

**HOUSE OF ASSEMBLY**

**BUDGET DEBATE**

**3<sup>RD</sup> JUNE 2010**

**ALFRED M. SEARS, M.P.**

Mr. Speaker, I am privileged to represent the people in the Fort Charlotte Constituency in this Honourable House for a second consecutive term.

In July 2010 for five weeks we will sponsor the 11<sup>th</sup> Annual Summer Camp at the Fort Charlotte Community Centre. I take opportunity to invite volunteer teachers, facilitators and contributors to come forward and help us to build our community one child at a time. I thank Mrs. Sandra Sarjudas for maintaining our afterschool

programme and Mrs. Haynah Major for maintaining our Community Centre.

One of the joys of serving as a Member of Parliament is often we come into contact with community builders, elders with a rich background of service to this country and folk wisdom that should be shared with the rest of our country.

I wish to share with Members two recent experiences that I had recently in Fort Charlotte. The first gave me a valuable lesson in love and acceptance from the family of the late Melvin Lloyd Knowles. In the funeral programme for Mr. Knowles, the family reflected on their experience of dealing with their mother, Mrs. Jennie Knowles, the widow of Mr. Knowles, who is suffering from Alzheimer:

**“He loved reading the Bible and his special prayer books, which raised his spirits. We fondly recount the day his prayer books were lost and no other would suffice. He set us on a course of search only to find the missing prayer books neatly placed among his wife’s personal effects. Due to the negative effects of Alzheimer’s disease she had not remembered even touching the books. We can tell you without shame that the person you once knew is gone and is not coming back, so move into their world and enjoy them. There is so much fun and humor to be had in that world and it is much better to laugh with them than to cry or mistreat them.”**

To families in our country dealing with a loved one suffering from Alzheimer, I share this powerful message of love and acceptance.

The second experience that I wish to share relates to a meeting that I had two weeks ago with Mr. Crispen Benjamin of the Perpaul Tract area of Fort Charlotte. Born on the 25<sup>th</sup> August 1926, shared with me a very valuable lesson about protecting centres of excellence in our country.

Mr. Benjamin attended Government High School in the 1930s with persons such as Sir Gerald Cash and Sir Stafford Sands. After graduating from Government High, Mr. Benjamin gave 45 years of distinguished service to the public service of The Bahamas, as a finance officer, serving under the Duke of Windsor and serving as the paymaster for staff of Queen Elizabeth during her honeymoon trip to The Bahamas. After reflecting on the excellent academic and life preparation

that he received at the old Government High School, Mr. Benjamin said that The Bahamas should preserve and not undermine its **institutions of excellence**.

### **BUDGET: A FAILURE OF VISION - NO DEVELOPMENT STRATEGY**

In a speech by the Barbadian novelist George Lamming, entitled “The Sovereignty of the Imagination” at a conference hosted by the Centre for Caribbean Thought in Jamaica in 2003, he stated that:

**“This region has been staggering slowly and painfully to resolve the contradiction of being at once independent and neocolonial, struggling through new definitions of itself to abandon the protection of being a frontier created by nature, a logistical basin serving some imperial necessity, struggling to move away from being a regional platform for alien enterprise to the status of being a region for itself, with the sovereign right to define its own reality and order its own priorities.”**

Mr. Speaker, if we accept this Budget, as framed, we will once again missed an opportunity to exercise our sovereign right to define our own reality and order our own priorities to move us on a path of sustainable development.

According to the Budget Communication, this Budget **“seeks to put in the best position to maximize the gains from the emerging modest recovery through sacrifice, service and reform.”**

Further, the Communication states that **“... this Budget begins to aggressively redress public finances now, by containing the growth of Government Debt this coming year and beginning to move the debt-to-GDP ratio back to more prudent and desirable levels over the medium term.”**

In 2008, in the face of the global recession, the Government implemented a stimulus strategy: expanding public works projects, Road Improvement Project, Dredging of Nassau Harbour, creating entry level public sector jobs and increased allocations to social services. Two years later, we can confidently say that this stimulus strategy has failed. The economy has not been stimulated, but is shrinking, with increasing deficits and debt ratios and double digit unemployment.

### **DEBT TRAP**

The failure of the current stimulus strategy of the Government is most apparent in the growth in the national debt over the past two years. The national debt, government direct debt of \$3.9 billion at the end of 2009 plus government guaranteed debt on behalf of

public corporations. The size of the GDP at the end of 2010 will be \$7 billion. With Bahamian economy shrinking in real terms: 1.7% in 2008; -4.3% in 2009 and by 0.5% in 2010, it is expected that by the end of 2010 there will be a debt to GDP ratio in the region of 59%.

According to Standard & Poor's Report dated the 28<sup>th</sup> April 2010, this contraction in the Bahamian economy was due, firstly, to the policy of the Ingraham Government to **"stop, review and cancel"** about \$80 million of public contracts, and ,secondly, to the global recession. At page 12 of the Report, Standard & Poor's stated that:

**"After posting real GDP growth of 5.7% in 2005, momentum slowed sharply and then the economy contracted. In 2007, the increase in**



**real GDP was a mere 0.7% as growth was interrupted, first by the elections and then by the new administration's protracted period of reviewing contracts after it came into office in May 2007. The review of \$80 million worth of contracts and the eventual cancellation of a \$23 million public contract for the Straw Market negatively affected investor sentiment and brought substantial disruption to the contractors' activity."**

The lesson of this unintended consequence of the "stop, review and cancel" policy of the Government is that we should not make macroeconomic decisions for The Bahamas based on partisan political considerations, as we are paying the price for "playing the old politics" in 2007 and 2008.

### **Punitive Cuts in Recurrent Expenditure:**

**Charities** – it is proposed to cut contributions and grants to charitable organizations and institutions by 10

to 25%. If we are not prepared to reduce the size of an extravagant Cabinet, why should we withhold assistance to the most vulnerable and burden an already stretched Department of Social Services?

**College of the Bahamas** – It is proposed to cut the allocation to COB by \$2,471,975. The 2009 allocation to COB was cut by \$2,645,937. In 2009 the budget of COB was cut by \$5,117,912, at a time when new Guaranteed Loans was suspended in 2009 resulting in greater student enrollment. In 2002 COB was on the verge of collapse. In 2002 the Christie Government appointed a new Council, chaired by Mr. Franklyn Wilson. An audit of COB was ordered by the new Council that resulted in the discovery of \$14 Million for which no record was found. These funds were used to purchase and

renovate the Bishop Eldon Building, build the COB Bandstand and renovate classrooms; thus, facilitating the preparation for transition to university status. Why now compromise the improved viability of COB and the national development of the human capital to increase the competitiveness of The Bahamas in the future?

**BTVI** – It is proposed to cut the allocation to BTVI by \$67,570. In 2009 BTV's modest budget of \$6 million was cut by \$500,058. Why compromise the national investment in the development of our human capital, when we need to increase the pool of available technical skills to make us more competitive in the future?

**Private Schools** – It is proposed that the allocation to Private Schools be cut by 20% or \$2,297,624 which will result challenge the viability of these schools and cause

a migration of more students into the over-crowded public schools. In 2006 the Christie Government, in consultation with the Heads of Private Schools, increased the subvention to Private Schools from \$9,714,280 to \$11,488,120. Generally, teachers in the public school system are better compensated and operate in better facilities than their counterparts in the private school system. Yet, many of the private schools have developed and maintained a tradition of excellence in academic, ethical, athletic and cultural development of their students. As Mr. Crispen Benjamin cautioned, we should not undermine these centres of academic, athletic and cultural excellence by the proposed punitive cut.

## **Hold on Public Service Increments and Promotions**

— This is an old idea that usually adversely impacts productivity. A better idea, I suggest, would have been to move the Public Service and Public Corporations towards a **Contributory Pension Scheme**, as the pension in the Public Service is like a fixed charge on the Consolidated Fund in the amount of \$52,180,066.

Why was there no increase of taxes on cigarettes and hard liquor? Why do we lack the resolve to make difficult public policy decisions, such as legalizing domestic gaming for Bahamians, when the Government donates millions of dollars of Bahamian taxpayers' money to foreign resorts to promote their respective resorts, all of which offer gambling to tourists in The Bahamas?

## **Unrealistic Revenue Projections**

If the revenue projection in the Budget is unrealistic, Parliament is then deceived into putting The Bahamas into a “**debt trap**”. The Government, in this Budget, is projecting a revenue increase of 19.7% or approximately \$200 million more than was collected in the 2009 to 2010 fiscal year, based on the containment of expenditure and revenue enhancement measures proposed.

However, this projection is, at best unrealistic in a shrinking Bahamian economy and the Budget offers no realistic and creative programmes to grow the Bahamian economy.

In 2005 when the growth rate of GNP was at its highest in the last ten (10) years, at 5%, during construction of Atlantis Phase III, the recurrent revenue increased by a mere \$100 million. In a shrinking economy, how will the Government increase revenue by \$200 when it did not achieve that level of revenue increase in the best of times?

Professor Orlando Patterson of Harvard University, in a thoughtful Opinion in the New York Times on the 30<sup>th</sup> May 2010 warned us, using the recent events in Jamaica over the extradition of Christopher Coke, that **“The expectations of citizens in these transitional economies often outrun the capacity of society to meet them; people get frustrated and feel unfairly treated, leading to high risks of violence.”**

Mr. Speaker, on our current trajectory of debt to GDP ratio and the weak and ineffective response of the Government we are at a dangerous place! As the expectations of the Bahamian people outstrip the capacity of the Government to provide sufficient public goods there is rising frustration that may increase the likelihood of violence if we are not careful.

### **ALTERNATIVE VISION FOR THE BAHAMAS**

It is in the context of this dismal macroeconomic picture that we must examine the Budget before us.

Mr. Owen Arthur, former Prime Minister of Barbados, in a statement in Jamaica in September 1999, made an observation on the Caribbean political culture that is relevant to us when stated that:



**“The Caribbean needs to move to a new form of governance. No Caribbean society can succeed unless all of its resources are mobilized into support of national development. However, the unfortunate aspect of the Westminster model of governance we have inherited, is that it has encouraged a ‘to the victors, the spoils’ mentality. And that has ensured that at any time, almost half the population of any given Caribbean society is marginalized and alienated from participation in the development of their society. There has been too destructive a competition for political office, too heavy a concentration of power in the hands of ruling elites, an unhealthy preservation of anti-developmental party and tribal divisions, a focus on short-term partisan political concerns and a patronage spoils system which work against sound and progressive government.”**

Mr. Speaker, it is instructive that Prime Minister Ingraham, during his presentation yesterday opening this debate, stated that: **“It has never been the convention of Chancellors of the Exchequer or Ministers of Finance to negotiate in advance the**

**details of a national budget.”** It is sad that even when The Bahamas is faced with the greatest economic challenge in its contemporary economy, we remain stuck in tribal divisions and short-term partisan political concerns. We refuse craft a new model of governance to harness the collective wisdom of our country, inclusive of all political parties and civil society, to solve our problems and put us on the path of sustainable national development.

In order to make The Bahamas more competitive in this rapidly changing global economy, I propose that we expand the streams of public revenue, by creating better linkages between the tourism sector, agriculture, fisheries, indigenous craft production, cultural industries and other service areas.

## **TAX REFORM**

Mr. Speaker, I predict that the Government will **fail** to meet its projected and unrealistic \$200 million revenue increase over the next fiscal year. Not only is the current tax system of custom duties unfair and places a disproportionate burden on the poor, it is also grossly inefficient, as it does not tax the services being produced, which now represents about 80% of the value being produced annually in the Bahamian economy.

Notwithstanding, the unfair and inefficient nature of the present tax structure resulting in spiraling debt, Prime Minister Ingraham boasted in the House of Assembly as recently as yesterday that “**The Bahamas**

**continues to have one of the lowest rates of taxation anywhere in the world.”**

However, Standard & Poor’s in its Report on The Bahamas dated the 28<sup>th</sup> April 2010 questioned the efficiency and sufficiency of custom duties as a revenue base to support the modern Bahamas. The Report states, at page 17, that **“Revenue vulnerability stems from the reliance on taxes on goods/customs (that account for about 50% of tax revenue), which in turn depends on imports and tourism. Introduction of a broad-based consumption VAT could mitigate vulnerability, but it is not on the government’s agenda.”**

The International Monetary Fund, in its 2009 Article IV Consultation also takes issue with the boast of

Prime Minister Ingraham and recommended the urgent review of our retrogressive tax structure stating, at page 20, that: **“... for the medium term, the staff encourages consideration of more fundamental reforms, particularly rendering the revenue structure more efficient and less distortionary, which would facilitate efforts to diversify economic activity.”**

Mr. Speaker, The President of the Chamber of Commerce, Mr. James Smith, members of the Official Opposition and various Bahamian commentators also have made similar recommendations to reform our tax system. All of these recommendations have been ignored, I submit, to the detriment of The Bahamas.

Mr. Speaker, when we join the World Trade Organization and other trade arrangements, we will have to eliminate our custom duty regime, as restrictive barriers to trade. Why should we wait until we are being threatened with blacklisting by a multilateral trading organization, before we exercise our sovereign right to create an alternative tax regime to stimulate domestic production, diversification of the economy, and equitable distribution of the tax burden and create a more sustainable source of public revenue?

Mr. Speaker, the proposed expenditure and revenue measures will further burden the poor, eliminate the middle class, cause the collapse of small and medium size Bahamian businesses and reward the rich. Rather than increase public revenue, these

measures are likely to have an elasticity effect by depressing revenue and increasing the public debt. We are now on a road of diminishing returns which has resulted in a \$4 billion national debt, with an annual debt servicing bill of \$, a national unemployment rate of about 15% and a shrinking Bahamian economy.

Mr. Speaker, now is the time for us to demonstrate the national resolve and begin a bipartisan national conversation on the appropriate alternative tax regime, whether income tax, value added tax (VAT) or sales tax.

### **DIVERSIFICATION OF ECONOMY**

Mr. Speaker, the current Budget does not provide any real incentives to create better linkages between tourism and financial services, on the one hand, with agriculture, fisheries (commercial hydroponics and

aquaculture) and indigenous craft and souvenir production. Targets should be set to ensure that these areas achieve a greater share of GDP by 2020. Such a strategy will also move us in the direction of greater food security in an increasingly protectionist world.

The current Budget does not take us in this direction. Under Head 57, there is a reduction in the budget of the Department of Agriculture of \$539,164; a reduction in the budget of the Department of Marine Resources \$254,943.

Mr. Speaker, I recommend that there be a national commitment, in the interests of diversification and food security, to substitute by 50% over the next ten years the \$500 million that we currently spend on imported food with locally produced food.



## **Education Transformation and Creation of University of The Bahamas**

Mr. Speaker, one of the engines of development is an educated and skilled population. I have been asking the Government, over the past two years, to use some of the \$1.2 billion borrowed to transform our education system to produce a more competitive population, as was done by President Obama who invested over US\$100 Billion of his Stimulus Package to improve education in the U.S. It is proposed to cut the Department of Education by \$5,703,952. In 2009 the budget of the Department was cut by \$13,011,405. Therefore, over the past two budgets, the allocation to the Department of Education would have been cut by over \$18 million.

Mr. Speaker, a globally competitive tertiary national institution, with a strong teaching and research capacity, is a critical resource for the deepening of our democracy and sustainable economy. Therefore, I submit that the transition of COB into a national university is important to the national development of The Bahamas.

### **Land Policy**

Mr. Speaker, it is untenable that about 1.8 million acres of Crown Land should be under the exclusive control of the Prime Minister, without any clear written policies, for the grant of Crown Land. To facilitate wealth redistribution in our society, empowerment and resettlement of Bahamians, there needs to be a legal and administrative roadmap for Bahamians to pursue to

obtain title to Crown Land and a proper land registration system.

## **NATIONAL DEVELOPMENT PLAN**

Now is the time for both Government, Official Opposition and Civil Society in The Bahamas to begin a public conversation on the crafting of a national development strategy for our development targets for the next 50 to 100 years. What kind of Bahamas are we seeking to build and where do we want to be in the year 2030 or 250? What new sectors of our economy do we want to create? What kind of new values, attitudes and behaviour do we want to instill in our people to create a more prosperous, stable and integrated society.

## **Conclusion**

Mr. Speaker, the proposed expenditure cuts and revenue measures, I believe, will not stabilize the shrinking Bahamian economy or achieve the stated objectives.

I will not support a Budget which mortgages the future of The Bahamas, without a clear national development plan to develop alternative and sustainable sources of public revenue, alternative sources of renewable energy, new industries, improve the competitiveness of the Bahamian human capital and secures the future of The Bahamas. To continue as we have been doing under the current circumstances, as is reflected in this Budget, is nothing short of reckless.