

Restoring Confidence in Bermuda



Reply to the Budget Statement

In support of the

ESTIMATES OF REVENUE AND EXPENDITURE

2012/2013



One Bermuda Alliance
Putting Bermuda First

Mr. Speaker and Members of this Honourable House of Assembly,

Bermuda is suffering under the yoke of a crisis in confidence: confidence in government, confidence in our ability to keep and attract international business, confidence in our ability attract tourists, confidence in our ability to make Bermuda safe again, confidence in our ability to prepare young minds for the future. The “Bermuda Economic Miracle” is becoming a distant memory and Bermuda is losing confidence in its ability to bring it back.

The Bermuda training sloop, *The Spirit of Bermuda*, is appropriately named because it takes a spirit of teamwork - all hands on deck - pulling together, with the help of God’s wind, to move the vessel forward. These are perilous times for Bermuda, and we must have “all hands on deck” to help safeguard, sustain and guide the ship of state to a safe harbour.

To get to that safe harbour we need confidence. Confidence is like the wind. You can’t see it, you can’t touch it, you can’t taste it, but you can feel it! It is a potent force. If it’s at your back, it can fill your ship’s sails and power the good ship relentlessly forward. But if it’s not with you, it can stop your ship dead in its tracks, even forcing you into retreat .

Confidence in the ship is highly dependent on the confidence in, and competence and performance of, the captain and the officers - its leaders. If they have led the crew courageously, decisively, wisely and honestly, then the crew will believe in them and work hard and cheerfully, enduring the trials of any storm.

But if the skipper vacillates or deviates from the prudent, sensible and safe course, then the ship may well end up on unseen rocks, like another vessel famously did off the coast of Italy recently. The fear of such an end will make a crew lose confidence and grumble against the skipper and officers and not pull together, further endangering the ship.

Mr. Speaker, was the Bermuda Economic Miracle merely a brief aberration in the great sweep of history, a momentary fluke that can never be achieved again? Or was the Bermuda Economic Miracle something that reflected the abilities and efforts of a unique collection of people, on an isolated island, combining innovation, imagination, flexibility and hard work, to make something special out of virtually nothing. **Mr. Speaker**, the people of whom I speak are Bermudians.

The question is, do we believe in ourselves enough, do we have enough self confidence to reinvent ourselves, to create the next Bermuda Economic Miracle?

We can achieve the next Bermuda Economic Miracle if we believe in ourselves, if we have confidence in our abilities and confidence in the institutions we have created. We

cannot achieve anything if we, as a people, don't first believe. Confidence is the essential, yet intangible ingredient we must have if we are to turn this country around and march forward.

In terms of the economy, business confidence will propel economic growth, which will bear fruit for all Bermudians, creating jobs and prosperity. But business confidence is the stem of the tree; the root is confidence in the government. Confidence in government flows from its ability to be consistent, fair, competent, transparent and predictable. Thus confidence in government is the foundation. It is the root from which business confidence will grow, flourish and bear fruit.

Unfortunately, much of Bermuda has lost confidence in this Government because it has failed to be consistent, failed to be fair, failed to be competent, transparent and predictable.

A case in point is this latest controversy about public servants being asked to take a pay cut and divert money from their pension plan. Surely the Government saw last September/October when budget planning was under way that there would be a major shortfall in funds. Why didn't Government start talks with the unions then? Clearly, Government's timing was politically motivated and designed to catch the unions off guard. The side effect of this strategy is to further erode people's confidence in the Government to treat people - in this case its own employees - fairly and respectfully, and to conduct itself competently, transparently and predictably.

There has been nothing competent, transparent or predictable in the conduct of the Government in this latest episode. Instead, we see a government going after workers' money to cover its failure to properly manage the public purse and to push the reckoning for those failures down the road and onto the shoulders of the youngest Bermudians. It is a disgrace **Mr. Speaker**, a shameful example of a government putting its political needs ahead of the people it should be serving.

Mr. Speaker, the ship of state needs a change - a change of skipper and a change in its complement of officers to rebuild confidence among Bermuda's people, expatriate job creators, local entrepreneurs and international investors; a change to a new group with experience, vision, energy and armed with confidence in the common sense of people of this country. That confidence will fill our sails and power us forward with optimism, and innovation, creating opportunity and hope.

That change, **Mr. Speaker**, must be the One Bermuda Alliance team led by The Hon. Craig Cannonier, Leader of the Opposition, as our captain.

Mr. Speaker, a change of government is the first critical step needed to restore confidence in Bermuda. Why do I say that? Because it will signal to all that Bermuda is ready to make its economy work better for its people. It will signal that Bermuda is done

with decline and negativity and that it has chosen a government that will put Bermuda first.

Mr. Speaker, we have major concerns about the Government's Budget for the coming fiscal year. If you had asked Bermudians before last week's reading of the Budget, they would have said 'We need jobs', or 'We need to control the Government's spending' or 'We need to reduce the debt.'

But the Budget unveiled by the Premier does not meet any of these needs. It offers no plan to grow jobs. It continues to grow Government spending and it adds a staggering \$200 million to our debt.

This Budget will do nothing to move Bermuda out of our economic doldrums. Indeed, it will only deepen the hole we're in. It is, in effect, a desperate Government construct to postpone dealing with the realities of its own record until after an election.

More deeply, it reveals a government fast running out of options, calling in its chips and hunkering down hoping the storm will pass. It is exactly the opposite of what Bermuda needs today.

Mr. Speaker, what we are witnessing is a failure of leadership. We see it throughout the Budget document.

Where confidence is needed there is passivity, where courage is required there is retreat, where honest talk is needed there is ambiguity, where action is required there is avoidance and where vision is needed there is nothing.

When you boil it down, the Budget is more about the needs of the Government than the needs of the people. Its first priority is to get re-elected and its Budget lays down the path of least resistance to that goal.

Mr. Speaker, The One Bermuda Alliance will never put the people second. Our commitment from Day 1 has been to make decisions based on what is best for the Island. We are a party committed to building a strong economy, because we believe success for all Bermudians depends on the Island's economic strength and financial independence.

This is the basis on which we approach the economy today and this Budget Reply. Our first priority is to grow the economy to

- generate jobs and financial security for Bermudians
- reduce the debt, and
- gain control of government spending.

This plan, which will take hold over the short and long term, will provide the foundation

and framework to restore confidence in Bermuda and get us back on the path to prosperity.

Mr. Speaker, I will now run through a summary of the main initiatives in our plan to make this economy work better for Bermudians.

We will cut the cost of Government by

- Freezing the size of the civil service, allowing it to shrink by attrition, with no public sector employees made redundant,
- Instituting a Spending And Government Efficiency (SAGE) commission.
- Cutting consultants and frequent lavish travel,
- Reducing the size of Cabinet,
- Reducing ministers' pay by 10% to lead by example,
- Cutting down the number of GP cars and setting up car pooling,
- Moving, where possible, government offices that pay rent to lower-cost, out-of-town properties owned by government,
- Extending the schedule for capital projects according to their cash-based affordability,
- Terminating the Grand Atlantic Project because the Government is having difficulty selling the units that have been built,
- Abolishing the new Procurement Office and creating the Office of the Contractor General who, like the Auditor General, will be appointed by the Governor and not answer to any government minister. This is the only way true transparency and best value can be ensured with government contracts.

We will reform Immigration to make it work for the people by

- Suspending term limits for a period of two years, while the matter is thoroughly reviewed. Term limits are job killers for Bermudians.
- Streamlining the work permit process to reduce the hassle factor and increase speed.

We will stimulate hiring and encourage businesses to grow by

- Granting any employer a two-year payroll tax exemption for new Bermudian hiring,
- Unclogging the approval process at the Department of Planning to facilitate job-creating projects,
- Reducing business costs by providing incentives and guarantees for electrical co-generation plants. These innovative plants, which use wasted energy to heat water and drive air conditioning, can save millions in operating costs at our hotels and hospitals.

We will boost business for small businesses by

- Reserving 20% of government spending on goods and services with

- private sector suppliers for small business, and
- Requiring Government to pay its bills in less than 30 days.

We will make sure Bermuda is competitive by

- Eliminating the duplication in the vetting system for new incorporations. The current system duplicates the process making it more costly and time consuming for applicants.

We will welcome Job Creators by

- Changing government attitudes toward job creators whose presence on the Island creates jobs for many Bermudians at many levels,
- Making incentives for job creators simpler, more practical and more effective than the current conditions-heavy legislation,
- Allowing the approval of Immigration permits at the company incorporation stage, and
- Implementing a “Concierge Service” for new clients of Bermuda.

We will review company law to attract much-needed investment by

- Recognizing the 60/40 ownership law for corporations is an outdated impediment to foreign investment, and by
- Recognizing that Bermuda needs foreign capital to redevelop the Hamilton and St. George’s waterfronts - two projects that can revitalize tourism.

We will promote business development by

- Providing effective budget support for the marketing of Bermuda to international business,
- Implementing accountability and expertise in the form of a Tourism Authority,
- Holding a referendum on casino gambling forthwith, and
- Finding new investors for Bermuda tourism developments and working with them to identify all elements needed by Bermuda and its business partners to make them a reality.

We will increase the Island’s intellectual capital by

- Establishing an international Risk Institute by leveraging the existence of Bermuda-based management executives and connecting with a risk management university. This would bring students and participants to our shores who would spend money in our economy.

We will encourage the growth of Bermuda-based investment management by

- Supporting investment industry players to bring new investment firms here, not for tax reasons but for regulatory reasons.
- This major opportunity would need to be strongly marketed by investment people, not government, with targeted investment personnel most likely now residing outside the United States because there is no significant tax

advantage for Americans.

Mr. Speaker, My colleagues and I want to build an opportunity economy; an economy that makes it possible for people to build careers, grow their businesses and earn enough money to feed, clothe and educate their families; pay their bills and have something left to enrich their lives.

This can be achieved, but it will take imagination, confidence and action on a variety of fronts which I have just enumerated.

Mr. Speaker, we are going to stop the decline and restore confidence in Bermuda. We are going to end this era of anxiety, doubt and disappointment.

It means making government work better for people. It means government cultivating conditions that help people succeed, it means government working as a facilitator, not a road block, and it means government working for the people, not for itself.

We are going to move Bermuda forward again with confidence and faith in who we are as a people. That's our foundation.

The OBA's approach will replace disillusion with confidence. A disillusioned Bermuda will fail. A confident Bermuda will succeed, going from strength to strength. That is my vision, and that is the mission of my colleagues.

Mr. Speaker, we can do it.

GLOBAL CONDITIONS

Mr. Speaker, It would be easy for Bermudians to conclude by listening to Government commentary, that the world is still in the grip of the Great Global Recession. It is not. A

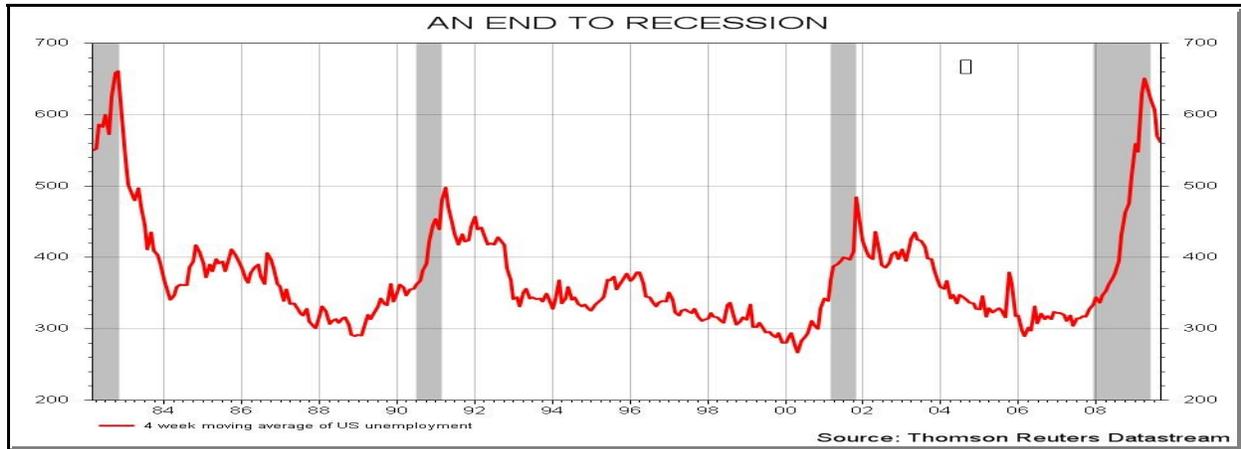


Figure 1

recent Government press release stated, “There is no doubt that the global recession is having a negative impact on Government finances worldwide and Bermuda is not unique in facing the economic challenges that are being faced globally.” In fact most of the world’s major economies are in recovery mode after the recession. The international press has been paranoid about the crisis in Greece and the European Union while the political discourse in the USA has also accentuated the negative. However, Figure 1 shows clearly that the Great Recession is over, and has been for more than a year. The shaded bands indicate periods of recession (as estimated by the National Bureau of Economic Research) and the red line shows US unemployment, as measured by Initial

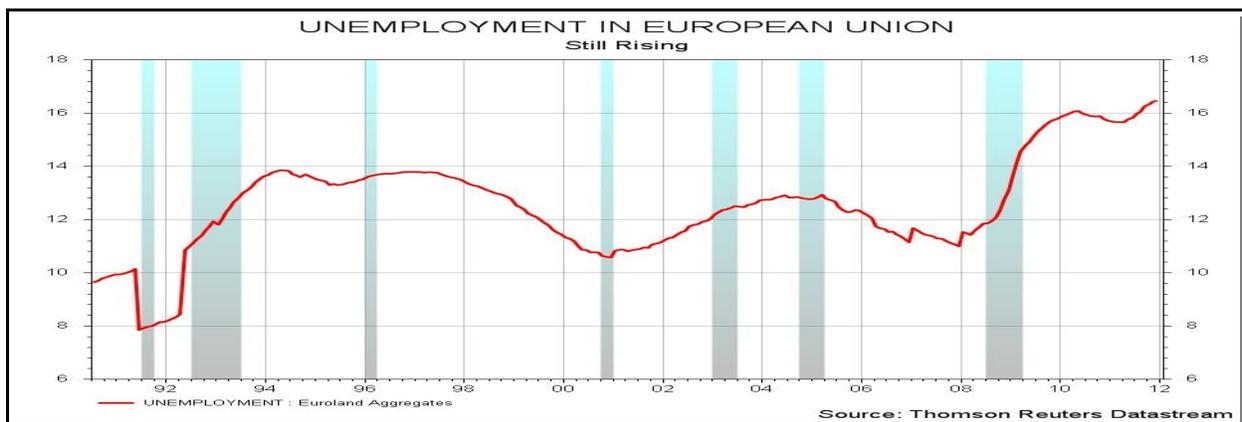


Figure 2

Unemployment Insurance Claims. Clearly, unemployment is trending down, just as it does after every recession.

Compare Figure 1 to Figure 2 for The European Union. In Europe, despite the recession band showing the end of this latest recession, the unemployment line is still

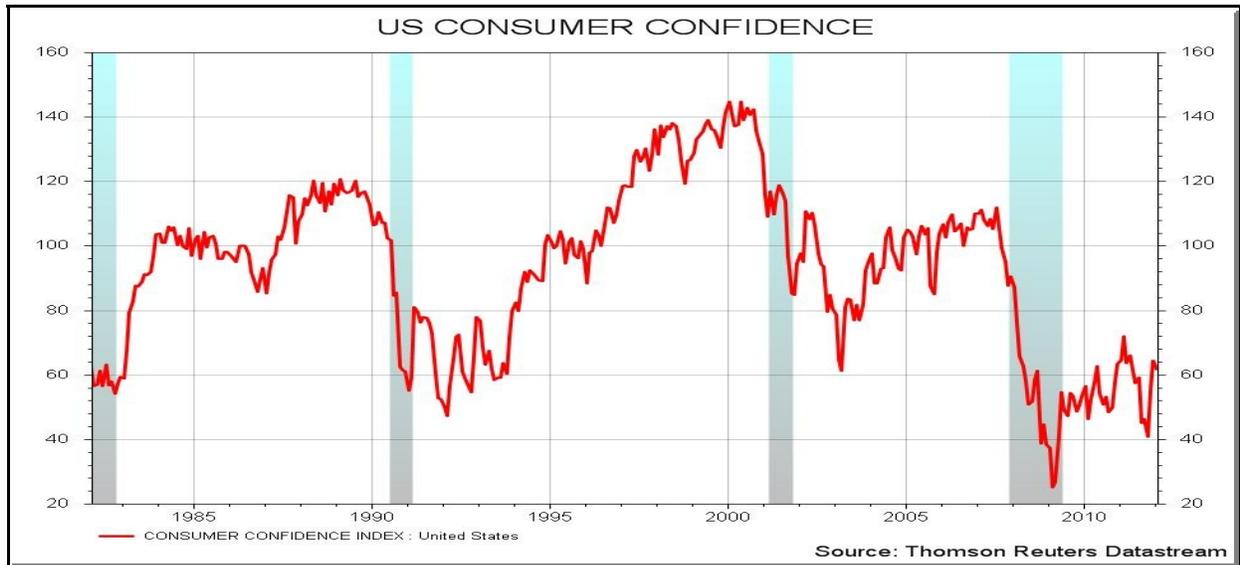


Figure 3

rising strongly, which is indicative of the serious problems associated with the creditworthiness of teetering member countries like Portugal, Italy, Greece and Spain. While there exists a possibility that, say, a collapse in the Greece bail-out negotiations will cause a default that may in turn result in a cascading banking crisis throughout Europe, the probability of economic contagion appears to be a receding threat.

Markets also fear such a banking crisis spreading to the US, although the Federal Reserve Chairman has vowed that will not happen. Meanwhile, US Consumer Confidence (Figure 3) - a key metric for our tourism sector - is slowly recovering from the trough of 2009.

China is now the world's second largest economy. It is also the fastest growing. There has been a cooling in the growth rate of its economy, but as Figure 4 shows that cooling is from a blistering 14% to a mere 9%, and expectations are it will cool further to 8.5%. Of course the rest of the world would consider 8.5% a blistering pace. There are no recession-shaded areas here because there was no recession in China. The emergence of China as an economic powerhouse has in fact acted as a buffer for the global economy, meaning the global recession could have been a lot worse than it in fact was.

Insofar as Bermuda is concerned the global economic environment could be better, but

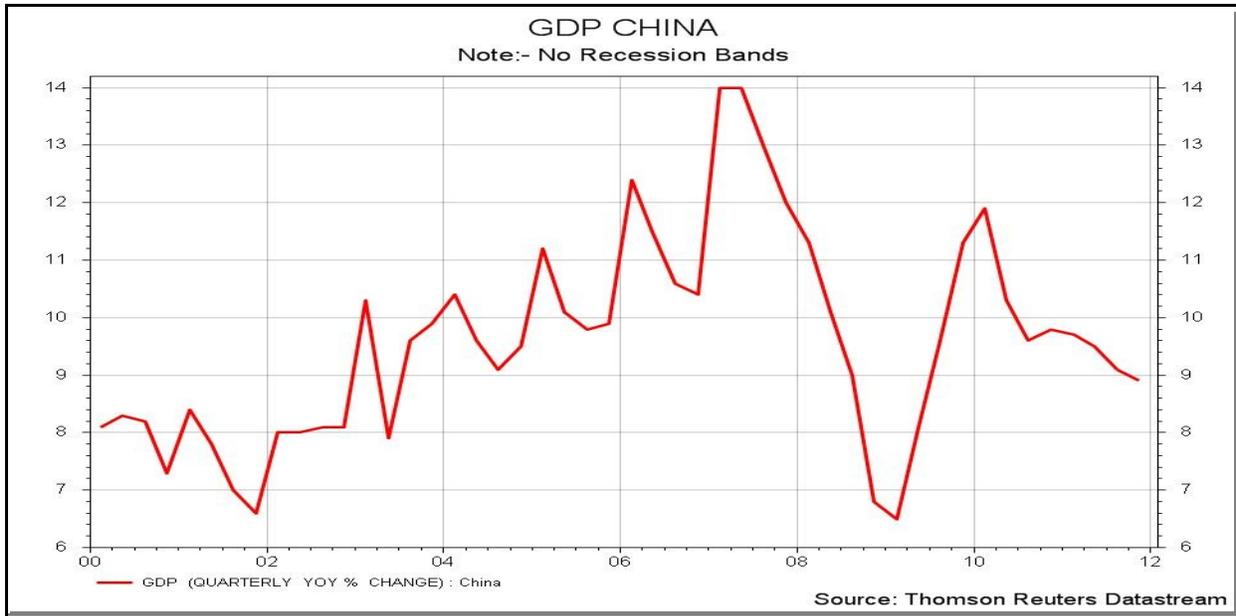


Figure 4

the worst is behind us and growth has, in fact, resumed, albeit slowly and fraught with worry. The Fed Chairman, Mr. Bernanke, recently declared that “The US job market is far from normal.” However, the trend has been shown to be a positive one.

The take-home message for Bermudians should be that the improving trend everywhere but Europe is not reflected in the Bermudian economic picture. The US is creating jobs while Bermuda is still shedding jobs. This is yet another data point that explodes the myth, propagated by the Government, that all our economic woes have been imported from abroad. We are, in fact, still in the throes of our own homegrown recession, the **Great Bermuda Recession**.

THE BERMUDA ECONOMY

Mr. Speaker, we referred earlier to the country as the ship of state. Now let us consider the state of the ship of state.

Typically at this stage of my presentation I would illustrate several sets of data to show important aspects and trends of the local economy. However, today I'm going to dispense with most of that because everyone already knows that Bermuda is experiencing the most devastating decline in income, wealth and opportunity in its modern history. It would be a waste of time to illustrate that which is universally known and, more importantly, universally felt.

It does not matter whether you are an entrepreneur, civil servant, hotel or international business employee, or work in another sector; you, your family, your neighbour and your friends have felt it.

All governments have mechanisms or tools that they can use to help the economy. Let's call them economic policy tools. They include tax policy, spending policy, interest rate policy, currency policy, regulatory policy and labour policy. In Bermuda's financial set-up, we have no control over interest rates or exchange rates, but we do have wide discretion over taxes, spending, regulation and labour.

A subset of labour policy is immigration policy. In a small country like ours, immigration is a very potent economic policy tool because each human being on this Island has a larger impact on the economy than he or she would in a larger country. Unfortunately, successive PLP governments, including the current administration, have treated immigration as a political tool instead of an economic policy tool. This has had a devastating impact on the economy, causing an exodus of economically valuable customers from our shores. Job and income losses for Bermudians from all walks of life have been the price for this policy debacle.

Mr. Speaker, there is a chain of decisions that is connected to every job. It starts with an employer's decision that there is a need in the market for a product or service. He then decides that he needs more personnel to provide that product or service. Joe Blogs decides to apply for the position. The employer decides Joe is suitable, together they decide on terms and Joe has a job.

If that decision chain breaks anywhere along its length, no job for Joe; no matter if Joe is the best qualified man in the world.

For Bermuda, the link in the chain that is breaking is at the point where the employer, as an international company, decides where he wants to put his workers. When the employer decides "Not in Bermuda" because of term limits or immigration hassles, no jobs come to the Island or, as has been happening, on-island operations are moved elsewhere and Bermudians, who work for those Bermuda based companies, start losing

their jobs.

The “Not in Bermuda” break in the chain also affects local companies. Most local companies count international businesses and the people who work for them as customers. Fewer people working in Bermuda for international business means lower sales for local businesses. When expatriates leave, the chain starts breaking for those Bermudian employees of local companies and jobs are lost.

This Government operates in a manner that does not understand the decision chain and the impact bad policy can have on it. Job training of Bermudians is great, but there need to be jobs at the end of the process. The point here, **Mr. Speaker**, is that we need people to grow jobs for our people. Failing to attract and hold people here weakens the job market for Bermudians. The term limit policy and related immigration hassle factors are failures that have caused many employers to break that chain by saying “Not in Bermuda.”

Mr. Speaker, to create Bermudian jobs we have to fix the broken links in that chain. The mission of this PLP government, the mission of any Bermuda government, should be to remove the “Not in Bermuda” factor that is breaking the chain that creates jobs for Bermudians. Heavy-handed politics in this area has not worked for our people.

We, **Mr. Speaker**, have to be smarter than that.

Our competition, Cayman Islands, has suspended term limits for two years pending a new policy. The OBA will do the same. But the PLP Government continues to fiddle while Rome is burning. Bermuda needs decisive leadership, not fiddling Roman emperors.

This PLP Government has been scapegoating our non-Bermudian customers for more than a decade, making them feel unwelcome. I don't know anyone who would feel comfortable in a house where they were made to feel unwelcome. I suspect they would leave as soon as possible, never to return. This is what has happened in our house, in our island. Bermudians once prided themselves on being welcoming people. We need to get back to that welcoming tradition.

For years now, we have called for the enactment of practices and procedures to make our customers feel welcome. We know the Government has heard some of these messages from many other sources, but they have moved slowly and perfunctorily in this area. More fiddling. Why? Does the Government feel there is political mileage in maintaining tension between Bermudians and guest workers, even if it endangers jobs and prosperity?

This has not escaped the attention of our competition, the Cayman Islands, whose leadership is salivating at the miscues of this Government. Their Premier was quoted recently saying: *“In the mid Atlantic, they say they ‘may’ reduce some fees; we have reduced*

fees....They are still talking about their immigration policy and make long statements.” He laid our weaknesses bare for all to see by declaring that Cayman can grow *“without the malice, without the inhibitions of race, without the inhibitions of transport.”* The response from our Government was more bland platitudes about international cooperation, and Solvency II equivalence; platitudes that did not address the criticisms leveled at us by our competition. The truth is this PLP Government, with its xenophobic and racial rhetoric, has given our competition a big stick with which to beat us.

Mr. Speaker, Bermuda Sun columnist Larry Burchall put it succinctly in a recent article when he said: *“Bermuda’s nine percent population decline drives ninety percent of Bermuda’s current national economic decline.”*

The size of the Bermudian population has not changed much over the past 10 years, but the number of employed Bermudians certainly has, as shown in Figure 5. This graph explodes the theory that term limits preserve jobs for Bermudians.

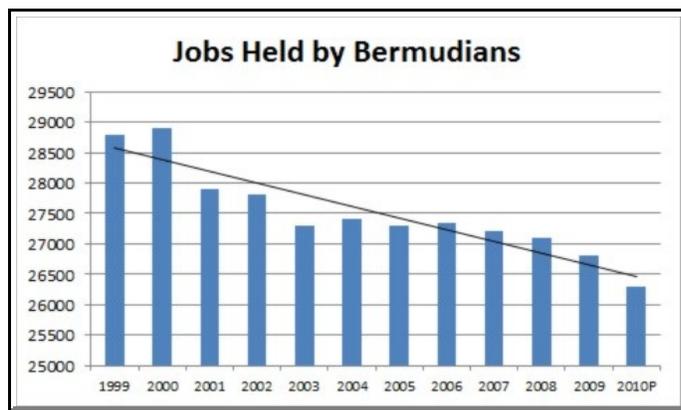


Figure 5

The decline in the non-Bermudian population - estimated by some to be down by 6,000 people - means fewer salaried residents paying payroll taxes and fewer people paying rents that support mortgage payments for Bermudian property owners. This translates into more Bermudians defaulting on their mortgages and in danger of losing their properties to lenders. It also means falling property values, something most Bermudians thought impossible. There are fewer people shopping for food, clothing,

hardware, cars and other consumer items. No wonder the Retail Sales Index continues its downward spiral. No kind of tinkering with customs duties can protect retailers from these fundamental economic forces. Fewer customers means lower sales, period.

Unfortunately for us, it has been the more affluent, freer spending non-Bermudian residents who have left, along with many very wealthy executives and their families. Many of these people we would classify as “job-creators.” Their departure is a double whammy because not only do we lose them and their spending power, we lose many, if not all the jobs they created, because jobs follow the job-creators. These factors suggest that the percentage loss to the Bermuda economy is far greater than the percentage of people who have left the Island.

In another twist, the people who have left are younger than the average population. This has implications on the cost of health insurance, as it is the young and healthy that carry the relative cost burden for the old and infirm. Losing the expatriate residents is

placing upward pressure on the cost of healthcare for the rest of us.

The Albright-Stonebridge Group, which was retained by Business Bermuda (formerly BIBA) to analyse the trading relationship between Bermuda and the United States, has produced three reports covering the years 2007 to 2010.

Stonebridge said, in its 2010 report, after reviewing data for 2009, (when most of the world was in the depths of the Great Recession,) that “*In the last two years, overall growth in trade and investment remained at 2007 levels but did not decline.*” At that time Bermuda’s trade with the US was valued at \$64 billion.

In Stonebridge’s 2011 update, Bermuda’s trade with the United States grew to \$80 billion - a year-over-year increase of 25%. They observed that “*In spite of the global economic crisis and difficulties in U.S. financial markets, Bermuda-U.S. economic ties remained surprisingly strong.*” Stonebridge also noted that Bermuda’s insurance sector was relatively “independent” from the crises taking place in larger financial centres and was “not correlated” with the global financial troubles.

Bermudians must face the fact that the exodus of non-Bermudian residents from Bermuda has not been due to the global recession. Our main business, reinsurance, has been relatively recession resistant. It has been growing, but Bermuda-based companies have been choosing to hire outside Bermuda instead of within Bermuda. This change in employment pattern by these companies has had a devastating impact on our economy.

Mr. Speaker, that is why I call this “The Great Bermuda Recession.”

Mr. Speaker, what factors are behind this shift in employment patterns by international companies? If our primary industry’s overseas trading remained on solid footing then the factors behind this shift cannot have been imported from abroad. They must have **Made in Bermuda** labels firmly affixed to them.

It is clear the Government’s term limit policy has been one of the primary culprits behind this exodus. The OBA has spoken at length and repeatedly on this subject. The facts are well-established: term limits do not protect jobs for Bermudians. How could they if term limits have been accompanied by huge Bermudian job losses? Term limits are job killers, Bermudian job killers.

Mr. Speaker, Bermudians have to decide if we are just going to let others poach our livelihoods or if we are going to fight to keep them. We at the OBA pledge to fight to keep international business here and fight to grow it. We will fight by aggressively removing the “Not in Bermuda” factor, by eliminating perceptions overseas that associate Bermuda with maliciousness and allowing race to interfere with service to customers. We will snatch that big stick from the hands of our competition. We will fight to return prosperity to Bermuda’s people.

REVITALIZING TOURISM

Mr. Speaker, Bermuda's once-great tourism industry is perhaps the best example of the Government's failure to face up to national challenges that threaten Bermudian jobs and paycheques.

Just last month, the latest Tourism Minister said Bermuda recorded the second highest number of visitors in our history. But did anyone really believe that these cruise-driven numbers meant that Bermuda was back to tourism industry greatness?

Of course not.

The Government has been playing the numbers game for years; using it as a screen to avoid the work needed to grow tourism industry jobs and income for the people of this Island.

One has to assume its ministers understood that something needed to be done. The year-to-year embarrassment of declining air visitor numbers and property closures should have told them that. But we also know that industry insiders told them point blank that the industry was in crisis and in need of major help. We know they were told the Bermuda brand was broken; that demand for Bermuda was at an all-time low with surveys showing traditional markets no longer knowing who we are or even where we are.

Despite the writing on the wall, the Government has been operating for years without a National Tourism Plan to guide and coordinate efforts to attract more people to our shores. Discussions about a new plan started back in 2010 - that's two years ago - and just last week the Budget Statement gave us an update: A Tourism Plan is to be ready in this Spring.

Mr. Speaker, that's not good enough. To allow Bermuda tourism to drift for years without a plan, to let it operate for a year without an advertiser, are signs of a government asleep at the wheel. Where Bermuda needed foresight, engagement and decisive action, we got neglect, disengagement and complacency. As a result, the ability of this job-creating arm of our economy was allowed to shrink without a fight.

Mr. Speaker, The OBA will not allow our tourism industry to fail. We will move with urgency to fill our hotels and provide effective leadership for the industry.

Right now, Bermuda needs a short-term marketing plan to get the industry busy this summer. We cannot wait for the slow train of a new National Tourism Plan. The Government's timetable is too slow. We need to be hitting our markets now, with messaging that works. That we are once again heading into another tourism year without a plan, without fresh creative advertising, is an indictment of the Government. We cannot afford such complacency. Jobs and paycheques depend on it.

The need for a National Tourism Plan is vital and long overdue. Bermuda needs a roadmap to help industry stakeholders and the wider community work together to grow the industry. Do that and there will be more jobs and career opportunities for our people.

But the Government's going to have to get motivated and actually get things done. We need action and then more action.

Essential to a successful tourism plan is the clearest understanding of the Bermuda tourism product today and what our customers are looking for. The sooner we identify the shortfalls in the product the sooner we can take steps to meet customer expectations.

An OBA Government would work to improve the tourism product as a priority. This means decisions on resources and personnel necessary to get the job done. We would hold a referendum on gaming and take our lead from the people. We would hold a Bermuda Hospitality Investment Conference, inviting highly connected people from around the world to listen to our plans and to hear what they need to make them happen.

We already know one of the biggest barriers to new investment in tourism infrastructure is cost - both operating costs and construction costs. A significant part of operating costs of a hotel is the cost of energy. Electricity bills for our hotels are staggering. This cost can be reduced by the use of modern electrical co-generation plants that use the heat that is normally wasted to provide hot water to drive a chiller that can provide air conditioning. This is proven technology. An OBA government would assist hotels in acquiring such facilities with tax incentives and guarantees. Reducing hotel costs saves Bermudian jobs.

Finally, we would create a Tourism Authority - an idea also recommended by key bodies such as Bermuda First, the Bermuda Hotel Association and even the Government's own Tourism Board. What more can be said? We will then abolish the Cabinet position known as Minister of Tourism. The fact of the matter is that the existing structure, led by amateurs, has simply not worked. We need to change the way we operate. Everything about the state of the tourism today tells us that. We need to put Bermuda tourism into the hands of professionals - setting clear strategic objectives, meeting those objectives and, above all, being held accountable for their performance. Accountability. That's what's been missing for so long. It's why the PLP Government allowed decline and drift to be the story of tourism for more than a decade. A Tourism Authority will help us put Bermuda first, ahead of egos, ahead of party, ahead of political pride.

GOOD GOVERNANCE

Mr. Speaker, in order to restore confidence in Bermuda, the Bermuda Government must practice, and be seen to practice, the rules of good governance. Its track record, unfortunately, has been anything but good. Millions of taxpayer dollars have been wasted in a blur of no-bid contracts, breaches of Financial Instructions and deals for friends and family. The record has kept two Auditors General working flat out investigating such matters and filing special reports to this Honourable House.

The Premier's response has been to enact new legislation and create the new Procurement Office. Yet the problems continue. What is needed is a watchdog that is not answerable to any government minister. This is one reason we would establish a Contractor General, independent of government, to oversee government projects, from tendering to completion, to ensure rules and guidelines are strictly enforced and to identify unfair practices or offensive conduct.

Mr. Speaker, my leader, Mr. Craig Cannonier, the Honourable member, said something very important a few weeks ago in response to the latest special report by the Auditor General, this one on misuses of public money within the Government. He said: "You can have all the rules you want, but if you're not going to follow them, if you're going to try to manipulate them, then Bermuda is never going to have a government they can trust. At the end of the day, good governance comes down to people..."

Mr. Speaker, we don't really need any more rules to ensure good governance. The Premier keeps talking about advancing a good governance programme, but the best way to advance it is to make sure people play by the rules. This again is a question of leadership. What is needed is not just the daily example of working by the rules but also the moral strength to enforce them. That has been missing. For example, this Honourable House has been informed of a multitude of breaches of Financial Instructions in the few short years I have had the privilege of serving here, some at the highest levels. Yet no one has ever been held accountable for the violations, no one has been sanctioned. **Mr. Speaker**, if no one is held to account, if no one is ever punished, then bad practices and bad governance become part of way we do things. It becomes institutionalized. This is what is happening today and it must be stopped.

Mr. Speaker, people are watching us. Questions are asked and doubts abound, and that is a shame because our reputation - our good reputation - is being scrutinized. We must understand that our good name is a critical component of our economic success. If people trust Bermuda, if they trust our system and values they will be more inclined to invest in job-producing ventures.

Mr. Speaker, Government sets the standard for the whole country. If there is indifference at the top toward the principles of good governance, indifference will flow to all levels of government and across the community.

A change in government is the most direct way to end the indifference. **Mr. Speaker**, the One Bermuda Alliance is deeply committed to the principles of good governance. They are contained in our founding documents and they inform all what we do in prosecution of our duties as a political party. We look forward to the opportunity to set standards of conduct and accountability that everyone can believe in - Bermudians and non-Bermudians alike. It is one more way we can restore confidence in Bermuda.

Mr. Speaker, accountability is an integral part of good governance. The lack of accountability in the budget process is costing taxpayer dearly. Departments have to justify their spending estimates at the beginning of the budget cycle, but they do not have to defend the spending of those budgets after the fiscal year is over. There is no committee that actually holds officers to account for the amount of money actually spent. This would be normal practice in the corporate world, but not in the world of the Bermuda Government.

An OBA Government would hold Civil Service accounting officers to account for spending and implement strict budgeting and cost control procedures to eliminate waste and drive down the cost of government.

PUBLIC DEBT

Mr. Speaker, the debate between the PLP government and the One Bermuda Alliance on public debt illustrates the essence of the differences in approach and philosophies of the two political parties about the stewardship of the public's money. Our philosophy is rooted in traditional values that demand that a person should not live beyond his or her means. If a person lives beyond his means, he will face financial ruin.

This is our starting point. We are guided by these traditional values, values which we believe are shared by many, if not most, of our countrymen.

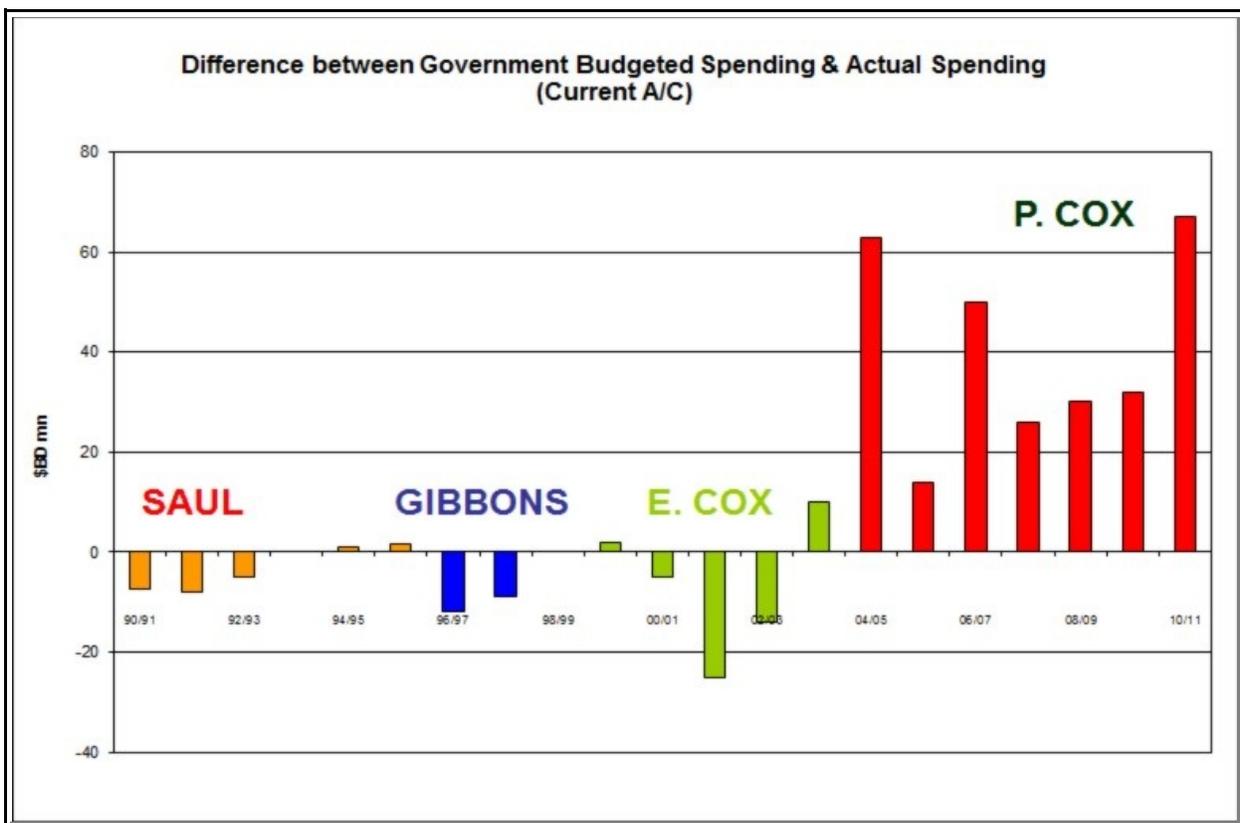


Figure 6

Mr. Speaker, we have declared, for several years now, that this PLP government has been living well beyond its means. And, as has been shown from these latest pay negotiations, taxpayers and public sector employees ultimately pay the price for those excesses.

The government is depending more and more on debt just to pay its day-to-day bills. Debt is like a narcotic, the more you use it the more you need it. And like an addict, the Government no longer has the strength to change its ways.

Figure 6 shows the actual amount of government spending compared to budgeted expenditures. The period covers the tenures of four finance ministers: Saul, Gibbons, Eugene Cox and Paula Cox. This chart clearly shows that ministers Saul, Gibbons and Cox Sr. actually spent close to or less than their budgets. However, all this restraint evaporated under Finance Minister Paula Cox, whose spending consistently far outstripped approved budgets.

Please note, **Mr. Speaker**, that this lack of restraint predates the global recession by three years, conclusively proving that this is not the fault of the global recession, as the government would have Bermudians believe. The lack of restraint also predates the Premier Brown era and continued after his retirement and is for current spending- nothing to do with building hard assets.

The Government desperately wants us to believe this global recession story because, if we do, it gives them a free pass insofar as who is responsible for this, the greatest economic disaster in Bermuda's history.

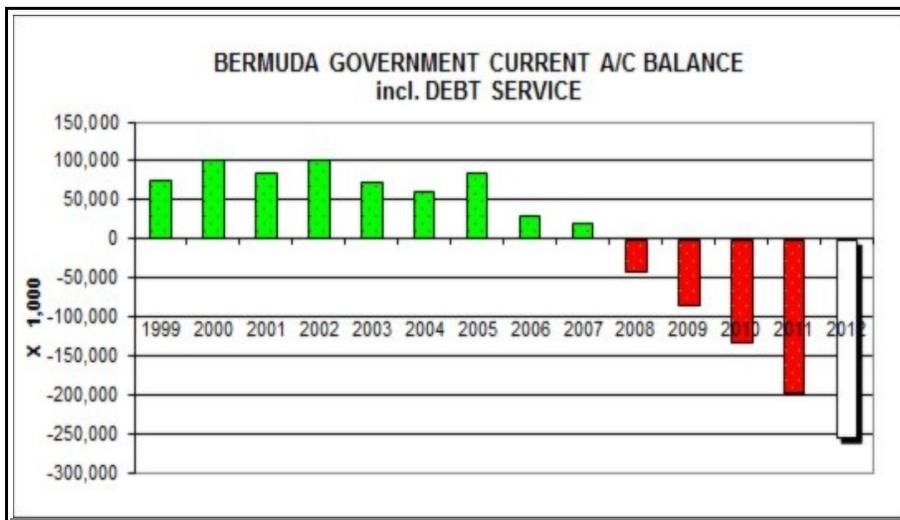


Figure 7

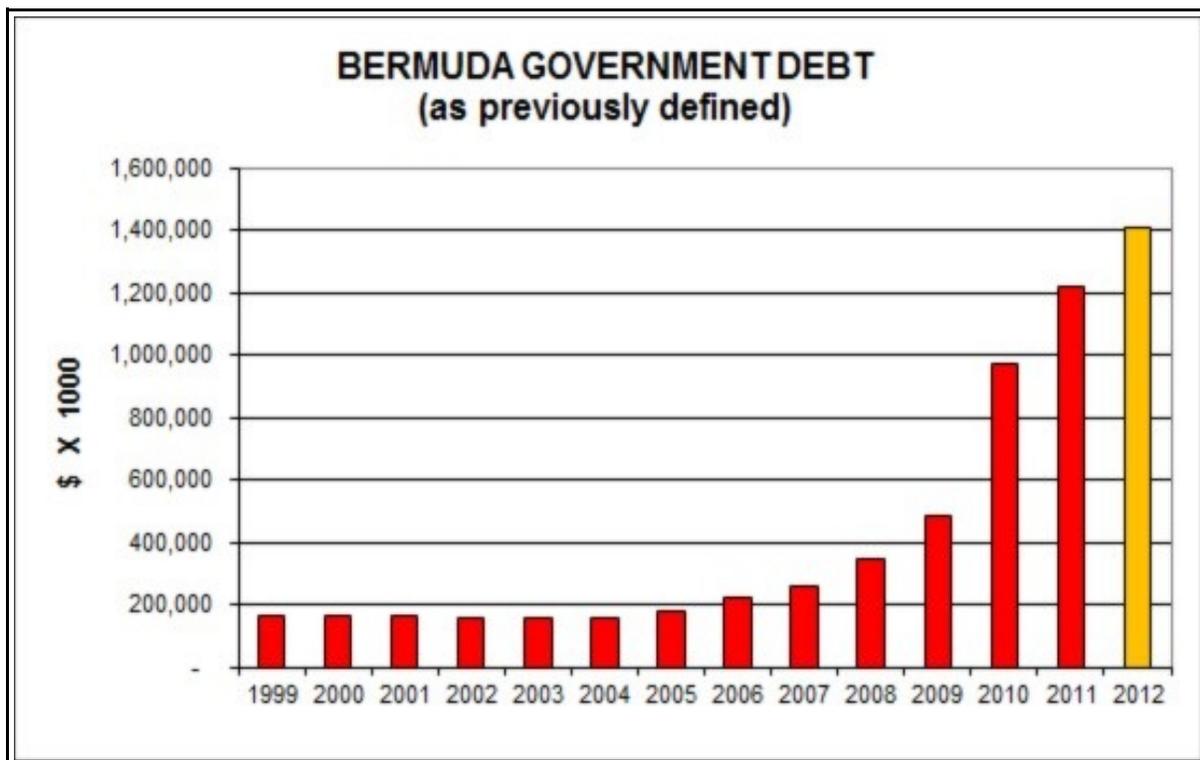
But **Mr. Speaker**, there is no “Get Out of Jail Free” card here. The facts speak for themselves. Soaring debt is the responsibility of this Finance Minister and Premier, the Honourable Paula Cox.

For the first few years, the effects of this spending were masked by surprise excess revenues. But as Figure 7 shows, Current Account Balances started to fall as early as 2006. The free-spending habit was

hard to break and when the excess revenues waned, Government deficits and debt soared, as shown in Figures 7 and 8.

The Ministry of Finance has tried hard to pacify Bermudians' concerns about the current level of debt by saying that our Debt/GDP ratio is only about 24%, much lower than many other countries.

Mr. Speaker, if Debt/GDP is the deciding measure of a country's debt risk then how is it that Japan has a Debt/GDP of 240% and is rated AA, while Greece's ratio is only 177% and is bankrupt? Clearly Debt/GDP is not what decided a country's credit worthiness.



Credit worthiness is a function of the borrower's ability to repay. GDP does not repay country loans, taxpayers do. There are five classes of taxation - taxes on labour, corporate profits, investment/savings, including taxes on dividends, interest and capital gains; consumption taxes and real estate taxes.

Most major countries have all these taxes so their tax base is the entire economy, with the exception of government itself. GDP, in this context, is a meaningful proxy for taxpayers.

Bermuda GDP is NOT a meaningful proxy for taxpayers. We don't tax corporate/business profits or investment returns or interest on savings or dividends. These are a large component of our economy. We tax labour (payroll taxes), consumption (duties) and real estate, but our tax base is much smaller than our private sector.

Because of this, Bermuda's GDP is in no way representative of taxpayers. Debt/GDP is a debt indicator invented in major countries for major countries. To use it to compare Bermuda to G7 countries, or any country with income tax, is ridiculous. As the Government uses it, it is deliberately misleading, like comparing apples to oranges.

In its Pre Budget report, the Government said: "*According to the Maastricht convergence criteria relating to the soundness of budgetary positions, ... the public debt-to-GDP ratio should not exceed 60%. Judged by these standards, Bermuda is well positioned and maintains a much lower debt-to-GDP ratio than international debt standards require.*" In other words, we shouldn't have to worry about the debt until it reaches \$3 ½ billion! That's just unbelievable!

Incidentally **Mr. Speaker**, what is this "Maastricht convergence criteria," anyhow? Well, Maastricht is the city in Europe where the treaty forming the European Union was signed. The PLP government, in its wisdom, has chosen, as its standard, the debt criteria of the EU, the same EU that is today at risk of melting down, not from austerity programs, but because of **TOO MUCH DEBT**.

In their desperate efforts to administer Prozac to Bermudians' concerns, the Ministry of Finance has exposed its position as indefensible, and as we all know, it's very difficult to defend the indefensible.

Not only is the government's debt position too large there is no plan to reduce it. If debt keeps increasing the sinking fund will never catch up.

Furthermore government's own actions do not square with its words. They say they're not concerned about the level of debt but have resorted to diverting \$62 million that was destined for employee pension funds to pay day-to-day expenses. The effect of this move enables the government to avoid borrowing that \$62 million. If they're not worried about the current debt level, why not just borrow the additional \$62 million from banks and leave employees pensions alone?

The answer is that interest must be paid on debt. No interest has to be paid on the diverted \$62 million because it doesn't get classified as debt even though it is borrowing from the future. We had speculated that the government was very keen to avoid raising the debt ceiling but we underestimated the severity of the debt situation. Even with this diversion of pension contributions they will blow straight through the old debt ceiling. Honourable members needn't be reminded that the changing of the definition of Public Debt last year to exclude guarantees enabled government to gain another \$200 million wiggle room. So on the old definition we are budgeted to exceed \$1.5 billion in debt.

Mr. Speaker, the OBA has a plan to wrestle this debt to the ground and it contains two essential elements.

First, get this economy growing again, thereby increasing government revenues.

Second, take strict and decisive action as it relates to government spending.

This strategy will, over the medium term, bring the debt to heel and reduce the burden the next generation will have to bear.

THE BUDGET

Mr. Speaker, as anticipated, this budget is “an Election Budget,” full of soothing, ambiguous language but severely lacking in its ability to chart a course to economic recovery. There is no plan to re-start growth, which is the only way to create more jobs for Bermudians. Just as it has for the past four years, the Government is waiting for the rest of the world to bail us out. First it was waiting for the US to ride to our rescue. Now we’re waiting for Europe’s recovery. Next year, who knows who they will be looking to.

Mr. Speaker, as I’ve said before, this is not the leadership Bermuda needs. It is passive. It lacks self-confidence. It lacks courage and it lacks a plan. The failure to face up to the Bermuda-based reasons for our economic predicament is a disservice to the people of Bermuda that will only cause continued misery and despair.

The Budget fails to commit to cutting costs of running the Government despite the fact that it is spending more than the public can afford. The Minister has not even committed to freezing the size of the civil service as we would. In saying that, I reiterate our pledge not to lay off any public sector workers. We would reduce the size of government by attrition.

The Minister says there are only two choices to make: growth or austerity. This is sheer nonsense. There is no such trade-off in the real world. The Minister should know better. The Government can stimulate growth without spending more money. Growing the economy, creating jobs and opportunity does not necessitate growing government. You can stimulate growth through policies that enable and encourage the private sector to expand; such as the policies we have already outlined. The Government’s Budget has not done this and every Bermudian should demand its ministers explain why not.

The only growth this PLP government has proven it can produce is growth in debt, and they have grown that at “warp speed.” Since the Premier became Finance Minister in 2004/05, Government debt has grown more than 700%. That is not only astonishing, it is indefensible, particularly when you consider the Government shows no compunction about pushing its repayment onto the shoulders of future generations.

In contrast with growing debt, PLP term limits and land licences policies have depressed growth in international business and home values.

The actual Budget numbers - the Estimates - are pie in the sky as is the plan to charge airlines for passage through our commercial airspace. The numbers are fiction.

Let us take a Reality Check to bring a degree of believability to the Budget situation:

For revenues, the Minister assumed no economic growth and has not raised any taxes other than \$5 million in fees. And yet she has forecast a \$40-million increase in revenues in a year she said the economy would “remain weak.” The Minister offers no convincing rationale for this \$40 million increase in revenues. To bring a realistic perspective to bear, we have adjusted the estimate to last year’s revenue total and added \$5 million in new fees for a total of \$875 million in anticipated revenues.

For expenses, the Government overspent its mark by about 8% last year. We used that figure to come up with our adjusted estimate of just over \$1 billion in expenses. The \$35 million the Minister estimated for interest charges on debt deliberately misrepresents the truth, ignoring as it does the money she is drawing from the Sinking Fund to pay interest. **Mr. Speaker**, it does not matter where the interest money comes from, it still has to be paid, so we have adjusted the interest on debt to reflect the truth, and the truth is that Bermuda faces \$85 million in interest payments this coming year.

Bringing together our estimates for revenue and expenditures, we peg the Government’s Current Account deficit at \$255.2 million, instead of the \$95.9 million forecast by the Minister. We then made an adjustment for the \$62 million the Government is taking from the civil servants’ Public Service Superannuation Fund, to peg Government’s overall estimated borrowing at \$393.4 million.

I invite Honourable members to now look back at Figure 7 to see where a deficit of \$255.2 would be on that chart. It is a whopping big deficit, the worst ever. That is the reality check for this Budget.

Mr. Speaker, I reiterate that the Minister’s Budget estimates have no credibility whatsoever. They are sheer fiction. To Bermudians who might ask ‘Why should we care?’, I say: Because the more Bermuda goes forward without a firm grip on the Budget numbers, the more we proceed without reality-based planning, the more we are setting ourselves up for a big fall. The Government’s handling of the Budget constitutes a serious challenge to our collective security, and it fires our concerns for our beloved Island. Bermuda is being walked toward the edge of a cliff.

The OBA, **Mr. Speaker**, will never stop fighting against the drift and lack of foresight that is taking us there. The future of the Island is endangered and every Bermudian should be extremely concerned.

EDUCATION

Mr. Speaker, rebuilding confidence to ensure job creation and investment is not only important for Bermuda's economy, it is also critical for Bermuda's public education system. As President Obama observed during a school visit in Philadelphia in 2010, how children perform in school not only determines their success it also determines the country's success. We know this is true in Bermuda.

That's why we have expressed so much concern that Professor Hopkins' recommendations and the opportunity they provided to radically improve Bermuda's public education system has been squandered. We know from this Honourable House's Education Joint Select Committee Report that stakeholders were highly critical of government's minimal progress and lack of consultation.

Mr. Speaker, in this year's Budget Statement, we are told, "the shift in the Ministry's focus [to concentrate on its core functions of teaching and learning] has been very successful." We hope that's the case, but given past disappointments and without more information and transparency, neither we nor the public can feel confident in a Ministry that's judging its own progress. That's why we have called for an independent standards board – an educational equivalent of the Auditor General – to provide an objective perspective on progress and school performance for parents and the public.

In 2010, the Ministry's *Blueprint for Reform in Education* promised regular updates and transparent reporting "on the performance of schools, the Board and the system as a whole." It has not happened and we have to ask why? If the Ministry has nothing to hide, why not provide the information?

Mr. Speaker, during last year's 2011/12 budget debate we were skeptical about the Ministry's ability to cut \$15 million from the Education budget and we questioned the viability of 20% cuts at CedarBridge and Berkeley. A year later we note that the revised budget numbers show that the Ministry has only achieved savings of \$4 million, despite the Minister's announcement in June 2011 of the termination of 97 jobs, and the savings at Berkeley and CedarBridge were barely 1%. We support cost savings and the elimination of waste, but we recognize that budgeted savings also have to be realistic and achievable.

In the Budget Statement we note that the Government has now decided to put more emphasis on technical/vocational education through the proposed introduction of Career Pathways in September 2012. It is long overdue. While the "dynamic

partnership" referred to in the Budget Statement provides little information about how the program will actually work, it should not be limited to the two Senior Schools and Bermuda College. We have long held that an integrated technical curriculum must begin earlier in the middle school years to have the right foundation – a lesson learned from the former Technical Institute. It is also important that sufficient funding be put behind the initiative, including a real increase in the number of guidance counselors, as recommended in 2009 by Professor Mincy. To date there has been no increase in guidance counselors.

Mr. Speaker, the One Bermuda Alliance believes in our public education system and believes it can be made to work more effectively not only for our students, but also for the many committed teachers, principals and education professionals that work in our system. The many thoughtful submissions made to the Education Joint Select Committee demonstrated that we have sufficient ability and expertise in Bermuda to implement the changes required, and we don't have to look overseas for foreign experts. As the Association of School Principals observed, we have "too many outside persons coming to 'fix' our problems. With true collaboration we can fix many problems ourselves." The One Bermuda Alliance believes we should have more faith in our own abilities.

PUBLIC SAFETY

Mr. Speaker, all Bermuda should be encouraged by the progress Police have made in recent months. They are being proactive. They are being tough and they are getting convictions.

We should also be encouraged by the fact that more people are stepping forward to assist the fight against crime, especially where gangs and guns are concerned. It takes courage, and it says people are not going to stand by and lose their community without a fight.

This is perhaps the most important development over the past year - where individual citizens are saying 'enough is enough.' Without public involvement, we will never succeed in the fight against crime.

Bermuda's gang problem remains deadly serious. They are firmly entrenched across the island and they are well organized. It will take years of dedicated effort by the Police and the community to make real progress against them. Progress is not guaranteed.

The policing side of the fight is straight forward. They need to be provided with all the resources necessary to maintain effective pressure on gangs. The Budget cutbacks in recent years, when the violence exploded in shootings and death, was as mystifying as it was unacceptable. Police spend more than 85% of their budget on manpower, so the cutbacks meant fewer officers on patrol. Even today, the Police are close to 15% below their authorized manpower level. The proposed Police budget will not close that gap.

The other side of the fight against crime is social leadership. There are many excellent social agencies in operation today, but there is no overall leadership, no one entity providing single-focus guidance to coordinate and focus work on the social problems that give rise to crime. The fragmentation extends to the Cabinet itself, where no one minister is responsible for social policy.

The One Bermuda Alliance believes there is a need for a central coordinator, possibly operating out of the Cabinet Office, to make headway on the problems represented by crime and the community-based solutions and support needed to diminish them. Operation Ceasefire fits into this proposal because of its grassroots ability to mobilize communities and supporting organizations to wean young men away from gang life.

HEALTH

Mr. Speaker, In the Budget Statement, not a word is said about Health. We have an idea why that might be. The government's management of the Health portfolio has opened them to such a lot of painful criticism during the past year that we suspect this silence signals a new health information policy in the months ahead, based on an old saying – the Least said, the Soonest our Wounds will be Mended.

The Minister, the Hon Zane DeSilva, tried to tell the country a few days ago that he had hit on a new and foolproof way of containing the steady drumbeat of cost increases in health – he would simply put a cap on the amount of money the Government was prepared to give, and let the health care providers worry about getting through the year.

We wonder how many in the community believe his idea will work.

We certainly do not. The amount the Government has budgeted for Health has traditionally lagged some distance behind actual expenditure. In this fiscal year, the gap was \$20 million. We think the Minister has foolishly persuaded himself that, like King Canute, he can hold that kind of powerful tide back with a wave of his Ministerial scepter. But the large number of unanswered questions his announcement left in its wake suggests a very different scenario.

Health care involves imperatives – measures that must be taken to save lives, or to save people from the serious consequences of inaction. Many of these things are unforeseeable, and many of them are expensive.

How will the Minister's cap work? When the money runs out, who is going to pay? Will patients be turned away? How will the Hospitals Board ration patient care? Who is going to make the decisions – the patients and their physicians or the hospitalists? Will the Minister make his Memorandum of Understanding with the Hospitals Board public? Will this new regime have an effect on health insurance premiums? What does the private sector think of all this?

And what of our seniors? Their numbers increase every year, a phenomenon that is one of the reasons health care costs go up so dramatically. Does this signal deterioration in the Government's intention and ability to service their needs? What of Future Care?

Mr Speaker, we in the Opposition believe the Minister will fail to contain costs in the way he says he will. We do not believe the Government has the will or the strength of mind to get past even the first of the crises that will inevitably arise from this attempt to pass the buck, without reversing course. We believe the Minister's hubristic announcement will, in the fullness of time, be exposed as having been nothing more than a pre-election attempt to hold on to eroding voter confidence.

CONCLUSION

Mr. Speaker, Bermuda is more than its government. We are families trying to raise children to live good, productive, happy lives. We are individuals with careers trying to use our skills, realize our talents and fulfill our ambitions. We are people trying to hold down jobs to put food on the table, pay our bills and see a bit of the world. We are citizens working and praying together to make our interacting lives more than just ourselves. We are a community of communities - rich in variety, deep in character.

While we are more than the government, the government plays a critical role in how we perform as a society. It is where we pool our resources for actions to make things work for the common good. It is through government that we build schools, pave roads and provide the support for those who need help. It is through government that we come together to make the rules we live by.

Implicit in that undertaking is that the people we choose to represent the common interest do the best job they can, in the name of the people. That is the contract at the heart of elected government. If they fail to perform well, then they are replaced by others. That is the beauty of our self-correcting democratic system - citizens empowered through the ballot box to keep their political leaders moving the community on the path toward a safe and secure future.

Mr. Speaker, the One Bermuda Alliance believes the current Government must be replaced if we are to get back on the path to a safe and secure future.

The 2012/13 Budget provides plenty of argument for such change, but I will focus on five reasons why Bermuda needs change.

The first is the Government's failure to act as proper stewards of the public purse. People expect their government to be careful with their money. They don't want it wasted, but the 700% rise in Government debt since 2006 says that has not been the case. Beyond that shocking statistic lie chronicles of misuses of public funds, from inside dealings to favoritism, that have undermined trust in the Government. This must be fixed - and it can be - but you cannot expect the people who gave reason for the distrust to fix it, no matter how soothing their after-the-damage commitments to good governance sound. The record is the record. It is what it is.

The second reason we need a change in government is because this Government must be held accountable for guiding Bermuda to a position of extreme vulnerability. The

dead weight of debt and the punishing cost of that debt - some \$115 million a year deadens our ability to meet people's needs and our ability to respond to emergencies not yet known. The fact that interest rates remain at historic lows deepens our concerns. When they will start to rise is anyone's guess, but rise they will.

The Government has backed Bermuda into a corner where our options are severely limited and we have less control over our destiny. We need to change that.

Mr. Speaker, the third reason we need a change in government is its lack of credibility. Government budgets are put together to bring order, direction and discipline to the use of the people's money. But these attributes have not been at work. The financial results for the Fiscal Year 2010/11, released two weeks ago, represented the fourth year in a row the Auditor General did not issue a clean audit, meaning there remained serious questions about the integrity of the numbers. Beyond that disturbing reservation, the Budget numbers themselves differed wildly from the original plan, most notably a \$128 million current account deficit, 90% higher than originally forecast. Steep overspends are the history of this particular Finance Minister as Figure 6 shows.

More deeply, this Government has repeatedly failed to understand the economic environment on which their budgets depend. Two years ago, they declared Bermuda was on "The Road to Recovery". Later that year, in the Speech from the Throne, the Government said Bermuda was in a 'post-recessionary climate".

And then there is its history of flip flops - on payroll taxes and customs duty rates, on freebies for seniors and Bermuda College students, on land licences for Bermudians married to non-Bermudians. Flip flops, misguided declarations and wild overspends have undermined the Government's credibility, and a crisis of confidence is the fallout. Only a fresh start can restore confidence.

Mr. Speaker, the fourth reason we need change is the Budget does not address the needs of Bermuda, from job creation, to debt reduction, to control of government spending. Instead, it is an elaborate shell game by the Government to avoid the harsh realities it has created. It is, ultimately, more about the political needs of the Government than the needs of the people.

Mr. Speaker, the final reason this Budget says Bermuda needs a change of Government is the utter failure to consider what it is doing to our youngest generations. The debt the Government is accumulating each year is debt that will land on their shoulders not ours. The Budget takes no responsibility for them. There are no

commitments to pay it down, only maneuvers to push the burden down the road toward them. **Mr. Speaker**, this is an abdication and a betrayal. What parents would do this to their children? What parents would yoke their children with massive debt. But that is just what this Government is doing, with intent. They are so caught up in the financial mess they created they can no longer see straight or play fair with a future that is not theirs to decide.

Mr. Speaker, it is time for a change.

My colleagues in the One Bermuda Alliance will stabilize the situation. We will return responsibility and integrity to Government. We will chart a new course for Bermuda toward growth, opportunity and fairness. We will restore confidence and build the people of this country the safe and secure future they deserve.

Thank you.