% per year-much faster than the annual increase in pension benefits. So our seniors continue to lose ground.

ENERGY AND TELECOMMUNICATIONS

Mr. Speaker, we support the government's initiative to produce a Green Paper on energy, as our reliance on non-renewable, highly polluting energy sources in the face of global warming requires action not apathy. However, it seems incredible that such a study will cost \$559,000 in its first year. It appears too much energy is being expended in increasing the bureaucracy at taxpayers' expense.

EDUCATION

Mr. Speaker, we are pleased and encouraged by the emphasis that Government is now placing on the public education system. We simply don't understand why it has taken Government almost 10 years and six ministers to recognize the need for education reform. Why did Government wait until the public education system was "on the brink of meltdown" and increasing numbers of students failed to graduate before addressing the problems? Why has there been no concerted effort to implement a fully integrated technical education curriculum in our schools or to ensure an effective working relationship between the National Training Board and Bermuda College?

We agree with the Minister's statement that "The foundation for Bermuda's competitiveness is its human capital - a well-educated and skilled labour force." However, the Government's record in this area has been dismal as they have failed to ensure that Bermudians have been properly educated to grasp the changing opportunities in our evolving economy.

The Minister cited information from the Annual Employment Survey showing an increase in employment levels of "less than one half of one percent," but did not tell the real story, which showed that while the number of filled jobs is rising slowly, these newly created jobs are not being filled by Bermudians. In fact between 2006 and 2007 the number of positions filled by Bermudians actually declined by 98, while the number of positions filled by non-Bermudians increased by 244. Contrary to the Minister's statements about "significantly increased economic empowerment to Bermudians", Bermudians continue to lose ground in the job market under this PLP Government. The percentage of non-Bermudians in the job market at all levels continues to grow and is now approaching one third of the workforce.

When it came to ministerial travel, the PLP Government clearly understood globalization. However, when it came to making sure that Bermudian students and workers were

properly prepared for the impact of globalization on the types of jobs in our economy and the higher qualification levels required, the PLP Government missed the boat.

Unless we dramatically improve the public education system we will need to continue to import increasing numbers of non-Bermudians to fill the positions that young Bermudians could fill if they were properly trained by our public education system. We will also have to deal with the frustration and social deterioration that will result.

While the budget speaks to increases in training for our principals and teachers, it's not clear that the amounts allocated will be sufficient to achieve real improvements at the school level.

Mr. Speaker, we will keep a close watch on this area of concern.

POLICE

Mr. Speaker, it is clear that the Police Service suffers a chronic shortage of manpower.

The impact of an undermanned police force, particularly over the long-

term, cannot be quantified but we can safely assume it has not helped in the fight against crime. Indeed, violent crime has been at the worst levels ever recorded, and its chief perpetrators - the drug trade and gang culture - continue to grow. Fear and uncertainty in many neighbourhoods is now the norm. The failure by Police to bring murderers to justice has caused a severe loss of public confidence in the entire law enforcement establishment. Law-abiding citizens in Bermuda need action, not a repetition of the worn out promise that police manpower will be increased.

Mr. Speaker, what makes the manpower promise different this time? We have called repeatedly for the Minister to get to grips with the challenge of recruiting more officers, to review the package that Bermuda is offering local recruits and against competing jurisdictions, and to do what needs to be done to bring Police manpower up to mandated levels. But he has shown us no clear plan. This has been a problem too long without corrective action. The people of Bermuda want results. They want more from their Police, and so we urge the government to finally make it happen.

We are pleased to see that the Government has finally moved on the construction of a new court and Police headquarters in Hamilton. The new building, whenever it is finished, should go a long way to improving Police morale. But we have to note our concern that the project's Total Authorized Funding (TAF) has increased approximately 40% over the figure in last year's budget, from an estimated \$58.5 million to \$78 million.

This is one more capital project where anticipated costs have skyrocketed from the original estimates. The reconstruction of the Port Royal Golf Course has jumped nearly 100% from \$7.7 million last year to an estimated \$13.6 million today. Similarly, the

Dockyard Pier project has jumped from an estimated \$35 million to more than \$50 million.

Mr. Speaker, these huge cost jumps raise all sorts of questions about the soundness of Government project planning, the quality of its budget controls and the aim of its contracting practices. And so we look forward to thorough explanations from the Minister for these projects that claim more and more of the public purse.

HOUSING

Mr. Speaker, this Government's record on responsiveness to the affordable housing crisis speaks volumes for the patience of the Bermudian people. After years of fumbling the ball some houses are actually getting built. But they are still handing out promises instead of front door keys.

There is still denial of some of the significant underlying factors causing this affordable housing problem, problems that the Government can remedy but has not acted on.

The 500 interest-free down payments to first-time Bermudian homeowners is an intriguing idea. Under this plan, the new home will be 100% financed: X per cent with the mortgage and Y per cent the interest-free down payment. Our questions is: How does this borrower pay all this debt back? The interest-free down payment does have to be paid back does it not? If a person can qualify for, say, an 80% mortgage, but cannot find the 20% down payment, how likely will he be able to afford the servicing of the mortgage and the down payment simultaneously? This dream could become a nightmare. We look forward to the Government's explanation of how they will make this plan work.

Mr. Speaker,

There is much more in the Budget Statement that my colleagues will address later today and in the two weeks to set aside to debate the plan.

But I would like to end this formal reply by registering our serious concern with the Budget's business-as-usual approach to the challenges facing Bermuda and its people. It is troubling for a couple of reasons.

The first is that the government has made no provision for an economic downturn that is widely expected. This is irresponsible, just as it would be for a sailor not to trim his sails when storm clouds gather. It is prudent to prepare for a storm whether it be meteorological or economic. We would like to have seen more discipline in this regard; some belt tightening so we don't get caught flat-footed by a downturn. Bermuda, as I've gone to some length to explain today, is not Another World. We ignore that fact at our peril.

The second reason we are concerned is that this Budget does not take dead aim at providing relief to the working families who struggle daily to make ends meet; Bermudians who can no longer afford to live here.

As we've already noted, we believe the lowest income earners could use direct relief in the form of a tax break.

Mr. Speaker, we will continue to speak for those who are struggling because that is where the Government needs to bring to bear all the good that it can do. In that regard, we are prepared to help work for immediate solutions that can make this country work better for our people.

Thank you.