



# HM Government of Gibraltar

Ministry of Economic Development,  
Telecommunications and the  
Gibraltar Savings Bank

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### **Budget Address - The Hon Sir Joseph Bossano MP**

Mr Speaker, Can I just thank Members for their warm response to the fact that I am celebrating my 80<sup>th</sup> birthday with them, having spent 47 years in this chamber, as the Chief Minister speculated I can think of no better place to be on this date.  
Mr Speaker

Last year I started my budget contribution by stating that it was our last budget as members of the European Union and that at the end of the financial year Gibraltar would no longer be part of the territory of the EU which would terminate at the international frontier between the Kingdom of Spain and our country.

Like everyone else in UK and elsewhere I was basing my prediction on the fact that UK's law, introduced by the government, provided a deadline for leaving the EU on the 29th of March this year. On this basis I said that until this happened and we knew on what terms UK was leaving, whether there was to be a transition period, how long such a period would be, and most important of all whether Gibraltar was to be included in the transition or not.

Until then, it was not possible to make an estimate of the impact on our economy.

However I have said that if there is a departure from the EU by UK without a transition and without a new relationship negotiated, then my prediction was a mild recession in the UK, a bigger recession in the EU and a slowdown in Gibraltar's rate of economic growth but with growth still continuing.

Whilst it should have been a source of reassurance to everyone that we can survive Brexit and still grow, I am astonished that there are people who by their conduct appear to think that we are immune to whatever happens outside our 5 square miles.

It is possible for us to fare better than others but it is not possible to be totally unaffected, whoever is in government.

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The position is, if anything, less clear than last year. However the result of the European Parliament election is considered by many in the EU, including Spain, to have increased the probability of a no deal Brexit in October.

Last year in the face of such uncertainties the executive committee of the GSLP took a policy decision but there should be a limit placed on the pay rise of Ministers and Public Sector workers so that their pay went up by not more than 60 p an hour, twice the increase in the national minimum wage which was set at 30 p.

This proposal was accepted by Cabinet as Government policy.

The introduction of the cap does not mean that those on higher incomes less under 10% of the Public Sector, are less well off than they were in 2011 in real terms since previous year increases were above inflation.

The numbers employed have increased by 948 from 4574 to 5522 as shown in the October 2011 and October 2018 Employment Surveys.

However a more accurate figure would be about 800 as the numbers in training in 2011 did not feature in the Employment Survey as members will remember that in 2011 trainees did not have employment contracts and were on an allowance of around £400 a month.

The pay scales of all grades including those affected by the 60p an hour limit, are still higher than the 2011 pay scales plus intervening inflation, which has been 13.1% from October 2011 to October 2018.

This is also the case with the salaries of Government Ministers who were also subjected to the 60 p cap last year.

We have been accused of breaking our manifesto commitment of 2015 in respect of the pay rise for 2018.

Well no one knew, when that manifesto was written that there would be a referendum in 2016 that would take us out of the EU.

Other competing territories such as Guernsey have reacted to the Brexit challenge by imposing a 1% limit on salary increases in the public sector.

Let me say that when we write the manifesto as to what we plan to do if our party gets elected into Government we do not have a crystal ball that tells us what changes will take place 12 months later. The manifesto is written on the premise of the state of the Gibraltar economy and the context of the global economy at the time it is written.

In spite of this we usually manage to deliver our projected rate of economic growth consistently. In spite of these facts which reflect the biggest levels of employment in the public sector and the highest increases in average earnings in any 7 year period in Gibraltar history since the introduction of parity we have had Opposition Members saying that we want to implement



austerity and call it efficiency.

If this is austerity then I ask myself where were these critics in the period of 15 years before 2011. We need to understand that if we find ourselves facing financial difficulties once we are out of the EU those who are on the highest salaries have to expect to be affected rather than those on the minimum wage. I cannot see how anyone who believes in social justice can expect it to be any other way.

It appears to me from the statements made by others about the growth of the economy and government spending, that there is little understanding of how the economy works and of the difference between fiscal variables and economic ones. Or maybe I am wrong, maybe it is not true that those who make such statements do not understand but on the contrary they do understand but could not care less.

I am not sure whether such views are shared by any of the members opposite or not. However I assume that there are some who do not understand that the GDP is not the revenue of the government. The relationship between the GDP and government revenue is not the same everywhere because it is a function of the structure of the economy which is not the same in every country. Nor is it the same all the time because with the passage of time within any given country the economic structure changes which has an effect in the GDP relationship with government recurrent revenue.

So I will try to explain what these issues entail in the hope that they will be better understood.

#### GDP & Revenue

The GDP measures the value of the output of the economy and it is not a measure of the recurrent revenue of the Government.

The way we measure the output is by the income method which takes the income from work, from company profits and from the rents on property to arrive at the value of the output. These three are the main elements of the calculations.

This measures the size of our economy. The bigger our economy is, as a general rule, the higher we expect the government recurrent revenue to be. However it does not mean that it is always so and it does not mean that the size of the increase in GDP is the same as the increase in government revenue.

So statements that we can afford to spend more money in any given year because the GDP has grown are not correct. The following figures for the different years conclusively show this. I have chosen the figures from the GSD administration to avoid members opposite thinking that this is something peculiar to the present Government.

In that year there was GDP growth of some £93M and Government revenue by £13.9M.



The appropriation bill that we bring to the house, the budget, shows what departments estimate they need to spend on the provision of recurrent public services.

This is currently affordable since we project a surplus at the end of the year based on an estimate of revenue that is sufficient to cover the expenditure. However the fact that we're able to meet an increase in expenditure in a particular year doesn't mean that we're going to be able to keep on increasing recurrent spending at the same pace in the future given that we're not able to project the revenue figures into the future. This would have been true especially of this year had we left the EU in March and will be true after October if we leave then.

I believe the nature of the structure of the economy is such that it is not capable of producing increases in revenue indefinitely to meet the kind of increases in expenditure we have been experiencing over the last few years and that therefore we should be thinking how we can develop a different economic profile that will provide greater security of income or we will have to introduce effective measures that will secure greater efficiency to enable us to continue to meet the rising level of expenditure, in one area through savings in another.

Both are difficult to achieve and it will probably have to be a combination of the two.

Affordability in one year does not imply sustainability in the medium term, and therefore what I issued last year was a health warning which applies equally to this year's estimate of revenue and expenditure.

Like the health warning on a packet of cigarettes that many choose to ignore but some take heed of.

I do not expect that my health warning will be as effective and produce a change of direction. But it is my duty to give the health warning because if I see the danger signs, I say nothing and then things go badly wrong, I will have failed to do my duty.

Let me also make clear that I'm not saying that, because the danger signs are there it means that the indications are that the results are inevitable.

Predicting the weather is an uncertain science and predicting Economic and Fiscal results months or years ahead even more inexact.

One can say that if A happens B will follow, and we can say what the probability is that A will happen but what one we cannot say it that it is 100% certain to happen.

So if we look at our GDP and our Revenue streams, we can say that over the last 7 years revenue heads 1/1 and 1/2, and 2/1 have produced 85% of the increase in government's revenue. These are income tax, company tax and import duty, the share of each within the 85% of the increase in revenue has been 23%, 50% and 27%. The last one is not growing anymore and unlikely to grow in the future it was £174m in 2018, £176m in 2017 and £167 in 2016 and being the size it is, is not easily replaceable by a new source of revenue.

The first two, Income Tax and Company Tax yields are not evenly spread throughout the



economy.

The biggest contributor in the private sector to both is the gaming sector and within this there are few companies that account for the bulk.

So those are some of the factors that constrain our ability to deliver large budget surpluses to be able to put money into the Rainy Day Funds. The bigger our annual recurrent expenditure gets the bigger the Rainy Day Funds we would require to provide protection.

So for all these reasons, that are scientific analytical tools I feel concern and the need to express it. Given the analysis and the reasons that I am providing why do I say that it will not be heeded? Experience has taught me something about human behaviour.

As a general rule people do not take heed of things they do not want to hear.

When I was in the Union and members would not listen to me when I was advising them that the route they wanted to follow could finish up very badly for them, I would give my members the following example.

I used to say if you feel unwell and you go to the Health Centre and the GP gives you lots of tests and comes back with bad news what do you do? He tells you have a serious condition that is potentially terminal unless you go into surgery, which is never risk free and you have to decide quickly. You go home. You don't sleep that night; you don't know what to do. So then you say to yourself suppose he's wrong I want a second opinion I will go private and get a better analysis of what's wrong with me.

You do that. The result is that the private sector doctor says you are ok and puts your mind at rest. He tells you, you have nothing to worry about; it is just indigestion take some tablets. You are over the moon, you say to yourself what a good thing I didn't listen to that guy in the Health Centre. But of course if he was right, 6 months later you're dead.

But most people still tend to believe what they like to hear and not what they consider to be unpalatable views.

Let me say that the moral of the story is that I had a good success rate when I was doing it in the context of Union Members but obviously it's a success rate that is not transferable to the political arena.

So why did I issue a warning last year and have repeated the same this time? Because the reaction I have had indicates to me that those who disagree with me are not analysing the validity of the arguments but simply reacting because they don't want to hear them. My most fierce critic has more than once said that my speech is like a broken record repeating the same theme. There are some people who say how can my analysis be right when we are one of the top 4 economies in the world on a per capita income basis, that is GDP per capita. Why can't we just keep on spending more money if that's the case and we are in the top 4?

What's the reason why we are in the top 4? The explanation is very simple. What we share with



two of the other three and especially with the other one that is in the EU is the use of frontier workers. Singapore, Luxembourg and Gibraltar all have large numbers of frontier workers compared to their resident worker populations. In the case of Luxembourg the numbers are as follows: it has a population of 591k and a workforce of 449k. This consists of 257k Resident workers 57.7% and 192k frontier workers 42.3%. The value of the output of the economy is \$62b. In the case of Gibraltar the numbers are: we have an estimated population of 34,000 and a workforce of 30,000 with resident workers accounting for 16,340, 55.5% and frontier workers 13,650, 45.5%. The value of the output is estimated at \$2.7b.

One can see the similarity, Mr Speaker, in the proportions of the variables.

Why should this fact put us in the top of the world in GDP per capita? The explanation is straightforward, it is the way everyone in the world measures GDP per capita and uses that result as a comparator indicative of standards of living. But it is distorted when the ratio of frontier workers to resident workers is very high, as is the case in the top 3.

So for example the distortion does not apply to the economies of Jersey, Guernsey and the Isle of Man, our nearest competitors, because their imported workforce do not commute to the islands but become residents and that is the key.

If we added the frontier workers as residents to the calculations in Luxembourg and Gibraltar the results would be that Luxembourg would fall to 7<sup>th</sup> place on the list after Ireland and Gibraltar would drop to 17<sup>th</sup> on the list after Iceland. Still a very respectable ranking but not applicable as this is not how the calculation is required to be done.

The GDP includes the earnings of all workers including public sector employees and frontier workers.

The total GDP at £2.1 billion is the value that is produced by the whole workforce including frontier workers. However this product is then divided by the number of residents and the result is the GDP per capita. It includes the contribution of frontier workers as if it was available to the residents. It happens in all three countries Singapore, Luxembourg and Gibraltar. If we compare the result of Luxembourg for example, there is however one important difference. The value of the output per person employed, including frontier workers, is 40% higher in Luxembourg than in Gibraltar.

This is where we need to be. This is how efficiency creates value and protects living standards and that should be our target.

The Budget Function.

Until 1988 Gibraltar Budgets were principally about redistributing income.

That is in general terms the Government identified what services it needed to provide and since most government services are not funded by charging users at the point of consumption, the cost



would need to be met by taxing the community as a whole.

In case this is not clear let me explain that there is no such thing as a free service. Education is free because unlike the private sector the state does not charge the family of the pupil in school. But to the extent that the cost is met from taxation on income, since all such taxes are to some extent progressive, the higher incomes will pay higher taxes but the children in school will receive the same education irrespective of the taxes paid by their families or even if none is payable.

It is free to the consumer of the service but not cost free because it has to be paid by someone else. What is true of education is true of a bus service where we do not charge the passenger but we charge the taxpayers even if they do not use the buses. However housing, electricity, water and health are examples of partly funded services where the user pays a proportion of the cost and the balance is paid from government taxation.

The budgets were therefore a balancing act between who paid for what. Clearly to the extent that the services are funded from taxes and the biggest share comes from those with higher incomes there is a transfer from those who are better off to those who are worse off as far as incomes are concerned.

All budgets by government everywhere have an element of this and in addition there can be fiscal measures designed to encourage economic activities that can increase the revenue streams of the government.

The GSLP in 1988 set out to achieve specific economic targets and that is still the philosophy of a party.

The GSLP has always been committed to a high rate of economic growth and delivering a healthy economy.

We have also always been committed to a fiscal policy of not borrowing to pay for recurrent expenditure a policy that we introduced in government for the first time in 1988.

As a Government we have a given limited level of income in a given year and that is the most that we can spend. Our policy is not to spend it all but to have a surplus part of which we dedicate to meeting capital investment and part of which is put in separate reserves "the Rainy Day Fund" to provide a safety net for future unexpected economic events that may drastically reduce our revenues.

Economics is Zero sum game and so is public finance. It can grow over the years but in any one year there is a fixed amount of money available and if we spend more in one area then there is less available to spend on something else.

There is a concept in economics which measures the logic of the distribution of expenditure by looking at the opportunity cost, that is to say when you spend in one area your foregoing the alternative on which that money could be spent. In the final analysis these are the choices that are reflected in the estimates of expenditure.



This is not the same for Capital spending because different products will have different rates of return and then there are projects where an asset is created that yields a profit compared to those where the asset created will require additional running costs in order to meet the maintenance cost of the asset. This requires a different approach which is often not taken into account.

We have created additional assets since 2011 and some of the extra running costs results from such assets are now reflected in our recurrent budget.

The National Economic Plan is designed to generate higher economic growth on the premise that such growth as a general rule will produce higher incomes for taxpayers or greater numbers of taxpayers by generating employment and therefore yield increased general revenues to meet the cost of public services. I have already set out the GDP comparison with government revenue and therefore shown that GDP growth is the incorrect metric to quote in respect of financing public sector increased expenditure.

Mr Speaker last year I went to a great deal of trouble to provide a detailed analysis to Honourable members opposite and in particular to The Hon Mr Feetham showing why his premise was false and therefore, by the rules of logic, his conclusions incorrect.

It was of course a complete waste of time since his contributions to the budget debate, if they can be called that, remained unchanged.

In fact he first accused me of attacking him in my speech, which I had not done, he changed his mind and decided I was attacking the Chief Minister instead, which of course I was not doing and then the GGCA said that I was attacking the Civil Service which I was not doing either. I wasn't attacking anyone, I wasn't even making a policy statement, I was simply explaining the facts as I saw them. I find it difficult to understand why explaining the facts about the numbers that we are dealing with in relation to the economy, the public finances, and the cost of providing public services can be interpreted as an attack on anyone.

Either the explanations that I provide are accurate or they are not, and I am happy to stand corrected if someone can come along and show me that my numbers are wrong. It hasn't happened so far.

The debate we were supposed to be having at that meeting was whether the Parliament would approve the withdrawal of £512M from the consolidated fund last year to meet departmental operating costs until March 2019. It also sought approval for a grant of £25M to government companies which I do not normally include in my calculations when comparing with pre-2012 budgets because under the GSD government which the Hon Mr Clinton and the Hon Mr Phillips were not a part of but Mr Feetham was, there were no such payments.

We have two sets of books Mr Clinton claims as it were some backstreet trader fiddling its' tax returns, something no one does anymore because company tax is only 10%.

They have been voting against the budget of the departments because they do not know what the £25M for companies is for.





Well they should ask the Hon Mr Feetham, how come he is so incensed by not knowing this when as a GSD government Minister he did not provide a grant to government companies to cover the losses. The losses were covered by consolidated fund advances which was not part of the budget and did not require the approval of Parliament and no information was provided.

How is it that what Mr Feetham was doing as a GSD Minister was better, more transparent and giving Parliament more control?

They complain that there is insufficient information on the company's.

They know that the GSD simply failed to compile company accounts and that in 2011 the last accounts that had been closed and audited were those under the GSLP in 1996.

It seems to me the GSD view of parliamentary accountability is that when they were in government they could do what they liked and be accountable to no one when they are in opposition they expect to have the level of information they had in government but never provided to anyone else.

This year they are being asked to support the appropriation of an even higher figure £549M. Let me say but that is not because there were costs in providing services which were hidden last year and are included this year. It is just that the cost of everything has gone up again. Last year the revenue was estimated at £652M and Mr Clinton suggested that that showed we were heading for a deficit. Of course there was no such risk the revenue is calculated by the Treasury cautiously deliberately to minimise the probability of a shortfall. The expenditure is calculated on the basis that controlling officers are expected to keep to the approved estimates of expenditure and avoid supplementary funding and higher expenditure.

These two policies are designed to reduce the risk of a recurrent budget deficit which is one of the red lines of the GSLP Economic and Fiscal policies which operated between 1988 and 1996 and have operated from 2011 until now.

The forecast for expenditure shows an outturn which is below the estimate figures. At the same time the revenue received has been higher than estimated by £55M.

This £55M is entirely the result of the principal sources that I identified earlier Heads 1/1, 1/2 and 2/1.

How did the Leader of the Opposition the Hon Mr. Phillips evaluate the fiscal situation a year ago. I will quote his words.

“But there are some indicators, even from the slither of information that the Government has provided.

From what we have been able to distil, despite the massaging of those figures referred to by the Hon Chief Minister himself, our recurrent expenditure is increasing, estimated at £627,815,000 for 31<sup>st</sup> March 2019.”

A slither of information, Mr. Speaker it is the same information that has been there since we took over in December 2011 and has been there in the previous 15 years that estimates of revenue and expenditure have been presented in the appropriation bill for the approval of this parliament.



The same slither, not one molecule more or one molecule less than the slither of the previous 22 years. The same slither that is in this year's. However I've never had anyone else call it a slither in the 22 years, and I never did as Leader of the Opposition when the GSD government presented their budget slither here.

He then told us and the listening public that from slither he had been able to distil, that the recurrent expenditure was increasing and estimated to be £627,849,000.

Great detection work worthy of a Sherlock Holmes. The Leader of the Opposition discovered last year by distillation of the slither, as if he had found a fingerprint, that recurrent expenditure was increasing.

Well I have news for him Mr. Speaker it's increased every year that I've been here since 1972. But let's take a closer look at the alchemy of distillation of slithers that led to the discovery.

What a disappointment Mr Speaker, all that effort to discover the figure, and there it was in plain sight where it has always been on Page 1. Or maybe the Leader of the Opposition never got past page 1 of the book once he thought there was only a slither of information.

## Public Debt

I have already mentioned the Hon. Mr. Feetham's reaction to my speech last year.

He told us last year he was extremely hurt, by the venom of my criticisms about the content of his speech of 2017 and as evidence of the venom he claimed to have received a text that said "are you the only Member in opposition? "Va a gasta el nombre!"

Well obviously the text message, if it existed, came from a GSD former Minister so I don't think we should put much store by a comment from such a source.

However it is true that the Hon Member was the Minister from the GSD administration of 2007 to 2011 that is still here and claims to have been closest to the Chief Minister being just a few yards down the corridors of number six.

Close enough to him to have come to the conclusion that he was the Greatest Living Gibraltarian. Of course the judgment of the Hon Member is highly suspect when one analyses the decisions that he has taken at several junctures in his political trajectory.

So if what he heard from me was venom last year then what he must have been exposed to in the



corridors of number six from 2007 to 2011, so close to the Greatest Living Gibraltarian must have been pure, undiluted, rattlesnake poison by comparison, as evidenced if nothing else by the treatment my budget contributions used to get in this Parliament as well as the anecdotal evidence of the treatment meted out to other residents of that building.

Of course he should realize that he carries a certain responsibility for the nonsense that he applies in his analysis of the public finances which others on the Opposition benches do not. He has justified his decision to vote against the recurrent expenditure which pays for all the public services on the grounds that the capital spending of Government and Companies is too high, and he does not know how high.

Other members may think the two are linked but he knows full well they are not.

He is carrying the lower borrowing banner which he had when he left the GSLP and started the so-called Labour Party. He will, I am sure, recall that in the 2003 general election, in a radio debate with the then Mr Caruana he attacked me for defending the fact that maturing government debt was going to be rolled over and because in my view it was not too high. He was then converted to the bad ways of the GSD in 2007 and presided over the biggest increase in government debt that Gibraltar had ever seen.

To the extent that the newly introduced legislation in one year was breached and had to be put right in the first year by making the relevant law apply to net instead of gross debt.

The GSD way was, to say that the economically correct thing to do was to control gross debt and then when they found that they could not deliver this, they changed the law and changed the philosophy and net debt became the economically correct concept. However they soon found themselves in trouble again and they had to manipulate the Estimate Book by changing the accounts retrospectively and inflating the revenue figures so that the breach of the ceiling would disappear, doing this after the close of the financial year in question.

Having done this they were ready in 2011 to bring a motion approving exceeding the ceiling of the legal limit, something they conveniently failed to mention during the 2011 election campaign as the Hon Member knows only too well but other Members of the Opposition may not.

This was revealed in the opening of Parliament by the Greatest Living Gibraltarian when he was the Leader of the Opposition but he had not revealed it when he was in government or defended this in the election the manifesto for, which made no mention of it.

We did of course refuse to proceed with what the GSD was planning in January 2012.

Nor did he tell the public in the general election but there was a Roadshow planned to raise money in the US to pay for the diesel generating station on the upper rock, an insane proposition which would have saddled us with a useless, polluting, expensive generating station in breach of EU law, incurring penalties and at the same time a level of company debt that was to be funded by rising electricity prices by 5% per annum.

All this is a baggage that he carries which makes his present concern for debt levels sound



hollow. And it doesn't end there because there is the fact that there was a program of capital works which would have cost £1.5 billion in respect of which Mr. Nigel Pardo's company was project manager and which could only have been funded by company loans, since there was no way the government revenues of 2011 could have permitted this level of public debt, given, as I have already mentioned, that the existing public debt already needed a motion for approval to exceed the limit.

The American Roadshow, organized via a UK bank, clearly indicated this loan would have been serviced not by government revenues but by the sales of electricity with a 5% annual increases over the better off I believe, 20 years.

We did not know any of this in Opposition and the people of Gibraltar in the 2011 election did not know any of this either, nor did they know that this is what was going to happen if they had voted the GSD back into government. The Hon Member having been a Government Minister and a candidate in the election was part of this electorate deception.

And I imagine that Mr. Clinton would have been very critical if he had known of this but the Honorable Mr. Feetham was based in number six and must have known this unless the Greatest Living Gibraltarian didn't trust him enough to tell him about it in which case he would've been a victim of the deception instead of a perpetrator and in which case he might now wish to review the accolade with which he rewarded the former leader of the GSD when he was handed by him the leadership of the party on a plate.

So now maybe he can text back this explanation to the GSD former minister who texted him last year or maybe the individual concerned is listening to me again this year and doesn't need texting. Whilst on the topic of Public Debt let me enlighten members opposite about the direction in which orthodoxy on debt is moving which they may not be aware of.

Since the 2007 financial crisis which led to the Great Recession in 2008, the Western world resorted to Keynesian pump-priming to stop the recession dropping into the shrinking economies of the 1930's Great Depression.

It has proved extremely difficult to bring about a recovery and it is only after a decade that output started to go back to the levels pre-2008.

The policy of quantitative easing drove a coach and horses through the Eurozone limits on debt to GDP ratios, which had been set at 60%. At the same time a similar situation was occurring in Japan where the stagnation of the economy lasted longer and the debt to GDP ratio reached 250% putting it at the top of the list in the world. Greece finished second at 180% and currently Italy is 130% and likely to go up if their budget deficit stimulus is not stopped by the EU. UK currently is on an 85% ratio. Many developing and poorer countries have much lower debt to GDP ratios. So there appears to be no correlation between debt level and the performance of the economy. A revision of the orthodoxy on the ratios in academic circles is taking place primarily in the US. Although it's a new formulation its roots are based on the work of Keynes on money, in the 1930's. The level of debt, financing recurrent spending in the advanced economies has sparked the revision.



Let me just add for the sake of completeness that all these countries are financing recurrent spending by borrowing, whereas in Gibraltar since 1988, it is only used to purchase assets.

The developing approach is that it is not the size of the debt that matters but whether it is raised within the country and it is in the national currency.

As long as the US or Japan borrow from within the country and in their own currencies the size of the debt is not a threat to economic stability. The top borrow Japan at 250% of GDP seems to provide evidence that the theory works. The US currently stands at 105% of GDP well below many EU States.

The GSD has developed the theory since they went into opposition, or even perhaps since Mr Clinton became the spokesman on public finance, that the Central Government debt should include the debt of state-owned Enterprises. Indeed they say that is what they would do in government.

Well we all know from past experience, 15 years of it, that what they say they would do in government when they are in opposition and what they actually do when they form Government are two totally different things and occasionally diametrically opposite things.

What they now raise their hands in horror about is what they actually introduced in government with borrowing by the GHA disguised as rent and borrowing by carparks explicitly reflected as such in the accounts of the company. As I have told the honourable members opposite the policy was justified in this Parliament as paying a small premium in the rate of interest because the loans were secured on the identified assets, mainly government buildings, and there was no recourse to the assets of the Consolidated Fund as government debt has.

The servicing and repayment of the public debt is a direct charge on the Consolidated Fund and does not require the appropriation approval of this Parliament.

We, before 1996 and since 2011, have provided a General Sinking Fund which provides an additional layer.

Mr Clinton questions why the size, where is it topped up from and says it should be linked to a debt repayment schedule.

Well Mr Speaker this is what is the whole problem about the conduct of the GSD in terms of consistency and even of political integrity.

In government they did two things they scrapped the Sinking Fund and all other areas where we had reserves, my Piggy Banks as the then Chief Minister used to describe them in order to belittle the policy.

Fine they don't believe in Rainy Day Funds, they don't believe in General Sinking Funds, they don't believe in Community Care reserves or indeed in retaining Community Care and they don't believe in retaining Savings Bank profits in the Savings Bank Fund or even in making profits for the Savings Bank. These are all the things they did not believe in in the 15 years of government



They also used to tell us in opposition when they were the government that we were not entitled to question their policies if we had not included those same policies in our manifesto. What they don't do is practice what they preach. Because when in opposition not only do they question the things that they do not have in their manifesto but they claim they are entitled to do so having said the very opposite previously.

They used to argue that was no legitimacy in seeking information or pressing for action on implementation on things that we in the opposition had not committed ourselves to do at the election because by definition none of that would be happening had we won the election and therefore they felt under no obligation to provide answers.

Well if that is their view of how things should be done when they're in government those are the rules that they should apply to themselves now that they are in opposition.

### The Labour Market

The labour market has also been a matter in dispute between us and the GSD. In government they argued in 2010 that the supply of resident labour and in particular Gibraltarians had been exhausted and the economy could not grow unless there were more frontier workers which they welcomed.

It was, the Parliament was told, a problem of procreation, not enough Gibraltarians were being conceived to keep up the supply in the labour market to replace those who were retiring. It takes a while of course to reach the labour market after you are conceived. We were told that this was evident in the male component of the labour market and that in fact the increase in previous years had been in females because more were entering the labour market.

A year later on the eve of the elections the GSD introduced a policy requiring that government contractors to give priority to Gibraltarians who were suitable candidates for the vacancies and seeking employment. I welcomed this in the 2011 budget and have continued to apply the policy to this day in my responsibility in the field of Procurement and also engaging ESF funding in support of private sector recruitment of local people. I believed to this day that the policy has played an important part in supporting employment in the private sector of local people. I have no problem in acknowledging that it was a GSD initiative just before the 2011 election but it has influenced that results since.



So here we are in 2019 and the present Leader of the Opposition told us last year, not for the first time and I expect not for the last time that the failures of the government employment strategy would have long-lasting consequences beyond our short term of office and that they would pick up the pieces when the people of this community put us back in our natural habitat in Opposition. He didn't tell us how long he expected to have to wait for this to happen.

Since he's talking about going back to picking up pieces I will remind him of what the record of the GSD in employing local people was and we now have the result of the labour market in 2018. There were 10,222 Gibraltarians in employment in October 2011.

In October 1996, 15 years earlier, there had been 9390. An increase of 830 in 15 years, an average of 55 a year.

October 2018 shows 11,228 Gibraltarians in employment an increase of 1018 in 7 years an average of 144 a year, more than double the previous GSD results.

So is this what he is promising to take our community back to?

Apparently not, because he says that these Gibraltarians are now very unhappy because they are in dead end jobs. Presumably they were employed in the GSD's time in very good jobs or out of work but happier.

Let us examine the rationale of the dead end jobs.

There were 800 more Gibraltarians employed in the public sector in 2018 than there were in 2011. I don't know if the Hon Mr Phillips considers jobs in the public sector to be dead end jobs. I can tell him that it is very frequently the case now and was the same before 2011 that many people in the private sector will apply for jobs in the public sector even though they are in management positions and are entering the government in junior positions. This is because of the pay differential, the conditions of Employment and greater job security.

Which is the aspiration for their children of almost all Gibraltarian parents that I know, for self-evident reasons.

So Gibraltarian employment in the private sector has gone up because those previous employees successfully applying for government jobs, have been replaced.

The private sector has grown from 16,960 to 23,969 the result of the economic growth, over 7000 new jobs, with Gibraltarians taking up 397 of them.

I am assuming that the Hon Member is not worried about frontier workers being in dead end jobs. Let me say that for anybody to campaign on the basis that if they get into government they will guarantee that there will be no dead end jobs is the acme of creating an entitlement culture, incapable of being fulfilled.

In any organisation public or private there are more people in the lower grades than in the more senior positions. Not everyone will get promotion however able, because the structure would



have to be flat for everybody to be promoted and not pyramidal.

The dead end is a mantra that we're not doing, like the gold plated training scheme that they didn't do in 15 years and that we still don't know to this day, what it is and I suspect that neither does he. He said I had tried to denigrate his argument by my department writing to all employers in a desperate attempt to show that there was no interest in the business community to take on apprentices.

I totally reject that the letter by my Head of Department to the business community in any way was denigrating him or his arguments. To denigrate is to unfairly criticise or attack someone's reputation. I will therefore read the letter that was sent in March 2017 which simply contained a factual account of events and let Members judge for themselves if the Leader of the Opposition is being denigrated by it.

28<sup>th</sup> March 2017

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I have been requested by the Minister of Economic Development, the Hon Joe Bossano, MP, who is responsible for Training for Employment, to enquire as to your training needs.

It has been said in the last election that there was a huge demand from private sector employers who were crying out for apprentices.

Immediately after the general election, I wrote to Mr Phillips, the Opposition Member of Parliament who stated this and asked for a list of the businesses in question in order to engage with them and set up the apprenticeships.

Mr Phillips felt he could not provide their names but offered to inform them so that they could get in touch with me.

To date, no one has contacted me. However, Mr Philips claimed recently in Parliament that these businesses that he knew had attempted to contact the Department but had not been given a response. We have no record of any such contact in the Department. I am therefore writing to each business in Gibraltar that is registered as trading to enquire a) if they have attempted to contact us to obtain apprentices and if not b) whether notwithstanding the fact that they haven't approached us they are interested in creating job vacancies for apprentices, in which case we would be only too happy to engage with them and offer them our support.

I would be grateful for your cooperation and for a reply to this letter to the effect that you are interested in engaging apprentices or that you do not wish to avail yourself of the opportunity at this time so that we can place this information in our records.

Given our commitment to provide apprenticeships, the door will always be open if you wish to avail yourself of the facilities, at some future date.

Thank you for your cooperation in this matter.





Yours faithfully

He's right that there was a desperate attempt but not as he claims to show that they were not interested in taking on apprentices, it was a desperate attempt to achieve the opposite. To find someone willing to take on apprentices. He says they're crying out for apprentices but he won't tell me who they are. If there are employers who can offer apprenticeships and he knows who they are and I am prevented from supplying these apprentices then the failure is due to him because he has a simple solution. I am not saying he's lying but I'm saying I don't believe him because it makes no sense to me that they should go to him and not to the government department that is in a position to deliver what they want or what they are crying for as he claims. I've invited employers to get in touch with the department to open vacancies for apprenticeships. I have also sent the same message to the Chamber and the Federation of Small Businesses. So far what I've had is interest from people in providing training and being paid for providing the training, but not in order to employ the apprentices.

The policy of the GSLP approved at a general meeting is that we continue to provide apprenticeships and training to get all people into employment that is why the government's policy is Training for Employment. If there is no potential demand for the skills what is the apprentice supposed to do with the qualifications?

Meanwhile we continue with existing Training skills. There are the apprenticeships in electrical and mechanical skills in Gibdock and the craft apprenticeships in craft Maintenance Skills in the Construction Training Centre. That is also ongoing training in the Transport Tourism and Construction Sectors in Bus, Coach, Lorry, Forklift and Plant training drivers. In the Care and Health Sectors we have running courses for Apprentice Nursing and Care Assistants.

The labour market in Gibraltar is increasingly supplied from the hinterland in Spain. Clearly we cannot be increasing jobs at the rate we have during the last 7 years without relying on Frontier workers.

The Reliance on Frontier workers is something I will be taken into account in the structural changes I feel I economy needs to undergo after we leave the EU in October if there is no transition period as Sims increasingly likely at this moment.

The problems of the Labour market in Gibraltar that distorts the structure of economy is not new. I discovered thanks to Hon Mr Clinton, my good friend Roy, if I may call him that Mr Speaker, who gave me a present on the occasion of my knighthood, which I treasure.

It is a copy of a report on the structure of the Gibraltar economy of 1944 commissioned from professor Hayek an eminent authority on economics who's views I do not share since professor Hayek is a defender of the theories of Adam Smith and I was brought up, as it were, on the thinking of John Maynard Keynes. The two were contemporaries with opposing theories.

However the empirical facts of the labour market that in 1944 were identified by the report make interesting reading. Two issues are highlighted one was the disparity, I would say discrimination between UK based workers in the Ministry of Defence, known in later years as agreement



workers recruited from UK and the much lower wages paid to local workers.

The first issue was put right in the parity battles of the 1970's in the middle of which the GSLP was born.

The other issue was the dependence on frontier workers in the hinterland and in particular the share of the size of the Labour market that was held by cross-border workers.

The second is still with us and I have described how it distorts our GDP per capita computation creating a sense of entitlement amongst some of our people who want a share of the money they think is there but does not exist.

#### Community Care

Mr Speaker Community Care came into existence to meet a particular need to supplement the incomes of our senior citizens, it was one of the many initiatives undertaken by the Socialist Government from 1988 onwards.

The GSD has been no friend of Community Care historically. Having promised both in this parliament and in general elections that they would maintain the annual grants so that the charity would not need to dip into its reserves built up between 1988 and 1996 it didn't just fail to honour this promise, it actually engaged in a policy of withholding grants so that the reserves would be exhausted.

All the time this was going on this parliament was been told the opposite of what was really taking place.

In spite of this totally indefensible behaviour by the GSD in the past today it feels it has the right to call to account the charity to explain how it uses its resources when if the GSD had been re-elected into government in 2011 the charity would have ceased to exist. This is not an opinion or a political view. This is what the Chief Minister of time told the media and told me in answer to my questions in parliament. Just prior to the general election of 2011 the government confirmed it still intended to close down Community Care but that there had been some slippage in the timescale and it would happen in 2012 after a general election.

In 1996 at the start of the GSD term of office when they were still providing support I asked questions about the charity and the reply from the Chief Minister was that as an independent



charity we should not be doing things that might give others the impression that it was an extension of the government or under government control. That was enough to stop me asking any more questions since the interest of the charity came first and its' protection. I regret that is not enough to stop the Hon Mr Clinton.

The charity received grants from us because that has been our policy since it was set up and because it is in election manifesto and because when people vote for us they know this is what we're going to do.

We keep the promises we make, they promised to do likewise but did the opposite. The money we provide belongs to the charity and the charity uses it in accordance with its constitution and does not have to give explanations to the government and even less to an opposition that would have closed it down. Last year The Honourable Mr Clinton was concerned by the reduction in the grant to £15M which has been made up this year by providing £25M. I do not think he was doing this because he was worried about the survival of the charity but to use it as evidence that we were heading for a deficit.

Well what we were heading for was a Brexit, not a deficit.

The two decisions, to curtail spending, on the payroll, of the top salaries and the salaries of Ministers and on the grant to Community Care were taken in the context of a possible contraction in revenue in the last financial year as we reached Brexit.

As I have explained the already instead of revenue contracting it came in £55M higher than expected and the three main heads of revenue were responsible for the gain. My advice to the government is the advice I got from the GSD Chief Minister in 1996, that it's not in Gibraltar's national interest to engage in providing information to Parliament on the affairs of an independent charity. It was enough to stop me asking questions but regrettably it doesn't seem to be enough for The Hon Mr Clinton.

The position of the government on the reserves of Community Care is that we're still committed to build them up. At £100M the reserves are at the equivalent in today's money of the £60M we left them with in 1996, but this level of revenue of reserves is now much lower as a multiple of the running costs and therefore was still committed to come as close as possible to the £230M as quickly as we can.

I also want to make clear my total opposition to the policy being adopted by the GSD in respect of state-owned companies. I've already described how they had one policy pre 1996 in Opposition, the opposite policy between 1996 and 2011 in government and now they are back in Opposition they are reverting to pre 1996 as if their conduct over the intervening 15 years counted for nothing and could be airbrushed aside. They did not just fail to give information which we accepted, they didn't even comply with the law to have up-to-date accounts for 15 years, how do they have the gall to question anything now.

As socialists we believe in public ownership of companies that engage in commercial activities. We believe that such companies have to be allowed to conduct their affairs under the rules that apply in the market.



So why does the Hon Mr Clinton think that Gibtelecom should be debated in Parliament as if it was a government department because the Savings Bank has invested in its shares? Does he think this because it's Gibraltarian and that it should be handicapped? Or does he think that if the Savings Bank bought BT shares we should debate the activities of BT in this Parliament? The Gibraltar Savings Bank has the role of a Development Bank. It was the Hon Mr Clinton himself who defined it as such in one of his early contributions. This was GSLP policy in 1988. They were against this role and stopped it in 1996. Why does a GSD in Opposition think that we have won the election to abandon our policies and implement there's?

This is not a question of secrecy it's a question of protecting the right of the entities in which we invest to have a level playing field and not be handicapped because the shares are publicly owned. In the comparative tables by the World Bank and IMF by the size of this metric, the ratio that is used, is debt to GDP. No one uses any other measurement. The UK has requested a ratio to reserves from its other overseas territory which it does not apply to itself as I have explained previously to the members opposite. When they were in government they discovered it was impossible to fund capital projects using the ratio of debt to revenue and that is why they had to provide for motions to breach the ceiling and resort to raising funds through government companies.

All this has been explained ad nauseam but the members opposite do not care about the explanation because their strategy is not about accountability, transparency or anything else, it is about finding something to attack the government with in order to be seem to be an effective opposition.

The things they say they would do but never did, are the things they say we should now do, we won't, because they are not what is in the best interest of Gibraltar and because they are only saying it in the hope that it might undermine confidence in the government.

On the question of the Savings Bank, in accordance with the provisions of the Act and the policy of the government, I will continue to give priority to reinvesting the funds on deposit in Gibraltar in projects that will promote Gibraltar's economic development and provide a better return than is currently available from Investments with the crown Agents. I have made sure in the Reports that I distribute to all depositors that they are fully aware of this policy.

I have demonstrated Mr Speaker that I've defended the same policy on government debt since I joined this Parliament in 1972 in government or in opposition and what goes for government debt goes for company debt too.

If Gibtel borrows money as part of its business strategy is that going to be included as government debt? And if we invest in BT shares are we going to include their ways as government debt as well? The only relevant issue in borrowing irrespective of who is doing the borrowing is whether the money is employed so that it produces a return that is greater than the servicing cost.

The opposition says the level of borrowing by companies is what stops them being able to vote for the government recurrent expenditure. There's absolutely no connection between one thing and the other. Nothing that they get told will change their mind because having decided not to vote in



favour of the Appropriation Bill they are now stuck with the policy.

One particular company which the GSD opposition has hated since its inception is Credit Finance which they claim is paying civil service pension and therefore reducing the cost of the annual budget to produce fictitious surpluses. The fact that I have explained why this is not so is not going to stop them saying it. So I will just limit myself to pointing members to where the cost of the Civil Service pension in the Consolidated Fund charge as a direct debit not requiring their vote. The cost of these pensions in 2011/12 to £27.6M a year before credit finance existed and when they were in government. In the year just ended the pensions that the Hon Mr Feetham says the government is no longer paying £41.3M and the estimated cost in the current year is put at £45.2M.

## Closing The Environment

I have been talking about financial sustainability, how we can ensure that we will continue to pay for the Public Sector Services going into the future.

However, there is a deeper and more urgent issue, which is the sustainability of the planet to support life, which is an even more real a challenge than fiscal sustainability which in the final analysis is about balancing the books so that we can pay our way.

I was not able to be here to take part in the debate on the motion “Declaration of Climate Emergency” so I would like to take this opportunity to put my views on record because there is a dimension which is related to what the budget debate is about, that was not reflected in the debate on that other motion.

Having read the Hansard of the debate I have to say that I disagree with the analysis of what needs to be done to avoid the catastrophe towards which humanity is heading.

It is clear to all of us that nothing that we do in Gibraltar can have a perceptible impact on where the global climate is heading to or the continuing degradation of the environment.

However that is no excuse for not doing our share or even not wanting to do more than most since



we are committed to the cause of environmental protection.

The point I want to make is that this should also apply to the analysis I am about to make which is not happening elsewhere and which in my view is the true cause of the problem.

When Dr Cortes introduced the motion he stated that the receding ice sheets, glaciers and other Climate changes had been part of the history of our planet but until the last 200 years all these changes had been due to natural process and not to the activity of just one species: ours.

I do not agree with him and I think that this focus is part of the problem that humanity faces. Our species did not suddenly materialize 200 years ago, it evolved 200,000 years ago. So what is it that happened 200 years ago?

The First and Second Industrial Revolutions and Adam Smith the father of the theory of the classical school of economics, leading to factory production, international trade, and even the GDP as a measure of a nation's health when previously it was based on Gold and Silver reserves.

This was not the doing of the species, but of a small section of the species, Western Civilization.

The process that this started has led us to where we are now, with a globalized economy and mass production on a level never imagined before.

The problem is not CO<sub>2</sub> but what I call C.C.D.

Compulsive Consumption Disorder, the Western world's lifestyle and values, that define what we call the standard of living and what the rest of mankind aspires to achieve.

Globalisation is turning this Disorder into a world epidemic, it's killing some of us in the West, and it's killing the rest of the planet in the process.

I agree with the approach suggested by the Honourable Mr Feetham on changing our lifestyles by eating less meat for example and what my colleague Minister Balban suggested, that we should make less use of cars and more use of buses.

Although I do neither, as a general rule I walk, have never owned a car and not knowing how to drive.

But these individual changes in lifestyle are not going to be sufficient in making an impact even if everybody in the West adopted them.

Something much more radical is required and it is not going to happen.

As the Chief Minister pointed out we have to be proportionate.

There is a balance to be done.

This is what all Governments that are committed to doing something are prepared to do.



A balanced approach.

Unfortunately a balanced approach is not universal, there are those who do not want to do even that, and in any event in my view a balanced approach will not save us, it's too late for that already. Whichever way we look we see what is happening.

There are the developing countries as the Chief Minister mentioned and these are wanting to catch up with us, live like us and pollute like us.

And then there are those in the advanced economies who don't care and are not prepared to do anything.

The US Secretary of State Mike Pompeo for example told Members of the Arctic Council in May: "The Arctic is at the forefront of opportunity and abundance. It houses 13 percent of the world's undiscovered oil, 30 percent of its undiscovered gas, an abundance of uranium, rare earth minerals, gold, diamonds, and millions of square miles of untapped resources, fisheries galore." So much for stopping global warming so that the poles do not melt.

Forget the melting ice caps, just look at the opportunity for making more money.

More money for whom? Those who already have most?

The United Nations has as one of its targets eliminating poverty in respect of 700 million people who live on £1 or less a day.

The least polluting countries are in the developing world. And in those countries the least polluting people are indigenous tribal people retaining their traditional culture who continue to be exterminated so that more virgin land releases its resources to feed the consumerism of the West, makes multinationals richer and the environmental damage greater.

This is the cause of a problem. The CO<sub>2</sub> causes global warming and the consumption led model of the West causes the CO<sub>2</sub>.

The West tries to reduce its' CO<sub>2</sub> emissions so as not to have to give up its consumption led economic model.

It's understandable if the musical chairs of the global economy stopped we would not know how to handle it.

India Mr Speaker produced 6% of carbon dioxide emissions from fuel combustion in 2015 and the US 15%. In 2015 India had a population of 1.309 billion and the US 321 million. China who was more industrialized than India with a population of 1.371 billion in that year was the source of 28% are the people in India not entitled to live like those of the United States? Does anyone really believe that is possible for the rest of the Planet's population to enjoy the income, lifestyle and consumption levels of the Western advanced economies? I do not believe that it is possible without making the environmental problems we have now, 100 times worse.



The real challenge in delivering environmental sustainability is that it has to be an integral part of economic sustainability.

The magnitude of the problem lies in that the whole drive for economic growth is in order to increase wealth by increasing human use of natural resources.

There is no acceptance of the fact that the capacity of the planet is finite.

The Hon Mr Feetham was the first one to raise the issue of the culture of entitlement in Gibraltar. It is not limited to Gibraltar, and it is insatiable, so I honestly think that this is a fundamental philosophical issue which transcends politics.

My job is to make our economy grow and just like going green in Gibraltar will not affect the greenness of the rest of the planet, so growing faster will not dramatically damage the prospects of survival for the planet. We are too small to count.

But we're not too small to set out to be an example to others, even if few will follow. In my view the only hope for mankind lies in the dramatic breakthrough in technology, in particular in harnessing fusion energy.

But as long as a Western economic model of compulsive consumption continues to spread it is difficult to see a solution happening anytime soon.

I will give an example of a dilemma that the Western society model faces when consumption is reduced.

Two weeks ago the figures for retail sales in UK for the month of May were published.

They showed a drop of 3% from May 2018 and the worst figures for sales since the British Retail Consortium began compiling this data in 1995. Nor was it a question of a shift to online sales which is affecting the retail trade everywhere. Online sales were up 1.5% in May but this compared badly with May 2018 when the increase was 11.5%.

Should we be worried by these results or celebrating?

It depends, given that the Western economic system is driven by ever increasing consumption, a slowdown of sales or even worse a drop-in sales indicates a possible recession, lower consumer spending, more unemployment and less profits.

It also means less production which means less pollution, less plastic, less use of raw materials and natural resources. This is the real dilemma that faces the Western world with its conflict of mutually incompatible values and objectives.

This is where the connection between a sustainable economy and sustainable environment comes in.