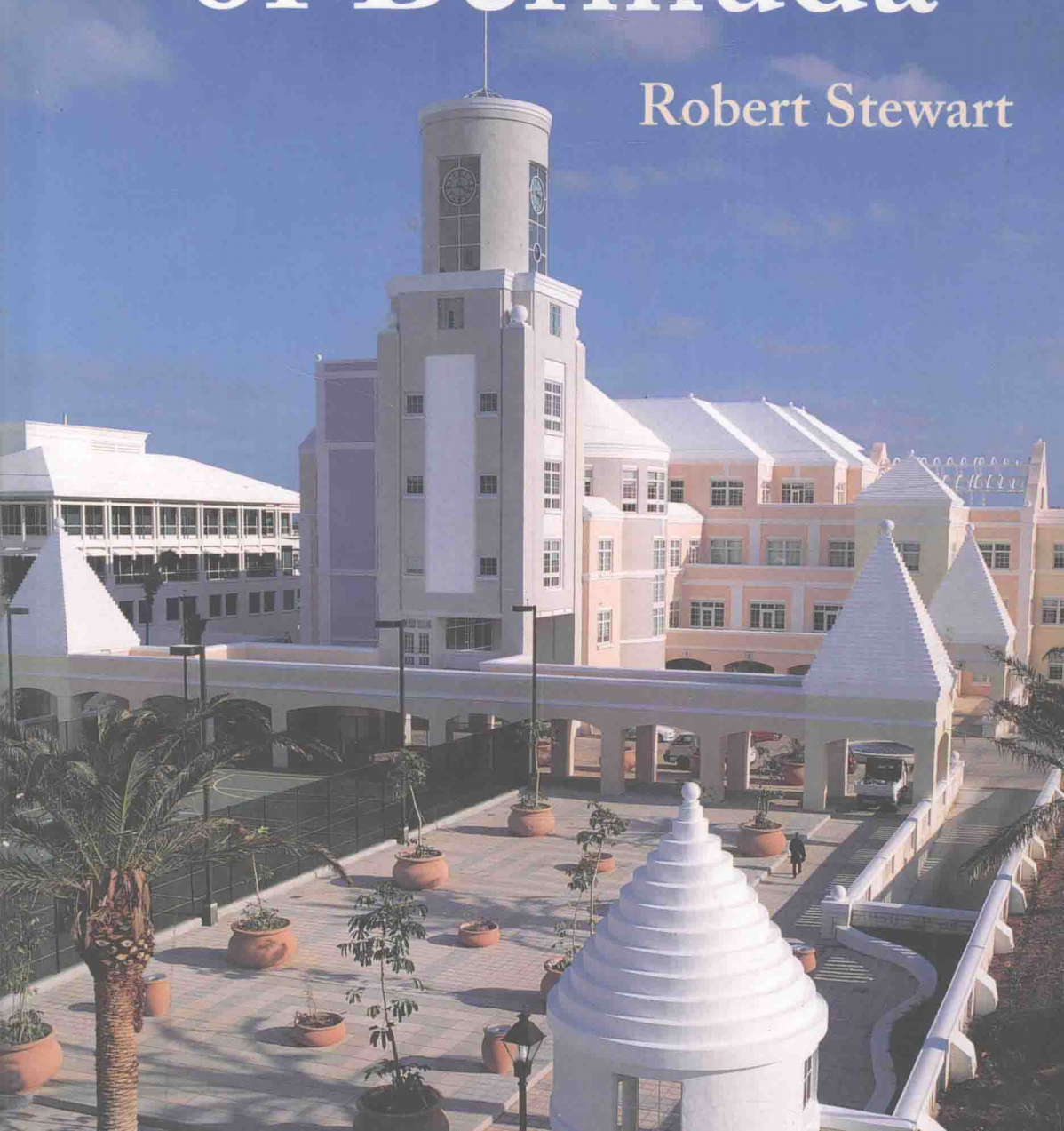


*A Guide to*  
**The Economy  
of Bermuda**

Robert Stewart



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OAKWELL  
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Much of what I have written will be considered as politically incorrect (at least I hope it will be), but I would ask readers to excuse my lack of political correctness when I use "he" rather than he/she, or clumsy gender-free pronouns. This is not because I lack sensitivity, but simply in order to make the text more readable.

I would like to thank Roger Boulton of Toronto for editing what I have written and Fortunato Aglialoro, also of Toronto, for designing this book. For errors, omissions, opinions, and all sorts of other mistakes I alone am accountable.

# Introduction

In attempting to write a book about the economy of Bermuda, I have been guided by several considerations, amongst which the four most important are:

- We all think about economics whether we know it or not and whether we want to or not. In exercising the right to vote, the voter takes a stand on matters economic.
- To be well informed, voters must concern themselves with the major economic issues of the day because these deal with society's fundamental problems. An understanding of how the Bermuda economy works will help the concerned citizen to make informed judgements.
- The greatest discovery in history for working one's way out of poverty is the combination of a free market economy with private property and limited government. It is by dedication to these principles that Bermuda has prospered over the years.
- The growth of government in the western world and in Bermuda has diminished individual freedom and restricted the right to use private property freely. Politicians and their hangers-on take more and more from the taxpayer, keep big chunks for themselves, and then tell taxpayers how to live their lives. Government is the enemy of freedom and individual responsibility. For example, the more a government spends on schools, the less it seems do those schools teach and the less do parents exercise control over the education of their children.

Ordinary people are the best judges of what is good for their welfare. They do not need "guidance" and "counselling" from those in authority as to how they should conduct their lives. Indeed the political classes are too often composed of people who have been singularly unsuccessful at running anything at all, not to speak of their own lives. In the main, there is only one way to be wealthy, and that is to serve the customer better than does anyone else. Bermuda used to be good at that in the hospitality industry and is still very good at being attentive to the customer when servicing international business. This was demonstrated when the insurance business responded with alacrity to events following the

terrorist attacks in the United States on 11 September 2001.

The remarkable success of the Bermudian economy over many years has been brought about not, as is popularly assumed, by the wisdom of the governing classes but by the initiatives, good sense, and unremitting efforts of those who get out of bed each day, go to work, do a good job, and provide for themselves and their families. All that Government needs to do, in order for people to prosper in Bermuda or anywhere else, is to preserve individual freedom, protect private property, and keep down taxes. By doing nothing more than that a government will contribute more to the prosperity of ordinary people than by all the programmes that have been dreamed up during the past 30 years.

There is a very close connection between economic freedom and individual freedom. When the individual is free to decide how to spend his income, he becomes accountable and responsible for his own well-being and as a result he enjoys freedom to run his own life. When government officials tell him that he is too ill-informed, too stupid, too dull, or too short-sighted to make decisions about his life, such as the education of his own children, provision for his old-age, provision of medical care or provision of housing, he gives up his freedom and is placed in a position akin to that of a domestic animal, like a cow or a cat that needs to be fed, watered, stalled, and looked after by a compassionate government. The result is not individual freedom but a docile population bossed around by those in authority.

Bermuda is fortunate in that the standard of living and the degree of economic freedom, especially freedom from irksome taxation, is one of the highest in the world, as I try to show in the chapter about where Bermuda ranks on "The Index of Economic Freedom". However, over the past few years Bermuda has taken the road of ceding more and more power to Government in the *hope* (not the expectation) that improvements will take place. So far, improvements have been hard to find, as the decline of tourism will illustrate. I hope to help Bermudians understand that their continued prosperity rests on their own skills, hard work, and initiative. Bermudians in the past created a hugely successful economy because of their talents, initiative, and good sense. In many countries, the opposite has been the case and for the bulk of ordinary people in the world life is very different from what we enjoy in Bermuda. The formula for the economic success of Bermuda has stood the test of

time. There is absolutely no reason to believe it will not hold true in the future. However, in order to preserve the tremendous progress that the Bermudian economy has made over the past 50 years or so, it is necessary to understand the sources of that success. The main purpose of this book is to emphasise the reasons why Bermuda has been a superstar economy for two generations and to refute the siren calls of the political class that matters will improve “if only” more power and authority is ceded to them.

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## CHAPTER ONE

# Twelve easy lessons

## The Bermuda economy for beginners

*“Bermuda is another world”*

Hubert Smith

There is a mistaken belief that because the Bermuda economy is small, with a population of only 60,000 in no more than 24 square miles, there is little need to study or understand it. This is a wrong assumption. Although it is small the economy of Bermuda is one of the most sophisticated and developed to be found anywhere in the world. It is in many respects a model for countries that are small or of medium size.

To an outsider Bermuda may seem to be something of an economic wonder but residents take its prosperity for granted. Many have little understanding of why Bermuda should be so exceptional, in a world where poverty and squalor are the more common conditions of humankind. Although the economy of Bermuda is not very complex, an understanding of it does require more than a passing knowledge of how it compares with other advanced economies.

When setting out in search of such an understanding we shall find it helpful to outline the main characteristics of the Bermudian economy. Let us begin with twelve of the most important.

**1 Population** In 1991 the population of Bermuda was 58,460 and even by the year 2000, although it had grown somewhat meanwhile, it was still comparable merely to that of many small towns in America or Britain, places so insignificant as to be little known except to their local inhabitants.

About two-thirds of Bermuda's population is black and one third white. The black proportion of the population is increasing but the white

is in decline. Of the total population approximately 23% are non-Bermudians, or immigrants, most of these being young, white, skilled knowledge workers, earning high incomes in the international business sector. The presence of such a large immigrant labour force does lead to some social friction but this is considerably less than that which occurs in other countries, such as England, where in fact the proportion of immigrants is actually much lower.

**2 Wealth** Although Bermuda overall may be seen as small and insignificant in terms of the world at large, it is remarkably successful in itself, with a per capita income of \$36,845<sup>1</sup> per annum, fully comparable to that of the United States, which is \$37,300, and Switzerland, with \$36,500<sup>2</sup>. Bermuda has always been a wealthy island, significantly more so than the islands to the south. Just as significantly, it has always been a cosmopolitan place, even in the early 19<sup>th</sup> century, when it was a British Naval Base, and it has always been receptive to new ideas.

**3 Industries** Bermuda's prosperity rests on only two industries — tourism and international business. Twenty years ago tourism was much the more important, generating about 60% of Bermuda's foreign exchange earnings, with international business contributing about 35%. The balance was derived from the servicing of US, British and Canadian military bases until, in 1995, the allied armed forces departed, after the end of the Cold War.

Tourism began to decline from the early 1980s onwards and by 2001 accounted for slightly less than 40% of foreign exchange earnings. Several major hotels closed in recent years, and many are showing profits insufficient to keep them in business over the long term. Tourism, despite having a high political profile, is now in free fall. There is no evidence to suggest that conditions will change soon.

This has a corollary effect on retailing, which is also suffering. Retailers are to Bermuda what farmers are to other countries. Fortunately international business continues to flourish and makes up the balance of foreign earnings. However the fundamental difficulty remains that Bermuda is essentially a “two-crop” economy, dependent on international

<sup>1</sup> *Bermuda Government Facts & Figures 2000.*

<sup>2</sup> *The World in 2002, The Economist.*

business and tourism and without the diversification of industry that is a feature of other advanced economies.

**4 Race relations** are especially important. The growth of international business and its related activities, coupled with the diminishing importance of tourism, has relegated many in the black population to being the “poor relations” of the white population. The black population is disproportionately over-represented in tourism, and is significantly under-represented in the prosperous (and high-paying) international business. The principal reason for this state of affairs has been failure on the part of the public schools, that is to say the state educational system, to provide enough young Bermudians with an education appropriate to the 21<sup>st</sup> century. This failure tends to create social, political, and economic problems that we shall explore later in the book. These are highlighted by the fact that a predominantly black government has been elected on the promise of improving the financial status of the black population through a programme of black economic empowerment.

**5 Government nonintervention** Bermuda is very much the quintessential capitalist society, with government playing a relatively minor role in the management of the economy, as compared with the practice in other wealthy countries. Many observers believe this to have been one of the main reasons for Bermuda’s economic success. The rule of law has taken strong roots, private property is protected, and there is little or no corruption.<sup>3</sup> Democratic government is firmly established, with an electoral participation of over 80%, a showing that is higher than participation in the United States or Britain. Businessmen enjoy a prestigious social status. There is no elaborated welfare state. The main objective of everyone is simply to earn enough money for enjoyment of the good life that Bermuda offers. Yet, notwithstanding all this, Bermuda government expenditure commitments for the fiscal year 2002/2003 amount to some BD\$ 657.5 million, or about \$11,000 more per capita than is spent by the government of the United States and several times the expenditures for the islands to the south of Bermuda. Relatively to population it is a huge sum, given that Bermuda expends minimal, if any,

<sup>3</sup> This view may have to be modified because of corruption investigations taking place at the time of writing.

allocations for the costs of a welfare state, of armed forces, or of foreign representation.

**6 Taxation** As befits an international business centre, Bermuda enjoys low taxation.<sup>4</sup> Government takes in taxes approximately 22% of the gross domestic product (GDP), as compared to some 35% of GDP taken by the government of the United States. Low taxation, and in particular the absence of corporate taxes and income tax, comprises the main reason why international business seeks to establish a presence in Bermuda — an issue of some significance for highly taxed countries. The levy of taxation is an ongoing political issue but the introduction of income or corporate taxes is unlikely.

**7 Cost of living** Bermuda is an expensive place in which to live. Most ordinary goods and services are costly by comparison with prices elsewhere in the world. The cost of housing is particularly high, as one would expect in a wealthy island of only 24 square miles, and it is a major cause of friction. To buy a two bedroom cottage in a pleasant area can cost around BD\$700,000, with rents running around BD\$3,000 to BD\$5,000 per month. However, while it is indeed expensive, housing is of a high standard and there are no slums.

**8 Full employment** Visitors to Bermuda are always pleasantly surprised when they fail to find any real evidence of poverty<sup>5</sup>. They are also surprised to find that Bermuda does not have significant unemployment, such as is to be found elsewhere in the world, but instead has enjoyed full employment continuously ever since World War II. Crime is also low by comparison with other parts of the world, although that situation has deteriorated somewhat in recent years.

**9 Trade union membership** is very high, in comparison with other countries, and relations between management and labour can be tense, especially in the hotel industry. It is the opinion of many observers that the obstinacy of the unions played a significant part in the decline of hotel profitability and a particularly nasty strike in 1981 caused that year to be seen as the one that pushed the hotel industry into its perennially unstable condition.

<sup>4</sup> Another reason for it being an economic wonder.

<sup>5</sup> Evidence perhaps that income tax fails to redistribute wealth.

**10 Political status** Bermuda is still a British Colony (though now called an “Overseas Territory”) which, on the face of it, might be thought a demeaning and old-fashioned status. Yet in 1995 the electorate decisively rejected by a majority of two to one a referendum held to determine whether Bermuda should become an independent nation. A change to UK immigration laws in 2002 gives Bermudians the right of British citizenship and with it the right to live and work in both Britain and throughout the European Union. However there is no reciprocal arrangement for British and European citizens to live and work in Bermuda.

**11 Free market** Bermuda still retains all the elements of a free market economy and indeed many characteristics of an 18<sup>th</sup> century economy. There is no central bank, taxation is limited, government intervention in the economy is slight, a respect for the rule of law is retained, the Bermuda dollar is linked to the US dollar, both formally and as an economic fact of life, and the Island is host to almost every well-known international company. The quality of life is high. We enjoy a great climate and a pristine environment. Traffic jams are uncommon. We have few fast food outlets but we have eight golf courses. Nevertheless, some things are changing, and not always for the better, as government continues to spend at unprecedented levels. There is talk of economic planning. There is discontent with the distribution of wealth. However, by comparison with islands in the Caribbean, Bermuda is a bastion of capitalism and this in itself may be reckoned a major reason for our long and continuing prosperity.

**12 Supranational interference** Posing a serious threat to the continuing prosperity of Bermuda is the attitude of international bureaucracies such as the Organisation for Economic Cooperation and Development (OECD). Many of the large economic powers, like the USA, Germany, France, and the UK, are running short of revenue, as their governments persist in overspending and their electorates grow weary of extortionate tax demands. The OECD and related organisations have identified small countries such as Bermuda, the Cayman Islands, the Bahamas, and Luxembourg, as being “harmful tax regimes”, meaning thereby that because the governments of these countries choose not to overtax their own citizens they make life difficult for others that scorn such restraint.

Thus the insatiable and interfering greed of profligate but powerful jurisdictions becomes a menace to the prosperity of Bermuda. It remains to be seen which pattern of behaviour will prevail in the long run.

In summary, such are some of the fundamentals that we need to keep in mind.. The twelve reflections outlined in this chapter can offer no more than a cursory overview, a slight sketch, a brief but accessible introduction to a large and intricate subject, one that we shall now attempt to explore in greater depth.



## CHAPTER TWO

# Size in relation to success

Sometimes it pays to be small

*“The success of the United States is often attributed to its generous natural resources and wide open spaces. They certainly played a part — but then, if they were crucial, what explains the success of nineteenth century Great Britain and Japan or twentieth century Hong Kong?”*

Milton Friedman

The economies of Europe have merged with each other, group by group and stage by stage, in the past 150 years, from as far back as the processes of German unification and Italian unification. In the second half of the 20<sup>th</sup> century the nations of Europe have, first sporadically but of late constantly, reduced trade barriers, liberalised immigration, and encouraged the free flow of capital. Much of the motive for this in the past 50 years was to preclude the recurrence of such wars as had devastated Europe and European civilization in the periods 1914-18 and 1939-45.

In 2002, several western European states, under the aegis of their newly formed European Union, introduced a new currency, the Euro, to be used by countries as far apart as Finland and Greece. It would even be introduced to non-European territories that were considered politically integral to European member states, territories such as the French “overseas departments”, thus for example the island of Guadeloupe in the Antilles.

The 1980s and the 1990s saw North America integrated economically in a free trade area to be called NAFTA. Likewise South