



OFFICE OF THE
PREMIER
CAYMAN ISLANDS GOVERNMENT

2016 Fidelity Cayman Economic Outlook Conference

By Premier Hon. Alden McLaughlin, MBE, JP, MLA

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I am keenly interested that Cayman Economic Outlook has chosen to address the question of “Inequality” this year. I understand from the theme that the conference aims to consider how to address the imbalance created by deepening global inequality. I look forward to hearing the perspectives of the esteemed speakers here today on this important issue.

For my part, I intend to look at what we are doing to address inequality in the Caymanian context. So while the conference has listed my talk today as a ‘State of the Nation Address’, it could perhaps be best titled ‘Addressing the State of Inequality in the

Nation’.

It has been said that: “An imbalance between rich and poor is the oldest and most fatal ailment of all republics.”

You would be forgiven for thinking that this is a ‘sound bite’ from US presidential candidate Bernie Sanders during a television interview on CNN this past weekend. But in fact it is a 2,000-year-old quote by Greek biographer Plutarch.

My point being that this issue of inequality and imbalance is not new. But we have to ask, is inequality really deepening? Perhaps. Are there any solutions that will entirely eradicate inequality from the world? I doubt it.

Communism, the last ‘great’ experiment to supposedly bring about a more equal society failed. The iron curtain in eastern Europe is gone and today even China holds Mao’s ‘little red book’ in one hand and Adam Smith’s ‘The Wealth of Nations’ in the other. And because of this, by focusing on economic growth,

China has moved more than 500 million people out of extreme poverty over the past 30 years.

We know we cannot fully solve the problem of inequality. But we can, and must, work to dismantle the barriers to equality and strive for a culture and environment that fosters fairness and creates opportunities for individuals to help themselves.

Opportunities for employment, for housing, for medicine, food and education.

As Premier of the Cayman Islands I, and the Government that I lead, face the reality of inequality every day. It is not an abstract concept to those of us in Government. We walk among and talk to people at all levels of society. What challenges us is how best to provide opportunities for Caymanians while maintaining the social balance in our three small island communities. Communities with a large, fairly transient workforce on the one hand that makes a significant contribution to our society and to the Gross Domestic

Product, and a local population that has not reached its maximum development potential, but certainly expects and deserves the opportunity to do so.

In that context, the inequality that I will primarily speak about today, and indeed the imbalance that the theme of the conference is referring to, is economic inequality.

The first role of Government in tackling economic inequality is to support the drive for economic growth, which benefits everyone. Governments do not create growth or wealth but they can and should create the conditions for the private sector to do so.

This Government's record in promoting growth is one we can be rightly proud of. By the end of 2016, if current forecasts hold true, under this Government the economy will have grown annually by an average of 1.9 per cent over the three years following our election – and this includes lowered expectations for

2016 given current economic concerns. Contrast this to an average increase of 0.81 per cent in Gross Domestic Product for the preceding three years. Not only has GDP growth more than doubled, but this is a level of economic growth that is acceptable in today's post great recession economy.

Consider that record against the position in the four years previously. Those of you who reside here will well recall that before the 2013 election Cayman was not in a good place. Yes the country was looking to get out of a global economic slump but there were problems in leadership and a general lack of direction that compounded our problems and slowed the potential for economic growth. If we reflect on the Cayman of four years ago, and consider how much better a place Cayman is today, you will appreciate how much has been done by this Government to improve stability and confidence. It is a transition that did not occur by accident – it occurred because we had a plan to move the country forward to create an environment for growth and

opportunities for Caymanians and all who live, work and invest here. And we have been focused and disciplined in carrying out that plan.

Our first priority was to get Government back to a strong and stable financial position. We have been so successful in bringing order back to the management of our public finances that by June this year we will be in full compliance with all of the requirements of the Public Management and Finance Law; returning control of and responsibility for the budget process to the Cayman Islands Government for the first time since 2009. This one achievement certainly helped reinforce the confidence of the United Kingdom Government and of international investors in Cayman.

Indeed that step was crucial in creating the investor confidence that has underpinned our economic strength in recent years.

In monetary terms, when we took office in 2013 the previous administration's budget surplus was \$53.6 million dollars. Our

budgets over our first three years have each created surpluses of over \$100 million dollars; all while paying down debt and reducing taxation and, in the current budget, providing a 4 per cent cost of living adjustment for civil servants whose salaries had been frozen for at least seven years. While this represents a cost to government of \$7.5 million per year, it also represents money left in the pockets of individuals to be spent in the local economy.

We recently began the transition to multi-year budgets with an 18-month interim budget that will take us from 1 July, 2016, to 31 December, 2017, and which has a forecast surplus of \$64 million dollars. This reduced surplus is deliberate as Government takes advantage of its improved financial position to continue to tackle concerns about inequality regarding pay in parts of the public service, including long serving teachers, police officers and others in uniformed services. These civil servants not only had their salaries frozen, but they saw new entrants to the profession being in positions to negotiate higher salaries in line with the cost

of living in today's Cayman. These long-standing and experienced public servants find themselves working for much less than new entrants. This serves as a huge disincentive for them to remain as teachers or in the uniformed services. They deserve better, particularly given their contribution and importance in building and protecting our society.

This next budget will also fund plans designed to correct challenges in the public education system and to improve teaching and learning results. The Needs Assessment Unit and the Department of Children and Family Services will also receive needed funding to enhance services to the most vulnerable and at-risk people in our society. Funds will also be available to implement a new Conditional Release programme to help rehabilitate prisoners to better function in society and live useful and crime-free lives following release from incarceration.

These are all important policy initiatives that directly address inequality and provide opportunities for Caymanians. But we would not have been able to achieve any of these without first having stabilised and improved Government finances.

The second priority in our plan has been supporting and enabling major private sector investment, which creates jobs and drives long term economic growth.

Let me offer you a quick glimpse at some of those developments and the anticipated jobs they will create:

- St. James Point Resort and Condo in Beach Bay will employ 750 persons during construction and provide 325 permanent hospitality jobs. It is expected to open in early 2018.
- The Kimpton Seafire on Seven Mile Beach is nearing completion and will employ 400 persons when it opens in November with 266 rooms and seven restaurants.

- The Treasure Island hotel has been sold and will become Margaritaville Resort. Plans to develop the old Hyatt site continue and Dart has confirmed it will build a second hotel as part of the Camana Bay expansion. Plans are moving ahead for the building of Phase One of Cayman Enterprise City's campus in South Sound to be completed in 2018.

- Development continues in the Eastern Districts with the proposed Ironwood Golf Resort and expansions to Health City.

But this Government is not just supporting big business. Economic equality means freeing up the entrepreneurial spirit and supporting those who want to establish and grow their own businesses. Therefore, to encourage business growth, Government waived various outstanding fees owed by small businesses still struggling in a post-recession economy. Additionally, licensing fees for small businesses were lowered by 50 per cent or 75 per cent depending on location while licenses

for micro businesses are now free. This cost Government about \$1 million dollars annually but also allowed many new smaller businesses to start up. We have seen business license grants more than double since then. Again, the goal was to create equal opportunities for Caymanians and we have done so.

I am a firm believer that the private sector is the driver of growth and the creator of wealth in our economy. However, there is a role for Government to invest in key public infrastructure needed to support private sector-led growth.

The hallmark of this Government has been its willingness to commit to the investments needed to develop that infrastructure after years - or in some cases decades - of talk. The \$1 million dollar renovation and improvements to the Charles Kirkconnell International Airport on Cayman Brach were completed last year and already tourist arrival numbers have significantly increased. Work is well under way on the first phase of the \$60 million dollar

re-development of the Owen Roberts International Airport. I would add we expect that project to come in on time and on budget and also, we will not borrow a penny to do so. The second phase is about to go out to contract.

We have committed to finding the best way to bring cruise ship berthing to George Town and await the results of a report on options to limit damage to the undersea environment before finalising plans. We have also discussed with the cruise lines their possible participation in the project as we will need a guarantee on the throughput of passengers required to repay any financing package. This project will not only help to safeguard our important cruise business into the future, but it will also enlarge our cargo port.

Both will protect existing jobs as well as bring many new jobs during the project phase leading to many hundreds of more jobs well into the future. And both projects are vitally needed as shown

by the ever-increasing arrival numbers of visitors under our watch. We had a record-breaking 385,379 air arrivals in 2015 and a record 1.7 million cruise visitors to our shores last year. That's a 6.6 per cent increase over 2014 in cruise visitors and the best since 2007. We expect air and cruise numbers to grow even more this year.

The George Town revitalisation plans are being strengthened through a positive dialogue with businesses and other stakeholders. In the meantime, Government is committing to infrastructure improvements necessary for the plans to succeed, including further road developments to Humber Lane, Bobby Thompson Way, Fort Street, Edward Street and the Linford Pierson Highway.

These infrastructure improvements create jobs now as we deliver them but they are also crucial to securing our future growth and prosperity. However, while growth is central to

tackling inequality it must be growth whose benefits are felt by all. That is why the second task of Government is to ensure equality of economic opportunity.

The most obvious example of that is the opportunity to find work.

As I said to you in 2014, to address the unemployment of Caymanians we first had to lay a solid foundation of confidence and investments to help create those jobs. This we have done and our efforts have seen total unemployment fall from 6.3 per cent in 2013 to 4.7 per cent in 2014. Unemployment amongst Caymanians fell from 9.4 per cent in 2013 to 7.9 per cent in 2014. A six-month interim survey indicated that Caymanian unemployment increased to 8.3 per cent during the 'slow' tourism season, but I fully expect this to fall back again and continue its downward trend when the next full survey results are published in a month or so.

However, national statistics mask individual problems. I believe this Government deserves huge credit for its achievements in delivering growth and cutting the unemployment rate but I understand that is no consolation if you are one of those still unable to find work. If it is your livelihood that has been lost; if it is your family struggling to pay household bills then the reality is very different from that much more positive national picture.

That is why this Government recognizes it must do more. In a growing and successful economy we should not accept a position in which Caymanians who want to work, and are able to work, find that they cannot get work. Both Government and business should find this unacceptable and agree that that if this issue is not aggressively tackled it will create more inequality and cause division in our society.

Government must do more and business must do more. In my view, we need to do more together. I have therefore called for

employers to work with us to find a way to employ capable Caymanians who are out of work. To aid this effort, in February Government will launch the 'Ready2Work KY' jobs programme to make it easier for businesses to hire Caymanians and train them. It is a multi-pronged approach to up-skill those who need it and help Caymanians who already have skills but are unemployed find gainful employment. It will be a Government and private sector partnership with government covering the costs of the employee's salary and benefits during the training period. The initial cost will be \$1.7 million dollars and will be one part of an overall plan that will seek to provide paths to employment for Caymanians experiencing barriers to work. Where necessary, support services will help ensure that employment is maintained and work performance is where it should be.

The programme closely resembles another successful Government and private sector initiative, the Hospitality Training School, which has provided opportunities for young men and

women to get on-the-ground training and experience with various hospitality jobs coupled with classroom time. At the end of the programme, the successful participants receive employment offers in the tourism industry.

While these programmes work to help those who are in need now, we will not shy away from providing our young people with a 21st Century education that aligns training with job opportunities and skills. In a small country such as ours, we must ensure that our people are given the opportunity to participate in the economy at whatever level and in whatever way that meets their aspirations and abilities.

In the year ahead, we will also strengthen the institutional framework of our educational system by bringing into force a new Education Law to improve success rates and outcomes and raise overall standards. We will do our part as a government to prepare our people for the future economy, but we cannot do it alone. We

expect the private sector to do its part too. And we expect our people to do what is needed to maintain jobs and continue learning. At the end of the day, we expect that those Caymanians finding jobs will give an honest day's work for an honest day's pay and I encourage those of you who may have a job to offer, to make a Caymanian your first choice.

Getting Caymanians into work is central to reducing inequality but we also need to do more to provide opportunities for advancement of those in work. Government has a role to play in supporting life-long learning and in fostering ambition and drive in our people. We look to businesses to offer bright and able Caymanians better opportunities for promotion – we want to see more as equity partners in the firms or sitting on the boards of companies. In the coming year we will pass a new Legal Practitioners Law, which will enhance the regulation and economic opportunities for the legal profession and also ensure

fair treatment and opportunities for Caymanian attorneys within law firms.

Again, it is much easier to create opportunities at times of growth – that is why the commitment of Government to support growth underpins all that we do.

There are times when it is right for Government to intervene directly to tackle economic inequality. This is not about Government acting as a trade union but it is about recognizing that sometimes the existing imbalance in economic power needs to be tilted back a little.

That is what lies behind the drive to establish the minimum wage. This will directly benefit those most economically unequal in our society. So beginning 1 March this year Government will introduce a national minimum wage of \$6 per hour and \$4.50 an hour for workers receiving tips or other benefits such as housing. We believe it will help reduce the inequality caused by the low

wages that both Caymanians and expatriates earn in some parts of our economy.

It is also the thinking behind the proposed changes to the Labour Law. I recognise business concerns over some of the proposals and we are listening, but businesses too must recognise the inequalities in the labour market. One of the changes in the Law will be an increase in the retirement age from 60 to 65. It is another area of inequality for people who are willing, able and need to work beyond the age of 60.

Government can also play its part in tackling inequality using other fiscal and regulatory levers at its disposal. The budget surpluses we have generated because of better money management also allow us to avoid the need for any new taxes or any new borrowing. We knew that any such move would have been counter-productive to our mission and would have hurt the economy.

In fact, as I have noted, we have been able to reduce the cost of doing business and the cost of living for individuals through lower taxes and fees. These include a 2 per cent reduction in the duty charged on most goods imported by retailers, wholesalers, or other licensed traders. This equates to at least \$4 million dollars annually.

We also reduced the import duty paid by Caribbean Utilities Company on fuel used for electricity generation - an overall 50-cents or 75 per cent reduction per gallon of fuel imported, at a cost to government of at least \$12 million dollars annually. This directly benefits every person and every business by lowering their electricity costs – money that remains with businesses and consumers to spend in the local economy. We also know that these duty reductions provide the greatest benefit to the poorer parts of our society for whom utility costs are a higher proportion of their outgoings.

Seeking to ensure that the motoring public fully benefits from the market reductions in the price of fuel, the legislative intervention by Government through amendments to the Dangerous Substances Handling and Storage Law has seen results with lower market prices for imported fuel and has brought greater equity for consumers. But more needs to be done before we are happy that the oil companies are treating our people fairly. And we are taking those necessary steps.

A strong economy and stable government finances also enable us to take some responsibility on the global stage for tackling inequality. We are not in a position to be a major giver of international aid but we were, for example, able to offer support to our neighbours in Dominica in their time of need following the devastation brought by Tropical Storm Erika, which swept through that country devastating villages, wrecking bridges and leaving a reconstruction bill worth half the country's annual GDP. We could

only do so because of the economic platform this government created.

The economic platform that we have built serves a further benefit. Since late last year, and continuing into 2016, concerns with a slowing Chinese economy have created uncertainty in world markets and warnings of a potential economic slump later this year. If this should happen, we are much better placed than ever to ward off a recession. Government's infrastructure projects, coupled with the private sector projects mentioned earlier, will keep our economy moving. In addition, our cash reserves are healthy and we have significantly reduced debt over the past three years and shown that Government can, if it wants to, manage its treasury in a disciplined way.

The economy and economic equality are central but Government also has to be willing to tackle social and political inequality.

At the social level that includes opening up debate on difficult social issues like sexuality even if we find it uncomfortable or (worse!) politically contentious. And beyond the debate we must have the political and moral courage to acknowledge that discrimination in any form is wrong and take the necessary measures to address it.

The Government has also responded to concerns of inequality that people with disabilities face. This year Government will enact its first Disabilities Law so that people with disabilities can better fulfil their roles in society. Part and parcel of the revitalization of downtown George Town is making it more accessible for our people, residents and tourists with disabilities.

Finally, Government must ensure political equality. The most obvious example is the introduction of one person, one vote to replace the previous one person one vote, another person six votes system. Opposition to this change has come consistently

from some quarters – I wonder sometimes what is so frightening about this fundamental principle of democracy.

Equality at the ballot box is vitally important but democracy is not a once every four year's occurrence. After all, the voters in a "one party state" get that much. No, we must also ensure equality of political access; the openness and transparency of Government; good governance and appropriate decision-making. Those things have been the hallmark of this government in marked contrast to what has gone before. No more is government characterized by decision-making to benefit those making the decision. No more is there on-going suspicion of corruption and scandal. Instead we have a Government willing to open up public debate (for example over cruise berths and our waste management strategy) and a Government willing to act in the interests of the whole country.

It is that approach to Government that has given us the strength to tackle the problems we inherited. It is that approach that has delivered strong and stable finances, created business confidence and fostered economic growth. It is that approach that will drive further prosperity, create better employment and economic opportunities for our people and tackle the inequality that is the subject of this conference.

In closing, I sincerely thank Fidelity for asking me to speak today and I thank each of you for your patience and kind attention.

Thank you and I hope you enjoy the conference.

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