



United Bermuda Party's Reply to the Budget Speech

Delivered by Mr. Bob Richards, JP, MP

Shadow Minister of Finance

Friday February 25, 2011

INTRODUCTION

Mr. Speaker, my colleagues and I had hoped to come to this Honourable House this morning in support of a Government Budget that had set the country on a path to economic recovery.

Never before in living memory have circumstances so warranted “bold decisive action on the part of government”, as the Premier/Finance Minister promised in her Budget Statement last week.

Latest figures on the island’s gross domestic product - an indicator of our standard of living - showed a contraction of 8.1%, a calamitous drop affecting all sectors of the economy.

At a jobs fair last week, 835 people showed up for 155 jobs. Unemployment, unknown for generations, has become a fact of daily life for thousands.

Retail sales have fallen for 32 straight months. Nowhere is the reality of this devastating statistic more apparent than in St. George’s where shop closures give it the feel of a commercial ghost town.

Tourism air arrivals are at their lowest in more than 40 years and Bermuda’s hotel sector hangs by a thread; with the gleaming new Belmont/Newstead properties in receivership and promised new developments unable to break ground.

Public debt doubled this past year to more than a billion dollars. The Government has set aside \$70 million just to pay the interest this coming year. That’s more than \$180,000 a day.

Mr. Speaker, in the face of this economic crisis, we expected the Government to come forward with a plan to grow jobs, grow income and restore some level of public confidence that it understands what it is doing.

But it did not. Clearly. In a poll conducted this week, more than 70% of respondents could not bring themselves to say they had confidence in the Government’s ability to improve the economy - a devastating judgment.

We give credit to Premier Cox for finally recognizing the severity of the island’s economic challenges.

This represents a step forward for a government that for years has shown indifference to the needs of the economy and the consequences of its actions.

In light of this Mr. Speaker, a question must be asked: How can a Government leader spend so much time in her Budget Statement outlining the “gloomy economic picture” before us and not put forward a plan to deal with it. You can argue all you want to the contrary, but this Budget Statement is not a plan. It provides no real direction and few concrete steps that give hope recovery is within reach.

We were prepared to accept, as the Premier said, that “there is no silver bullet” and that “sound policies will take time to become effective”, but there is a strange emptiness at the centre of her Statement that seeks to pacify rather than inspire.

So I return to our question: Why in the face of unprecedented decline and dislocation in the Bermuda

economy has Premier Cox not laid down even the semblance of a plan to address the challenges?

Mr. Speaker, the only answer we can come up with is that this is an election budget; a budget designed not to rehabilitate but to sedate; to keep people thinking all is fine, even as the ground they are standing on is quaking.

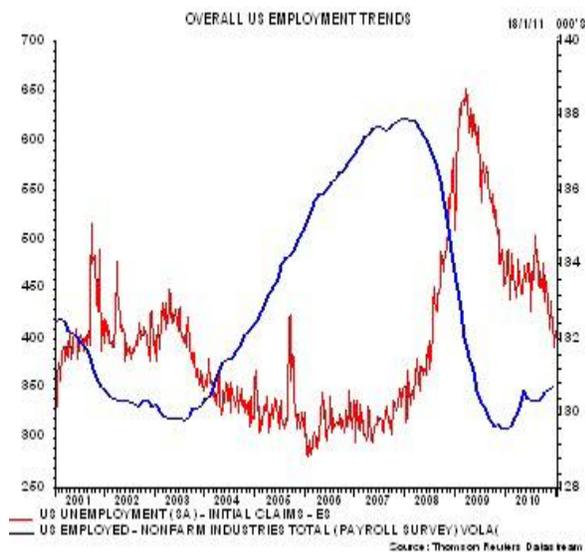
It is on this point that we harbour doubts about motivations and loyalty to country. Because it appears this Government is once again putting politics before national interest. This is not the first time. Just look back to the former Premier's campaigns to divide Bermudians for political gain. The difference this time is that the stakes are so high, in the form of jobs, income and opportunity.

Mr. Speaker, this Budget is nothing more than a plan to avoid a plan. It is not good enough. Bermudians must ask themselves if, in the present circumstances, they want a government that avoids governing. And they should do so with awareness that so much in our daily lives rests on a sound economy: career, home life, education, public safety, recreation and peace of mind.

Instead of careful planning, we are getting careful calculation. We say: This is manifestly not the time to play politics. The Bermuda economy is in decline. Corrective action is needed now, not some time down the road, not some time after an election.

Mr. Speaker, in the absence of a real plan by the Government, we will review economic conditions overseas and here at home and then put forward our thinking on what Bermuda needs to do to reverse the declines and return jobs, income and opportunity to the economy.

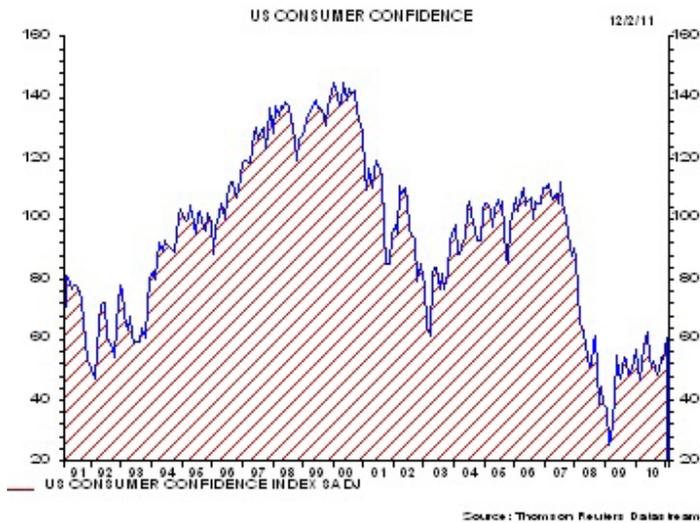
GLOBAL CONDITIONS



Since my report last year, there have been some stabilizing signs on the global economic front, particularly in the US, but that stability has been at a level that cannot, on its own, assure a return to a normal growth picture. But there are glimmers of hope. The blue line in Figure 1 shows employment level trends in manufacturing in the US.

Employment in manufacturing has clearly bottomed and is advancing. The red line, Initial Unemployment Insurance Claims, which is an indicator of new job losses, peaked in 2009 and is now on a falling trend, showing a sharp decline in fresh layoffs. While both trends are positive, these levels are consistent with 1991 and post-9/11 recessionary levels.

So while this is an improvement we are still not out of the woods yet.



The graph in Figure 2 shows the trends in US Consumer Confidence. As consumer spending comprises about 70% of the US GDP, consumer confidence is critical to economic recovery. Like the previous chart, consumer confidence has rebounded from the lows of 2009, but has leveled off at levels consistent with the last two recessions. This can only be described as lukewarm encouragement for our tourist industry. One critical sector is housing, so brutally hit by the recession.

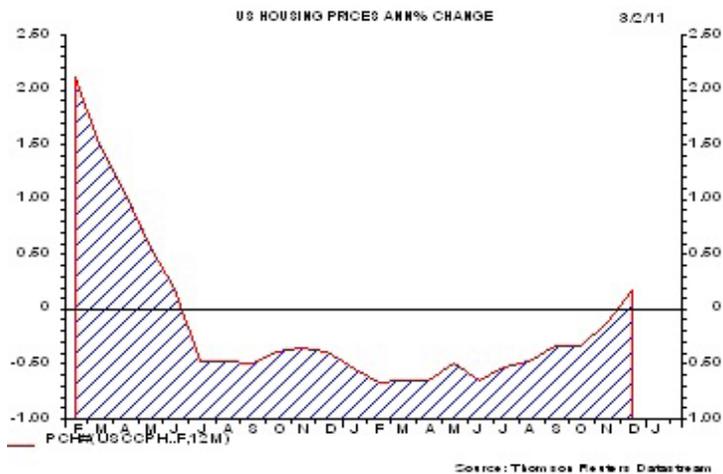


Figure 3 clearly shows that, nationally, homes have finally stopped losing their value, as the graph has returned to positive territory. This is a positive indicator and one we will watch closely. If it can be sustained, it will be an underpinning for improved consumer confidence and spending, as the home is the average family's largest asset.

Consumer behaviour depends on the availability of consumer and business credit. We reported to this House last year that US banks were not lending. Unfortunately, a full year later, the situation has not changed very much in spite of the hundreds of billions of dollars being infused into the banking system by the Federal Reserve.

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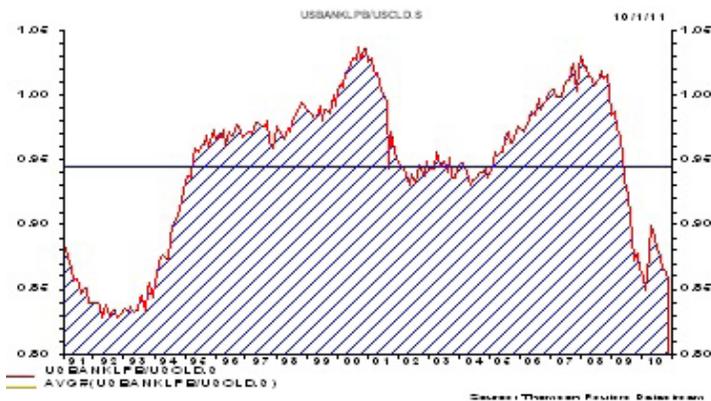


Figure 4 shows trends in the ratio of US bank loans to deposits. Banks are still not prepared to take the kinds of risks by lending to customers who used to be considered "normal" just three years ago. Authorities will try to persuade banks to loosen credit requirements to stimulate a full recovery in consumer spending. While the US stock market soared in 2010 it was not

because the US had entered a “post recessionary period,” as Bermuda’s Minister of Finance asserted in last year’s Throne Speech. The stock market rose because of other factors related to profit recovery and low interest rates. A lot of that return to profitability is a result of firing workers and slashing other costs. This is not sustainable. While the stock market has clawed its way back to pre-recession levels, the real economy has not. Stock prices can be volatile and are not to be relied upon for the purposes of assessing the economic environment relevant to Bermuda’s future.

However, the improvement of corporate profits is a good leading indicator because business confidence must precede the decision to add more staff to a company’s roster, so in that respect we are laying the foundation for a recovery, but the recovery is not really here yet.

In the US, control of the House of Representatives shifted from the Democrats to the Republicans. This raises the possibility, or I should say hope, that Bermuda may be less in the crosshairs of the US tax vigilantes who blame offshore financial centres for their economic woes, particularly their budget deficits.

Mr. Speaker, I have concentrated my analysis on the USA, but another significant risk to the global recovery is centred on Europe. EU members Greece, Portugal, Italy, Spain and Ireland are all countries in financial difficulty. The problems of these countries could be transmitted to the rest of the world via the collapse of the global market for their debt. The failure to bring order to this situation poses a risk to the global recovery.

In a recent statement to the World Economic Forum in Davos Switzerland Mr. Timothy Geithner, US Treasury Secretary, summed it up by saying: “There’s much more confidence now that we’ve got a sustainable expansion. It’s not a boom. It’s not an expansion that’s going to offer a rapid decline in unemployment.” We should conclude that while the external environment has stabilized and is slowly improving, no immediate snap back in demand for the services Bermuda sells to the world should be expected. With any luck we might see marginal improvement later this year and a little more next year.

Mr. Speaker, the question is how does this slowly improving global economic environment impact Bermuda? It is important for Bermudians to recognize that economic storms are like hurricanes, in that they are natural occurrences. Hurricanes occur because of excess heat; the hurricane dissipates that heat. Recessions also come about because of excesses: excess production, excess debt, excess prices, excess costs and inefficiencies.

Recessions are harsh, but the net effect is to bring these excesses back into equilibrium. The company (or country) that comes out of a recession on top is the one best able to curb those excesses as well as to inject that magical ingredient called innovation!

Can Bermuda meet this challenge?

That, Mr. Speaker, is the question.

THE DOMESTIC ECONOMY

All economic indicators confirm what, by now, everybody knows, that Bermuda is in recession the likes of which no one under 70 years old can remember. The depth of the decline is breathtaking and reveals itself in lay-offs and lost jobs, shrinking paycheques and business closures, mortgage defaults and unpaid bills, stress in the home and anxiety about the future. This is the human cost of an economic challenge made much worse by the Government's failure to do what is necessary to keep this economy ticking over. Last year we spent quite a bit of time showing evidence of oncoming economic conditions. Instead of reviewing all the available statistics, this year our intention is to turn more attention to finding ways out of this quagmire. However, there are a few important data points of which to take note.

The Bermuda economy fell by 8.1% in 2009. Contrary to the Finance Minister's assertion in her Budget Statement, it was the worst performance in our peer group and also worse than major economies. However, the impact was not uniform across all sectors.

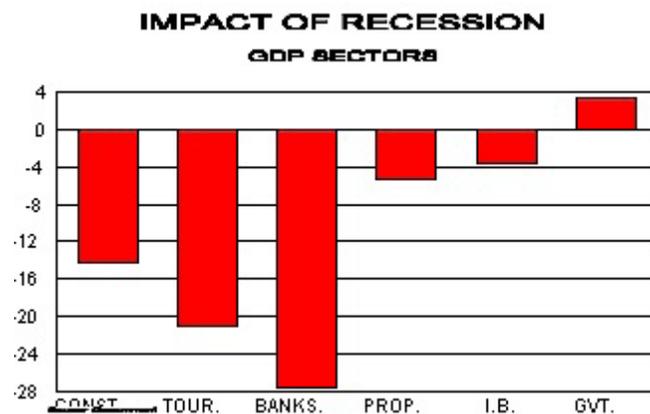
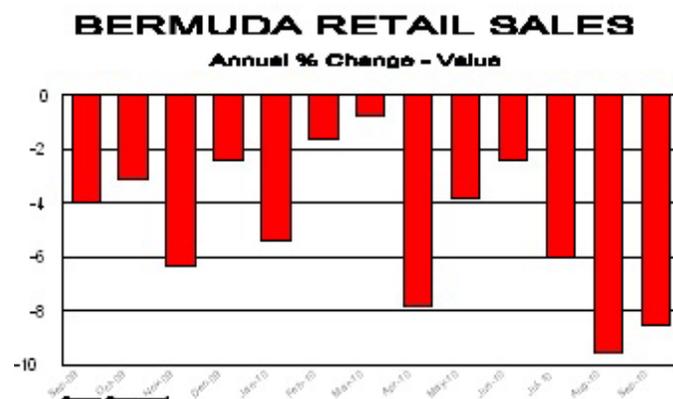


Figure 5 shows the impact of the recession on key sectors. Banking was hit hardest, reflecting the difficulties at Butterfield Bank and the loss of wealth for shareholders. Tourism and Construction were the next two respectively. It is important to note that all sectors that earn foreign exchange - the lifeblood of the Island's economy - were down. The only sector to rise in 2009 was government, which is a consumer of foreign exchange.



The change in Hamilton over the past five years is reflected in Figure 6, Retail Sales. Shops that still survive are not busy, not even during the summer tourist season. The relentless 32-month downward track of retail sales is a result of two overriding factors: fewer visitors to the island and fewer guest workers living in the island. You cannot have increased retail sales if you have fewer and fewer potential customers.

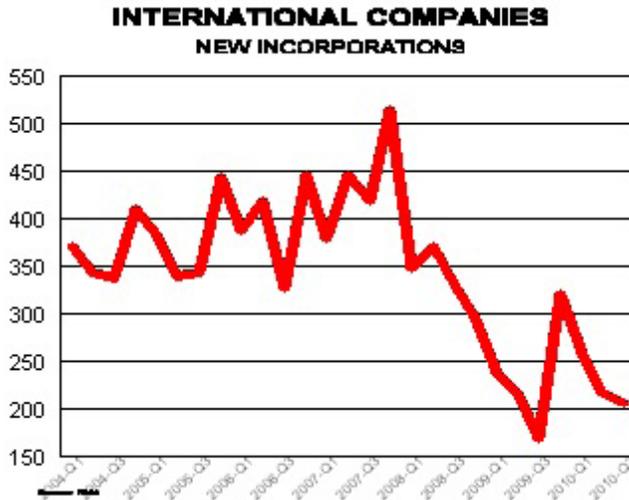


Figure 7 shows the trends in new exempted company incorporations. It is important for Bermudians to appreciate that exempt companies come and go, so in order to grow our economy we must constantly be looking to form new ones. Unfortunately the chart shows that after a peak during the summer of 2008 new incorporations are on a downward trend. It is critical to reverse this trend as this is our principal foreign exchange earning sector.

Before we leave this section, I want to focus briefly on the meaning of foreign exchange and its absolutely critical importance to the

economy and the everyday lives of all Bermudians. The Bermuda Dollar has no value whatsoever beyond our shores.

Countries we buy from do not accept the Bermuda dollar as payment. The only reason Bermuda dollars are accepted for transactions is because each one is backed 100% by a US dollar, held by the Bermuda Monetary Authority or a bank. Major foreign currencies like US dollars, Pounds Sterling, Euros and Yen are freely convertible into each other and, taken together, comprise “foreign exchange” for Bermuda. As a country that imports virtually everything we consume, foreign exchange is critical because we need to pay for those imports with foreign exchange. Where do we get this foreign exchange from?

We either earn it from selling goods and services to foreigners or we borrow it. But loans have to be repaid, so ultimately, the earning of foreign exchange is what we have to do to survive economically. Earned foreign exchange is the ultimate source of wealth in Bermuda. In recent years, these earnings have declined in the only two sectors that generate foreign earnings - international business and tourism. These two sectors need to start growing again if Bermuda is to end its recession.

Employment

Mr. Speaker, we Bermudians are not accustomed to unemployment as a fact of life in our society. Today it is all around us, standing as one measure of the Government’s competence as managers of the economy. But layoffs and outsourcing have been going on for some time in financial services companies, largely under the radar. It is not hidden anymore. Virtually everybody knows someone, or is related to someone, who has lost his or her job. This situation causes enormous stress on families, particularly so in a country whose institutions are not really set up to help unemployed individuals.

Unemployment will be an ongoing challenge for the foreseeable future. When the two leading law firms - institutions that are at the tip of the spear as it relates to bringing in new international business - lay off staff, including lawyers, you know the problems are serious and not merely a transient spot of bother.

The lay-offs are the result of contractions in international business - something the Minister does not acknowledge. Her Budget statement says the redomiciling of Bermuda companies was having “little

operational impact.” This is not true. As head offices move overseas, it is their underwriting functions that are being left in Bermuda. The effect of these departures narrows the number of activities carried out locally. The Bermuda economy is already too narrowly focused. The redomiciling of international companies decreases the variety of careers available to Bermudians. Not everybody wants to be an underwriter.

Job security, even for Government workers, will diminish. The current practice of borrowing money to pay civil service salaries - a consequence of the Government spending more than it takes in - is unsustainable. Policy bungling and waste has put the long-term viability of public sector workers at risk. Either that or government services will have to be cut.

Home ownership

For most Bermudians the Bermudian Dream includes buying or building a home: owning a piece of the rock. Today, this part of the Dream has become scary for many, for some even a nightmare. For Bermudians who acquired the house during the years this Government stoked an overheated economy, they paid an extraordinarily high price for it. The average Bermudian has a huge amount of his/her savings invested in property, an investment that is often the result of tough sacrifices: raising huge levels of debt, working multiple jobs; having father, mother and adult children signing the note, all to service the mortgage. The sacrifices made to own a piece of the rock have been central to the achievement of the “Bermudian Dream” to thousands of Bermudians, especially those who were not born to wealth.

Now, because of the downturn, the rental market is very soft and the anticipated rent to support their mortgage payments has to be slashed, that is if they can get a tenant at all. Many people are having great difficulty servicing their mortgages, particularly those who participated in those 100% mortgages that were on offer not long ago. Those folks also face the unfortunate problem whereby the house may actually be worth less in this market than what they paid for it, or what they owe on it.

While addressing this issue recently a government minister publicly declared that it was just, “Too bad!” This was a mean-spirited statement, showing total lack of empathy for homeowners and their Bermudian Dream.

Competitiveness

Mr. Speaker, when a company finds that its products have become uncompetitive it is usually because:

- its cost structure and therefore its prices are too high
- the delivery system for getting the product to their customers is slower or less convenient than the competition
- the product itself has become out of date or obsolete

To get back into the game the company needs to address one or all of these issues head on. The same applies to countries. Bermuda is no exception.

The reality today is that Bermuda has become uncompetitive.

Its uncompetitiveness is centred on the first two challenges: the cost/price model and delivery, but there are also threats looming on the third issue, obsolescence.

Costs in Bermuda are always going to be high due to lack of economies of scale, limited competition among service providers and having to import virtually everything. The high cost of labour is a reflection of the high cost of goods and services.

If the economy is driven too hard and demand far outstrips supply, then prices, labour costs and profit margins swell, increasing the cost of doing business. The thing that will suffer is our productivity, which is a measure of economic value or, for the customer, a measure of whether they are getting value for the money they spend. This is what happened over the past six years. We experienced a collapse in productivity that has made us uncompetitive. The Minister of Finance did not recognize this as a problem when she allowed the economy to overheat. The subsequent slide into uncompetitiveness has made Bermuda less attractive to the people who spend or invest money here.

Also the delivery of our products has become inferior. Delivery is crucial because efficient delivery can overcome a cost/price disadvantage. In international business we have constantly heard complaints about how long it takes to get things done or approved in Bermuda. We either need to get more speed out of the system or change the system, or both. Clearly it is both. The system needs to be streamlined and made faster and more user friendly. Customers don't mind paying more if the product is delivered quickly, correctly and appreciatively. Even corporate customers need to feel their business is appreciated.

The threat of obsolescence is about efforts depicting offshore jurisdictions such as Bermuda as being somehow harmful or unethical. This idea has gained momentum due to massive budget deficits in major industrial nations affected by recession. I believe this threat will recede but it will never disappear, and places like Bermuda will have to be ever more vigilant against such threats.

Mr. Speaker, who is our competition? In international business our principal competition is Switzerland, Ireland and Cayman. In a recent 15 country survey that included Switzerland and Ireland, Bermuda was ranked to be the most costly jurisdiction in which to do business.

How did we get to this unenviable position?

Mr. Speaker, this is what happens when a country has poor financial leadership; leadership that is inept and lacking vision and intestinal fortitude. The inability to recognize deteriorating trends before it was too late, the lack of strength to say 'No' when capital projects spin out of control; the hear-no-evil, see-no-evil posture in the face of blatant abuses of internal checks and balances - abuses that have cost taxpayers many millions of dollars; the raising of taxes and fees at precisely the wrong time, the blinkered denial of the dangers of soaring public debt. This is how we arrived in this unenviable position.

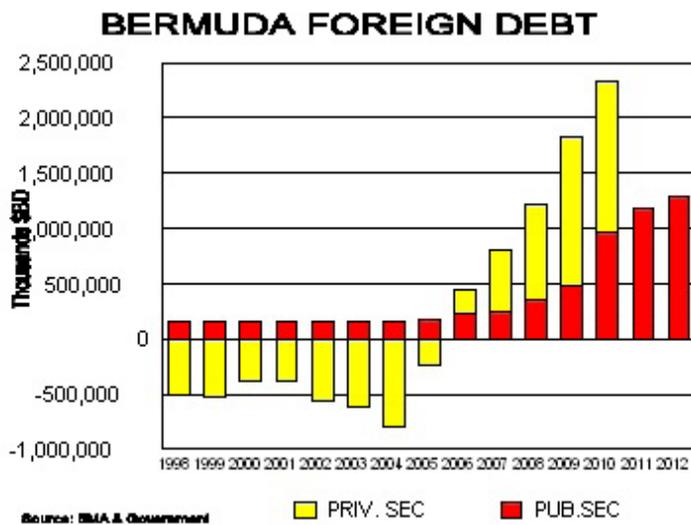
Foreign Debt

Mr. Speaker, in recent years we have spoken out repeatedly and emphatically against the unprecedented rise of public debt on the part of the Government of Bermuda. As a

result of overspending and bungling the job of “Financial Planner in Chief,” Government deficits have ballooned along with the public debt. This is a major problem for the Government as a whole, as it shows a clear mishandling of government finances on the part of the Minister of Finance, now Premier.

Instead of trying to solve the problem, the Minister has tried to pacify Bermudians with misleading comparisons with the debt/GDP ratios of other, larger countries and credit ratings.

But justifications for our soaring debt based on our low debt/GDP ratio and credit rating don’t hold water when applied to a small undiversified economy such as Bermuda’s. Our economy will always be fragile because of its lack of diversification. Just look at the effect one troubled bank had on our GDP, making Bermuda’s performance much worse than its counterparts. The risk profile of our economy is much greater than those of major countries. That’s why the Minister’s arguments using debt/GDP ratios are not just nonsense but also disturbing if you want straight talk from your government leader.



But the dirty secret revealed in Figure 8 is that it is not only the Government that has been living beyond its means, Bermudians, in aggregate, have been living beyond their means too.

The yellow bars show the net foreign exchange borrowing of the private sector. Up until 2005, Bermuda’s private sector had negative foreign exchange debt, meaning we were borrowing less Bermuda Dollars than was in the Bermuda Dollar pool. After that year, Bermudians began to borrow more money than was available in the pool of

Bermuda Dollars, prompting conversions of foreign currency to Bermuda Dollars to effect loans to locals. This makes up Bermuda’s private sector foreign currency debt. The graph shows our net foreign debt skyrocketed as private sector borrowing increased.

The red bars show Government debt resulting from public sector overspending that is now well known. Most Bermudians know that this situation is not the result of the global recession but the result of the mishandling of government finances.

So not only has the Government mortgaged the income of future generations as a result of its excessive current spending, so have we!

Clearly, the situation is not sustainable. Remember, Bermuda has to EARN foreign exchange from selling goods and services to foreigners. So, not only do we have to earn our way out of this recession, we have to earn our way out of this mountain of debt, now pegged at more than \$2.25 billion in public and private loans combined.

Mr. Speaker, how did this happen? Who knew about it? And why wasn't something done before it got to these excessive levels?

This data is public, gleaned from Bermuda Monetary Authority (BMA) releases. We in the Opposition warned about this five years ago in the Another Place and three years ago in our Budget Reply when we said:

“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...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.”

Mr. Speaker, nothing was done. The Government should have been leading by example, but it is very difficult for government to persuade someone else to control his/her spending if it is not controlling its own. The Government's moral authority in this area had long evaporated, so they just ignored the Opposition and the problem.

This explosion of private sector borrowing exactly corresponds with the overheating of the economy. The overheating that drove property prices, rents and general prices sky high, that produced a glut in office buildings and some types of residential units; that caused massive unemployment in construction, and that has rendered Bermuda so costly and uncompetitive today. This danger was totally missed by the Minister of Finance. In fact, in her Budget Statement three years ago, the Minister bragged her Government was stimulating the economy - an economy that was already overheated!

This is how the Bermuda economy arrived at where it is today, in a holy mess. Bermudians need to connect the dots. The policy bungling and head-in-the-sand disposition represents a serious failure of leadership; a failure that worsened the impact of recession and diminished our economic strength.

Mr. Speaker, they say it's not whether you win or lose but how you play the game. Sometimes if a team is getting badly beaten there is a temptation to cheat, to “move the goal posts” so the other team misses a few. Here in Bermuda, the Government is now trying to move the goal posts as it relates to the definition of public debt. From the beginning, public debt has included loans owed by government plus guarantees given by government. The deficits the Government has accumulated caused it to raise the statutory debt ceiling, currently pegged at \$1.25 billion. New figures indicate the public debt will be \$1.3 billion by the end of 2012.

Instead of adjusting this limit, the Government has chosen to move the goal posts by changing the definition of public debt to exclude guarantees. This move has all the hallmarks of desperation. Nobody is being fooled by this attempted sleight of hand.

Mr. Speaker, we all know that interest has to be paid on debt.

Today, the Government debt requires it to pay interest at a rate of \$181,000 a day. Our deepest concern

with this figure is that it is an historic “bargain” that will not long last.



Figure 9 shows interest rates fluctuating over time. The graph clearly shows that current interest rate levels are at an historic low - far below the 20-year average. If interest rates were to return to their 20-year average in 5 years, and assuming the increased borrowing implicit in this year’s Budget, the interest payable of \$181,000 per day would soar towards \$366,000 per day or \$133 million a year.

This is one of the limbs the Government has put Bermuda out on. If interest rates rise, which everyone expects to happen, a significant part of every tax dollar raised by the Government will go to service its debt, leaving less and less to pay for services the Government provides the public and the salaries of civil servants. It is debt that has debilitated many economies around the world and debt is debilitating Bermuda.

Mr. Speaker, we are deeply troubled by the state of the domestic economy. The weaknesses that developed or deepened over the past five to six years represent an economy in decline; an economy that no longer works as well as it once did. The costs to the people of this country will continue to reveal themselves over time, but already we are witnessing a significant loss of opportunity in the form of layoffs, outsourcing and business closures, and further stress in the form of smaller paycheques, mortgage pressures, bills owing, cash-strapped charities and growing pessimism about the Island’s future.

We know that Bermudians, nevertheless, are ready to play their part to get this country working again, to support leadership that offers them a way out. That is the view we took in the lead-up to the Premier’s Budget. Would she provide that leadership? Would her budget provide direction? It was, in our minds, a fantastic opportunity to get Bermuda back on track.

THE BUDGET

Mr. Speaker, it is an understatement to say we are disappointed in the Government’s Budget. It offered Bermuda no plan; no direction, no vision and few concrete steps that would give the country hope that recovery was within reach. What we got instead was a disturbing study in avoidance.

It started with the Minister saying it was her first Budget “as Premier and Finance Minister” - a poor attempt to separate herself from her six-year record as Finance Minister - and continued with the mantra that all of Bermuda’s economic problems are due to the global recession. This is nothing but a cop out. The global recession certainly has made financial stewardship more difficult, but the extent to which it

impacts Bermuda is not a foregone conclusion. The benchmark for Government's performance is not the recession itself, but how the Government deals with all aspects of the recession. Let us take a look.

Recently released data reveal deteriorating Government finances for the third consecutive year. The current account cash deficit for the fiscal year ending March 31st 2010 ballooned to \$83,672,000, an unprecedented number. The current account estimate for this fiscal year has been revised from a \$29 million surplus to a deficit of \$67.5 million. And in the Budget proposed last week, the Government is forecasting a \$30 million deficit - the first time any of us can remember the Government actually committing itself to run a deficit as a matter of policy.

What this means is that the Government has locked itself into a habit of spending more than it earns. It is not sustainable. And the costs this habit entails affects the Government's ability to serve and protect people.

One of the most remarkable features in the data contained in the new "Budget Book" is the revenue line showing the Government's 2010/2011 revenues rose just 6.5%. This meager result stands against the \$100 million boost the Government hoped to raise with its tax and fee increases last year. And it goes to show, as we warned last year, that raising taxes to net \$100 million in revenue is no guarantee the target will be met.

Last year's tax increases also exacerbated the effect of the global recession on Bermuda's people. Many lost their jobs as the increase in employment costs pushed cash-strapped employers past the tipping point. We may never know how many people lost their jobs because of bad fiscal policy or how many would have been laid off anyway due to the recession, but we do know it made an already weak economy weaker. That alone means the Ministry of Finance shares some responsibility for those job losses.

This year's U-turn on the payroll tax for employers will not bring those jobs back. The damage is done. It was a terrible blunder.

This year's reversal on the tax makes one wonder if there is any fiscal strategy at all in the Ministry of Finance. The Minister referred to the need for multi-year fiscal planning and this prompts us to ask for the rationale behind the plan to increase taxes one year then roll them back the next? It strikes us as trial and error. In Washington, it would be labeled flip-flop economics. Bermuda cannot afford this schizophrenic approach to fiscal planning.

While the Minister laments the demise of one of her favourite book stores, the fact is that many local business enterprises have bitten the dust during the period of this tax blunder, and her actions have hastened their demise. Rolling back the payroll tax for employers will not bring those enterprises back. They are gone.

The flip flop on taxes reminds one of the touchstones in our approach to supervision of the economy: Do No Harm. Careless or indifferent decision-making can do damage, as] we have seen. The Government's greatest power for good as stewards of the economy is to create conditions that can help businesses perform better. Because it is private businesses that creates jobs, put food on the table and provide people

with opportunities to fulfill their ambitions.

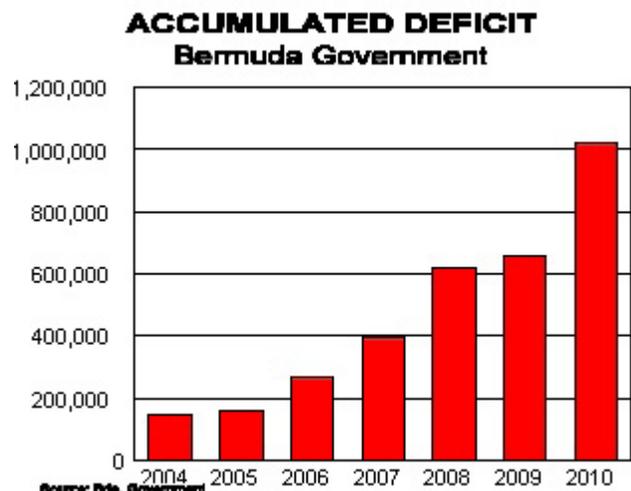
Mr. Speaker, it is doubtful the about-face on payroll taxes will have the effect the Minister intends. In the first instance, the Government continues to increase the tax burden on the economy, as evidenced by its recently approved jump in insurance sector fees to fund BMA expansion. In addition, the payroll tax issue is incidental to the central challenges facing Bermuda's economy today, something the Budget Statement itself pays little attention to.

Mr. Speaker, we note the Budget Books' expenditure numbers going from \$1,000 million in 2009/10 to \$940 million in 2011/12. This represents a very substantial cut in current expenditure, but we fear they are no more than just numbers on a page to keep critics at bay. This after all is a Finance Minister whose two past directives to her colleagues to cut spending by 10% were met with budget-busting spending sprees. How can we regard this latest promise to cut 15% from the budget with anything but great skepticism.

While Premier Cox is new to the position of Premier, she has been Finance Minister for six years. Let us not forget it is the Finance Minister's constitutional responsibility to control government spending, not the Premier's, so she cannot flee her responsibility for actions leading up to this moment. To attempt to lay the blame of last year's tax hike on the rating agencies is absurd. If the government hadn't spent and borrowed so much money in the first place, the rating agencies would have had little leverage on Bermuda.

So no matter how you slice it, no matter the excuses, ownership of that tax increase belongs to the Minister. The buck stops with that honourable member. Accountability must start at the top!

Between 2008 and 2009, Bermuda's public debt increased 100%, from \$483.3 million to \$969.5 million. This is a breathtaking change and a cause for great concern, particularly as it is part of an accelerating continuum that began in the Finance Minister's first year on the job.



The Accumulated Deficit is the difference between what the government owes and what it owns. Figure 10 shows that the trend of the deficit began long before the onset of the global recession, proving the Government's finance problems cannot be blamed solely on the Great Recession.

Mr. Speaker, at the core of parliamentary democracy is the public scrutiny of the common wealth, the people's money. This Government has conveniently forgotten to bring its overspending to Parliament for approval. Where are the supplementary estimates for this year's

\$83 million deficit? Why has Parliament not been asked to approve them? Parliamentary scrutiny of

public spending has been disregarded repeatedly by the Ministry of Finance.

In the USA, even with the trillions of dollars of deficits they run, their government actually shuts down without approval of those “supplementaries”. This is an indication of the respect for Congressional authority over the public purse. But here we have a

Government which shows contempt for Parliament, and therefore the voters, by not seeking approval of their elected representatives for spending beyond approved budgets.

Mr. Speaker there’s more. This practice goes back many years. In the latest Consolidated Fund financial statements, Note 13 to be precise, there is a schedule outlining unapproved expenditures of \$189 million going back nine years! There’s no possible excuse for this. Section 96(4) of the Bermuda Constitution requires that a Supplementary Appropriation Bill be introduced into the Legislature as soon as practicable after the year end.

Mr. Speaker, it seems that there has just not been enough time between 2002 and now to bring these supplementaries to Parliament. This is an outrage. It makes a complete mockery of the budget process, a process that lies at the core of our parliamentary democracy. It is clear that this government feels it can do what it likes, when it likes with taxpayers’ money, without reference to anyone, not even the duly elected representatives of the people of this country.

In summary, Mr. Speaker, we are concerned that this Budget does little to meet the daunting economic challenges facing the island. Moreover, we are concerned the Government does not have the inclination, strength or courage to step to the wicket to do what is right for Bermuda. The Government and its Budget Statement have simply failed to rise to the occasion, and that is shame. In the vacuum, we will put forward a plan to start rebuilding this economy and with it the lives of Bermudians who are suffering.

THE WAY FORWARD

Mr. Speaker, we see this as a time of opportunity for Bermuda. Despite the unprecedented economic challenges, Bermuda can use the period ahead to get back on a path that grows jobs, grows income and restores confidence. But first we must be very clear about the problems we face and what can be done to fix them, and then we must get to work to change what needs changing.

The PLP Government’s accumulation of debt, now exceeding \$1 billion, has severely limited the possibility of using deficit financing to stimulate the economy. In any case, deficit-financed spending would not have the intended effect in Bermuda. Our economy has neither size or diversity, developed capital markets or a reserve currency, therefore stimulus via deficit financing is not an effective tool for us. We cannot create money out of thin air to repay debts. The necessity to import virtually everything means that most of the capital borrowed and spent by government would quickly fly out of the economy to pay for imports. The unavoidable fact of life for this economy is that we must repay debts with EARNED foreign exchange. So what can Government do? Is it powerless to take effective action? No. We think government can do a great deal to change the current situation. But first, let’s recognize reality. The only way to restart this economy is to cause the island’s primary industries - international business and tourism - to increase the amount

of foreign exchange they earn. Achieve that, and these industries will act like a rising tide, raising all ships. But our primary industries are not doing as well as they used to, and so we have to ask what is the problem?

The Government would have Bermudians believe that all our economic problems are due to the Great Global Recession, but the problems with international business and tourism existed well before the recession.

In the insurance sector outsourcing was taking place well before the global recession struck and, similarly, initiatives to move headquarters to Europe were in the cards before the onset of the global downturn. Several senior executives have stated that if there was another major disaster that caused a shortage of insurance capacity, Bermuda would not necessarily be the preferred domicile of choice. Why is this?

In the offshore mutual/hedge fund segment, incorporations of funds are rebounding in competing island jurisdictions to our south but not Bermuda. Why is that? In tourism, we have had plenty of interest but no new hotel properties in many years.

Why is it that they don't get built?

There is evidence that 2010 was the year island tourism made the turn in competing islands, but not here. Why?

Mr. Speaker, in global capitalism the role of the recession is to sweep away uncompetitive players; leaving the lean, efficient and innovative players to power the economy forward to the next level. As an island economy we have to decide, right here and right now, are we going to make ourselves lean, more efficient and innovative, or are we to be swept away like last autumn's fallen leaves.

Warren Buffet, the world's most famous investor, once made a statement that I think is relevant here. He said: "It's only when the tide goes out that you learn who's been swimming naked." In other words, it's only during bad times that fundamental problems are laid bare for all to see. This is exactly what has happened to us. The global recession has exposed serious structural problems in the way Bermuda does business with the rest of the world.

So what are these structural problems?

Mr. Speaker, they boil down to a deceptively simple formula:

Too much Red Tape + not enough Red Carpet = more Red Ink.

Red Tape

Mr. Speaker, we are a society that has created a regulatory environment that is deeply protectionist. We have put in place a system over generations that today clogs the arteries of business, a system that makes it difficult, time-consuming and costly to get things done. It is causing us to be uncompetitive in the

marketplaces of insurance, exempted companies, offshore funds and tourism. We must seize the opportunity to turn the page on the old protectionist policies and structures that have clearly outlived their usefulness. Those policies originated during a bygone era characterized by a controlling oligarchy, where one required permission to do the most mundane things. This is the red tape to which I refer. Such levels of government intervention are not appropriate to the competitive 21st Century, nor are they consistent with the free enterprise system. They are, moreover, a yoke on the industries we need to restore.

Mr. Speaker, in international business what are our customers very sensitive to? Government red tape and taxes. Instead of Bermuda being a place where our customers can come to get away from red tape, they encounter a raft of local regulations, much of it the result of rules which came into being before international business even existed on the island. They are a drag on their operations and contribute mightily to our uncompetitiveness.

There was a time when protectionism made sense or the regulations it gave rise to were not significant enough to cause businesses to leave. As early movers in the offshore financial arena, particularly in insurance, there was little competition so our regulations had to be tolerated by our customers, but not anymore.

Vermont and Cayman are now nipping at our heels in terms of numbers of captives, a subsector where we used to totally dominate. What are they doing that we are not? Six decades ago Bermuda had virtually no competition in island tourism as many islands to the south did not even have proper airport and seaport infrastructure. We were about 20 years ahead, so all the rules we set up were to control the industry, to not let it overwhelm us. They were generally appropriate for that day, but not today.

Unfortunately, much of the regulatory red tape is still there, faithfully executed by the civil service, although inappropriate for the times. Six decades ago Bermuda had exchange control which was the mother from which most of the island's offshore regulation sprung. While various regulations have been amended many times since then, requirements governing companies are still based on the old Exchange Control Act concepts, requiring foreign businesses to jump through hoops, hoops they do not have to jump through in competing jurisdictions, thereby helping to make us uncompetitive. I can hear some members thinking: "Well, we have to protect against reputational risk!"

That's true. Bermuda's reputation is important and protecting it is equally important. But like all risks, there is a premium to be paid to protect against that risk. What is the premium Bermuda demands to insure against reputational risk? The premium is the money customers pay to run the Bermuda Monetary Authority and other government bureaucracy that is supposed to protect our reputation.

It is our customers who ultimately determine if the premium they pay to protect against that risk is good value for money or not. If they think the premium is too high they go to another country. Put another way, if the premium results in a stagnant, uncompetitive international business sector, then we, Bermuda, are charging too much for that insurance.

But that's not all, because this "reputation insurance" is part of a package deal that comes bundled with other things. Bundled with that red tape is a highly inefficient labour market which has its own red tape. Regulations for labour, including work permits and term limits, are so intrusive, so bureaucratic and

disruptive that some important customers have chosen to move entire business units to some other country, thereby robbing multitudes of Bermudians from the benefit of those workers' local spending. We must help Bermuda-based businesses become more competitive by cutting down cost and the red tape.

Mr. Speaker, one of the UBP's core principles is transparency. Transparency helps people see where the red tape is. The Bermuda Monetary Authority is certainly the most opaque of government organizations. There may be a recession in Bermuda but not at the BMA. That organization is growing by leaps and bounds. They say it is to fulfill the requirements of Solvency II. I accept that. The BMA had six ads in the daily paper for senior positions last month. If the international media reports are correct that the BMA CEO's total compensation is \$730,000 a year, then these staff positions - directors and deputy directors - must cost millions in aggregate compensation. Our customers are paying for that.

The Fallacy

Mr. Speaker, who are our customers?

The superficial answer is international companies and tourists. But there is more to it than that.

There is an underlying, long-held assumption behind government policy and regulation that foreign workers take away, or potentially take away, jobs from Bermudians. If that theory were true then the sending home of more than 3,000 guest workers should have produced a bonanza of opportunities for Bermudian workers, freeing up a multitude of jobs for Bermudians to fill.

But that hasn't happened. The reality is just the opposite. The laying off of thousands of foreign workers has been accompanied by corresponding layoffs of Bermudians. One can't help but remember that when those foreign workers were here there were virtually no unemployed Bermudians. These facts are not merely coincidental; there is a cause and effect relationship at work here.

This recent real world evidence indicates that the prevailing and long-held assumptions underlying government policy towards foreign workers is flawed. The evidence indicates that those foreign workers were, in fact, in aggregate, CREATING JOBS for Bermudians, not taking away jobs from Bermudians. They were not creating jobs they themselves held, but were creating other jobs for Bermudians as a consequence of living here.

Bermuda history clearly tells us that, as a country, our economy has been driven by variations of the same economic driver for over 200 years. That driver has been to attract people from abroad to our shores, sell them a service of some sort, and use that foreign exchange to pay for imports and increase the general national wealth.

At first the foreigners were related to the Royal Navy Dockyard, later the US bases, then tourism, and finally personnel involved in international business. They all brought wealth to our island and to Bermudians. These people have, therefore, all been Bermuda's customers.

The Red Carpet Culture

When did we become so foolish and xenophobic as to regard our customers as threats to our livelihoods? This could be an important opportunity for Bermuda. If we are to turn this recession into an opportunity to retool ourselves, to make the services we offer more competitive and attractive, to give our customers better value for money, we had better make absolutely sure we identify who our customers are, and what services they would like from us, and at what price.

Then we must work to satisfy those customers. That is the way of the world, and we, Bermuda and Bermudians, are part of that world. In spite of Hubert Smith's "Bermuda is Another World" song, he clearly knew who his customers were. Many of us in this generation have lost that focus. That is the challenge that is before us today and the challenge we must meet head on if we are to grow this economy and get our island back on track.

We must treat guest worker as customers. Why? Because they are. As customers we need to roll out the red carpet for them instead of making them feel unwelcome and blaming them for all our problems.

In the February 9th edition of The Royal Gazette, a prominent Bermudian businessman stated that the decision to set up a business in Bermuda included more than just the numbers, but also how their staff were treated. He said: "Are they made to feel welcome or not? Are their contributions valued and appreciated? Respected? Do they feel safe?... We have allowed a sentiment to exist that international companies and expatriates are not welcome in Bermuda."

In an unrelated article on another day, the chairman of a large international company -an expat - said Bermuda should not regard business as a "source of evil." Such words do not emerge in a vacuum. They are particularly disturbing because they indicate the country's official attitude has been unwelcoming.

Mr. Speaker, both comments reflect the antithesis of the red carpet culture we need to rollout for our customers, not just in the halls of Government but Island wide. The welcome mat should be put out at the airport where guest workers have complained about the official reception. Airport staff need to be sensitized to the fact that incoming visitors and guest workers are Bermuda's customers and the importance of first impressions. We must make it a positive one.

Our whole government regulatory infrastructure is riddled with rules and requirements that make our customers feel unwelcome. That is where our competition is beating us to the punch and snatching our lunch.

Mr. Speaker, the United Bermuda Party is not, I repeat not, advocating the abolition of work permits and the abandonment of the principle that Bermudians come first when it comes to job applications. That is a principle that must remain inviolate. But an appreciation of the role guest workers play in our economy must precede necessary changes in the bureaucracy that affects them. We must remove any red tape that has no real practical purpose.

It is unmistakably clear that the Immigration and Protection Act and its practical applications need urgent revision. Work permits take too long to be approved, even though approval is far faster than it used to be.

Our competition is still beating us to the punch.

The term limit policy creates huge levels of uncertainty in the minds of our customers and, as we have stated in this House before, uncertainty is the enemy of business.

Planning for the future is uncertain enough. Add politically inspired uncertainty and that is more than enough to cause a customer to try somewhere else. The numbers of exceptions Government has granted to the term limit rule is so large it indicates the concept is fatally flawed. Even if an extension to someone's tenure is granted it is just another piece of government red tape our customers have to endure.

Instead of merely wishing, hoping and waiting for the global cycle to turn, like the Ministry of Finance is doing, we can act now to fix these structural problems. To restart economic growth we need to address these structural problems.

WHAT WE WOULD DO

Mr. Speaker, we have said before but it bears repeating: There is no way the Bermuda economy and its public finances would be in the predicament they are if the government were under the guidance of the United Bermuda Party. We have a fundamentally different approach to the people's business based on prudence, realism and family values such as living within one's means, the judicious use of debt and responsible judgment.

Our budgeting principles are simple but sound:

1. Be realistic, don't try to wish or spin away the facts.
2. Do no harm. Don't make things worse by our own actions.
3. Minimize the impact on those most vulnerable in our society.
4. Manage government spending with utmost care and in relation to resources available.
5. Sustain, help and protect sectors that generate foreign exchange and jobs, sectors that are vital to generate growth in the future. I want to focus briefly on the first principle - Being realistic - because it lays bare a major difference between us and the Government.

The bulk of this Reply to the Budget has focused on the need to re-set the way Bermuda conducts business. We did so because what we are doing as a country is no longer working. If we continue the way we are going, today's troubles will seem mild by what would come. We believe we are in the midst of a national economic crisis that calls for unshackled thinking to find a way forward for the country.

The Premier's Budget Statement has none of that. Yes, there are words about the need to re-tool, but there is no plan. Yes, there are words about re-setting the dials, but there is no plan. Instead, the Government appears to be wishing, hoping and waiting for the global cycle to turn. Well Mr. Speaker, anybody can do that.

What Bermuda needs is a government that can make a positive difference in the economic life of the country and its people. The Government appears to want to sit this trial out, but the people of Bermuda

can't afford such passivity in the face of adversity.

Bermudians can at least rely on my colleagues and me, with the few resources at our disposal, to fight for Bermuda. The following section outlines some of the steps we would take to get this economy on sounder footing.

Cut Red Tape

Mr. Speaker, the urgent need to cut government red tape is not unique to Bermuda, although I can think of no other place where it is more crucial in terms of restarting economic growth. Red tape has become an integral part of our economy, much like barnacles on the bottom of a boat. The time has come to get rid of it.

We propose the creation of a Spending and Government Efficiency (SAGE) Commission whose purpose would be to:

- streamline government processes
- improve delivery of services
- make government more efficient, more cost-effective and more transparent, and to
- examine ways to make government more user-friendly and accountable.

The experience with such commissions in the United States is that they work best when their members are comprised not of civil servants but rather a combination of experienced public and private members. Moreover, the commission chair should be someone who is widely seen as politically independent, yet knowledgeable of the policy making process.

Mr. Speaker, one of the reasons we are becoming uncompetitive in international business is that the company incorporation and registration process is too bureaucratic relative to other countries. In Bermuda, the vetting of companies and their beneficial owners, including anti-money laundering screening, is performed twice: once by the introducing law firm and a second time by the BMA. This wastes precious time and money. In today's world there is no valid reason to perform this function twice.

A more efficient system would have the introducing law firm perform this screening and vetting, as they do now, but have the regulator, whether it be BMA or some Bar Council regulator, oversee the law firms, including periodic inspections, to ensure compliance with vetting, screening and anti-money laundering standards and procedures. This concept is already employed with the regulation of registered investment firms. In this way the BMA would not have to duplicate the exact same activities performed in the law firm. We would come in line with our competitors who do not duplicate the vetting procedure.

Reform term limits

Term limits have been a major irritant for international business, driving uncertainty, increasing costs,

generating ill will, hurting recruitment and making competing jurisdictions more attractive to existing and potential customers. Government sticks stubbornly to the policy but extends term limits or waives them in 70% of applications. In spite of this record, Government requires everyone to apply, creating unnecessary levels of uncertainty and red tape for company managers and angst for employees.

Bermuda needs to bring commonsense and clearer thinking to the issue. The policy needs to be managed in a way that serves Bermuda's best interest. Current practice is not doing that. The policy merits a formal review, but we would waive term limit requirements for occupations and positions that historically receive 90% approval.

Lead by example. Cut pay for ministers

The Government has leaned on unionized workers to agree to overtime bans to keep its costs under control. The unions have agreed, sacrificing, as the Premier said in her Budget Statement, "for the greater good of the community."

We disagree with this initiative in one important respect: The Government should not be asking workers to lead the way in cost-cutting without first leading by example. This is an issue of fairness and leadership. And so we renew our call on the Premier to impose a pay cut for all Government ministers. A cut of 10-15% would signal an all-important commitment to shared sacrifice - something that would be viewed positively by the wider community whose support will be needed for further belt-tightening measures.

Stimulate where possible to keep Bermuda working

Government can do a lot to stimulate economic activity without spending additional, unbudgeted funds. We would issue directives to ensure:

- Vendors are paid within 30 days
- Planning is fast-tracked to get jobs-producing projects off the ground, and
- At least 20% of Government spending on goods and services is directed to small businesses, which we know are struggling. That's tens of millions of dollars going to businesses that can use the work and money to hire workers and grow their operations.

Each of these steps can generate and support a significant amount of activity that can help Bermudians get through these tough times.

Tax Relief

The economic stress faced by families across the island is real and spreading. Government's mishandling of the public purse has seriously eroded its ability to help people in need. Nevertheless, we would eliminate the payroll tax for anyone earning \$50,000 or less. This can mean up to \$200 more each month in people's pockets.

Resuscitate Tourism

Mr. Speaker, the state of our once-proud tourism industry is enough to make the most optimistic among us weep. The year-to-year declines, which this Government presided over and, in some instances, facilitated, constitute an avoidable tragedy, for workers and everyday citizens who once drew pride in the industry's blue-chip reputation.

We are extremely concerned Bermuda tourism is nearing the point of no return as an industry that earns the economy vital foreign currency, albeit at levels that would have been considered incredible a mere decade ago.

The Government's handling of this portfolio has been a disgrace shared by everyone who has sat around the Cabinet table. Its paralysis in the face of decline, its lack of focus and meddling has failed Bermuda and the many people who relied on tourism for income and opportunity. The Government appears resigned to let the industry disappear without a fight, and we fear this resignation has seeped into the community.

We are here today to say "All is not lost." Bermuda does not have to accept the weakness of this Government. We can make a difference.

In the first instance, we need a national tourism plan. Incredibly, there hasn't been one, as the Premier alluded last week when she said the Island needed a "credible, long-term plan" for the industry.

The Government has done a poor job selling Bermuda with the Island's unique attributes undersold, weak slogans and scattered marketing efforts. A tourism plan can bring order, coherence and discipline to the process, setting performance objectives and targeting proven markets - something Bermuda lost sight of in recent years - and projecting a more compelling sales pitch to potential visitors.

The Government's Dockyard-centric cruise ship policy has left gaping holes in St. George's and Hamilton where cruise ships have long supported retailers and energized street life. Their empty berths need to be filled and so we call for the return of dedicated ships for weekly visits to the Old Town and Hamilton. It can be done. The Government just needs to do it.

Mr. Speaker, hotels continue to suffer despite the industry's much reduced bed count. We think their situation merits further tax relief in the form of a two-tier tax regime, with lower rates applied in the off-season and higher rates applied in the high season.

Similarly, we believe the failure behind hotel developers not breaking ground in Bermuda is due in part to the high cost of development here relative to competing jurisdictions. To facilitate a 'Go' on these projects, we would establish temporary tax-free development zones to improve the economics of hotel development in Bermuda.

Finally, we renew our call for the creation of a Tourism Authority to bring professional leadership and accountability to this very challenging task.

Make Education reform happen

Mr. Speaker, the more things change, the more they stay the same. Sadly, that's the case in Education. Another budget, another year, a new Minister of Education, a new Permanent Secretary and more talk of a new direction - but real reform in our public education system remains wishful thinking. As each new class of students enters the system and each new Minister promises results, there is diminishing confidence that under a PLP Government we will ever see the type of essential reform that Professor Hopkins set out in his report four years ago.

Education reform received little attention in this year's Budget statement, and despite Premier Cox's promise that Ministers would provide strategic details about their departmental budgets, nothing meaningful was released by Minister Smith. But the Honourable Premier is pleased to share her Government's goals. We are told that these will include "Improvements in the performance and effectiveness of our public education system, specific focus on providing a world-class quality education product with teaching and learning at all levels."

Last year Finance Minister Cox claimed that the Budget would "provide the opportunity for every child to have a world-class education." In fact, we have heard a variation on the same theme in every Budget Finance Minister Cox has delivered. There is a pattern here. Lofty goals, little measurable progress. At this point, it's hard to take anything the PLP Government says about education seriously.

Mr. Speaker, we do know that this year's Budget allocates almost \$15 million less to an Education Ministry charged with a critical role in ensuring opportunities for young Bermudians and the island's future prosperity. We do know that the Ministry Headquarters budget has increased by almost 50 percent. We do know that the budget for Berkeley and CedarBridge was cut by more than \$6 million, but their employee numbers have increased. And we do know that the training budget has been reduced to a third of what it was two years ago, which can't be good for the professional development of teachers and principals. The necessity of reducing the PLP Government's wasteful spending cannot be overstated, yet Minister Smith has not explained how these specific education cuts will impact a system that is already underperforming.

Significantly, Minister Smith revealed nothing about progress made on the widely supported Hopkins recommendations or the Ministry's strategic plan, Blueprint for Reform, which was released last year by the Minister and the Board of Education to great fanfare. Have all of these previous plans for education reform been abandoned?

The United Bermuda Party champions education reform, and when the Government turns talk into action—as it did with the Cambridge curriculum—we will commend their good decisions.

However, we believe that, overall, the PLP Government has failed to deliver on the key elements of education reform that will truly prepare students to take their rightful place in the new economy. They have failed to:

- provide a comprehensive system of technical education, beginning in the middle school years

- expand preschools to ensure school readiness
- dramatically improve the quality of teaching
- make a serious investment in professional development for teachers and principals
- establish an independent standards board to restore trust in testing results
- create independent school boards and empowerment at a school level
- lengthen the school day to provide more time for sports, music, arts and remediation.

In fact, Mr. Speaker, what we have witnessed over the last decade is a massive performance failure in education, but not on the part of principals or teachers or students or parents, and certainly not on the part of taxpayers who have contributed \$1.25 billion to fund a public education system that remains in crisis. The PLP Government, under four Premiers and eight Ministers of Education, has failed to perform up to expectations. They have had plenty of time and resources, but they just can't make it happen.

No Let-up in Public Safety

Mr. Speaker, safety and security is a core value of the United Bermuda Party, a nonnegotiable principle for which we stand. One year ago we spoke at length about public safety as a prerequisite for a flourishing society and growing economy. That remains an undeniable truth.

Unfortunately, violent crime continues, with shootings and murders in 2010 on par with 2009 when gang-related gun violence flared into a major new fact of life on the streets of Bermuda.

Thankfully the Government has ceased playing the game of "point the finger" with Government House and has thrown its support behind the Police. Valuable time was wasted by those shenanigans.

We are encouraged by indications the Police are getting on top of the situation, with arrests made and witnesses coming forward, something that was not happening at this time last year. It indicates private citizens recognize that the scourge of gang violence will not be curtailed without their help. We commend them for their courage and community spirit.

We are also encouraged by the advent of the Joint Select Committee on Gun and Gang Violence, whose hearings have shown not just that we can work together on national challenges but also that the successful fight against crime must involve the community. For two years, we have urged consideration of Operation Ceasefire, a US-based programme that has had dramatic impact on reducing violence in the most troubled cities.

Operation Ceasefire brings to bear the strong arm of the Police on gangs while offering their members an out through the ongoing, compassionate support of the community. It is this community side of the programme that seems so well suited to Bermuda. The hearings of the Joint Select Committee have shown community readiness to step forward, through the appearances of various groups such as Cartel, Youth on the Move and Rise Above.

We again urge the Government to consider Operation Ceasefire as a remedy that can work for Bermuda.

On a final note, we are very concerned with the Government's plan to reduce the Police budget, specifically a \$9 million reduction in salaries. Effective Police action depends largely on a sustained presence in the community, and this proposed cutback will likely diminish that presence. This again is another negative consequence of the Government's spending binge of recent years - a binge that will cost us at least \$70 million in interest payments this year alone, money that could otherwise have been used to address vital issues such as public safety.

OPPORTUNITY

Mr. Speaker, I want to reiterate a fundamental point that drives our thinking at this time: The unprecedented economic and social challenges facing our island are a major opportunity. We now have clear evidence of the need to change the way we do business with the rest of the world. This is our opportunity - an opportunity to change, an opportunity for a new vision and a new attitude, an opportunity for Bermuda to reinvent itself.

We must take this opportunity to turn the page on the old protectionist policies and structures that have clearly outlived their usefulness. To cut red tape that clogs our ability to grow the economy.

But Mr. Speaker, this is not just an economic opportunity, it is an opportunity of the mind, of the collective Bermudian mind; an opportunity to change our attitudes toward more openness, away from insularity and xenophobia. Insularity and xenophobia are poison to a people who wholly depend on outsiders for their livelihoods, as we do.

This is an opportunity to demand that core values like responsibility are not just empty rhetoric but, instead, act as the foundation for government policy and action, particularly in the area of fiscal prudence. We cannot be responsible citizens, or a responsible government, if we live beyond our means and mortgage the income of future generations for today's indulgences.

Accountability is the flip side of responsibility. It is irresponsible to claim credit for successes but blame failures on somebody or something else. It is irresponsible and hypocritical when leaders demand accountability from subordinates and are not themselves accountable. We have an opportunity to change that.

We have an opportunity to turn lip service to the virtues of transparency into reality by opening up the opaque quangos of the Bermuda Monetary Authority and the Bermuda Hospitals Board to public scrutiny so the people of Bermuda can see how taxpayers' money is being spent. In modern 21st Century democracies all such organizations are subject to public oversight. This is an opportunity to show the world that we can be counted in that number.

Mr. Speaker, there is also an opportunity to return to the traditional Bermudian attitude of welcoming friendliness. Back in his crusading days for the Rainbow Coalition, the Rev. Jessie Jackson used to say that success was not so much a result of aptitude but of attitude. He was right. Somehow in recent years some of us have taken even the polite greeting of "Good morning" and turned it into a weapon with which

to bludgeon unsuspecting visitors. Body language speaks louder than words. We have an opportunity to be more welcoming on a multitude of fronts, individual as well as institutional.

We have an opportunity to be more caring, particularly for the education of our young people. A good public education system is the engine of opportunity. The average quality of instruction in our public classrooms is not up to par. We must work to create knowledge workers who are going to be the ones who benefit most from the jobs that are being created by this economy.

Mr. Speaker, the economy of Bermuda is in trouble. A critical part of finding solutions for the trouble is clear identification of its causes, incisive analysis and focused remedies. This morning we have done that and tried to outline a way to get this country back on track.