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Road to where?::

OPINION *By ROBERT PIRES*

The title of the 2010/2011 Budget Statement — "The Road to Recovery" — is more an expression of hope by Finance Minister Cox than one of promise.

One might expect that the text to follow such a title might be instructive, a road map of sorts, as to how to extract Bermuda's economy from the current economic malaise-but that was not to be. Instead one reads several pages of platitudes and well-meaning notions of working "together" and avoiding "inertia" in an effort to find a "sustainable solution".

The dismay expressed by business leaders over the 2010/11 budget follows astonishment that the 2009/10 budget seemed to ignore the impact of a severe economic recession at the very depths of that recession — ie, early 2009. The consequence of this overestimation of revenues in last year's Budget, coincident with subsequent chronic overspending has resulted in an unprecedented nine-digit current account deficit. Ms. Cox's response to this is increased spending supported by increased taxation.

The problem with the Finance Minister's approach to Bermuda's current economic difficulties is that economic studies have proven that increased taxation results in higher unemployment. This is not surprising when you consider that expenses related to employment are the highest costs of any business and any increase in costs related to employment will naturally result in businesses delaying employment decisions and in the current environment is likely to induce further redundancies.

In the fall of 2002, the Cato Institute published a statistical study by Bernhard Heitger of the Kiel Institute for World Economics in Germany using data prepared by Stephen Nickell on the impact of labour market rigidities on economic performance in OECD and non-OECD countries. The Heitger analysis showed that higher taxation resulted in higher levels of unemployment and that a reduction in the total tax rate of one standard deviation leads to a reduction of long-term unemployment in the order of 3.2 percentage points. The increased taxation announced by Bermuda's Finance Minister is indeed 'employment negative'.

Bermuda's business leaders had hoped for 'employment positive' measures in the budget- ie, those which would have encouraged employment. A measure which would have supported the Minister's stated objectives would have been an employment tax holiday on employees under the age of 25. This age group is most severely affected by economic recessions and the social costs of having this age group unemployed can last for several decades.

The Minister may have been encouraged by recent profit announcements from the reinsurance sector. Indeed they do seem better positioned to take on additional costs than local orientated businesses. However, a recent study by ABIC reveals that more than half of the companies in the international sector