SENATE

Tuesday, July 15, 2008

The Senate met at 1.30 p.m.

PRAYERS

[MR. PRESIDENT *in the Chair*]

LEAVE OF ABSENCE

Mr. President: Hon. Senators, I have granted leave of absence to Sen. Linus Rogers for the period July 14—17, 2008.

A Senator is to be sworn in but he is not here so we will take that item a little later in the proceedings.

PAPERS LAID

1. Report of the Auditor General of the Republic of Trinidad and Tobago on the financial statements of the Penal/Debe Regional Corporation for the period ended September 30, 2003. [*The Minister in the Ministry of Finance (Sen. The Hon. Mariano Browne)*]
2. Report of the Auditor General of the Republic of Trinidad and Tobago on the financial statements of the Trinidad and Tobago Unit Trust Corporation (TTUTC) for the year ended December 31, 2007. [*Sen. The Hon. M. Browne*]
3. Audited financial statements of the Trinidad and Tobago Film Company Limited for the year ended September 30, 2006. [*Sen. The Hon. M. Browne*]
4. Report of the Central Bank of Trinidad and Tobago on Insurance and Pensions for the year ended December 31, 2006. [*Sen. The Hon. M. Browne*]
5. Report of the Statutory Authorities Service Commission for the period October 01, 2006 to September 30, 2007. [*The Minister of Energy and Energy Industries (Sen. The Hon. Conrad Enill)*]

ORAL ANSWERS TO QUESTIONS

Official Residence
(Details of Payments)

26. Sen. Wade Mark asked the hon. Minister of Finance:

A. Could the Minister provide the Senate with the details of the final cost of the construction of the Prime Minister's residence and Diplomatic Centre?

B. Could the Minister also provide the Senate with the details of payments of value added tax, income and corporation taxes, and all other corporate taxes by the Shanghai Construction Corporation of China during the period of construction of the said Prime Minister's residence and Diplomatic Centre?

The Minister in the Ministry of Finance (Sen. The Hon. Mariano Browne): Mr. President, I must inform you that although the question has been prepared, it has not been approved and I am not in a position to deliver the answer today.

Sen. Mark: Mr. President, through you, could the hon. Minister indicate to us when the question would be ready?

Sen. The Hon. M. Browne: I should have the answer within a week.

Question, by leave, deferred.

Trinidad and Tobago Roads
(Registered Vehicles on)

71. Sen. Mohammed Faisal Rahman asked the hon. Minister of Works and Transport:

Could the Minister provide the following information for the period January 01, 2002 to December 31, 2007:

(i) How many vehicles have been registered for use on Trinidad and Tobago roads?

(ii) Of that number, how many are diesel powered?

(iii) Of the number that are diesel powered, how many have been registered as "P" vehicles for private use?

The Minister of Works and Transport (Hon. Colm Imbert): Mr. President, with respect to the number and types of vehicles registered for use on the roads in Trinidad and Tobago, the Transport Commissioner has advised as follows:

Year	Type of Vehicles	Amount	Cumulative Total
2002	Private	17,514	
	Hired	896	
	Motor Cycles	265	
	Rented	525	
	Goods	3,187	

Year	Type of Vehicles	Amount	Cumulative Total
	Omnibuses	2	
	Tractors	121	
	Trailers	475	
	Industrial	45	
	Total	23,030	342,296
2003	Private Vehicles	16,668	
	Hired	792	
	Motor Cycles	277	
	Rented Vehicles	292	
	Goods Vehicles	3,745	
	Omnibuses	01	
	Tractors	165	
	Trailer	346	
	Industrial	34	
	Total	22,320	364,660
2004	Private Vehicles	17,292	
	Hired Vehicles	800	
	Motor Cycles	187	
	Rented Vehicles	407	
	Goods Vehicles	4,014	
	Omnibuses	01	
	Tractors	144	
	Trailers	365	
	Industrial	28	
	Total	23,238	387,854

[HON. C. IMBERT]

Year	Type of Vehicles	Amount	Cumulative Total
2005	Private	14,739	
	Hired	605	
	Motor Cycles	173	
	Rented	206	
	Goods Vehicles	3,339	
	Omnibuses	40	
	Tractors	117	
	Trailers	212	
	Industrial	59	
	Total	19,490	407,344
2006	Private	21,570	
	Hired	685	
	Motor Cycles	375	
	Rented	607	
	Goods Vehicles	9,892	
	Omnibuses	70	
	Tractors	267	
	Trailers	187	
	Industrial	62	
	Total	33,662	441,006
2007	Private	17,774	
	Hired	460	
	Motor Cycles	408	
	Rented	182	

Year	Type of Vehicles	Amount	Cumulative Total
	Goods	8,107	
	Omnibuses	50	
	Tractors	212	
	Trailers	368	
	Industrial	44	
	Total	27,605	468,611

With respect to part (ii), the Motor Vehicles and Road Traffic Act, Chap. 48:50 does not require vehicles to be registered in accordance with fuel type. The information requested, therefore, is not available in the public records. Part (iii) of the question is therefore not applicable.

The Motor Vehicles and Road Traffic Act does not require vehicles to be registered as luxury vehicles. Section 50 of the Motor Vehicles and Road Traffic Act, for information, as amended by Act No. 2 of 2002 states as follows:

"For the purposes of this Part, there shall be the following classes of motor vehicles:

Class 1 Motor cycles

Class 2 Wheel Tractors

Class 3 Light motor vehicles (including private motor cars, taxis with a tare weight not exceeding 2270 kilograms, maxi-taxis whatever their tare weight and light goods vehicles not exceeding a maximum gross weight of 2950 kilograms)

Class 4 Heavy motor vehicles (including motor vehicles whose maximum gross weight exceeds 2950 kilograms but does not exceed 15240 kilograms)

Class 5 Extra heavy motor vehicles (including motor vehicles whose maximum gross weight exceeds 15240 kilograms)

Class 6 Motor omnibuses

Class 7 Motor vehicles not specified in Classes 1 to 6."

In the circumstances, therefore, parts (iv) and (vi) of the question are not applicable.

Sea Lots District
(Airstrip)

78. Sen. Mohammed Faisal Rahman asked the hon. Minister of Works and Transport:

Could the Minister state whether the Government intends to locate an airstrip in the Sea Lots area for small aircraft?

The Minister of Works and Transport (Hon. Colm Imbert): Mr. President, I had hoped that I would have had this answer today but we are still doing some work on it and I am hopeful I can have an answer within two weeks.

Question, by leave, deferred.

Sen. Ali: Mr. President, I would like to advise that in conjunction with the hon. Minister in the Ministry of Finance, I have agreed to a deferral of a reply to question No. 82 for two weeks.

Sen. Mark: He has the answer, Sir.

Sen. Ali: I thought that was what was agreed between the hon. Minister and me last Friday, Sir. If he wishes to answer the question, fair enough.

Heritage and Stabilisation Fund
(Petroleum Revenues Deposits)

82. Sen. Basharat Ali asked the hon. Minister of Finance:

Could the Minister advise the Senate on the following:

a. the amount of petroleum revenues deposited to the Heritage and Stabilisation Fund for each of the quarters ending December 31, 2007 and March 31, 2008 respectively in accordance with subsections 13 (1) and 13(2) of the Heritage and Stabilisation Fund Act No. 6 of 2007;

b. the basis of such transfers, including but not limited to the average unit realized price of crude oil and natural gas and the amount of petroleum profits tax, supplemental petroleum tax and royalties collected in each quarter; and

c. the unit price for crude oil and natural gas derived in accordance with subsection 13(3) of the Act?

The Minister in the Ministry of Finance (Sen. The Hon. Mariano Browne): Mr. President, the amount of petroleum revenues deposited to the Heritage and Stabilisation Fund for the quarters ended December 31, 2007 and March 31, 2008 are as follows: For the quarter ended December 31, 2007, the answer is nil; for the quarter ended March 31, 2008, the answer is $1,135,795,435.

With respect to (b), for the quarter ending December 31, actual oil revenue was $2,909,749,120 and the projected oil revenue was $4,195,501,731, resulting in a shortfall of revenue as against the budgeted number, of approximately $1,285,752,611.

As a result of the shortfall in revenue, no resources were generated for deposit into the Heritage and Stabilisation Fund for the quarter ending December 31.

1.45 p.m.

A detailed analysis conducted at the end of the December quarter is as follows: projected tax on income and profits for oil companies amounted to $3,787,163,169 and the actual realized revenues were $2,498,424,760 resulting in a shortfall of approximately $1.3 billion as against the projected figure, for the first quarter.

The property income of royalties for the first quarter amounted to $408,338,562 and the actual realized revenue was $411,324,360 resulting in a positive variance of $2,985,798. The total projected revenues for the first quarter amounted to $4,195,501,731 and the actual realized revenues totaled $2,909,749,120 resulting in a variance of $1,285,752,611. As a result of that no money was deposited in the Heritage and Stabilisation Fund for the first quarter.

At the end of the quarter ending March 31, 2008, the aggregate or year-to-date projected oil revenue was $8,525,982,490, whereas the actual aggregate or year-to date oil revenue was $10,418,974,882, resulting in a surplus oil revenue against the targeted budgeted number of $1,892,992,392.

In keeping with the provisions of the Act, it was determined that a minimum of $1,135,795,435 or 60 per cent of the surplus revenue was required to be deposited in the Heritage and Stabilisation Fund.

As a consequence of the accrued surplus, and in accordance with the provision of section 14(1) of the Heritage and Stabilisation Fund Act, No. 6 of 2007, an aggregate of $1,135,795,436 or just over 60 per cent of the excess petroleum revenues was deposited into the Heritage and Stabilisation Fund. Details of the

[SEN. THE HON. M. BROWNE]

analysis conducted at the end of the quarter ending March 31, 2008 are as follows: Taxes on income and profits, the accumulated projections for revenue coming from the oil companies were $7,813,327,269. The actual number realized for the cumulative position March 08 was $9,513,434,538, resulting in a positive variance of $1,700,107,269. Sixty per cent of that which was deposited in the Heritage and Stabilisation Fund amounted to $1,020,064,361.

The property income of royalties projected for the cumulative quarter amounted to $712,655,221 against the accumulated position as at the end of March, $905,540,344 resulting in a positive variance of $192,885,123, as a result of which $115,731,073 was deposited into the fund.

Projected revenues were once again $8,525,982,490. The accumulated position as at March amounted to $10,418,974,882 resulting in a positive variance of $1,892,992,392, resulting in a 60 per cent surplus of the amount deposited, $1,135,795,435.20 to the fund.

It should be noted that oil revenues collection was lower than projected in the quarter ending December 31, 2007 for the following reasons:

(i) There were no collections of petroleum profits tax (PPT) from companies operating under production sharing arrangements for that quarter;

(ii) Petroleum profit tax collections from one firm was lower than projected; and

(iii) The supplemental petroleum tax paid by one firm was lower than projected.

In terms of oil prices, the 11-year moving average methodology as prescribed in section 13(3) sets the ceiling for the determination of the unit price for crude oil. When this exercise was conducted at the time of the preparation of the 2008 budget, in August 2007, it resulted in an average oil price of US $55.40 per barrel for 2008. Notwithstanding this computation, the Minister of Finance used a conservative oil price of US $50 per barrel.

The weighted average, realized oil price was US $85.35 per barrel for the quarter ended December 31, 2007 and US $90.02 per barrel for the quarter ended March 31, 2008.

With regard to gas prices, the weighted, well head price used during the preparation of the 2008 budget, in August 2007, was US $3.55 per mmcf. However, the weighted average well head gas price for the quarter ended December 31, 2007 was US $3.39 per mmcf. For the quarter ended March 31, 2008 the price was US $4.19 per mmcf. It should be noted that the gas price for the latter period has not been received as yet from all companies and this may be adjusted.

Sen. Ali: Mr. President, a supplemental question. I keep seeing a reference to oil revenues and not natural gas revenues. Could you clarify that you have taken into account natural gas revenues under the three headings as said in the Act, so that we have petroleum revenues looking for the quarter, as against petroleum revenues as per the projection?

Sen. The Hon. M. Browne: Yes. It includes both the revenues coming from oil as well as gas.

Sen. Ali: I am asking this question on the basis of what subsection 13(1) of the Heritage and Stabilisation Fund says. That refers only to what has been received in the first quarter of the fiscal year for petroleum taxes, overall revenues, as they call it, petroleum profit taxes; supplemental taxes; production sharing contract and royalties. As I am understanding it now, the hon. Minister is saying that the prorate 60 per cent based on section 14(2) of the Act relates to the annual excess revenues. They call it the aggregate excess revenue. I do not understand how we have not put anything into the Heritage and Stabilisation Fund in the first quarter and then you do an accumulation into the second quarter.

Sen. The Hon. M. Browne: Section 13 says where petroleum revenues and petroleum include natural gas in this context, collected in each quarter of any financial year exceed the estimated petroleum revenues for that quarter. The estimated petroleum revenue for the first quarter was more than the actual. As a result of it no money was paid into the fund. However, the cumulative number at the end of the second quarter was greater than the projections. As a result of that, 60 per cent of the difference between the actual received and the budgeted amount was put into the fund. In other words, 60 per cent of the surplus between your actual receipts and your budgeted receipts was put into the fund.

Sen. Ali: You sent me a copy of this and it says that it should be noted that the gas price for the latter period, that is the second quarter of the fiscal year, has not been received as yet from oil companies. How can you calculate anything if you have not got that and the oil companies are supposed to send their revenue numbers within one month of the end of the quarter? That is the law, otherwise they are subjected to a fine. Could the hon. Minister explain that to me?

Sen. The Hon. M. Browne: I will have difficulty in explaining it. Suffice it to say that sometimes there are delays in receipt of payments. We use the principle of catch-up and we record what we have received. We follow through with the following quarter to ensure that all the revenues are collected.

Sen. Ali: Mr. President, in that case we need to have a revision of the Act before us. That is for another occasion.

The second question is with respect to the methodology in arriving at these 11-year moving averages. I have seen a figure which you have worked out. How you arrived at that figure is something I have always questioned. I will like to know how you arrived at the figure for both oil and gas, but for oil particularly. Is it by consultants, guess or your pricing committee?

For natural gas, there are two tranches of natural gas that are going into LNG by the netback system and natural gas primarily sold to LNG for downstream industries. Can you tell me how we are working out these projections for the five years beyond the year in question?

Sen. The Hon. M. Browne: I could not give you an answer with respect to the netback calculation. I will have to go back and check that one. Generally speaking, the oil numbers are arrived at using the IMF published prices and the IMF published moving averages.

Sen. Ali: I think that the Minister might agree with me that the IMF figures do not cover the domestic gases.

Mr. President: Senator, this is question time. This is not a debate. Therefore, your comments should be left out of the question. If you have a question, please ask it.

Sen. Ali: Mr. President, could the hon. Minister tell me how those IMF numbers refer to the sale of gas from the oil companies to the National Gas Company for use in the downstream industries, as fertilizer, methanol and methyl-based industries?

Sen. The Hon. M. Browne: In consultation with the Minister of Energy and Energy Industries, that particular question is a matter of technical information and that question should be filed separately.

SENATOR'S APPOINTMENT

Mr. President: Hon. Senators, I have received the following correspondence from His Excellency the President, Prof. George Maxwell Richards:

"THE CONSTITUTION OF THE REPUBLIC OF TRINIDAD AND TOBAGO

By His Excellency Professor GEORGE MAXWELL RICHARDS, T.C., C.M.T., PhD, President and Commander-in-Chief of the Republic of Trinidad and Tobago.

/s/ G. Richards
President.

TO: MR. NOEL GAYLE

WHEREAS Senator Linus Rogers is incapable of performing his duties as a Senator by reason of his absence from Trinidad and Tobago:

NOW, THEREFORE, I, GEORGE MAXWELL RICHARDS, President as aforesaid, acting in accordance with the advice of the Prime Minister, in exercise of the power vested in me by section 44 of the Constitution of the Republic of Trinidad and Tobago, do hereby appoint you, NOEL GAYLE, to be temporarily a member of the Senate, with immediate effect and continuing during the absence from Trinidad and Tobago of Senator Linus Rogers.

Given under my Hand and the Seal of the President of the Republic of Trinidad and Tobago at the Office of the President, St. Ann's, this 15th day of July, 2008."

OATH OF ALLEGIANCE

Mr. Noel Gayle took and subscribed the Oath of Allegiance as required by law.

2.00 p.m.

TREASURY BONDS BILL

Order for second reading read.

The Minister in the Ministry of Finance (Sen. The Hon. Mariano Browne): Mr. President, I beg to move,

That a Bill to authorize the Minister to issue Treasury Bonds for the purpose of liquidity management, be read a second time.

The purpose of this Bill is adequately set out in that it seeks to authorize the Minister of Finance to issue Treasury Bonds for the purpose of liquidity management. It is perhaps necessary for me to give some information by way of background to how we have arrived at this point.

The role of the Central Bank is set out both in the Central Bank Act, Chap. 79:02 and also as modified in sections 40—44 by the Financial Institutions Act. It sets out the Central Bank as both the banker to the Government, as well as gives it responsibility for the execution of monetary policy and for the regulation of the financial system.

Monetary policy refers to the use of tools and techniques by the Central Bank to achieve economic stabilisation. By economic stabilisation I mean a stable economic environment with an appropriate set of conditions, which include low inflation, external balance, which is a balance in the balance of payments, and credit conditions consistent with the state of the economy. When appropriate economic and monetary conditions are in place, the achievement of economic goals such as full employment, growth and development are facilitated. Alternatively, when monetary conditions are not right, the achievement of these conditions are compromised or frustrated.

Central Banks everywhere, in discharging their mandate to administer relevant and effective monetary policy, utilize many instruments of control. These include direct intervention by prescribing interest rates, as well as indirect mechanisms such as open-market operations or by the selling and purchasing of securities in the open market. Currently both direct and indirect mechanisms are utilized in Trinidad and Tobago and this Bill must be seen in the context of one element of monetary policy that attempts solely to deal with surplus liquidity. I want to emphasize the position: solely to deal with surplus liquidity that now exists in the financial system.

What is liquidity management? A financial system is said to be liquid when the money supply is greater than the demand. Commercial banks are critical to the creation of that process. By definition, when banks accept deposits and lend money thereby increasing deposits in the system, it increases the total deposits available in the system; it prompts banks to increase the supply of loans and by so doing it affects the supply of money. When the supply of money increases at too fast a rate, it can have a destabilizing effect and destabilizing consequences. One such symptom of destabilization is the increase in the general level of prices, known as inflation. In such circumstances, it is necessary to remove, isolate or sterilize the surplus liquidity. This process is known as liquidity management. This process, by way of sale and repurchase of instruments, is known as open-market operations.

Between 1980 and 1996, the Central Bank used a range of direct mechanisms, including adjusting primary and secondary reserve requirements; the incremental lending reserve ratio, in 1980 and direct credit controls. It also controlled who was lent money and at what rate. The direct intervention mechanisms have generally fallen out of favour in other more developed jurisdictions.

Trinidad and Tobago is consolidating its progress towards the development of a vibrant economy and the cornerstone of that progress is the transformation of energy into a balanced condition of external assets both physical and human. To this extent, the Government has been implementing a mix of macroeconomic policies that supports a wider absorption of the country's energy savings and energy earnings over time. The high economic growth experience for over a decade has resulted in some reforms which have been implemented in earlier administrations. Perhaps I should give a broader historical concept of the mechanisms for liquidity management.

As I indicated before, there were several different tools. There were also quantitative restrictions which were used to limit credit to various sectors of selected classes of borrowing. For example, in the 1970s, the Central Bank imposed a limit on the credit extended to non-residents. These limits were revived several times and the system was dismantled early in 1990.

Another form of credit control was that of extending credit to particular sectors of the economy, for example, agriculture and export and, by the early 1990s, most of these selective credit guidelines were removed in an effort to increase the efficiency of the monetary system. They were also removed because the prevailing methodology and the prevailing economic census had moved towards more indirect mechanisms of controls. Indeed, most countries had abandoned the use of direct instruments of monetary policy either by way of interest or other direct controls.

The reserve requirement has been actively used and is still used as a tool of monetary policy. This system was widespread in both developed and developing countries, but has lost favour in financial markets as they have evolved and they have received other mechanisms and other funding from sources other than deposits. I refer to the disintermediation process which has occurred in other more developed markets, particularly in North America where the use of reserve ratios and special deposits has now virtually ceased.

Reserve requirements, however, remain a useful monetary policy in developing countries and therefore a useful tool, whilst its role in policy design in developed countries has decreased, if not eliminated, over time. Reserve requirements are defined as a percentage of the total deposits, which may be placed or isolated at the Central Bank.

There are a number of issues which were associated with reserve requirements. These reserve requirements have also led to disintermediation. If the spread between lending and deposit rates widen as a result of the heavy use of the special reserve requirement, they could also disrupt the bank's assets and liability management. Furthermore, the imposition of statutory limits, which obliges financial institutions to hold a certain percentage of their liabilities in the form of government securities, also creates market distortions, which constrain commercial banks' asset management and, at the same time, distort the pricing of those instruments because it forces you to hold them, in many instances, to maturity. It also creates a disincentive in terms of the development of secondary markets, as a result of which the use of open-market instruments has increasingly become the norm.

Since 1996, the issue of government securities has become the main tool for regulating the level of liquidity in the domestic system. These operations whereby the Central Bank sought to influence the level of commercial bank reserves through the purchases and sales of government securities have provided for more flexibility in monetary policy. At the same time, the commercial banks also receive interest on their holdings and as such it has become part and parcel of their asset management strategies. In addition, open-market operations can be conducted on a more defined basis, that is, almost daily, as distinct from the use of special reserves or special deposits or secondary reserve requirements, which tend to be periodic by their nature. Because holdings of securities are remunerated and the rates are market determined, it does not have the same level of distortionary effects on the market system.

In 2002, the Central Bank introduced the repo rate, which is the rate at which the Central Bank is prepared to provide overnight financing to commercial banks that are temporarily unable to meet their liquidity requirements. This is equivalent to a policy rate. The repo rate is the principal instrument used by the Central Bank to influence the structure of commercial banks' interest rates. Changes in the use of repo rates are used to influence banks' short-term interest rates and ultimately the interest rate structures of commercial banks and other financial institutions.

The assumption is that interest rates influence credit expansion and affect economic growth, employment and inflation. This rate is therefore used and is intended to be used as a benchmark rate by which other rates in the marketplace will be set. It is intended to provide also some depth to the market to give a clear indication of the Central Bank's monetary policy and its monetary stance.

In the context of Trinidad and Tobago, the existence of persistent and structural liquidity overhang initially mitigated the effectiveness of the repo rate as an instrument of liquidity management. What do we mean by structural liquidity overhang? We mean the inability to monetize the surplus. In more developed countries the markets are deeper, more widespread; indeed, the disintermediation that has taken place in the North American market means that the definition of a bank has been given wide latitude. In fact, in North America, virtually all money market players can now issue cheques and, as a result, have the capacity to affect money market aggregates.

Indeed, in North America, if you look at it from a historical perspective, in 1970, commercial banks accounted for 70 per cent of the total assets in the commercial system; the total financial assets held in the economy. At today's date, that holding is approximately 25 per cent. Therefore, the effect of adjustments and open-market operations is much more strongly felt in a developed economy than in our own.

2.15 p.m.

The percentage of financial assets, in real terms, which is held by our system, does not come close to that number, as a result of which there is also need for both direct as well as indirect instruments. There has been greater emphasis on our part, in the context of the year 2000 onwards, on the use of indirect mechanisms. I say that from the perspective, that whilst the market has been developing, it is not to the stage as that operating in a developed market. In a developed market, the issuance of Bills can affect the movement of an interest rate or the interest rate overnight.

We have seen several examples of this over the last year, especially in the context of, if you want, liquidity crises. A mortgage crisis has been evidenced in North America and also in the United Kingdom. It has also demonstrated the ability or the need for the Central Bank to sometimes reconsider its instruments. We have the examples, both in North America as well as the United Kingdom, that items which were prescribed as qualifying for repurchase by the Central Bank has been broadened to include items which were not previously included. Once again, that is in response to the specific conditions of liquidity and market prices there. I make the point once again that open market operations are very strong and very well developed in the more developed financial economies to the north of us. In our circumstances, however, we are still developing and moving towards that situation.

We have, however, a number of situations or events which are slightly different. For one, we are faced with a situation of imported inflation. There have been substantial increases. I think the evidence is clear and the statements, both by the International Monetary Fund and the World Bank, indicate that developing countries will experience higher rates of inflation than the more developed economies. In such circumstances, it is important that the monetary tools be developed and expanded to improve our capacity and ability to deal with that variable. There have been a number of actions, which have been taken by the Central Bank in recent times to adjust liquidity. These instruments include the use of Government Bonds, changes to the Central Bank repo rate, changes to the reserve requirement and sale of foreign exchange.

Beginning in February 2007, the Central Bank began a series of bond issuances including a five-year bond, valued at $674 million and a seven-year bond, valued at $1 billion in April 2007; and a five-year Treasury Note valued at $500 million, in May 2007.

In response to the intensification of inflationary pressures in 2008, the Central Bank increased the reserve requirement to commercial banks from 11 per cent to 13 per cent and the repo rate has been raised to 8¼ per cent after it had remained unchanged for literally two years. To a lesser extent, sales of foreign exchange by the Central Bank amounted to US $1 billion during 2007 and $405 million in the first six months of 2008, have also mitigated the liquidity impetus to the inflationary pressures. As a result of these measures, the headline inflation fell from 9.1 per cent during the 12-month period ending December 2006, to 7.6 per cent for the 12 months ending December 2007. Core inflation, likewise, fell 3.9 per cent in December 2007, from 4.6 per cent in December 2003.

In 2008, headline inflation has been contained between 9 per cent and 10 per cent on a year-on-year basis, but we are beginning to get the better of core inflation after peaking at 5.7 per cent in early 2008. It has moderated somewhat to 5.2 per cent in April and May 2008. That development notwithstanding, the Central Bank must look forward to the future, in terms of the continuing influences which we feel will continue to threaten the inflationary environment.

It is in that context, therefore, that the Bill brought before this Senate provides for the Minister of Finance, on behalf of the Government and on the written advice of the Central Bank, to borrow money by the issue of bonds for the specific purpose of managing liquidity in Trinidad and Tobago.

Section 3(2) of the Bill provides for the principal and interest payable on bonds issued/made at such times as the Minister shall determine, pursuant to section 10, so that the principal shall not be paid earlier than five and one-half years not later than 10 years from the date of issue of the bonds. The proposed tenor of these bonds shall be between five and one-half years and 10 years.

Why did we choose five and one-half to 10 years? The answer is that there already exists an array of instruments which are at the shorter dated end, 90 days, 180 days. We also have bonds which cover the longer tenor, bonds which go up to five years, and bonds which start at the end of 10 years and go beyond 10 years. In terms of the maturity spectrum, it was necessary to introduce a bond which fit into that mould, which was not covered by the existing instruments, that is five to 10 years. The term five-to 10-year issue has been selected for this particular bond issuance for that reason.

Section 4(1) of the Bill provided for all moneys raised by the issue of the bonds to be paid into a blocked account in the Exchequer account and shall form part of the Consolidated Fund.

At this point we need to spend a little time. As I have said before, the purpose of this bond is for the facilitation of liquidity management. Its sole purpose is to manage liquidity—it is not borrowing—which is going to be used to finance expenditure on the part of Government. That is not its purpose. Its purpose is to provide and to create an instrument to manage what we deem to be the structural illiquidity that exists in the system. Its sole purpose, therefore, is to mop up surplus liquidity. The proceeds of this bond issue will be put into a blocked account and is not available for expenditure. It is not available for use by the Government, to finance any of its activities, therefore, there is no difficulty in the source of repayment.

Why would a government do that? Well, there are very few alternatives for the use of the funds. I think in the other House, it was suggested that these funds should be put into an account which will generate an interest income. That is a non-starter because, by definition, to do that you have to redeposit it into the system. To redeposit it into the system means that you would have to do exactly the reverse of what you intended to do; you would put it back there and therefore make it available and once again increase the liquidity. That is not an option. The only thing that you could do with it is place it in a blocked account. The argument is that you can also take it and place it abroad. We are collecting Trinidad and Tobago dollars. Unfortunately, there is not an active market in Trinidad and Tobago dollar accounts anywhere else in the world other than Trinidad and Tobago, so that does not hold any water either. Our sole purpose of this particular instrument is to mop up excess liquidity and reduce inflationary pressures.

What is the evidence of these inflationary pressures? What is the evidence of the increase in the money supply? I refer to a Central Bank report which shows the growth or annual change in the total deposits over the last four years. In 2004, total growth in aggregates amounted to $4.7 billion; 2005, aggregate growth in total deposits amounted to $7.1 billion; 2006, total growth in aggregate deposits amounted to $7.8 billion; 2007, $5.4 billion, of which bank credit expansion amounted to the following: In 2004, $4.2 billion, in comparison to growth of $4.7 billion in aggregate deposits; 2005, a growth of bank credit in the amount of $6.6 billion, in comparison to a growth in aggregate deposits of $7 billion; in 2006, growth in bank credit of $4.4 billion, a little slow down in relation to aggregate credit growth of $7.8 billion; and 2007, the reverse is true, the rate of growth in bank credit expansion of approximately $6.1 billion, in relation to total deposits of $5.4 billion. In other words, the surplus that was generated or the slow down that we saw in the previous year, 2006, had caught up in 2007. It is therefore important to ensure that the rate of credit expansion does not destabilize the economy by adding to its inflationary pressures.

I might add that the rate of growth in credit also has links to the rate of growth in consumer demand as distinct from business investment purposes. Of the total growth increase in credit in 2004 at $4.1 billion, approximately $2.3 billion was used for credit purposes. In other words, 50 per cent of it was used for consumerism.

In the case of 2005, the growth was $6.6 billion, of which used for business purposes amounted to $1.6 billion. In 2006, gross bank credit expanded to $4.3 billion, of which $3 billion was used for business purposes; a substantial turnaround from the two previous years. However, in 2007, of the gross credit expansion of $6 billion, the total amount used for business purposes amounted to $3 billion or approximately 50 per cent.

Therefore, I continue to make the point that the purpose of this Bill is liquidity management. It is to sop up surplus funds which are in the system, which will help or drive a credit expansion and, therefore, are not available to the

Government to finance any form of expenditure; capital or recurrent. It is an item or it is money which is isolated and segregated. Its true purpose, therefore, is to sterilize, if you want to segregate, or otherwise move money out of the system and thereby reduce the flationary impact of the increase in the money supply.

To control liquidity, Treasury Bonds would be issued and the proceeds of such sale would be deposited into a blocked account at the Central Bank. It is important to note that the money here will be taken out of the financial system and will not be available to the central government to finance Government operations.

To this end, the expression “blocked account” is defined in section 2 of the Bill to mean a separate account into which moneys raised under this Act are deposited and from which withdrawals, transfers, or any other transactions are prohibited except as required under this Act. No moneys paid into this account may be used for any other purposes other than repaying the initial bond.

This mechanism is a mechanism through which the proceeds of the issue of Treasury Bonds are absorbed from the financial system. Therefore, at maturity the moneys in the blocked account will be brought back into the system and the blocked account will become unblocked, to allow for the payment of bond holders. Whereas the payment of principal may be taken from the blocked account, moneys would be withdrawn from a general pool of funds comprising the Consolidated Fund to make interest payments to bond holders as and when due. In other words, there is an incentive to ensure that this tool is used moderately and only when required, because the Government is required to pay for the money that it is taking out of the system and, therefore, that acts as an expenditure and reduces its expenditure available for other developmental purposes.

Under the Constitution, no moneys may be withdrawn from the Consolidated Fund except to meet expenditure that is charged upon the Fund by the Constitution or by an Act of Parliament or where the issue of those moneys has been authorized by an Appropriation Act.

2.30 p.m.

In order to facilitate prompt payment to bond holders, the payment or principal has been made a charge on the Consolidated Fund by the Treasury Bonds Act. Likewise the payment of interest is also a charge, in other words, only to facilitate the speed of payment. Bonds under this Act are also exempt from stamp duty.

Mr. President, a point was made in the debate in the other place as to why there was no upper limit on these bonds. I think it is also very important for us to deal with that matter. Monetary policy and monetary instruments are by definition blunt tools. They do not have an immediate effect. In order for them to have an immediate effect the action required would be so draconian that it would freeze the system.

Mr. President, it is very much as a science as it is an art to determine how much money needs to be removed from the system at any one point in time in order to have an impact or a slow down. It is very difficult to know in advance. Some calculations are done in that regard, and in accordance with best estimate the bonds are issued or will be issued. However, one needs to recognize the fact that by its very nature, monetary policy is slow.

Interest rates take time. Business decisions and investments once entered into are not postponed solely because of a change in interest rates. That does not happen. There is generally a lag effect between the initiation of a policy measure and its impact on the system. We call that the "lag variable" in economics. In monetary policy it takes a little while to become due.

In addition, this is an instrument which will endure through time. If we were to look at the total value of the money supply in 2003, I think we would see that the total number is $16 billion. To date, I think the total money supply is approximately $47 billion as at the end of December. So, there has been a substantial increase.

If one were to put a limit, it would be based on what and when? We would have to come to this House in order to change the limits. It is, therefore, not a sensible tool or not a sensible provision to put any upper limit on it. It is equivalent to putting a fee in an Act. Invariably, fees are left to regulations, because with the effluxion of time, the value and the impact of the fee changes. We have had several examples of Acts which carried specific fee, the impact of which has been eroded due to the effluxion of time, and it takes a significant time frame for us to return to this honourable House to change such numbers.

In addition, given the fact that the purpose of this money is simply to act as an instrument of liquidity management and it is going to be put into a blocked account, there is no significance to a limit. The limit does nothing. I will treat with that particular issue at a later stage.

Furthermore, the Bill also provides for the Minister of Finance on the advice of the Central Bank to determine the form for the issue and the recording of the bonds; the currency of the issue; the denomination of the bonds; the rate of interest; the method of payment of interest and principal; the method of redemption; and the transferability and negotiability of the bond. With respect to the reporting requirements, the Minister is required to report to Parliament semi-annually.

Mr. President, with respect to the use of these funds, I have dealt with that before, and I also wish to move on to the reasons for the success of the Government's issuance of bonds in the past. I note also for example that on July 02, there was a bond auction which was overwhelmingly successful for several reasons.

Firstly, the issue came at a time when there was robust demand for financial securities, because of the enhanced liquidity in the system. In other words, there was need for a place to put surplus funds because, by definition, surplus funds are sitting in an account and yielding no interest.

Secondly, the bond was structured to meet the portfolio needs of a wide range of investors. In particular, the tenor of nine years was attractive to investors with long-term commitments. These investors included pension plans, insurance companies and individuals planning to supplement their retirement provisions. As I indicated, that bond was a longer time frame than the normal treasury issues and, therefore, fits the profile of the bonds which we are putting into position today.

The third reason and perhaps the most significant is the fact that Trinidad and Tobago Government's bonds are considered "investment grade instruments" by international rating agencies. This element gives the bonds a very strong demand knowing that they would be repaid. Bearing the credit risk in mind, the rate of 8.25 per cent, which is the last coupon, adequately compensates investors.

At the core of these responses is the market confidence in Trinidad and Tobago and the Government's ability, capacity and commitment to prudent management of the economy.

Now, a number of points may be made with respect to the fact that we are paying for these bonds and we are not going to be using them for any developmental purpose. I think the important point to note is the opportunity cost. What would happen if we were not to have an issue of this nature and allow the market and the surplus liquidity to run unchecked? From our perspective and from the perspective of conservative and prudent management, it is better to incur that as a cost. It is a cost of stability; it is a cost of financial well being; and it is a cost of maintaining Trinidad and Tobago's economic system as stable. A stable and financial system is very much the order and the requirement for any Government. In the circumstances, I beg to move.

Question proposed.

Sen. Wade Mark: Mr. President, thank you very much. The Bill before us seeks to authorize the Minister of Finance to issue Treasury Bonds for the purpose of liquidity management. The Minister was at pains to point out that whilst there is a cost attached to this legislation, there would be a greater cost if we do not pursue this particular matter today.

We would like to say on this side that appropriate liquidity management is recognized as a de facto condition for price and foreign exchange control stability, economic growth and development. But what we have witnessed in our country is that in spite of the stringent monetary controls through the Central Bank, this country has been suffering from a disease known as excess liquidity and all its attendant negative consequences.

The critical causes and nature of this disease seem to have escaped the administration. We would like to proffer in our submission this afternoon that the use of the Heritage and Stabilisation Fund as a sterilizer of surplus is an area we would like to put for consideration.

We would also like to examine, as we proceed, the need for more fiscal responsibility and budget management on the part of the Government of Trinidad and Tobago. It is clear that monetary policy cannot be seen in isolation of fiscal policy—they work in harmony; they work together—and, therefore, what we have been experiencing in this country is Government's irrational fiscal policy which is largely responsible for the high rate of inflation and Government-induced poverty in this nation.

We also recognize that inflation control is the first macroeconomic issue that the Government needs to put under control in this country. We would like to advance that the liquidity problem in this country is not on account of those points alone that the Minister has advanced. He indicated consumerism. So we blame the consumer for excess liquidity and inflation; we blame the banks for credit expansion; and we were also told that it is also public/private sector expenditure. The Minister also advances that imported inflation also plays a very critical role. Every other thing is playing a critical role except the Government.

I would demonstrate today that the heart of the problem of excess liquidity in the system lies with the Government of Trinidad and Tobago. It lies in the policies being pursued by the Government of Trinidad and Tobago. The liquidity problem is on account of the recklessness of Government's spending in this economy.

Mr. President, I want to advise that this economy moved from a budget of $13 billion in 2001 to $46 billion as we speak; that was an increase of over 350 per cent over that period.

2.45 p.m.

We have to locate the source of the problem and what we are seeing here is a band-aid. The Government is coming with a fig leaf to cover up what they are not admitting to the country in this debate and I will engage in full public disclosure. Since they do not want to engage in full public disclosure, we will do that today on this side, to demonstrate the core of the problem; the core of the excess liquidity in the system; what is driving inflation in this nation. We have to get to the essence of it and to the real roots of the problem that is confronting this country. We are told that there appears to be a persistent liquidity overhang, but this excess liquidity overhang has blunted—according to the Central Bank—the effectiveness of the policy interest rate that they would employ from time to time in order to address that particular challenge.

In addition to the fiscal cause of liquidity build up, the Government—and this is what I was hoping the hon. Minister would have shared with you and this hon. Senate—has been running a massive non-oil fiscal deficit since 2004/2005 and it is now estimated by the Central Bank, by the International Monetary Fund that the non-oil fiscal deficit is over or close to 16 per cent of the country's GDP and it continues to climb. It is this non-oil energy deficit that is being financed by the Government sale of foreign exchange to the Central Bank of the Republic of Trinidad and Tobago.

I think that the Government must be honest; they must engage in full disclosure to the country and let us know where the problem lies, because if we do not know where the problem lies, how are we going to solve the problem? You can bring Treasury Bonds Bill next year, the year after; once you continue to run up this non-oil energy deficit—and Mr. President, may I inform you that it never happened under the administration of the United National Congress. You know when non-oil energy deficit surfaced in this country? It was in 2004/2005 under this administration.

Mr. President, hear what is causing the problem and I am not saying for a moment that consumerism would not contribute to the problem. I am not saying that imported inflation would not also contribute. I am not saying that bank credit expansion is not contributing. I will not be so foolish, but the core of the problem lies in the Government's non-oil fiscal deficit. Right now it is estimated that the Government of this country sells to the Central Bank on an annual basis, hard-earned foreign exchange from the oil taxes that we collect in this country and they sell close to $3.5 billion of our hard-earned US currency to the Central Bank. And under the Central Bank Act, the Central Bank is compelled to convert that exchange, that foreign currency that the Government sells to the Central Bank into TT currency.

When you inject $20 billion into this economy—if the budget is $46 billion and the Government is able to collect through taxes $20 billion to $26 billion, where is the Government going to finance or get the rest of the money to finance its expenditure? What this Government has been doing since 2004/2005 is selling our hard-earned foreign exchange to the Central Bank and through that process, the Government is able to fill the gap between the 26 and the 46. That is where the problem lies I submit. That is where the problem lies!

Therefore, this non-energy fiscal deficit, which emerged in 2004 and 2005, is what is causing the brunt of the problem that we have in this country; it is the sale of the foreign exchange. I thought that the hon. Minister in the Ministry of Finance would have been very honest—[*Interruption*] I am not saying he is dishonest; I am not saying he is dishonest—more blunt, and frank and sincere to this Parliament and to the country by telling us. He never mentioned once that the Government sells its foreign exchange to the Central Bank. He never mentioned on one occasion during his presentation that the non-oil fiscal deficit is almost 16 per cent and the Government finances that non-oil deficit by selling foreign exchange to the Central Bank in exchange for TT dollars.

This is what creates the problem in the country. It is this problem that is causing the excess surplus and the liquidity crisis in this nation today. I do not believe bringing a Treasury Bonds Bill will help. It will not help the Government unless the Government, as has been advised by the International Monetary Fund and by the Governor of the Central Bank; unless the Government begins to reduce the non-oil fiscal deficit, and eventually eliminate that non-oil fiscal deficit we will forever have the problem of this persistent liquidity overhang in the system.

It is like someone suffering from diabetes. You have a diabetic patient and in order for that patient to control his diabetes, do you know what he does? He consumes more and more sugar. When you consume more and more sugar as a diabetic patient, what do you expect to take place? You are going to die! And what this Government is doing is killing this economy. That is what this Government is doing, because they are using the wrong instruments to deal with the problem and they are not addressing the root of the problem.

The root of the problem, Mr. President, I submit to you and this honourable Senate, is the Government's use of the non-fiscal deficit, which is about 16 per cent and its sale of foreign exchange to the Central Bank in order to finance that deficit. That is the root of the problem and if we are serious there is where we must start. We must start there. Do not come and tell us about the sale of Royal Bank—like some have argued—you have $4 billion in the system and that is what is causing the problem. Nonsense! Do not come here at all and tell us about Royal Bank. In any event you facilitated it or in the case of the NIB they had about 23 per cent of Royal Bank shares, but that is another matter; that is a red herring. I do not believe that we are being told the truth and full truth here.

I feel sorry for the Governor of the Central Bank. Since 2005, the Central Bank has exhausted the traditional tools at its disposal. The Central Bank, I think on about eight to nine occasions in the last two years has increased the repo rate. So they have used that instrument in their arsenal as they seek to bring inflation under control. They have increased the reserve requirement from 11 per cent to 13 per cent. So, the Central Bank and the Governor of the Central Bank is doing its work.

They have also engaged in the sale of foreign exchange in order to absorb liquidity. They have been doing, as I said, special deposits and I will demonstrate a little later on all the other efforts that they have been making in order to arrest this inflationary crisis and the pressures that we are faced with in this country. So, the Government is now telling us in this honourable Senate that given the fiscal operations, it appears that the only other option available to the country at this time is the sale of long-term Treasury bonds, and that is necessary to absorb the excess liquidity that is growing on a daily basis. That is what we are being told.

It is clear that the Treasury Bonds Bill is a recognition and confession by the Government that addresses the issue of its lack of action in addressing the real problems affecting this country. I believe that the Government has virtually made the Governor of the Central Bank powerless. The Governor of the Central Bank has become powerless, particularly in the area of inflation control and therefore the Government's action and attitude have neutralized all the traditional tools which are available to the Governor of the Central Bank. It is now abundantly clear to all and sundry that the Government by its fiscal reckless and irresponsible behaviour has made the governor virtually impotent.

3.00 p.m.

The governor is under a lot of pressure, and as I said, I sympathize with him. It is clear, as I argue, that monetary policy cannot work in isolation of fiscal policy. Fiscal policy and monetary policy must work in harmony and we are not seeing that taking place, because the Government continues to inject large and huge amounts of moneys into the system, and they blame consumers; they blame import inflation and they blame credit expansion by the banks, but they do not blame themselves for the crisis that continues to grip our economy and our society; that is where, we submit, lies the problem and the crisis.

Therefore, we are indeed surprised that the governor has not yet tendered his resignation as Governor of the Central Bank of this country. It is very, very difficult for an independent Central Bank and governor to function in an environment where there is constant and continuous violation by the central government, particularly manifested through its fiscal policies and the Government has been reckless and irresponsible in its fiscal attitude and policy in this economy. Therefore, the Central Bank has become a virtual white elephant in the area of inflation control in this country.

I want to tell the hon. Minister in the Ministry of Finance, through you, Sir, with the best effort in the world, you could bring Treasury Bonds Bills after Bills to this Parliament, unless you get to the real heart of the problem you will not be able to solve it. I think the time has come for the Government to slow down. They are not slowing down and that is why they could have told us a short while ago, even though revenue from oil was $1.9 billion in excess, they stuck to the limit of 60 per cent and placed in the Heritage and Stabilisation Fund at the end of the first quarter, $1.1 billion. Why you could not put the entire $1.9 billion? You want to sterilize? We are told that they want to manage the liquidity in the system. Where did the $700 million or $800 million go? Where did it go, back into the system? Did you sell that amount to the Central Bank to change into TT notes to flood the system once more? So, who are you fooling? Who are you trying to fool, Mr. Minister in the Ministry of Finance?

We know that the bonds, as was told to us, are going to be sold at some 8.5 per cent or thereabout. Imagine this charge is to be borne by the taxpayers of this country, and we are being told by the Minister of Finance that it is an opportunity cost. The hon. Minister of Finance is telling us, that for stability and financial efficiency in the system, it is a cost that we must bear. But it is not necessary to be borne by the people, because when you pay 8.5 per cent on a 9-year bond in order to sterilize this money—as he said, he is going to put it into a blocked account which the Government would not have access to—who is going to pay for the interest? Who is paying the interest on those bonds? It is the people of the Republic of Trinidad and Tobago.

Hon. Senator: Exactly.

Sen. W. Mark: And we are paying for the financial recklessness and irresponsible fiscal policy stances adopted by this Government, and moneys that should go towards subsidizing food in this country; providing people with hospital care; providing the nation's children with quality education and providing the security services with more resources to confront and assault crime, those moneys are now being diverted into paying—what? Interest charges! Because why? The Government is refusing to reduce the non-oil fiscal deficit from 15 per cent to 0 per cent. They have started it in 2004/2005 and it continues to mount.

Mr. President, may I advise you, when that fiscal non-oil deficit emerged in 2004 it was about 10 per cent, between 8 per cent and 10 per cent. It has grown to 16 per cent or thereabouts and it continues to climb, and the IMF and the Governor of the Central Bank have warned this Government, “you have to reduce that non-oil fiscal deficit”. That is what is causing inflation in the country and that is what is causing excess liquidity in the system. It is not consumerism; it is not credit expansion by the banks; it is not imported inflation; it is the Government’s injection of billions of dollars, and my estimation, it is about $20 billion that this Government injects into this economy every year, and they have been doing that since 2004/2005.

So, Mr. President, we have a problem. How do we combat inflation in this country? Is it by taking tax revenues that ought to be allocated to other critical priority areas that affect the people of this country, that would normally be used in those areas for the poor and the underprivileged in order for us to service, what is called Treasury bonds and the interest that follows therefrom?

We submit to you and to this honourable Senate that this Treasury Bonds Bill that we have before us is not needed. We are not going to support a Bill that is not needed. What is needed is for the Government to reduce and to eliminate its non-oil fiscal deficit, that is what is needed in this country in order to stabilize this economy and to get rid of the persistent overhang that we talk about in terms of liquidity in this country. The Government needs to be more fiscally prudent. They need to be more fiscally prudent in what they are doing. So this attitude on the part of the Government will guarantee increases in expenditure over the next period of years.

If this Bill is passed it will not get our support, but I will guarantee you, Mr. President, that this Bill will do nothing to deal with excess liquidity in our country. It will do nothing! Sometimes I wonder if the PNM is intellectually deficient. I wonder if the PNM is intellectually deficient; they do not understand what is causing the managerial problem in terms of liquidity; they do not understand what the problem is with the excess liquidity overhang. You tell me the Government does not know this? You tell me that the hon. Minister in the Ministry of Finance, the hon. Mariano Browne does not know that it is the Government that is causing the problem in the country by that non-oil fiscal deficit as it continues to widen?

We are not arguing against measures to bring about controls. We know that the Government is going to build up a huge stock of debt over the period that is to come here and this debt is not to be used, as I said, for development purposes or for infrastructural expansion, but it is being used as a tool, as they claim, or as a mechanism to manage the economy. This huge debt overhang means that the Government is boxing this country into a corner, so that when the UNC were to ultimately assume government, [*Interruption*] a public administration will be increasingly complex, will become more and more increasingly complex to service these bonds, since, as I said, they will incur a major charge on the public purse, moneys that we know should best be spent on the range of problems affecting this country currently.

Mr. President, in the economic literature it is called moral hazard, because of an event that you have created once behaviour changes. You have created a problem—that is the Government. You know it is like somebody having car insurance and who becomes very delinquent when it comes to locking the car because they believe that they have car insurance. So, one's behaviour tends to change because one would have purchased the insurance and they believe if they leave their car open the insurance company would carry the cost of whatever losses they would have experienced. This is the same moral hazard we are seeing in this situation with this Treasury Bonds Bill that is before this Parliament today.

The Government has created the inflation in the country. The PNM Government has created the inflation in this country and now they are coming the sell bonds in order to control the inflation which they have created, and the population will then be called upon to pay the bill to service the interest on these bonds which could have been used to lower the cost of electricity, water, petroleum fuel, rice, milk, flour and other basic food items. So, they created the problem; the PNM has created the problem and they have now put the pressure on us, the population, so we must pay interest charges instead of using that money to improve the social well-being of the population of this country.

Mr. President, may I remind you that the floodgates were opened by this Government since 2004 when they increased the budget by 33 1/3 per cent and in that same year inflation doubled.

3.15 p.m.

May I remind you that in 2004, the budget was $24 billion, and through a supplementary appropriation, the Government increased it by $8 billion and the budget went to $32 billion, almost a 33 per cent increase in the budget of that period.

In 2004, inflation stood at 3.9 per cent. Mr. President, I want you to go back to 2004 and see what the rate of inflation was. Inflation was just under 4 per cent because the Government had not begun using the non-oil fiscal deficit as an instrument to finance their gap, and at the end of 2005/2006, inflation jumped to 6.9 per cent. So from 3.9 per cent as at the end of 2004/2005, it jumped to 6.9 per cent at the end of 2005, early 2006. There is where today, inflation stands at close to 10 per cent.

We have to be very serious with what we are doing. I would like to advance that it is not proper for a government to come to a Parliament and mislead the Parliament. It is not proper for a government to come to a Parliament and not tell the Parliament the truth. They are trying to cover up. I would like to advance on behalf of the UNC Alliance, that even with this measure, we would be spending good money behind a problem which can only be solved if the Government cuts back on waste.

Mr. President: Senator, I do not think it is appropriate for you to attribute improper motives to the Government as a whole, and to suggest that they are coming here intentionally to cover up or mislead, or whatever. That I think is outside of the scope of the intent of this Parliament, and I would ask you not to go there.

Sen. W. Mark: I am guided, Mr. President. Even with this measure before us, we would be spending good money behind a problem which can only be solved if the Government cuts back on waste, profligacy and excessive spending, and get back to the good old times of prudence in fiscal management We submit that is what is required here.

It is our view that the time may well have arrived for the introduction and application of fiscal responsibility and budget management legislation in the Republic of Trinidad and Tobago. It is either we introduce urgently, such legislation to curb the wild and excessive spending on the part of the Government, or we move from this arrangement where the budget is passed by a simple majority and have the budget passed by a constitutional majority.

For us to control the irrational fiscal policy as practised by this Government, we have two options open to us: We amend the Constitution to make it constitutional that a majority be had when a budget is passed, or we introduce fiscal responsibility and budget management legislation to ensure that we have, and we bring an end to this wild, irresponsible and excessive spending that we have witnessed over the last four years in this country. This fiscal madness has got to stop; and this economy will be wrecked forever by this Government's irresponsible and reckless approach to fiscal management. Mr. President, I have always indicated to you and this honourable Parliament that the attitude of this Government is, "have money, will spend". We cannot continue along that path. We cannot continue along that path.

I want to let you know that there are several countries in the world today that have introduced what is called fiscal responsibility and budget management legislation. Among other things, what that seeks to do, it is an Act that provides an institutional framework, binding the Government to pursue a prudent fiscal policy. That is the purpose of fiscal responsibility and budget management legislation. It commits the central government to take suitable measures to ensure greater transparency in its fiscal operations.

Central government must, as a matter of course, lay in each financial year before both Houses of Parliament, three statements: medium-term fiscal policy statement, fiscal policy strategy statement, and macroeconomics framework statement, along with the annual financial statement and demands for loans or grants. Under this Fiscal Responsibility and Budget Management Act, the Finance Minister must make available on a quarterly basis, a review of trends in receipts and expenditure in relation to the budget, and place the review before both Houses of Parliament.

Mr. President, if we are serious about development in our country, it appears to me and to us here, that the time may well have arrived for the introduction of fiscal responsibility legislation and budget management, so that we can no longer live on the basis of guesstimates and the possibility of things happening outside of our control.

Mr. President: Hon. Senators, the speaking time of the hon. Senator has expired.

Motion made, That the hon. Senator's speaking time be extended by 15 minutes. [*Sen. M. F. Rahman*]

Question put and agreed to.

Sen. W. Mark: I want to congratulate the new Treasurer, but I want to remind you, the old one is facing police investigation. I want to remind you of that.

Hon. Senator: Are you imputing improper motives?

Sen. W. Mark: No, I am not imputing improper motives. Mr. President, may I continue? Thank you very much and thanks to my colleagues.

This measure that is before us because of how this Government is treating with the matter of excess liquidity and their attempt not to level with us in the Parliament, we believe that the tricks behind this arrangement, we need to protect the interest of the population because the Government has not been frank with us on this measure and we believe that the time has come for us to require a definite ceiling. We are submitting that there should be a ceiling. We do not believe that the Government should have absolutely no limit to the size of the public debt that is going to emerge.

We want to be consistent with the European Union convergence criteria, and therefore, we would like to suggest to you and this honourable Senate—and we are going to circulate it in writing in a short while, Mr. President, but I just want to alert you. Under clause 3(1), we are proposing the following amendment.

> "The Minister, on behalf of the Government and on the written advice of the Central Bank, may raise money by the issue of Bonds..."

And we add:

> "not exceeding TT $5 billion."

That is the first amendment that we are going to make. The second amendment that we propose is under clause 4(2):

[SEN. MARK]

"No moneys paid into the blocked account referred to in subsection (1)… "

We removed the word "may" and inserted the word "shall",

"No moneys paid into the blocked account referred to in subsection (1) shall be withdrawn or otherwise dealt with..."

We will circulate those amendments in a short while.

I want to advise you that when you go to the Monetary Policy Report of the Central Bank dated April 2008, you are going to see throughout—if you go to page 7 and I quote:

"Demand pressures resulting from robust economic growth, pro-cyclical fiscal policies and rapid credit expansion lie at the root of Trinidad and Tobago's inflation problem. Capacity constraints and supply bottlenecks, particularly in the agricultural sector, combined with the recent escalation in imported food prices have significantly added to these…pressures."

It goes on:

"In Energy-based economies like Trinidad and Tobago, the non-energy fiscal deficit or the level of net domestic fiscal injections is considered a good indicator of the budget's contribution to domestic demand. Broadly speaking, the lower the non-energy fiscal deficit or the lower the level of domestic fiscal injections, the smaller the budget's contribution to inflationary pressures."

Here it is, the Governor of Central Bank is telling the Government of Trinidad and Tobago, lower the domestic fiscal injection—the level—lower the non-energy fiscal deficit. It goes on:

"The non-energy fiscal deficit more than doubled—from 7.6 per cent of GDP to 15.4 per cent four of GDP between—FY 2003 and FY 2007..."

This is what is causing inflation in our nation. The Central Bank Report continues on page 8 to say:

"Data available for current fiscal year suggest a continuation of the trend with net domestic fiscal injections in the first five months of this year"—2008—"being some 17 percent higher than in the corresponding period of last year..."

Here we have the Central Bank Governor telling us that net domestic fiscal injections for the first five months of 2008, increased by 17 per cent higher than it was last year. This is what is causing the problem of liquidity in the country and this is what the Government must realize.

We go on to page 11 of the Central Bank report and I quote:

> "In Trinidad and Tobago, attaining Government's target inflation rate of 6 per cent by the end-2008 will present serious challenges. It is the Bank's view that taming existing demand pressures will require stronger monetary policy action and considerable expenditure tightening. In the present circumstances"—considerable expenditure tightening—"…would need to be informed by an expenditure review geared towards re-phrasing some budget expenditure."

3.30 p.m.

Mr. President, it is in black and white where the Central Bank is telling you to reprioritize your expenditure in order to deal with the situation. On page 13 of this report, the Central Bank outlined all the liquidity management measures that they have effected between December 2005—February 2008; it is there for you to see. I will read just a small portion for you

> "Accordingly, in the period (November 2006 to December 2007), special sterilization government bonds amounting to $3.103 million were issued in maturities ranging from 5.5 to 10 years. While most of these bonds were taken up by institutional investors, arrangements were also put in place to attract small investors."

We have to come to the crunch. The crunch is that the Governor of the Central Bank in 2006 issued bonds and it was oversubscribed by $700 million. In February 2007 he issued bonds again; in April 2007, more bonds. We were just told by the hon. Minister in the Ministry of Finance that both in the months of April and July of this year the Government issued more bonds. Do you know what, Mr. President? It was $1.2 billion, and they had in excess of $1.9 billion in terms of it been oversubscribed by $776 million in the country.

The problem in our country, the problem in Trinidad and Tobago, is not about Treasury Bonds; that is not the issue. The issue is not Treasury Bonds. I do not think the Government should attempt to hoodwink or attempt to mislead—is that the proper word, Mr. President? Not hoodwink, not mislead—misrepresent.

Mr. President: If you could take the intent out of the statement, you could say what you want; but take the intent out of it.

Sen. W. Mark: Could I say misinform, Sir? [*Laughter*]

Mr. President: It would be more accurate if you would say that the Government has made an error in its statement or the statement is not correct.

Sen. W. Mark: Is "misinform" an unparliamentary word?

Mr. President: It imputes a motive that is improper; if, however, you simply say that the Government is in error, then that is an entirely different thing; it takes away the improper motive.

I should not be helping you with the language; I just wanted to tell you where you could go. [*Interruption*]

Sen. Rahman: Inadvertently misled, without intent!

Sen. W. Mark: The reality is that the Government is aware that the real problem in Trinidad and Tobago causing and fueling inflation is the non-oil fiscal deficit; that is the problem. Unless and until the Government admits to that and takes measures to reduce and, eventually, eliminate the non-oil energy fiscal deficit, forever we are going to be in excess or we would have persistent liquidity overhang in our country; forever we are going to have high levels of inflation. Until the Government admits to its error or its mistakes, then and only then, are we going to address the truth in this country.

I would like to tell this Government that cutting back to control is cheaper than borrowing to control. I want to repeat that: Cutting back to control is cheaper than borrowing to control. Cut back on your non-oil fiscal deficit, that is what you have to do. You have to cut back on your non-oil energy deficit; move it from 16 per cent to 10 per cent and then to 5 per cent, and then eliminate completely. [*Crosstalk*] The Central Bank has called on you, in this report, to lower your non-oil fiscal deficit.

Sen. Enill: [*Inaudible*]

Sen. W. Mark: Unless you do not face up to the truth, you will become like a diabetic patient, you would be drinking sugar and you would die. The only problem is that not only you would die; it is the population who would be hurt in this whole situation, because we are seeing evidence of it today.

This Bill would not bring about any change in Government's fiscal injection of revenues into the system; it will not do it. While you are taking out moneys from the system through Treasury Bonds, you are converting US dollars into TT dollars and injecting that money into the system. So as we take out money through the Treasury Bonds, you are injecting more money into the system. Where is it going to end? The only way you could deal with this thing is for the Government to recognize that it must address its non-oil fiscal deficit, which is about 15.4, almost 16 per cent. That is what we are dealing with.

Mr. President, as a result of this Government's reckless and irresponsible fiscal policy, we have experienced in this country a decline in the net economic welfare of the citizens.

Sen. Browne: How do we measure that?

Sen. W. Mark: We measure that by the Government failing to take measures to deal with high inflation in this country. The economy is becoming more and more uncompetitive; the economy is suffering from the Dutch disease. We are going to measure net economic welfare by, one, the poverty rate. [*Crosstalk*] When we look at the worsening inflationary levels, they are leading to what we have described as government-induced poverty in Trinidad and Tobago. The Government is really promoting and driving poverty to a new high in this country.

I submit that the $625 per month they have used to measure poverty in this country, we have estimated that six years ago that was relevant; six years later, $625 is irrelevant. Today, for a man, a woman and two children to live even on $4,500 a month, they are still living below the poverty line in Trinidad and Tobago. You have pensioners getting $2,500 a month, and you tell them that they are living above the poverty line. I would like to see the hon. Minister of Local Government and the Prime Minister live on $2,500 a month.

This measure before us this afternoon, we cannot support it. We have made certain amendments for Government's consideration. We believe that if the Government is serious about controlling inflation and dealing with the persistent liquidity overhang, it has no choice but to address the issue of this escalating and expanding non-oil energy deficit. If the Government does not address that question, they could bring Treasury Bills today or next year, it would make no material difference. Therefore, it is against that background that we have made our submissions. It is against that background that we have decided not to support this measure.

I thank you.

Sen. Subhas Ramkhelawan: Mr. President, thank you for giving me this opportunity to speak on the Treasury Bonds Bill.

Many persons outside of this honourable Senate have called me recently to explain what this Treasury Bonds Bill is about. It is new to them and somewhat difficult to understand, even though the language itself in the Bill seems rather simple.

I understand the political spin that has gone before, but I hope I could explain to my colleagues, as well as to the national community, what this Treasury Bonds Bill really sets out and intends to do. If I were to ask anyone, any of my honourable colleagues in this House, whether they would be prepared to borrow $1 million from the bank, at 8.25 per cent, take that $1 million and put it under their mattress for five and a half years to 10 years and pay interest on it, while receiving no interest, I do not think I would find any takers, even the hon. Minister in the Ministry of Finance. It is remarkably—I would not want to use the word "stupid", but it sounds somewhat inane for anyone to do that.

What could possibly be the reason and the purpose of the Government in seeking to put a Bill, first of all, not only in terms of borrowing money and not receiving anything for it, but, secondly, to come to this honourable Senate and say, "We want to do this up to an unlimited level", meaning that it might not be $1 million, it might not be $1 billion; it might be $10 billion, or $20 billion. I hope I am not misquoting the hon. Minister, because there is no need for limits, according to him. We might want to borrow $20 billion; we might want to stash away so much; we might want to stash away that much. It suggests some level of financial indiscipline. So that sometimes our motives might be rather laudable, but the outcome could be catastrophic.

I join the debate to say that our elders have rightly said to us before, “When your neighbour's house is on fire, wet your own.” As we look at the international economy, we see that there is need for our neighbours to wet their own houses.

The international economy, if I may say so, is in some form of shambles; whether you go to Asia, where the Minister of Finance in India has articulated that his position is to fight inflation first and deal with growth matters afterwards; or you go to China and you hear the same thing; whether you go to Europe and at the level of the European Central Bank, where their objective is to try to douse the fire of inflation, rather than pursue growth; whether you go to the Central Bank in England, where they have said, "Let us hold our benchmark interest rate where it is, for the time being, because we are still concerned about growth, even though we have another concern about inflation.

When you go across the pond to the US, the overriding concern is how to get growth back on track, even though there is this concern of inflation and, therefore, what you have seen is that there is some reticence to adjust interest rates upwards, because they may further derail the prospect of any growth in the US economy. Whether you go to our neighbours further north, in Canada, where they have decided to hold the interest rate where it is and seek to find some balance between inflation and growth. It is one argument that we would have to come back to in our own homeland. I propose to come back to it in just a while from now.

The international financial markets are in shambles. If you look at China, more than 50 per cent decline in the equity market. If you look at India, more than 30 per cent decline, when you look at it. If you look at the US over a one-year period, in a bear market, there is more than 20 per cent decline. I say this to reinforce that when your neighbour's house is on fire, wet yours.

3.45 p.m.

So it brings us now to our own markets and economy. I think the Minister in the Ministry of Finance clearly articulated some of the objectives of this Bill and the role of the Central Bank in economic stabilization, price stability, management of credit, and particularly important for this Bill, the one component in the overall management process is liquidity management.

The question arises how effective and how useful a tool will we be putting into the hands of the Government by agreeing and voting for this particular Bill. What are the strengths of this particular measure as opposed to the other measures that are available to the Government in terms of liquidity management, management of the economy and management of our financial system at this time? I put it to you, Mr. President, that they are all intertwined and cannot be separated at this point.

So, let us turn to the local economy and what this matter of liquidity management has to do with the local economy. Our economic indicators to the credit of successive administrations since 1994, the economy has been growing for something like 14 consecutive years and most of the macroeconomic indicators that go along with the economy have been showing better and better results whether it be the foreign exchange reserves, upwards of $7 billion; whether it be the level of debt to GDP, which has been declining and which is a good direction; whether it be the revenues that accrue to the Government, the fiscal position, most of the indicators have been in positive and improving territory. But the one area which we had to express deep concern about is that of inflation and what that does to an economy.

In another place I think the Minister said that inflation is too much money chasing too few goods, and I cannot see any reason to disagree with that definition since it has been said it is in the Economics 101 books. Economic

[SEN. RAMKHELAWAN]

stability means that you must put back the inflation genie in its bottle, and economic stability means that you need to balance. When taken from a monetary perspective, you need to balance in some shape or form money supply with the demand. You need to balance or find a way to sterilize the growth in deposits that it must not go to fuelling credit in an inordinate way such that you lose that balance in the system.

So the Minister in the Ministry of Finance has put to us that this Treasury Bonds Bill is one of the measures because there is a deficiency in the other measures, or that the other measures have been exhausted as to their use. And what are these measures? He spoke at length of the use of reserves in management of the financial system and surpluses within the system, and he mentioned also that the use of reserves is really out of favour as far as the international institutions are concerned.

The point is it remains for us one of the most effective measures in a market that is not sophisticated and not well developed. He also mentioned that our markets are not sufficiently developed and that is why open market operations which is the sale of securities to mop up liquidity in and of itself cannot work, but I would like to say to the Minister in the Ministry of Finance that in other areas where the markets are not that well developed, in large jurisdictions, such as India, the Reserve Bank of India continues to use deposit reserves as a mechanism to mop up liquidity because it is an efficient approach in the context of the development of the market. I want to suggest to him that even though it is out of favour, given our own market conditions, we may want to use that measure because it is the most effective one in our system.

I recall and he would recall when deposit reserves would have gone up to levels higher than 13 per cent because it works. I think you recall a saying that it tastes awful, but it works. So it tastes awful, it looks awful and it is not elegant, but in our system it works. [*Desk thumping*] If it is going to work better than open market operations—and I daresay it is going to work better than a Treasury Bonds Bill—let us use it up to the hilt because we have our own peculiar challenges and problems and we should use our peculiar solutions that best fit our particular situation, but I will return to that, Mr. President.

Apart from the reserves, the Minister spoke to the issue of the lack of sophistication or depth or breadth and I am not quoting him, but I am trying to summarize what he said. I am trying to help him because he may not have articulated the situation as well. There is a lack of depth and breadth in our market and there is need for that market to be developed, yet, when I look at the Treasury Bonds Bill I am surprised because we seem to be stuck in a very old paradigm—if that is the proper pronunciation—that the only players in the market are players in the banking system. So you will see in the Treasury Bonds Bill a fiscal agent being any licensed financial institution.

Have we forgotten that we are striving to build a capital market and it has not worked as well as it should have up to this point in time? If the Minister in the Ministry of Finance does not recognize that there are securities companies which can act as agents as well then we have a problem. There is a blind side and I want to make sure that we remove that blind side from the Minister in the Ministry of Finance because when he says that the capital markets are underdeveloped, it is his job to ensure that they are. Who else is going to do it? Of course we will work with him, we are always willing, I am always willing—I would not say whether I am able—to help those in need and I offer my services to him. The point is we really should be starting to talk about putting in securities companies as part of the fiscal agent in any of these matters because we are talking about developing capital markets.

You would know, Mr. President, that we have 31 securities companies under the Securities Industry Act and if we do not move to develop their capability and capacity and get them integrated into the system, then we have failed via the legislation and via the execution, but I am not responsible for execution. I have a contribution to legislation even though I am not deemed a legislator by the various pieces of legislation.

So my first point to the Minister on this matter of capital markets is try to engage your securities companies so you can bring them into the net and build the capital market to where we want it to be, so when the time comes for liquidity management it can be done. There is no need for an agent to be of any particular size especially since the Government has not put in here that it wants its bonds to be underwritten. If you wanted your bonds to be underwritten, then you can talk about size, but first you have to talk about capability. [*Desk thumping*]

The day you tell me that you want these bonds to be underwritten, I will tell you do not go to any of those securities companies because they do not have the capacity to underwrite, but they can develop an underwriting syndicate, but I do not want to go there because I do not want to be drawn into any tall, technical arguments with the Minister which I may win, but it will be at the loss of the national community. I want to talk to the national community, and I want to remind the national community that I ask the question not only to my colleagues in this honourable Senate, but by extension to all of them. Would they borrow $1 million and pay interest at 8 ¼ per cent, which, by my calculation for 10 years, or whatever it is would amount to $825,000 and receive nothing in return?

One does not have to be a rocket scientist in finance to know what that answer would be. Even though there may be rocket scientists in finance in this Senate, everyone here would answer that question very easily. That is why I am concerned with a Treasury Bonds Bill that comes to us in this form that says we are about value destruction. This is what it is saying. We are taking a deliberate measure to destroy value by paying out. Do you know in 10 years' time you will end up with net $175,000 if you borrow $1 million, earn zero and pay out $825,000. Maybe I am wrong; I am not a rocket scientist in finance. Simple arithmetic tells me something is wrong here.

I want to return to liquidity management and development of the capital market and the legislative mechanism we have in place for the further development of the capital market because I am concerned, I am worried. The Minister in the Ministry of Finance said the securities companies are too small to manage this kind of bond. We do not want to get into who is responsible for them being small; whether it be the securities companies, whether it be at the level of support and so forth, but what I would like to point to, and I go back to when your neighbours house is on fire, wet your own.

4.00 p.m.

I go back to the international financial system to come back home to our local financial system and capital markets. One of the major problems that have surfaced in the international system is indiscipline in terms of lending and it surfaced at the level of mortgages and housing; poor lending policies and pricing that were not in tandem with the cost of the risk, which is rule 101 of finance. And so we had a total breakdown in the system because the pricing of those loans had no relationship with the risk inherent and the cost associated thereto.

I want to say to the Minister that we have to look very carefully at our own systems as we go forward in terms of lending in the housing sector. I believe that the housing drive is a very laudable drive, to shelter all our citizens. It certainly is an objective and a goal that I would support 100 per cent. But please ensure that we do not get into a situation where we are providing 2 per cent loans and we are providing loans where we will not have collectability, because from the day Government revenues start to dry up we will not be able to expand the programme to shelter all our citizens. Let us be very careful about that.

But forgive me for digressing, because that was not the point that I really wanted to go to. I wanted to go to the matter of capital market development locally and some of the risks that are inherent. Because one of the reasons that is coming forward for the difficulties in the international financial markets is the inadequacy of capital or the extent of leverage that was pursued by many of those international investment houses and caused, at least one or two of those major international houses to fail.

I want to draw to the attention of the Minister that in the early 1990s we had a debacle in our own financial system because of insufficient capital. It was those so-called financial houses, unregistered, that did not have to subscribe to discipline of capital-to-risk assets and to a man, all of them failed. And who picked up the tab? It was the taxpayer, ultimately.

I want to tell him that there are the seeds of discord and trouble ahead because of the 31 securities companies that are registered; no more than seven or eight of them are required to adhere to capital rules. It reminds you of the financing houses in the 1980s. It is the remit of the Securities Exchange Commission, and it has been their remit since the beginning of their existence in 1995, to put in place capital adequacy rules for these institutions and I am not aware that this has been done. So I want to bring it to the attention of the Minister: it is not size; it is a matter of relativity. If you have $10 in capital, you might only be able to raise $100 in assets.

But when you have a capitulation in the international financial systems, make sure that the lessons that have been learnt out there with regard to capital adequacy, that we ensure that all of our institutions adhere to that capital adequacy, and it is not being done. I suspect, hon. Minister, that if you do not take a careful look at this, you might have some of these matters coming before you sooner rather than later.

Mr. President, I want to turn my attention to the contents of the Bill and to suggest some alternatives which can be used together with the initiatives articulated in this Bill, which might provide a more effective and holistic approach to liquidity management. I have suggested already the more generous use of the reserve and I will tell you why I think that the reserve could actually be a more effective mechanism to mopping up liquidity, whether it be on a temporary basis or a structural situation, more permanent liquidity situation. When you adjust the reserve upwards to take money out of the system, you can always reverse that if you need to put money back into the system in short order. So that if my recollection is correct, within the banking system we have, I think it is about $45 billion or thereabouts, in liabilities, and the reserve addresses prescribed liabilities. So for every 1 per cent upward adjustment by the Central Bank in deposits in the system you can take out for liquidity management purposes, about $400 million or $450 million.

I suggest to you, hon. Minister, that we do have room for some upward adjustment in the reserve which is more effective and very clean-cut. So you may wish to have a look.

Sen. Browne: You still have to pay interest on it.

Sen. S. Ramkhelawan: Yes, you still have to pay interest on it, but what I am saying is, whenever you want to reverse it, you can. But when you take money via a Treasury Bonds Bill and it is nine years, or 10 years as the case may be, you could not reverse it if you wanted to unless you put bells and whistles into that bond which provide for early redemption, and so on, and then you would let the cat out of the bag because everybody would know what you are doing.

So I am saying to you, one, it is a more precise measure; when you want to take money out of the system, you can, and when you want to reverse it and put it back in the system, you can. When you do this with the Treasury Bonds Bill, you hold that money and you pay interest for nine years, as the case may be, until the term of the bond comes to an end. It is rather imprecise and it is quite inefficient.

The second measure that I would like to bring to your attention, and probably to suggest, is that we save more. Sterilization can be achieved and savings can be achieved with one stone; we kill two birds with one stone. Because, as Sen. Mark pointed out, and I agree with him, we can use the Heritage and Stabilisation Fund to sterilize money. We can use it, not only to achieve the goal of liquidity management, but we can use it also to achieve the laudable objective of increased savings.

Are we saving enough through the windfall that is being generated at this point in time? I put it to you that the answer is no; we are not saving enough. So even though we have in the Heritage and Stabilisation Fund, some $13 billion—and the Government is to be complimented for the initiative; whichever administration it was; whether it was the Revenue Stabilization Fund or re-named the Heritage and Stabilisation Fund; whichever administration it is, the administrations are to be complimented for such a measure.

We are one of very few countries who have the capacity at this point in time to do that. At my last count we had about 40 such funds across the world, but they might be the 40 oil-producing countries. But the point is that we can use this mechanism more effectively to achieve two goals. As I have suggested before to the Minister, and I will suggest one example again, you can even achieve three goals if you were to use mechanisms directed to increase savings. You can achieve the goal of expanding your capital market; you can achieve the goal of increased savings and you can achieve the objective of liquidly management.

Why not, hon. Minister, through you, Mr. President, consider selling down initially part of your position in NEL? You will get wider participation and wider ownership in equities by selling down your position in NEL. It comes as surplus revenues and it can be saved. So if you can kill three birds with one stone rather than the two birds with one stone; rather than one bird with one stone, which would you pick? Again, it does not take a whole lot of rocket science to be able to pick that.

I say we have not saved enough and it brings me to another point that was raised in this honourable Senate, which is that the situation that has arisen in terms of liquidity managements is because there is not the level of harmonization between fiscal and monetary policy. That is the crux of the matter. We have seen it in successive reports from the Central Bank. Successive reports say you need to cool down expenditure; you need to reduce the level of expenditure or else you will continue to heat up and overheat the market.

I want to raise this in the context that when you look internationally, what is happening is that there are two drivers to the inflation story. The first driver is food and we have discussed that at length here. The second driver is actually energy. But do you know what? We are insulated from the energy matter here to a great extent and I think at this point in time we need to continue that way for a little while. We have subsidized energy prices but when you go across the world, India has reduced the level of subsidy; China has reduced the level of subsidy; Indonesia has reduced the level of subsidy; Thailand is considering reducing the level of subsidy. So that we do not have two drivers; we have one. Therefore, the other factor, when you take that out of the equation, is that the level of fiscal expenditure may be going at a clip that is much too high to be absorbed within the system. That is the fact.

Therefore, I agree with the position that you need to cool this economy. An important measure for liquidity management is to reduce the level of expenditure to realizable manageable levels.

4.15 p.m.

I suggest these two factors to the hon. Minister for his consideration. I suppose that he might not have much say in the level of fiscal expenditure. The monetary measure of reserve is something that he might have a bit more sway with at this point in time. I ask him to consider it. Our system can take more than 13 per cent in deposit reserves. Our system can take 15 or 16 per cent. We went there before when it was required.

While you are developing the markets to execute more efficiently your open-market policies, you have to do something in the interim. You can say this is an interim measure. While you need to develop your programmes if you have to, to sell down assets to mop up liquidity, whether it be NEL or otherwise, you can put in place the reserve. If you put in place Treasury Bonds Bills that cannot be reversed. You can reverse your reserve position in three or six months, whenever you are ready you cannot reverse your Treasury Bonds Bills.

I turn to the Minister's argument as to no limits on Treasury Bonds. This could be considered by many as a measure of fiscal indiscipline. If a man goes to the bank and has to borrow money, there are ratios that will apply before he can get money to make his case. If he goes to the bank and wants to buy a car, prudent credit policies will suggest that he bring 30 per cent and they would lend him the other 70 per cent. He has to give proof that he is showing sufficient fiscal discipline for him to get that kind of loan. What the Minister is asking is for us to give him an open cheque book under the guise of we do not know when we will need it; if we will need it and how we will need it.

While that is so, I agree that if you want to use this mechanism, you must say to the honourable Senate and the national community that there is some relationship to growth to money supply or growth to GDP, or where I can stand before the national community and say that we are exercising the highest level of discipline, whether it be for fiscal or monetary purposes. I cannot see how you want to come here for an unlimited ability without ever having to come back to Parliament, and say that you want an open cheque book. Nobody does that. It is unreasonable even though it is not unthinkable, because he thought about it. It is unreasonable to ask the national community of taxpayers to have an unlimited position. It is unreasonable to ask a banker to lend you without any fiscal discipline.

I put it to you, hon. Minister, that it is unreasonable to ask for no limit. I do not think that the arguments are sufficiently convincing to go without limits.

Maybe, we should circumscribe what we might want to do on the monetary side by saying that we wish to relate this to GDP.

Most of us who follow the markets are aware that a reasonable amount, some of the best managed economies' borrowing limits, whether or not they are going to use it for development purposes, might be 40 to 50 per cent. I am hearing from other places that you are raising the borrowing limits in other areas or you wish to. When you put everything together at last look, I thought that our debt to GDP was about 28 per cent, which is excellent. Why do you want to be seen as engaging in any kind of opportunity for indiscipline? Set your limits; whether it be 5 or 10 per cent for this particular area, after which you would have to come back to the Senate. Is it that you do not wish to come back to the Senate and that it is useless? Is it that you do not wish to come back?

I think it is important that when you get to certain levels of borrowing you come back to this honourable Senate, and by extension the national community, and say that you want to do this because of so and so. Remember, that through this Bill you are engaging in value destruction. As you increase your position through this Bill, you are engaging in more and more value destruction. Let us set a limit. That is one suggestion that I make to you, hon. Minister.

I will go beyond that and suggest that if you choose to pursue this rather inefficient approach to liquidity management which is up to you, make the limit 3½ per cent of GDP. If I recall GDP is $114 billion. You have the capacity to sterilize via this mechanism to the extent of 3½ or 5 per cent of GDP. I am sure that the national community and those who look at the situation will say here is an attempt at discipline. It would be a more acceptable position than an unlimited cheque book.

I will raise some other matters in the Bill. I noted that under clause 10, the Minister in approving the bonds that are for issue can determine it can be in any particular currency. I ask: If it is for liquidity management in Trinidad and Tobago, why are you going to borrow in other currency? Liquidity management in the main is about Trinidad and Tobago dollars and mopping up liquidity in this system.

Mr. President: Hon. Senators, the speaking time of the hon. Senator has expired.

Motion made, That the hon. Senator's speaking time be extended by 15 minutes. [*Sen. Prof. R. Deosaran*]

Question put and agreed to.

Mr. President: Before I ask you to continue, allow me to interject at this point. A little while earlier in your contribution you made a recommendation that the Government should consider using securities firms as fiscal agents. I believe that you have an interest in a securities firm and if that is so, then you would be required to declare your interest while you are making your contribution. Perhaps, at some point if that is so, you can say that.

Sen. S. Ramkhelawan: Mr. President, thank you for that guidance. I will say that I do have an interest in a securities firm and I put it in the records. I have a greater interest in the development of the capital markets of Trinidad and Tobago. I do not consider it a conflict of interest, but a hierarchy of interest.

On the question of the currency of issue, some greater explanation is required here. I would like to see this taken out of this particular Bill, unless there is a sufficiently in-depth explanation for why you are going to borrow in a currency other than that of Trinidad and Tobago; take that money and put it away to earn nothing and create value destruction in another currency. It is a question that I am sure the hon. Minister has cogitated upon quite considerably and would be able to rattle that answer rather quickly.

In summarizing, I made certain recommendations and put forward certain suggestions to this honourable Senate and the Minister. The first is that in terms of the development of the capital market, greater focus has to be placed on the development of the securities industry and the management of the securities industry. In terms of the development of the securities industry and monitoring and liquidity management, this is going to add another arrow to your bow.The second point with regard to the capital markets is that we need to be more vigilant in terms of capital adequacy and management in this particular sector because it is a blind spot, as far as the rules and regulations in place are concerned. We do not have capital rules for about 20 plus securities firms in this nation, whereas we have capital rules for every financial institution in this nation.

We have seen that the lack of institution of capital rules and adequacy caused in our system a serious debacle in the 80s. It is causing now a serious debacle in the international financial market. I bring that to the attention of the Minister.

I have suggested that the Minister consider greater use of the reserve because it is the more efficient mechanism than this Treasury Bonds Bill he is suggesting. I have suggested that there is still room within the deposit reserve mechanism to sterilize funds out of the system. I have further suggested to him that there is an advantage with the deposit reserve because you can reverse it in shorter order.

I have further recommended that we must not engage in value destruction which this bond will do in large measure. I wish to respectfully suggest to him that we use the mechanism of liquidity management, the Heritage and Stabilisation Fund to increase savings while at the same time, satisfying the requirement for liquidity measurement and the question of capital adequacy.

4.30 p.m.

Mr. President: Would you like a moment to wind up or would you like to come back after? I will give you one minute.

Sen. S. Ramkhelawan: I have suggested to the Minister that there is no need for a currency other than Trinidad and Tobago currency if he chooses to pursue these particular areas of the Treasury Bonds Bill. I have suggested to the Minister and to this honourable Senate that we should put in place a borrowing limit—I think it is the responsible thing to do even though this is a monetary measure that we should put in place. I believe that if we could address these issues, we would be further along and better off in terms of the use of liquidity management mechanisms in addressing the whole question of managing our economy, price stability, credit and deposit growth.

I thank you, Mr. President.

Mr. President: We will now suspend for the tea break. The sitting is suspended until 5.02 p.m.

4.31 p.m.: *Sitting suspended*.

5.02 p.m.: *Sitting resumed.*

[MR. VICE-PRESIDENT *in the Chair*]

The Minister of Planning, Housing and the Environment (Sen. The Hon. Dr. Emily Dick-Forde): Thank you, Mr. Vice-President. I rise to support the Bill to authorize the Minister to issue Treasury Bonds for the purpose of liquidity management. The very title of the Bill nullifies the bulk of what Sen. Mark offered to this Senate and a good bit of what was said by Sen. Ramkhelawan. I will take my time and go through their submissions and make cogent arguments to refute most, if not all, of what was said and provide some education on what we have before us.

Sen. Mark—I usually write everything down; almost word for word of his goings-on about all these things—kept using certain words like “irresponsible” and “reckless”. By page 2, I figured out what he was trying to do. I realized that he was suggesting that Government stop its development programme which is benefiting a mass of people in our society. I am talking about development programmes that include over $33 billion in social spending; that benefit the very people that Sen. Mark claims he is fighting for.

We have spending to alleviate poverty through the Smart Card, through retraining programmes, through the development of different aspects of infrastructure and economic structures to provide employment to our citizens. It is this programme that Sen. Marks suggests we halt. By talking about government spending, he is actually misunderstanding what is at stake. Let me see some of the other things that Sen. Mark raised. I will talk about them and then I will bring the other substantive points.

At the bottom of the issue before us is that the liquidity management, which is the sole purpose for the Treasury Bonds Bill, is misunderstood. Sen. Mark talked about liquidity management, linked that to government spending and said that that is the cause of the problem. Sen. Mark spent a lot of time talking about government spending as the real issue. He tried to make it sound like a cover-up and, in trying to establish this cover-up, he went on about Government killing the economy.

When one looks at the use of open-market operations in Trinidad and Tobago to address excess liquidity, what gives us the evidence to refute Sen. Mark's comment is the fact that every issue has been oversubscribed. What does that mean? I have to ask what does that mean and answer it because Sen. Mark did not understand. He read a whole lot of information about oversubscribed Treasury issues and read the Central Bank reports showing that since 2006 all of the bond issues were oversubscribed.

“Oversubscribed” means that there is excess liquidity in the system. That means that the inflationary issues that we face are not solely or even largely the result of government spending. If government spending were the issue, then you would not find the mass of liquidity that he was talking about. Sen. Mark is even saying that government spending should be halted, which means that he is saying that it is not productive spending. Productive spending brings returns to the citizens and deals with a lot of the social issues.

We have observed that in 2006, 2007, 2008 all bond issues were oversubscribed. In July 02, 2008, a bond issue was made. It clearly stated that this was the first government bond issue for fiscal 2007/2008 and was being issued to assist in domestic liquidity management. Accordingly, the proceeds of the bond would be sterilized at the Central Bank.

The result on the issue of the government bond, 8.25 per cent, Bond 2017, issued on July 02, 2008, said that they were oversubscribed. Oversubscribed by how much? We want to understand the level of excess liquidity in our system. A total of $1.2 billion was offered at par and the amount applied for was $1,976,130,000. It means that the bonds were oversubscribed by $776,130,000. That is the amount of money out there on that particular issue.

When the Bill proposes that there be no ceiling—the hon. Minister in the Ministry of Finance stated it very clearly—the whole idea of there not needing to be a ceiling is connected to the fact that this is not a debt instrument. It is not for raising money for government spending. That is where you will get some sense that you need to get a ceiling, if you are raising the money for Government to spend. The Bill clearly states that it is for the purpose of liquidity management.

So the flexibility that the Bill seeks to have is a reflection of first the knowledge that there is excess liquidity of a massive amount and, additionally, that the amount of excess liquidity is not easily estimated—you cannot estimate easily the amount of liquidity, and so the Central Bank would need the flexibility to be able to go into the system and mop up the excess.

There are a number of sophisticated happenings in the system. They may not want to hear about the RBTT/RBC deal, but it is a fact. A lot will be injected into the system and taking it out is one of the many ways that the Government is seeking to address inflationary pressures.

5.10 p.m.

Over the past three or four years, there have been a number of comments in the newspapers and economic reports stating that the Government should have a handle over inflation. The inflation issue that we are faced with now is a structural problem. It is not one that would easily go away. It is structural in the sense that it is related both to international and national issues. The Government is seeking therefore to use a variety of measures, which is what is going to address the structural issue and to dampen down inflation.

There has been a point about the cost of taking this money out of the system, 8 per cent to 9 per cent. One of the things I want to ask is: To what extent do individuals seek only to maximize their families, communities or nation’s welfare by looking only at economic measures? Economic measures have limits. There is a limit to which you can use economic measures to make decisions in situations that impact on humans.

Within the last 30 years, there have been major breakthroughs in understanding the limits of economic theory. We realize that economic theory was at the base of environmental degradation. The way economic theory has been structured, anything that is external to the firm—if it is not the firm's revenue and cost, anything outside of that—has no place on the company's books. We have realized that economic theory contributed to the environmental crisis that we now face. The limits of economic theory, therefore, begins to be a discourse that we probably need to have in Trinidad and Tobago, because the heavy reliance on economics in the arguments by both persons who spoke on the other side, actually shows a gap in understanding of governance of a country. You cannot govern a country only on economic indicators.

I heard a lot of arguments about other countries reducing its inflation and deciding to hold growth. That is a national decision; that is a decision for the Government of the day. It is not a decision that because England is doing it, we have to do it as well. All societies have different realities, different levels of growth and different stages where they are and, therefore, you need to take your decisions within the context of your nation.

I want to address the whole idea of context and come back to that in a little bit. I heard when your neighbour's house is on fire, wet yours. If we contextualize that, then we have to think about how close is my house to my neighbour's. You do not go wetting if there is an acre between you and your neighbour. You do not wet willy-nilly. There is a context. How close is my neighbour's house to my house and what material is my house made of? There are fire retardant materials. I want to use the Senator's anecdote to stretch it to its limit. Do I have fire retardant exterior walls? Then, if I have fire retardant exterior walls—again, my issue is not about running to wet my house wild. All of this and more affects my actions when my neighbour's house begins to burn. If I am far away from my neighbour's house and my house has fire retardant exterior walls, what I would do when my neighbour's house is burning is I would go and help to wet my neighbour's house in order to put out my neighbour's fire, which is what this PNM administration does.

We have the Petroleum Fund and the Caricom Development Fund, which we have instituted to assist Caricom countries in this period. We are in an unusual situation. We have escalating oil prices that are causing problems in other economies. The problem that it might cause for us is giving us a lot of money. Along with that, we still have pockets of poverty. We have social issues to deal with. At the same time, we have to ensure that our trading partners in the region are strengthened during a time when they can be weakened and, therefore, rather than be concerned about a house that may not be burning down, we go and help our neighbour. That is what the Trinidad and Tobago Government is doing. When we bring out some of these anecdotes or clichés, they have to be put in particular context.

I want to come back to the point about over-subscribed treasury securities issues from 2006—2008. These over-subscribed issues are evidence that there is excess liquidity. I want to make the point again, because it is an important point. There is excess liquidity in our economy. It is not a fiction. That was a point. I am making that point again because it seems to have been the basis for a lot of what Sen. Mark was saying. He quoted all these figures, without realizing that once you have over-subscription, it indicates that you are in fact using an effective instrument. If Treasury Bonds were not effective you would not be over-subscribed, in fact you would have under-subscription and you would have trouble getting people to invest in those instruments. They are effective instruments and they are not alone.

I want to address the Heritage and Stabilization Fund as the alternative to this Bill. The Heritage and Stabilisation Fund, all of the benefits and successes with that Fund, have been outlined already. Already, the Heritage and Stabilisation Fund is a form of liquidity management, in that the Fund takes away or removes from Government's spending ability that large amount of money; that 60 per cent and the Government is, therefore, not able to spend that amount. Because we know Government's spending is one of the factors in the increase of inflation, the mere fact that there is a Heritage and Stabilization Fund taking so much of the revenues that come to our nation, then the Heritage and Stabilisation Fund already fulfils the role as a form of liquidity management. Why not increase the amount that we send to the Heritage and Stabilisation Fund? This is really saying that we should save more. The issue of saving more is really linked to what are your priorities in a situation. We are already saving a large amount; more than any administration has ever done in Trinidad and Tobago, and you are recognizing that you are in a period where we have rising oil prices. You are saving a significant amount.

Having done that, you still have the needs of the people to address. When you consider governance of a household, a community or a nation, it is not confined to having one decision to make and that is it. You cannot address inflation only or savings only; it is a myriad of complex issues. I am wondering if the people who have spoken have the ability for complex thinking that is required for running a government. You must have the ability to think in complexity to be able to run a government. You have social concerns that are pressing, issues of education—because I am not going to put education and social together. The number of educational facilities—we have a growing society, in terms of population and in terms of expectations and, therefore, to meet the needs of all of the different sectors of society, you require a more complex approach to thinking than narrow, economic indicators. In arriving at social programmes, one has to move away from a reliance on economic indicators and begin to look at more qualitative factors. How many students are able to attend university free?

When I was 21 and decided to go to university I had to pay some money; it was not a lot at that time, but I had to pay. Subsequent to that, people had to pay even more. There were quite a number of people who could not go to university because they could not have afforded to pay. Therefore, the benefits of educating a larger section of your society at tertiary level cannot be captured in economic terms. With respect to saving more in the Heritage and Stabilisation Fund—when you have already saved so much—and using the Fund as the liquidity management tool, I think that is erroneous thinking. I humbly submit to this Senate that those are not solutions to what we have before us today.

Another thing I want to speak about is the sense in which this Bill is something that is novel. The Bill does not introduce a novel instrument. Treasury Bonds are not unknown to our society and, therefore, I cannot see what the problems are with the Bill. It clearly states for liquidity management. Apart from that, what this Bill does is it refines the existing mechanisms to demarcate clearly those securities issues that are for borrowing and those securities issues that will be for liquidity management.

In the past, all of the Government's borrowing capabilities were used either for borrowing or for liquidity management. You had the Treasury Bills, Treasury Notes and Treasury Bonds within the Development Loans Act. Those were all set up for the Government's borrowing. But, over the years, they were used largely for liquidity management. What this Bill does is it introduces an instrument that is solely for the purpose of liquidity management and, therefore, it refines the system by having a clearly stated and outlined part of the Government's ability to take money out of the system being demarcated for liquidity management only.

We need to make that point. Clearly, it is a refinement of the system. It does not introduce something that is totally different or unusual and, therefore, there really is no major issue with the Bill, except, again, we have to go to the issue of the ceiling and that there should be a ceiling on the, they keep saying, debt. The reason that there is no ceiling—I think I mentioned this before—is that you have to manage liquidity, when you do not know how much of an excess liquidity you would have over time.

We are dealing with a structural problem where inflation is being driven by so many different things; the main one being that we have excess funds coming into our system. We are not sure, over the period, how much liquidity you would actually have to mop up. Therefore, the use of a ceiling would only make sense if this was for borrowing, but it is not for borrowing. It is for taking out of the system, putting in a blocked account. The Heritage and Stabilisation Fund is not a blocked account in that sense, because some aspects of it, I am not sure if all is, is invested and, therefore, that investment goes back into the system, whether it is local or outside and, therefore, is not blocked. But this Bill speaks to a Treasury Bonds issue or issues of bonds for liquidity management and clearly states, in section 4(1), that it would be paid into a blocked account in the Exchequer Account. Therefore, what is the point of a ceiling when you want flexibility to be able to manage something as significant as inflation?

There is the issue of the use of security firms. I would leave that for the hon. Minister in the Ministry of Finance. My only observation with that is that where the Bill says that the fiscal agent means the Central Bank or a financial institution designated by the Minister under section 6. My only concern with such a recommendation would be for an instrument with this specific purpose, which is liquidity management. I would not support the insertion of any security firms in here. I believe that because it is for liquidity management, it is indeed an exercise that is best suited to well-developed financial institutions and specifically to the Central Bank.

I believe that the Bill actually goes a little wide in its extension from beyond the Central Bank to talk about financial institutions. I guess that is in anticipation of a more developed capital market in Trinidad and Tobago. That is why they have gone beyond the Central Bank to other financial institutions. It is indeed an instrument for Government policy and, therefore, I would feign to think that we would go the way of security firms. I believe that there are other instruments that are on the books that security firms can be included, but certainly not in one that is seeking solely to address Government's policy and to address something as major as liquidity management. That is the security companies' aspect. I am sure the Minister in the Ministry of Finance would say more.

5.25 p.m.

The issue of the cost and benefits of this approach to liquidity management, again, we have to see this as the Minister introduced the Bill. The Minister introduced the Bill in its wide and detailed context. He did an excellent job of introducing the Bill and recognizing where we were coming from. This is an aspect of liquidity management, and it is not the only approach. It is one of the approaches coming after a number of approaches have been used. Clearly, he has shown that the other approaches are being phased out, but it does not mean that they will never be used or they are not currently being used, but the situation in which we find ourselves—which is a very fortunate situation where we have excess funds coming into our system—you must have more capacity to mop up funds, and that is what this Bill is seeking to do.

The cost to the Government is the interest cost and that is the cost to manage liquidity. The benefits would be that you are going to have a greater handle on managing inflation. You are going to develop the capital market by putting out more financial instruments into the capital market. What that does—there is an indirect benefit—is by stimulating the capital market, businesses will eventually have an alternative and potentially a cheaper cost for financing. Once you get capital markets going and you get people accustomed to investing, businesses are going to be able to access funding from that market.

What the issue does as well is provide saving options. In fact, from the over subscription, we see that providing saving options is a valid point. The market is starved of investment opportunities and that is why we are going to see over subscription. So, the benefits which may not always be quantifiable to come down to a rate—you may not be able to say that having paid 8 per cent or 9 per cent interest on these bonds you are going to get back 15 per cent in returns. It is probably going to be difficult to quantify, but not everything needs to be quantified. Sometimes you need to understand the qualitative benefits and the wider benefit of a particular measure in order to accept it.

Again, I want to repeat the point—repeating the point is important because the Minister in the Ministry of Finance introduced it and said it, but it did not make an impact and I do not understand why—that we are dealing with a structural problem. Inflation is not going to go away tomorrow and, therefore, you have a long period in which the entire globe would be faced with inflationary pressures, and to address them we have to be sophisticated in our understanding of economics; in our understanding of finance; and in our understanding of what is going to work and what has worked. As I said, this is one of the measures that we are seeking to use to address the very pressing problem of inflation.

The fact that Government's spending continues is a reflection of a caring Government; a Government that understands its responsibilities. You cannot just save and deal with inflation whilst people are starving. You have to be dealing with those issues at the same time as well.

Instead of seeing this Bill as fiscal indiscipline, I see it as fiscal wisdom that informs no ceiling in the Bill. It recognizes liquidity management as the sole purpose of the Bill. To manage liquidity one needs to have flexibility.

I want to end my contribution by making the point—this is a point that was made by the Minister in the Ministry of Finance—which is the link to the Heritage and Stabilisation Fund. In doing a lot of these measures, the Government is, in fact, limiting some of its spending capabilities or spending ability by having interest being paid out of the Consolidated Fund. That was a critical point that was made. The Government is actually limiting its own spending by being consistent in savings in that fund and the Government is also limiting its spending. The bulk of the comments that were made about Government's spending and the link to inflation, there is a link, and the link is that the Government has to spend in order to fulfil its requirements and duties to the citizens.

There were conflicts in some of the points made by Sen. Mark. He said that the Government should use the money and spend it on health, but while he is saying do not spend, he is also saying to spend. He has pointed out all the things that we have already spent on and what we continue to spend on effectively, as we seek to improve the social services in our country.

I wanted to make sure that I covered all the issues that I noted. One of the things I noticed was there was a fixation in Sen. Mark's contribution on 2004/2005 as being those years when there was an increase in this and an increase in that. In fact, that was the beginning of a major increase in economic prosperity in the country. In recognizing some of the angles that the Senator took, I realized that what the Senator was trying to do was put a damper on what was actually good news for our economy. So, all the things that were actually good news, the Senator spinned them around and made it sound like bad news—the fixation of 2004/2005 and the things that were happening. That was actually when there was a major improvement in a number of our indicators.

I want to leave the point on the table that economic theory like any theory is, by definition, just theory. It is just something that we think about that would work, but it is not something that we have to live by as if it is the *Bible*. What we do with economic theory is to use the information to help guide decision-making. Any sensible government—any government that is committed to delivering and committed to being a caring government—cannot only be guided by economic indicators as suggested here.

The Bill that seeks to authorize the Minister to issue Treasury Bonds for the purpose of liquidity management is a Bill that is visionary in its focus. It is seeking to give to the Central Bank the ability to do much more than it is currently doing with the existing instruments on the books. It does not give the Government more spending ability. It clearly states that it is for liquidity management. The Act clearly defines what is a blocked account. It means a separate account in which moneys raised under the Act are deposited and from which withdrawals, transfers or any other transactions are prohibited except as required under this Act.

What is required under the Act is that it can only be used to pay the principal sum. That is all it can be used for. It is not for Government borrowing, but it is simply for the purpose of liquidity management, and it is a mechanism that is not currently available to the extent that it clearly defines that this instrument is only for liquidity management.

Mr. Vice-President, I thank you. [*Desk thumping*]

Sen. Mohammed Faisal Rahman: Mr. Vice-President, thank you. Someone who walked this earth 2000 years ago used parables to explain things, and there is a little parable that comes to mind. We have here a parable of a man who heroically goes and saves the lives of people in a crash, but it is a crash that he caused through his drunken state. This Government is seeking to save this nation from inflation that it has itself caused and brought upon this nation. [*Desk thumping*]

The significance of this matter has been touched upon by Senators before me and has been negated by the hon. Senator. What is confronting us today is the excess liquidity that has descended upon the economy through the sale of the Royal Bank of Trinidad and Tobago (RBTT). When RBTT was being seen as a possible sale item, many voices were raised in this country, and articles were written in the press and the press covered it. There was so much that was said. The Government was advised to take a look at this matter, and the Government's position was—the Minister said that the Government had no concern with RBTT takeover but, today, what is occupying the attention of the Government and the nation as a whole is precisely the fallout from the RBTT takeover.

The Government did not need to stop the sale, even though there were good reasons to prevent the sale to a foreign entity, notwithstanding all of the arguments that RBTT made. There were conditions the Government could have placed upon the sale. Part of it could have been stock alone rather than cash and part of it could have been payment of the cash part, in foreign funds.

The Minister in the Ministry of Finance has pointed out that to take TT dollars and to invest them back into this market is not going to solve the problem. Very wise! What is not very wise is allowing the Royal Bank of Canada (RBC) to bring in its foreign exchange and buy up TT dollars for no reason, but simply to pay back Trinidad shareholders in TT dollars. So we are confronted with a problem that ought never to have existed. That was not only a dereliction of responsibility and duty on the part of the Government, but it is myopia in the worst sense. We have very competent new blood on the Government side, bringing in expertise from Barbados and elsewhere to bear upon the investment opportunities of this country.

The good Minister in the Ministry of Finance told me recently that Barbados economy is no longer how it used to be, but it is largely now driven by investment capital and investment aspects of its economy.

We had a contribution by Sen. Ramkhelawan a few weeks ago when he addressed the matter in a very nice, short and crisp contribution, of the necessity of this Government looking into the matter of capital markets. Again, today, he has given a brilliant contribution warning the Government of the problems and giving it alternatives which Sen. The Hon. Dr. Dick-Forde has simply dismissed, as if everything that Sen. Ramkhelawan said was utter rubbish and nonsense.

Mr. Vice-President, the problem that is facing us today is a serious one. While the Minister in the Ministry of Finance has recognized that in the larger world certain of the other measures that are normally taken to rein in inflation have gone out of use and in some cases discredited, he has not realized that he is embarking upon and the Government is embarking upon a method that starts off as a self-discrediting method for bringing inflation under control.

Mr. Vice-President, Sen. Ramkhelawan described the bonds as something that destroys wealth. This is a fundamental thing to understand. When you have bonds being issued by a nation, you have an eventual impact upon the GDP of the country. You have removed moneys that can be used in capital markets to generate wealth and you have stashed it away in bonds. The Government is insisting that it is not borrowing, but the Government will find itself in debt to the people who have bought the bonds upon them buying the bonds. So, the Government may not be seeking to raise capital or to go into debt, but it is a de facto matter of going into debt once these bonds are issued.

5.40 p.m.

Once the people buy the bonds and the money goes into the hands of the Government, the Government is then indebted to the people; so it is a matter of a debt. However you cut it, the Government is going into debt. What it does with the money is even compounding the stupidity, because here is the Government borrowing money—as Sen. Ramkhelawan said—and putting it aside and going to pay interest. You know who is going to be paying that interest? The national coffers, the citizens of this country are going to have their wealth eroded by the equivalent of the interest that shall have accrued on those bonds, that was totally unnecessary in the first place. They are pauperizing the national coffers because the Government is going to decide that it is going to spend the people's money, but this is a syndrome.

The Government always looks upon the people's money as its own money. It is looking at this measure to contain inflation as if it is an expense that it is prepared to bear, but it is bearing that at the cost of the national purse. It is not bearing that out of its own funds. The Government is a manager of the wealth and resources of a nation, which are entrusted to its care for it to discharge for the benefit of the citizens and the population. The Government is not the owner of those funds. It is my strong feeling that while the Government has on every prior occasion recognized the need to place a ceiling upon bond issues, and in every instance put a ceiling upon its borrowings or it financings, on this occasion it is deliberately coming to bring a Treasury Bond issue without a limit for one particular purpose and it is an insidious purpose. It is running parallel to the Government's entire strategy of seeking to arrive at the status of governance by fiat with untrammeled—without having to give account to anybody.

The Government wants to establish—and this could be a good intent or a bad intent, so I am not ascribing intent here. I am saying that the net result is that the Government has embarked upon a modus operandi that is leading to a dictatorial system of government, where whatever it says, goes, nobody has a say and there must be no trammelling of its exercise of power. I do not know if this matter is coming across clearly in the minds of the people, but there is no excuse to make this bond issue exempt from the normal restrictions that are placed upon all borrowings of the Government. And cut it however you wish, this is a borrowing, because it is going to end up with the Government being in debt to the buyers.

Mr. Vice-President, we are seeing a continuing neglect of all of the things that go towards the welfare of the people. The Government is actually asking people to buy bonds at—I think, is 8½ per cent—8½ per cent, when the rate of inflation today is 10 per cent. So he says, "Come, give meh 100 of your dollars and in five years time I will pay you back in full with $90 buying power or $80 buying power." That is ridiculous. It is an offence to the intellect of the investors. I must tell you this, the people who have come into this money from the RBTT sale—ill-advised as it was and as foolish as it was for the Government to have allowed it to go through in the way it did—are not dock workers and labourers who are waiting for a back pay to come at Christmas time to be able to go on a spending splurge or a binge, you know, or a drinking spree.

The people who have come into this money from the RBTT sale at the great protest by the minority shareholders are people who value their money; who have for years invested bit by bit, scrimped and saved and have been looking forward to eventual capital appreciation, which they fortunately were able to make through the years. These are not people who were waiting to buy a little motor car or waiting to buy a little fridge and glad the money came in time, because they did not have some money to tide them over. No, no, no, no, no; this is a cadre of people who are very savvy. There are any number of blandishments being—and this is just one—offered to the potential investors who are coming into this money as to how they should put their money to use.

The Government is treating this cadre of people as if they are nouveau riche; just come into money and do not know what to do. What is ironic is this, 20 per cent of that money is going to NIB; 14 per cent to Guardian Holdings—some sort of figures like that—and do they really think that NIB does not know what to do with the money? But here we have a return to a perennial question that keeps cropping up here. Why does NIB go and buy Government bonds in the first place?

The Minister in the Ministry of Finance has explained, very painstakingly to me, in this Chamber on many occasions that NIB buys bonds like everybody else buys bonds. We have not had a liquidity soak up by bonds before; we used to do it in the old way, increasing the reserve, upping the repo rate. Now, we see there has been an inveigling, because we have this continuing problem of our contributions to NIB having to be increased on a regular basis, because NIB buys Government bonds, if not on its own initiative, by some sort of—and if not by coercion—suggestion, because the Government likes to boast that its bonds are oversubscribed. I do not know why the bonds are oversubscribed.

I have a very serious reservation in that regard, because there is one class of individuals who is looking for ways and means to stash their money away out in the open very legitimately, and I do not know—[*Interruption*] one of my friends has just gone "hmmm", and I think he understands what I am talking about. We have here institutions that, in my mind, are inveigled to buy bonds but we have the possibility, because we have many laws covering money laundering in Trinidad now. With the national lottery, any self-respecting drug lord who wants to launder money, all he has to do is go and buy all the permutations and he is in business; he will suffer a 20 per cent or 25 per cent loss, but that is clean money coming out of the national lotteries. Now, here is the Government offering to whatever tainted money is around, here is an opportunity, put away some of your money in the bonds and in five years time you have a clean cheque, down by about 2 per cent or 3 per cent, but it is something—

Sen. Browne: Mr. Vice-President, if he could give way, please. I think I need to clarify the point here. As the Bill clearly says, these bonds are being issued through financial institutions. Financial institutions have in position fairly rigorous rules with regard to the type of money that comes in, and they are also required to file a declaration. Every depositor is required to file a declaration as to the source of funds for 10,000 and over. There is no possible link on that basis between financial institutions through which these bonds are an agency and the issue of money laundering. I fail to understand the point that he is making.

Sen. M. F. Rahman: Thank you, Sir. Mr. Vice-President, since I am in this position many people tell me things that I never thought I would hear. Many a times reports are made to the authorities concerning the operations of certain people and I have had people that I know very closely working in the banks. When reports are made, the answer is, that is a very sensitive area; that one is a very sensitive this and that.

The Prime Minister had said in the past that he knows Mr. Big. Well, Mr. Big has to have an account somewhere. If you are telling me that Mr. Big is not operating through a financial institution with his funds inside there, does he have money packed up in his mattress? We are not playing little children games, we are talking about a reality. We are talking about a situation where drug people and money laundering people operate out in the open, untouchables.

The question is, is the Central Bank or the Government itself, demanding source of funds directly? This is very important. I will tell you something, all somebody has to do is to fragment their deposits below the questionable mark and make deposits every day, and it is not a big problem to circumvent that. So you do not have the cut and dried answer that you gave me solving the problem. This is not an answer to the problem. We have a situation where we have oversubscription of these bond issues and the question is, where is all that money coming from?

We are not living in an "Alice in Wonderland" place. Look at that tremendous—[*Crosstalk*] [*Interruption*] It used to be 10,000, it is about 40,000 now; 40,000 now; you check it; 40,000 cash! Sixty? Look at that, it has gone tremendously high. Pardon? How much?

Sen. Seetahal SC.: US $10,000

Sen. M. F. Rahman: Right, $60,000; you are talking about making a declaration of TT $10,000. You are living in the past, hon. Minister of Finance. You have to look at the facts here.

Mr. Vice-President, coming back to the matter. This Government, by issuing these bonds, it has—I had a word here—set the stage. By the way, the RBTT sale, in the first instance, set the stage to destroy investment institutions; it set the stage for the destruction of capital markets and it was clearly written in the *Guardian* by Editor Wilson, long before the sale, that RBTT represented a huge segment of the capital market for the investors in Trinidad and Tobago. What the Government has done is permitted a dissolution—I am on target—of that preserved area and it has opened the dikes to let that money flood in now in a way that it is seeking to control by the least advisable method open to it.

Mr. Vice-President, do you know that statutory interest in legal cases in Trinidad—and I will be corrected by Sen. Seetahal SC if I am wrong—used to be 6 per cent; it is now 12 per cent, and the Government is offering bonds to soak up liquidity for 8½ per cent, when inflation is 10 per cent. There are numbers of ways to curb inflation. We are not telling you to cut out your development programme that is real development for the country. What we are saying—and you know they are going by the recommendations of the Central Bank, but the Central Bank Governor has recommended to them repeatedly to cut back on your development programme and your expenditures. They take advice selectively.

The Governor of the Central Bank has repeatedly advised to stop overheating the economy, but the question I have heard, is that if they cut back on spending, growth will be slowed. The growth of this country's economy is not from prudence because America's economy has slowed to one. something in terms of growth. You are telling me that we have such geniuses here that we can accomplish growth by intellect. The growth of this economy is by the discovery of oil and gas and the exploitation of those resources, and we are continuing to earn foreign exchange and the economy is growing. But when you have a destruction of the capital market, as we have here now, and allowing RBC to buy TT dollars to give to citizens here so that we can cripple them from investing otherwise, we have gone the wrong route entirely and we are trying to close a door for a whole set of horses that have run out like crazy.

I do not know if there is any intent to develop the commodity market in Trinidad and Tobago and I do not know if there is a way that we can let the firms, that Sen. Ramkhelawan was advising Government to give some part of the action to, act as agents for commodity trading in Trinidad, because I do not really know much about the stocks and shares and the equities market and so on.

5.55 p.m.

I will tell you something that I discovered because I have a little familiarity with the metals market, just to show you how dollars and cents, especially when it is put into a situation where you sterilize it—and we are going to come to the question of sterilization in a minute—and you put it aside and then you use out of the Consolidated Fund to pay the interest and you give back the people money that has a smaller buying power.

I have in my hand a TT one-cent piece. [*Holds up a cent*] You will be surprised to know—and this will explain why we are having a little problem in the country with regard to theft—that copper—yesterday when I did my figures—was US $3.80 per pound on the world market, which is about TT $23.94 or 2,394 cents per pound, which makes it 149.6 cents per ounce. When you divide an ounce by 28 grammes, you get the value of a one-cent piece which weighs 2 grammes, being equal in value to TT 10.68 cents. We have copper in this one-cent piece that is worth 10.68 cents on the world market.

We are playing around with paper money that is constantly being devalued; that has no intrinsic worth. We are putting all of our savings in dollars, we are stuck to a currency that is going down the tubes, and here we are compounding the injustice by offering to the people bonds that start off with a future negative growth. How can this Government come to this Senate and say that it is exercising prudence or doing anything of benefit for the people by the issuing of these Treasury Bonds?

Now, on the question of sterilization, if and when these bonds are issued—and I hope that this Senate collaborates today to make some amendments and to send a message back to the Government that this as it has been brought here is far from the ideal—everybody knows that when you have bonds, you can go to the bank, use it as collateral and borrow whatever you want against the bonds. Is that not right? That is not going to stop the use of the money.

If you are seeking to issue these bonds to mop up liquidity, really, all you are doing is getting NIB, and whoever else, to come and make you look good again by selling out these bonds. If you are looking to soak up liquidity in a real sense you are not sterilizing those funds at all, and once you put the money into the Consolidated Fund and the Consolidated Fund is showing this increased amount, you can justify any amount of expenditure from the Consolidated Fund because you still have money remaining, and it is an insured debt that you do not have to pay, I think, until five and a half to 10 years. So, all these measures are really only smoke and mirrors and are not contributing in any way to solving any of the problems that you have been creating.

If this Government wants to solve the problem of inflation, there are several measures it can take quickly. These have been recommended in the past and they would be disregarded again. Core inflation is with food, as we know, and building materials. Those are the big areas. What this Government has to do—and inflation is really the increasing price of goods—is a number of things. One of the most important things is to find ways to strengthen the currency of this country. If the currency of this country is strengthened—and we can find that the TT dollar will stop being the pariah currency of the world, far more for the Caribbean—we will find that the TT dollar will regain acceptance, at least in the Caricom area and we can start to have some of our TT dollars taken up by the islands in the normal course as it used to be once upon a good time.

Right now, with the weakness of the currency, nobody accepts TT dollars anywhere outside of Trinidad and Tobago. So, what we could do to help the inflation problem is to find ways to strengthen the TT currency so that even for intra-Caricom trade we could have TT dollars, because the American dollar is a global currency accepted all over the world and there are more US dollars outside of America than there are inside of America.

If we can get a situation where our currency can be strengthened and we have acceptance of the currency in the Caricom areas—and it will increase, especially with those countries with which we do trade—we can have bilateral trade with our currency being the denominated currency and to the limits that they hold our currency, there will be no hindrance to trade because money is a medium of exchange. It really does not matter what is the currency that you use down the line as long as it is mutually acceptable to the trading partners. So this is one of the areas that the Government has to address in terms of getting a long-term solution to the inflation problem.

Now, there is another matter. As I was saying, we have core inflation being about 40 per cent, contributing to a rise in the headline area. It has been recommended by our colleagues in the other place that the Government removes the duties and taxes on food items or at least basic food items. You will reduce the cost of living in the core area where the inflation is 40 per cent and instantly reduce inflation across the board. Then it could even go so far as to subsidize those areas where the price remains on the steep side, in addition of course to the strengthening of the currency, and these measures will, once the core inflation at the major amount of 40 per cent is reduced, the average inflation for across the board will drop instantly from double digits to something like 5 per cent, rather than 10.

These are measures that can be taken, but when you read people with an axe to grind saying that reducing duties or reducing taxes will not—"ah", and there is another aspect, reasonable price control, but I will come back to that in a minute. When you have responsible people writing in the press and saying, "removing VAT and taxes will not solve the problem in the long run", they have an axe to grind. They are not concerned with the poverty level that is being consistently increasing in this country over the last several years.

Mr. Vice-President, when this country used to assemble vehicles, we had a situation where the importers of parts and so on—Neal & Massy and whoever—used to have to price every vehicle very, very scrupulously and have a specific margin that was permitted to them so they could continue to enjoy the pioneer status or approved undertaking status that they enjoyed as an assembler of cars. Believe it or not, virtual price control, or at least price structure control, was implemented at that tremendous level when the heights of the economy were being held in Trinidad and Tobago by our people. Yet we hear that you cannot have price control with regard to food, which people have to use to live.

We can establish what are the acceptable margins, not for every item—the supermarket sells about 2,000 or 3,000 items—but for flour, sugar, rice, split peas, potatoes and these basic things. There is no reason why these cannot enjoy exemption from duties subject to a certain degree of price structure control and get the benefit of a currency that would be strengthened by the Government taking the measures that it should.

Mr. Vice-President, these are very elementary measures, but the Government is detached from the realities of governance and the people who serve in the Government enjoy a decent standard of living. When you enjoy this standard of living, you lose touch with reality and you start to believe that a family of two, three and four could live on $650 a month. I do not know if they are living in goat pens and what they are eating. How can they manage? I could go to the supermarket and take about 10 or 15 items and the bill is hardly less than $300 and $400. How can these people manage? I cannot understand it. And the Government is walking in the air and it is not looking to what is happening to the people underneath. Here it is coming to bring measures to save very savvy investors from their own perceived and imagined weaknesses.

I see this Bill to issue Treasury Bills as an affront to the people who have come into this money and as an indictment of the Government for the dereliction of its duty when it had the opportunity to make sure that such an occurrence never came to pass. [*Senator knocks sponge off mike*] Lend me yours. Somehow or the other I always seem to knock this thing over.

Government is using the bogie of inflation to justify this injustice to the investors in this country. The Government has to look to developing the capital markets. It has to look to developing commodity markets; it has to look to ways, because you know something, whatever you do, the $46 billion money supply will never go away unless you get your currency accepted by foreign countries—like I said, in the Caricom area—and then you will be relieved of some of that.

A local currency is really normally only good for within the boundaries of the nation. You understand? And there is a continuous growing of the money supply as the years go by, because you have greater population and more people being paid wages. Central Bank always has to be printing money, of course, and it has to be increasing the money supply, so there is no way that this $46 billion is going to go away. You are seeking to mop up liquidity today by going into debt—and I say it is going into debt again; I repeat that—with the people from whom you are borrowing the money, for whatever reason. But, what are they going to do in five and a half years' time when all of this money comes back into the system? What are you going to do at that time? Are you going to say, let us hope that the money is lost in transit or a burglar comes and takes it away from somebody or it evaporates?

Mr. Vice-President, you have a situation which, if you do not confront in an intelligent financial way; not the quick fix that the Minister in the Ministry of Finance is seeking to do, then you have a recurring problem. I will tell you another thing. By the time we get around to the second or third instance of this, gas money "go be done"; oil money "go be done"—I am sorry to be speaking in dialect like this, but I am moved to say it—and we are not going to have a very glorious future. We are going to see a lot of 20-plus storey buildings where the lifts will not operate because we will have a reduced electricity supply; not to talk about air condition, water supply and so on. We are going to have to learn to live within our means and seek to preserve the wealth that we have in better ways than in paper currency that is being used today as the vehicle for wealth enhancement. [*Interruption*] Would you like me to give way, hon. Minister?

6.10 p.m.

Sen. Manning: You keep on going.

Sen. M. F. Rahman: Well, I am not hearing myself. I beg your pardon.

Mr. Vice-President: [*Inaudible*]

Sen. M. F. Rahman: But my ears are on my left and right side and I am hearing the noise. If I look at you I can see you, but I can hear other things.

Mr. Vice-President, we are not taking measures for the future. We are doing stop-gap things to look good. This Government is a "look-good government." That is what it is about a "look-good government." People are starving; prices rising; crime increasing; we have a killing field in Trinidad and Tobago now, a virtual killing field; blood flowing like water and you are looking to put up buildings and telling me you cannot stop the development programme because, what? You must continue education; you must look after—where is the agricultural thrust? What are we doing? That is another way that we have to come to terms with the inflation. Food is costing so much money to be imported, so we have to think seriously about growing food, not handing out little packets of seeds and saying that is the be all and end all of the problem. We have to come to terms with the reality of what we are facing, come to grips with it and deal with it, otherwise, when the mark "buss", the blood would look like nothing that is going on today.

Mr. Vice-President, I have a note here: commodities appreciate, bonds do not appreciate. Bonds sit there and you cannot sell your bonds to somebody else because it is a depreciating value. When you buy bonds in this format, you have bought a depreciating commodity. It is like an onion, you are losing skin, it is peeling off all the time, and it is getting smaller every year because inflation, unchecked, and the methods offered, are being disregarded. You have a continuing erosion of your wealth. As Sen. Ramkhelawan said, you are destroying the wealth. The former Senator, Mary King is always complaining that the Government is doing works that are not productive; that do not generate wealth; non-generating wealth expenditure. We are not looking after the future in a meaningful way.

I know that all of this is sounding very upsetting. [*Interruption*] Pardon?

Sen. Dr. Saith: You are being repetitious

Sen. M. F. Rahman: Because you have not learnt the lesson up to now. You are going to have to teach a child who is retarded the same lesson again and again. So it sounds repetitious, but it is repetitious in different angles. It is one core issue. Come to grips with the problems of the country and stop the window dressing. What it is that is repetitious that you do not like to hear?

Mr. Vice-President, the Government is an instigator of inflation, because it spends—and this is the advice of the Governor of the Central Bank. He has been saying it and I am repeating it after him, you are spending the money too fast. You do not like to hear me say that, but the poor "fella" has to say, "Well, I could only give the advice and they do not have to listen if they do not want." Well, I am repeating the advice here because this is my privilege. You are not listening to the Central Bank Governor. I am not only talking for him, I am talking for the poor people in this country. The spendthrift policies of this Government have been sharpening the edge of inflation and it is cutting through and reaching bone.

We are not in a very happy situation and this measure of issuing bonds that underpay interest, that is attractive to people with money from all sorts of sources and always oversubscribed, and oversubscribed by Government institutions at the behest of Government, I strongly suspect. This whole action can only come down to the idea that Government is seeking the thin edge of the wedge to establish its right to untrammelled governance without having to give account: “We want to be able to raise as much money as we need to raise and no dog bark.” I nearly gave the whole quotation, “no dog bark”.

We are not in a very happy situation at the present time. Now, it is a known thing that when the banks receive money and they know that they do not have to pay out the money, they lend out the same money that they received with a multiplier effect. If you want to control this inflow of funds, let the Government do some work, get the banks to identify the funds that are coming from this particular source, from this particular stream of inflow, and get the banks somehow to increase their reserves with the Central Bank in amounts equivalent to the inflows of revenues from that particular stream, from the Royal Bank of Trinidad and Tobago (RBTT) sale; then you have a sterilization of that fund because then it is held by the Central Bank and the banks do not have the ability to recycle it.

[MR. PRESIDENT *in the Chair*]

One of the further things here is this, that we have a situation where the Government is saying that, clearly, its intention is not to use these funds. Well, you know this Government has made a lot of promises; this Government is not particularly fond of investors. It invited people to invest in BWIA and went and shut down BWIA. It invited people to invest in the Workers' Bank, they shut down the Workers' Bank and National Commercial Bank (NCB), and they went and opened up First Citizens Bank (FCB) and investors lost a lot of money. This Government does not keep its promises. It promises to accomplish certain things by a certain year and comes and asks for an extension year after year after year.

This Government can change law by simple amendment and, as I have learnt in this Senate, that unless it is challenged and proven in the courts that it did the wrong thing, it has, in fact, done the right thing. So after all these bonds are issued, the Government can come and say, "We are bringing an amendment to this Bill that we are now going to use these funds in such and such a way for the benefit of the people who have put the funds in here", and proceed to do all the developments that it wants to do, and with the majority that the Government has, we cannot squawk. We have no assurance that this Government will keep its word in any greater fashion than it has failed to keep it in the past, and this is within recent memory. It is not a matter that I am developing in my own mind, this is an experience that we have. The Government gives an undertaking; devaluation is not in the cards—

Mr. President: Hon. Senators, the speaking time of the hon. Senator has expired.

Motion made, That the hon. Senator's speaking time be extended by 15 minutes. [*Sen. W. Mark*]

Question put and agreed to.

PROCEDURAL MOTION

The Minister in the Office of the Prime Minister and Minister of Trade and Industry (Sen. The Hon. Dr. Lenny Saith): Mr. President, I beg to move that the Senate continue sitting until the completion of the debate on this Bill.

Question put and agreed to.

TREASURY BONDS BILL

Sen. M. F. Rahman: Thank you, Sir. I was talking about the Government's propensity to change laws and to adapt laws in such a way that it can make accessible what it previously prevented itself from accessing.

Mr. President, the Government's attitude to money is something that I have addressed in this Senate already. Its attitude to money is that we have the money; we could do what we want with it. We can spend it anywhere we like. This is a very dangerous record that this Government has earned for itself. We cannot trust the Government, and without a ceiling, God knows where it will end. We will have no control; we will have no recourse. The Government will not only be able to borrow as it pleases in this particular way and it remains borrowing, but it will have the right to use the money as it wants, because it can amend the laws and change the laws as it wants.

The recommendation is that the reserve deposit amounts should be increased, I would also say that the repo rate be increased. I do not know how that will help the situation very much, but it will stop the banks from using up so much money of their own. The figure given by Sen. Ramkhelawan about the $45 billion that will be immediately removed by every 1 per cent increase, is a very attractive figure and I believe that those figures are worth considering. The interesting thing is this, since the money has already translated into TT dollars, I think we can go back to RBC and resell them the TT dollars, get back foreign funds and use that to invest.

Mr. President, the idea that the Government, which is supposed to preserve wealth—and the Central Bank is the agent for the defence of the currency and the maintenance of the currency, and if the Government can set about to offer bonds that are going to be worth less and less and less, why does it not consider getting the—even if it means converting it to foreign exchange because we have Unit Trust Corporation (UTC) as an institution that is designed for handling money markets and foreign investments and so on, and the Government on its own accord, in its foreign investments which was given to me in one of the answers—has investments all over the world in the hands of different agents.

[SEN. RAHMAN]

Why can it not be decent with the people whose funds you want to soak up? Be decent with them; take their money, put it into a genuine investment and let the people get some money, for the money that they lent the Government. There is nothing to prevent that. But this whole idea of sterilizing in a way that is not properly sterilized, fooling the people, ensuring that they get less money back, and with the erosion of inflation, continuing to get a depreciating currency coming back to them after five and 10 years. Mr. President, there is no way that I can see any virtue whatsoever.

There is no redeeming aspect to this Treasury Bonds Bill that has been brought to us today. I fail to see any aspect that can recommend it. I know it is going to be a blow to the Ministry of Finance and to the Government that they came up with such an idiotic idea to present to the Senate. But in the Senate we have experts in different fields because the President of the Republic of Trinidad and Tobago had to take people from the public store of intellect to put here, and we have people who can contribute in guarding the interest of the people. I say, thank God. I do not know what is going to happen when we have the new proposed, not yet defined and unknown sourced Constitution brought into play when we do not know who will be doing what and who will come from where, because that is another bogey.

Mr. President, we have real bogeys lining up after this one. This one about inflation can be controlled, which can be contained, but it seems as though the policy of dependency is being forced upon the people because the people cannot help but be dependent and increase the dependency syndrome, when you have poverty defined as $650 per month and below. Mr. Vice-President—sorry, Mr. President, the situation here—I am sorry. We are at a disadvantage when we see switches in the Chair like that. I always have difficulty sticking to the right one. My profoundest apologies, Sir. The Government has neglected its responsibility and duty to the grassroots people of this country, because money empowers. People could go into depression just knowing that they have no money to meet their bills, and we are wondering why people are going berserk and doing crazy things.

The situation is very dire and this Treasury Bonds Bill is not helping the situation. Well, like I said, it is going to cause the Government some embarrassment, but it is better that the Government comes to term with this and if it has to go the route of issuing bonds, let it rethink the bonds, come up with a currency—because I notice that there is already provision for the currency to be specified in the Bill, so you are not even going to have to change the Bill. Assure us that it is going to be investing the money in a different currency and making some money for the people to whom the money actually belongs.

6.25 p.m.

We have to remember that money always loses value, except in a situation where it is invested profitably and there is an increase by way of dividends, stocks or whatever appreciation.

Mr. President, we had a couple of points made earlier as well. [*Interruption*] Fortunately, I remembered that I covered these issues already. I think I have said a mouthful. I do not know if I need to add anymore to drive any further nails in the coffin.

Before I wind up completely, I would really like to invite my colleagues on the Independent Benches to really think very hard about this issue today and insist upon some amendments being made to this Bill, so that we could have a decent Bill being produced and approved by this honourable House.

I thank you.

Sen. Prof. Ramesh Deosaran: Mr. President, this afternoon we have been exposed, from my point of view, to a treat in terms of examining the Bill brought forward by the Government.

In the first place, I wish to commend the hon. Minister for his lucidity and conciseness, and for presenting the issues with such clarity and sharpness. No doubt, given the problem at hand, his task is naturally a very challenging one.

Then we had Sen. Mark who, with familiar passion, made his contribution, conveying a few jabs here and there, some quite fatal—until the Minister responds to heal those wounds, as it were. I myself await the Minister's response on one or two critical matters raised.

The third speaker was my distinguished colleague, Sen. Ramkhelawan, who put some further light on the question of bonds and on the question of risks. In fact, it was a worthy analysis, and I wish to commend all three speakers who spoke in that light. Then the Government, of course, responded, in true debating style, like the hon. Minister of Planning, Housing and the Environment. So it became more and more enjoyable to listen to what has been, in my view, an exciting debate; of course, with the last speaker, Sen. Rahman, adding some further excitement. [*Laughter*]

When you examine the question of interest rates, investment in bonds and other related matters, to deal with what has been identified as the major issue at stake, inflation, I therefore thought that I would make a contribution—perhaps, not as brilliant as the previous speakers—but to help bring what might be a different, if not a fresh, perspective on the matter.

I remember, Mr. President, if you would allow me, when I was at university I had a bad, perhaps peculiar, habit of always saying something different; whether in terms of Sigmund Freud's theory of psychoanalysis, Darwin's theory of evolution, or even Adam Smith's theory of the law of supply and demand and about the competing interests in the marketplace, which turned out to be supplementary in terms of what a butcher would do, what the carpenter would do, what a fisherman would do, and so on. I got consolation when I read a classic book by Thomas Kuhn, *The Structure of Scientific Revolutions*, which strongly argued that many of our current problems over which we weep and bleat for solutions, quite often arrive outside of the paradigm within which such analyses are made. This is particularly so with respect to economic analysis.

There is a new school of thought, partnering economic analysis, which challenges the rational assumptions made within economic theorizing. Meaning to say that the assumptions made about the investment in bonds; the assumptions made that the interest rate would alleviate the problem of inflation; that the question of risk would be moderated with this or that intervention, be it from the Central Bank in terms of the monetary policy, from the Government's budgetary arrangements or allocations or, in this case, advancing a bond issue, a fiscal policy, all over the world, are not working, to the point where even the Minister had to say that the Central Bank interventions over the past few years were not really working as they should.

This means that the assumptions made by the Central Bank itself, not so much the policy, but those assumptions made in the quiet corners of tall edifices, and without really understanding the dragon that is called inflation, fall by the wayside. I am not too sure, therefore, until I hear the Minister's response, as to whether this intervention would work, especially since the assumptions that are made seemed to be linear in a context where it is more calculus than linearity. There is an optimal point and you have a number of variables from the people side, from the population side, not from the banking side; not so much from the policymakers' side. But since inflation belongs so much to the people: their habits, their tastes, their desires, their expectations, it means, therefore, that inflation is much more than a single economic issue.

Inflation is sociological, if only as an example you examine what is a basket of goods and the assumption made in that measure, from which the cost of living index is derived, is a faulty one. Everybody does not use the same basket of goods every day, it depends on your social class position and a number of other factors. When you talk about inflation, therefore, with that sociological premise, not everybody suffers the same; not everybody is experiencing the ravages of inflation similarly.

Inflation has a very strong psychological component. Why is that? How can you bring psychology into a matter so narrowly defined as an economic one? There is much room for it, because inflation depends a lot on the expectations that people have, the expectations that they have developed or, in the Trinidad and Tobago case, have been encouraged to develop over the years in terms of expenditure, consumerism and advertising. It was the late Dr. Williams himself, as a historian, who recognized the lethal impact of expectation; once engineered and cultivated to a point where everybody felt that they must live the good life, and quickly so, by platform speeches, by political rhetoric, by an abundance of rosy promises from several quarters, which I need not mention here, in order not to be unduly embarrassing. The cultivation of the human imagination in terms of wanting beyond what are their needs is a very important element in inflation; it is, therefore, a psychological component.

There is also a political dimension, which was really the reason that provoked me to speak along these lines. There was some dancing around the politics of both the measure brought forward and the problem at hand; that is echoed in the appeal to cool down the spending.

Fellow Senators, the spending is directed at what? Secondly, who would be affected if you cool down the spending, especially if you do it suddenly, drastically? The mechanical assumption you are making that once you stop the flow of government expenditure, inflation would, therefore, fall in line, is a wrong one. It is tentative at best, faulty at worst.

Managing an economy by a government is a different challenge from managing a private business.

Hon. Senators: Thank you!

Sen. Prof. R. Deosaran: It is a far, far different challenge. I need not elaborate on all the fine elements involved in that.

Since I heard the hon. Minister's voice just now, let me say that when I was in Barbados—I have a lot of friends in Barbados—they told me that this Minister, before he was a minister, was a tight financial strategist, meaning, obviously, that he managed his business money quite carefully, tightly, asking for collateral and low risk with big returns. I could well imagine sitting where he sits now—[*Laughter*]

Sen. Mark: That is true!

Sen. Prof. R. Deosaran:—with all his intangibles to deal with, more precisely, with the demands from so many different sectors and interest groups, some of them strong political constituencies, upon the public Treasury. You would recognize why it becomes an enigmatic challenge: if you go this way, there would be consequences; if you go that way, there would be a different set of consequences. So public policy in this matter is really, to put it briefly, a balancing act in the political context.

No matter what your fiscal intelligence would tell you, and they will tell you certain things, whether it is URP, CEPEP, the housing programme, education, health, health, health—especially health [*Interruption*] I am trying to catch your attention; [*Laughter*] I am really presenting a case here to suggest, if not to persuade, that we have not studied the phenomenon of inflation carefully enough to come up with solutions; that is the bottom line.

We have not explored the phenomenon in its very authentic genesis. We have not done so because, to repeat, we have assumed an economic logic that really not only does not apply, it has been seen as faulty and insufficient. Therefore, if you have defined the problem very narrowly, your solution would naturally be narrow, as we are witnessing here today.

If you tell me that is just one measure, whether we agree with it or not, and you have these other measures, subsequent or parallel, I might be at greater ease. I therefore await the Minister's response.

6.40 p.m.

Apart from these variables that contribute to inflation, people must have confidence in your financial sector. The dollar is a piece of paper, it is confidence that gives value to your money and that confidence affects the stock market, it affects the currency—people want to invest their money in Switzerland, France, England or America because of the confidence they have in the stability and security of those institutions. That is what we have to develop here.

Therefore, the proposals that you bring forward, if they are of a monetary or fiscal nature, must be able to attract public confidence. Why do I say so? There are some clauses in the Treasury Bonds Bill which have gaps and they do create a feeling of uncertainty that, in my respectful view, do not attract full confidence especially from the ordinary citizens who might want to purchase these bonds.

Mr. President, before I proceed, if you will permit me, I was supposed to have done this before. I want to congratulate those members of the People's National Movement who have won election in their party this weekend. [*Desk thumping*] I thought all the Senators would have made a clean sweep and I congratulated one Senator accidentally, I thought she too had won because everybody in the Senate seems to be winning. The strength of the party will also contribute to the strength of the Government and very sincerely, since it is public service, I congratulate those who have those high offices in their political party. [*Interruption*] It was called an election, as to how you get there, I suppose that is a matter—[*Interruption*] Well those who got their positions whether through election or nomination, I congratulate them.

Sen. Rahman: Unopposed.

Sen. Prof. R. Deosaran: Unopposed. It makes it even better and I hope in a short while all other parties follow that pattern. [*Laughter*] [*Desk thumping*]

The hon. Minister brought to our attention the fact that the reserve position at the Central Bank is quite good, especially in terms as a percentage of the GDP and he made a very important point which the national community should capture; that is the credit at the bank is much more than the deposit. That gap is a challenge and I believe that is one of the reasons he has brought forward in this Bill.

I have heard over and over from the Minister, Sen. Ramkhelawan, Sen. Mark, even from the hon. Minister of Planning, Housing and the Environment and also from Sen. Rahman about this free market economy. My dear colleagues, there is no free market economy in this country. There is a market, it is free for some and not others; it is a distorted economy for many reasons which, on another occasion, I might venture into offering my own explanation.

You have monopolies, a lot of unregulated systems, a prosperous underground drug economy contributing to the financial sector of the country surreptitiously. In other words, you have what I would call artificial prosperity to a great extent, and it is really not the direct fault of the Government. The system really is wobbly, it has been so for a very long time and the oil economy has done some damage unwittingly, not only to the Dutch disease, but through the ready availability of cash.

So if you talk about a strong economy as the Minister and several other spokespersons have mentioned, the GDP growth over the last decade is on relatively artificial grounds. You have to examine growth in terms of the productive capacity. What is the productive capacity of the country in terms of manufacturing, in terms of using indigenous material to produce and so forth? No, I do not see it that way and I have said before and I will say it again, we are now making a further analysis of it.

This growth in GDP that we see in terms of goods and services, crime contributes a lot to your goods and services. Why do you think over 40,000 security guards are there for in terms of services? They are there because of crime. All those dogs which are imported and locally bred from pit bulls to Alsatians? If you put the price of those dogs in the GDP account, it is because of the fear of crime. The steel production, the burglar proofs that you have, if you put that in the category of goods and services, all are derived from the fear of crime. Fear is playing a great part in driving this economy which is ironical.

What we really need—and I mentioned this, I referred to William Dumas, Frank Rampersad, Barsotti and the others. Those days the PNM really used to study analysis before they put their feet forward, and we need to go back into analysis. That is why I am hoping that the Minister in the Ministry of Finance is capable of doing that. We need an analysis on this GDP phenomenon and you also need an analysis on what is inflation, especially along the lines I have just mentioned otherwise the solutions will not work because they will be based on faulty premise.

So it is said that the bond issue is designed to adjust and correct spending and prices. I am always intrigued when an authority uses the word “correct” because it implies to me that something was going wrong under his/her nose before. So you now come to correct what was going wrong and the question should arise: Why did you not see it happening before this high point for necessary correction? What signals were there? What measures and what signs were there? Why have you waited at this point? Or are you now riding the back of a tiger from which you cannot readily jump given some other variables I have pointed out: pressure from constituent groups, public expectations and investments which are not easily retrievable, be it CEPEP or URP, housing, education, health and so forth? We therefore begin to see this as a very serious problem that goes beyond politics. It is so very deeply rooted in the culture of the country as you would say, in the consumer culture of the country fuelled, of course, by heavy advertising.

You cannot blame the advertisers, and I do not want it to seem to be doing so, that is a whole part of the economy. These are people who must have personal responsibility as well, just as we expect the Government to exercise fiscal responsibility. When we talk about this measure will help to contribute inflation, or we have a lot of inflation imported because the price of oil has gone up, the price of food has gone up, rice, wheat and so forth, so we have to inherit that. There are several examples which suggest that that explanation is not enough.

Let me give an example, I will call it a small example without going into more elaborate description. I call it the zaboca phenomenon. This means it has nothing to do with oil, nothing to do with grain, nothing to do with wheat, nothing to do with the international community, it is grown right here but the price of zaboca rose from $5.00 to $20.00 in the next two to three months for the same zaboca. There are other such products locally which tell you the assumptions you are making so easily about oil and about the price of grain are really not sufficient, they might be necessary—

Sen. Rahman: Thanks for giving way. The price of zaboca goes up because the person who sells the zaboca has to buy all these other things at a very increased price. His income is to beat his expenses and he has to raise the price of his zaboca. It has everything to do with grain and the other products.

Sen. Prof. R. Deosaran: I hope this is not a conflict of interest on your part. [*Laughter*] I hope you do not have a set of zaboca trees in your backyard. I am not going to be so exacting, I think my example will certainly draw your imagination into a general trend and I do not want to detain us anymore. But there is, of course, vulgar speculation in the market. You cannot deny that convincingly, and that does contribute to what we call inflation and I do not know the extent to which a government could enter those relatively private arenas.

It seems to me, therefore—and we will come to the question of spending just now—that the way the inflation is constructed and the way in which it has been derived, there is a limit to what the Government can properly and effectively do.

Since you attracted my attention, I will refer to something you said which I find needs a little more study. This structured price control matter you are talking about will not work. In fact, I will tell you that there are a lot of food commodities from which taxes have been reduced and the prices remain similarly as before on the shelf. So I am saying that will not work. The simple way you have presented it as a formula, I am quite sure if you and your party were in office you could not solve that problem in the way you have put forward. [*Desk thumping*] I am telling you because as I am trying to explain, the phenomenon cannot be solved by some linear assumptions that if you do this "X" and "Y" will follow.

Between "X" and "Y" in terms of policy and expected response there are large groups of people of different social classes, different interests, different types of businessmen, the manufacturer and even the zaboca vendor too would be involved in this, so the linear assumption would not work. I am just saying briefly with respect to the Government, you need to sit and examine this phenomenon of inflation and where it comes from, and the basket of goods measure is outdated. Even if you have to use a basket of good, you should use baskets of goods and relate your cost of living index more precisely to different groups in the country, if not different regions.

Sen. Mark raised an interesting point which I hope the Minister would respond to. I will feel comfortable if an explanation is given to this 16 per cent non-oil deficit; whether it is true that the foreign dollars are being sold to the Central Bank in exchange for local currency. If that is so, I do not think it will affect or bring about a reduction in the inflation rate.

6.55 p.m.

Sen. Mark did have some amendments which I have just looked at and, as he said publicly in one newspaper—I cut out the clipping because he was hoping for the cooperation of the Independents in order to support the Opposition's position in this matter. I certainly cannot speak for the rest of the other Independents; I can only speak for myself. As you know, we do not caucus. [*Laughter*]

If you will allow me for one minute, Sir, there was a Motion that was brought here where the Government wanted to have two joint select committees rather than three, as it was previously, and somebody from the Independent Bench moved a Motion to bring it to three and engaged the Government in a discussion, which I thought was quite mutually respectful. The amendment was carried by the logic that was presented to the Government and the benefit that the Government eventually saw in having it moved from two to three, so the Government allowed the Motion to be withdrawn, brought back for three joint select committees and taken to the Lower House for an appropriate amendment.

So it seemed as if the Lower House agreed with the Senate in this regard. But I heard a Member of the Opposition in the other place boasting—which I am not happy about—that it was the Opposition that caused the Government to back down. Once we start doing that—and this is relevant to the amendment—it puts the Government in a position that is much more difficult for it to listen to any suggestion made about revising its position. We do not need to gloat whenever the Government revises a position. It is an adversarial system, but on some occasions when things are done with mutual respect, as was evidenced in the instance I am referring to, I think we should respect the Government for its willingness to reconsider and amend what it feels is necessary, after hearing others speak. I do not think we should try to embarrass it by making it look weak, feeble and unthoughtful. Sometimes, yes, it is an adversarial system. But since Senator X—I would not call the name of the Senator who moved the Motion. [*Interruption*] Well, since you insist, I moved the Motion and the Independents supported it.

It is just an example to show, when you come with an amendment now, I am wary as to whether I will support it because I will not support it because I want to spite the Government; I will support an amendment, a Motion or whatever, if I see there is justification for it or if there is merit in it and for little or no other reason. I was very disappointed by that otherwise erudite gentleman in the Lower House.

To move on, the other question is the interest. I would like the Minister to explain once again whether that interest—whatever interest it might be, we do not know—you see, that is another issue—how that squares up with the inflation rate between five-and-a-half and ten years, which is the proposed duration for this bond issue because, fundamentally, it is the taxpayers' money that would be paying the interest, in a collective sense. If you want to mop up liquidity, I do not know if that arrangement will be sufficient. So as you can imagine, I am trying to understand how this particular Bill will ease up the inflation problem, especially in this context of the inflation rate.

I want to come back to the "cool down", because the Government is spending money on housing, which is necessary. If it cools down and it stops building schools, it will naturally face another streak of opposition about: "How many schools did you build?" So you have to take that as a dilemma. [*Interruption*] So they cool down already? [*Laughter*]

Hon. Senator: They never started.

Sen. Prof. R. Deosaran: So what I am suggesting is, if you say, "cool down", you should be more specific and say which programme you wish to have a cooling down on in the expenditure. If you want to get rid of the URP; if anybody says he wants to get rid of the URP to help inflation, well, say "URP". But there is a reluctance to identify specific programmes because of the political implications. That is my honest observation from where I stand. That is what I meant by there are constituent groups putting pressure on public expenditure from which it is not easy to hide.

I want to know who, in the cooling down request, will come openly and say: close down CEPEP because you want to cool down expenditure. I want to hear who will say so. But do not just say, "cool down the economy" without telling us in which specific public programme you wish to have something closed down. Alongside that, if you cool down too quickly, a lot of things will collapse. I believe the housing industry will collapse; the real estate economy will collapse. Some people will, of course, be happy for that, because they have over-stretched the limits of speculation, which is like the "zaboca" phenomenon. [*Laughter*]

You know, in terms of overall policy now, Sen. Mark made a point about trying to legislate for budgetary control, and so on. It is quite a complex issue because in the system we have there is a limit to which you could, or should, stop Government from executing its public policy. That is for the national elections, unless, as you said, if the imminent Constitution allows for that, which is another complex situation. But there is a limit to which you can stop Government from executing its policy. If you are a member of the European Union, there are statutory limits as to the extent of your budgetary deficit and, as well, you have to look at your debt as a ratio of your GDP. There are limits. One or two countries have broken their limits and that has created an internal furore; France, for example.

What I am suggesting is that we have to start being more careful about our expenditure, especially in terms of its ratio, to different macroeconomic indicators. Do you know why? To help build public confidence in the system, to let the public know that, yes, the Government is setting the proper example. There is no other institution in the country that can inspire a country and reconstruct habits in a country, than the Government by examples from different ministries and different ministers. There are leaders who have made a big difference in their country, whether it is in Poland, in India, in Tanzania with President Nyerere. The leadership is important in making a difference, and this is the time for leadership to inspire and make a difference.

I think clause 3 really looks as a cat-in-bag situation. We really need to know more about it and depending on what the Minister says, I will, on my own behalf, respond accordingly when the vote comes. But clause 3(2), especially, I still believe, hon. Minister, if you can put some certainty into the question about interest rates and the amount of money; what is your maximum. I know you have said it is difficult to put a maximum; it will have certain repercussions, but in this particular case it will help. I think it will help inspire public confidence; it will show that the Government knows what it is doing as bonds issues go and I know you have some relationship with the Central Bank in determining the way forward with respect to clause 10. But in terms of the Parliament debate, it will be helpful and encouraging if you could put some more certitude in clause 3(2).

When I talk about example, you see—I have always said in the budget speech and I have not been precise enough to persuade people because I do not think this was the forum to elucidate in any very specific way—I am yet to see how Government expenditure affects, in the direct way it has been made to appear, inflation. I know there is a theory behind it and there are curves, and so on, but in this country, I think there are other elements. While that might be a contributor, I am yet to be convinced in my own mind that that is the major driving force. I have not seen the analysis. But when I look at the "zaboca" phenomenon, for example, and such other examples, I still believe the jury is out on that argument. It is a very easy argument, because of the amount of money you have floating around.

But again, not everybody gets that Government expenditure. The Chinese contractors get it; the French contractors get it and a lot of other groups get it—the Malaysians. So I do not see it as being so percolating. So it is not that Government expenditure is just floating all over the place and people are picking up little bundles and going in the market and buying motor cars, and so on. To me, that assumption is not quite convincing. It might be plausible but it does not bring closure to the issue.

In terms of example, again—and Government has to behave in a way that it does not subvert the Central Bank's financial literacy programme. How, on one hand, through this financial literacy programme, you are asking people to be thrifty; you are asking them to make do with what they have and do not borrow unnecessarily; you are asking them to save; you are asking them to practise what is called in social psychology, delayed gratification—you do not spend too quickly for things that you really do not want, but you save to accumulate to buy things that you really need, not only for you but your family, and so on. It is a very important factor in social psychological analysis, of youth and delinquency, because the more impulsive the young people are, fed through wanton consumerism—video games and so on—the more likely they will try to steal and do other illegitimate, illegal things to acquire property and material things.

That is part of the financial literacy programme, a programme with which I am impressed. Then there is conspicuous consumption fuelled, as I say, by heavy advertising, to the point where one bank tells you: “Think Loans”. So you build up an attitude of borrowing and, really, what the Central Bank is telling us, quite wisely, is to cool it—conspicuous consumption raised over 50—60 years ago in the sociological literature by Professor Veblen, and it is more dramatic today than in those earlier days.

So the power that the Government has; the power that the Minister and the Minister in the Ministry of Finance has, must be tempered by the message sent by the financial literacy programme of the Central Bank. You see, having power, as I have said before, is a very seductive possession. You have this power and you feel you can do anything because there are, perhaps, few checks and balances in the exercise of that power. But, as I have said in the last Parliament, according to Samuel Butler, a British philosopher: “Political power, the fumes of it, invade the brain and make men giddy, proud and vain”—men and women.

7.10 p.m.

It is just a reminder so that we could protect ourselves from the arbitrary exercise of power or to exercise fiscal responsibility. That is why I am not too happy about this talk I am hearing in terms of setting the example against wanton expenditure, until I hear something more reasonable.

I am a little ill at ease about giving St. Vincent $78 million to help build an airstrip. I would like to hear what is the further rationale for doing that, even though it comes from the Caricom Petroleum Stabilization Fund. What makes it worse is that the Prime Minister of St. Vincent is a greater ally to President Chavez of Venezuela.

Mr. President: Hon. Senators, the speaking time of the hon. Senator has expired.

Motion made, That the hon. Senator's speaking time be extended by 15 minutes. [*Sen. M. F. Rahman*]

Question put and agreed to.

Sen. Prof. R. Deosaran: Mr. President, I am almost finished I was not prepared to stay this long. I see that my colleagues have deserted me and I have to depend on the Opposition, so I might very well co-operate with you this evening.

I was making a small point to set the policy right. There is an alliance with President Chavez of Venezuela with the PetroCaribe. I will like to see our

Government use the petro-dollars for a better mode of petro-diplomacy. You are not getting anything tangible enough from Caricom to deserve this kind of money donations. We had BWIA and now we have Caribbean Air.

Why do we not use our petro-dollars to negotiate with LIAT a partnership with Air Jamaica? We are not getting anything, but we are giving almost everything without conditionalities. Do like the International Development Bank (IDB), the World Bank and the International Monetary Fund (IMF). When you give loans through any fund, set specific conditionalities. How do we know how the $78 million will be spent by the government of St. Vincent or why would you not lend this same amount or a lesser amount to Grenada, which to me is a better neighbour to Trinidad and Tobago than St. Vincent in any case? Grenada is greater in need. It would look as if you are curry favouring because the Prime Minister of St. Vincent seems to weave some magic as soon as he enters Trinidad over our hardworking Prime Minister. I will leave that for the time being.

Finally, I suggest that the Prime Minister should revisit clause 3(2); look at the question of time limit and see if we can put a range of the percentage interest and whether this matter of putting the bond in foreign currency is a better alternative and put a cap on the amount that needs to be borrowed, if only in a projected sense.

I thank Senators for giving me this opportunity.

The Minister of Energy and Energy Industries (Sen. The Hon. Conrad Enill): Mr. President, I join this debate to deal possibly with some issues that have come up and to which I believe the Government has a responsibility to speak. In the first instance, this Bill is one to deal with the issue of liquidity management. There has been some discussion about borrowing and whether or not individuals will make a particular kind of choice. If it is framed in that particular way you would get the answer that you deserve.

Over a period of time this Government by doing a number of things has been able to increase the level of revenue that is available to the country and therefore, by extension has been able to scale up its development programme. The Government took a view that its only purpose in government was to ensure that the quality of life of all citizens was improved. It sought to use its revenue to do a number of things. For example, it sought to prioritize education as one of its major objectives and expanded the cost of education to the people of Trinidad and Tobago. It made education available to those who could not afford it. Education at higher levels is paid for by the Government of Trinidad and Tobago. That act of itself increased the expenditure of the people of Trinidad and Tobago.

It went further and found itself in a situation where on coming into office it met 35,814 applications for houses, in circumstances where the government that preceded it had built 400 houses. It embarked on a programme of housing development. It sought over a period of time to provide some response to the citizens of Trinidad and Tobago in that regard and today, it has increased its expenditure to the tune of the equivalent of houses for 26,000 individuals.

It went further insofar as health was concerned by increasing the expenditure that those on the other side talked about on which we should cut back. Today, there is a programme called Chronic Disease Assistance Programme (CDAP) from which over 120,000 citizens, the last time I checked benefitted.

Additionally, insofar as social safety nets are concerned, the Government has a social sector investment programme in which any social ill that you can identify can be accommodated within that programme. The Government has allocated $9 billion over the last few years towards that, as I remember. Those who speak about spending and reckless spending have absolutely no idea about what they are speaking. The Government took the view that it had an objective. Its programme of expenditure was based on the attainment of that objective. Governments in the past did what I like to call process re-engineering. You came in; you found something and tried to make it work better. This Government took a different approach and said that in the shortest possible time, here is the objective. We are going to meet that objective at a rate that we can afford. That would be driven by two things, revenue and capacity.

The rate of development of Trinidad and Tobago recognizes a faster than traditional approach to development. In that regard, we recognize that the traditional targeted rate of inflation was going to increase. We agreed that we will manage to the best of our ability an inflation rate at about 7 per cent. When we did that we never anticipated two things, that we would find ourselves in circumstances in which the economic theory that works normally about supply and demand would be violated.

In the first two oil price scenarios, the higher the price of oil the lower the demand. Today, as happened on the last two occasions, we are seeing that the higher the price goes the greater the demand. The reason for that is the rest of the world forgot that China now had the ability to buy goods and services because they had the money and a desire to be part of the American world. Their expectations have changed.

Recent statistics suggest that at this point in time, in China, 10 out of every 1,000 citizens own a vehicle. It is projected that by 2030, that number will go to 140. You are moving from 10 per 1,000 to 140 per 1,000 in circumstances where today, we have a situation where there is not sufficient oil, steel and everything that goes into manufacture of goods and services to support that level of consumption. The upshot of that is we have a problem. It is that the cost of goods and services over any one period based on that demand would increase. The economic definition of that when measured from one period to the other is inflation. That situation exists and is present in Trinidad and Tobago because Trinidad and Tobago is competing also for steel, cars, goods and services. We find ourselves today, with a slightly different challenge which requires a different application to what we had in the past. One thing we know is that as the price continues to escalate and it will, there is an urgency to get into other sources of energy.

Unfortunately, that has created a problem with food security. Our information tells us that 82 per cent of the food price hike is as a result of resources going into energy. While that is taking place we have the environmental concerns to treat with. That is the global situation in which we find ourselves. In Trinidad and Tobago when we talk about dealing with liquidity management and inflation, it is in that context in which this issue is set.

The Government of Trinidad and Tobago as it relates to our economic policy promotes a policy of surplus budgets. That is to say, if your revenue is "X" you save some. Because the system is as inefficient as it is in many instances, you have major surpluses at the end of the year. These can be checked very easily. If you look at balances at the Central Bank you would see that they have been increasing over time. If you looked at the Heritage and Stabilisation Fund you would see that it has been increasing. If you look around you would see that the country is changing and the use to which we are putting the resources is reflected in a better quality of life for the majority of our people.

7.25 p.m.

There has been this argument about development being about big buildings and this is a flawed argument. The reason is, if you look at expenditure, we inherited a structure that basically says that when the Minister of Finance goes to budget next year, without doing anything, between salaries at $9 billion a year and debt payments, another $8 billion, that is it. Seventeen billion dollars just goes. So how it works does not allow you the kinds of leverage you think you have in terms of expenditure.

I want to talk about the question that Sen. Mark talked about—the non-oil fiscal deficit. He made the point that it started in 2004. Before I go there, let me make this point. I wondered, since we are into stories this evening, what was a good story to tell to demonstrate what the Bill is intended to do, and I was helped in a way by a colleague.

If your children are basically spending all your resources in consumables—telephone: TSTT, *b*mobile; KFC—and just wasting your resources, and you decide to take them and put them under the bed, if you will, and just give them a small amount to spend because you have sterilized the major portion of it, and really and truly what it is costing you is that which you give to them at intervals, is that not a way to change behaviour and to solve the problem you currently have, which is, that the things that they are doing are impacting negatively?

The Central Bank's Monetary Policy Report April 2008, states at page 8:

"Demand Management"—This is the Central Bank talking about money within the system. It says:

"Bank credit expansion"—that is where you go to the bank and they give you whatever you want and you pay 24 per cent—"is also adding significantly to demand pressures increasing at a rate…of 22 per cent during 2007; this rate has continued in the first two months of 2008…Consumer credit and real estate loans have displayed the fastest growth outstripping the rate of credit expansion to business firms…Within consumer credit, loans for the purchase of motor vehicles increased by close to 50 per cent in 2007."

What is in fact driving some of the inflation that we are talking about is the availability of cash very easily within the system, because this cash is looking for somewhere to lay its head. What the Bill seeks to do is to take some of that cash out of the system and put it in a place where it can be sterilized and used later.

In saying that, I also want to refer to the whole issue of monetary policy because fiscal policy reference refers to what the Government seeks to do in terms of its promises to the population. That is represented on an annual basis by the budget. Therefore, whatever happens in the budget is fiscal policy. Monetary policy is intended to manage the inflows of money into the system in such a way that you control inflation.

The same monetary report of the Central Bank says that with inflation reaching 10 per cent in October 2006, the Central Bank revised its anti-inflation strategy shifting focus to liquidity absorption rather than on changes in the policy interests. So, it is the Central Bank's policy in terms of the wide array of tools available to it that is a method, one of its tools, to deal with the particular issue. This Bill has to do with that measure.

There is an argument about putting some limit on it. The challenge is that there are some structural issues with the Trinidad and Tobago economy. Let us just look at the inflation experience of Trinidad and Tobago, possibly over the last three decades because during the last three decades we have had different governments, different prices, and all kinds of things.

Let us see how the Trinidad and Tobago economy has performed. From the Public Education Pamphlet Series No. 2, Central Bank inflation document, in the 1970s:

- in 1973, you had an inflation rate of 14.8 per cent and you had a non-energy fiscal deficit measured as a percentage of GDP of 10.6 per cent;
- in 1976, you had an inflation rate of 10.4 per cent and you have had a non-energy fiscal deficit as a percentage of GDP of 19.5 per cent;
- in 1979, you had an inflation rate of 14.7 per cent and you had a non-energy fiscal deficit of 25.3 per cent;
- in 1982, you had an inflation rate of 11.4 per cent and a non-energy fiscal deficit of 30.9 per cent.

Let us talk about why. If you look at the crude oil prices, in 1973, US $2.70; by 1982, $33.47. So there is a relationship between price, inflation rate and the non-energy deficit in a hydrocarbon economy. If we go to 1993—2004, another period, and look at the statistics, you will see similar relationships that exist between crude oil prices, the inflation rate and the non-energy fiscal deficit. Something has happened structurally in our economy though. Over the last couple of years, we have moved from an oil economy basically to a gas-based economy. That means, basically, that today the economy does not suffer as it would have had in the past because, in a real sense, the revenues derived from gas is more stable over a longer term rather than the spikes you would get based on the shocks you have as a consequence of oil prices.

Today, for example, if one were to look at our hydrocarbon production, one would find that in a barrel of oil equivalent to be used as a measure, our oil production is somewhere in the vicinity of 130,000 barrels per day, while our gas production is somewhere about 700,000 barrels per day. When you combine those, you find that the Trinidad and Tobago economy and the revenue stream derived from that production allows us some predictability in revenues and to be able to plan in the long term. It is in planning in the long term that we are able to determine that a mechanism such as this is in fact going to assist us in the challenge that we have identified. So this issue that was raised about there being none under the UNC as it relates to the non-oil fiscal deficit is not true. The fact is that it is a hydrocarbon economy.

Sen. Mark talked about fiscal and monetary policies. We have explained that. "The Government is killing the economy." I do not understand in what context that statement could have any credibility. An economy is measured by whether there is growth or not. This country continues, much to the amazement of everybody else, to have, on a consistent annual basis, growth in excess of 6 per cent and that has been happening for the last 14 years. This economy, therefore, is in great shape. There are few economies in the world that have the statistics that this economy has.

What those who do not accept this like to say is that while this may be so, the numbers do not reflect poverty. Let us talk about that for a minute. A government must put in place measures to facilitate those in our society who want to move forward. Nobody can say, with any seriousness, that the Government has not provided opportunities, either in education or employment creation. Once you get over that hurdle, then we start to talk about the question of sustainability; about whether it is this, that or the other.

Quite frankly, the whole question of moving a country from where we are today to where we need to be takes time. More than that, it requires individuals to take responsibility for some of the choices they make. If you, for example, put in place a system that says it will offer free education and people decide that they do not wish to go to school, how is that a problem that the Government has created? Maybe what the Government needs to do is to try to communicate more, to try to find a way that it can show to those who decide against that, that there is value in doing it.

Sometime ago, for example, those who oppose the CEPEP said we must put in place a training programme, so we did. We found that we had to teach people how to read and write. While we sat and pontificated that this was good, we found that there was a level to which we had to go back to, to bring individuals to a level to take them forward. That is what we do and we will continue to do.

Those who talk to the Government about cutting back on spending—I like Sen. Prof. Deosaran's point about telling them when. Should we stop paying for the education of our children; stop providing houses for those who are unable to do so? Do we decide to cut back on the Chronic Disease Assistance Programme (CDAP) and create a situation where many of our citizens are unable to get a particular benefit? I do not think so.

I think that if this Government has to be removed because it sought to provide for the people of Trinidad and Tobago a benefit, then so be it. I think there will be no issue with any of us here if a different choice is made in the interest of moving this country forward. Insofar as that is concerned, we make no apologies for what we do.

7.40 p.m.

There is also the question of growth and inflation. There is a dynamic that exists between growth and how much growth, and the control of inflation. We took a very deliberate policy that we were going to grow, but we were also going to invest. We were also going to save, and we have reflected that in the policies we have put in place. Therefore, I wish to submit that there is no value destruction taking place. In fact, there is a distribution that is providing for those in our society who did not have before, an opportunity to now have, to participate and to choose a different quality of life, if you will, if they so desire.

Sen. Prof. Deosaran also raised this question about limits of budgetary control, giving the impression, if you will, that maybe not giving the impression but certainly asking the question: How do you know what is happening as it relates to your expenditure programme? How do you know what is happening with the policies that you in fact are pursuing? How do you know that your economy, over the long term, can withstand this? How do you know, for example, that the debt to GDP ratio is what you are working towards? There are two ways in which we monitor that. The first one is that annually, at our invitation, there is something called an Article for Consultation. What the Article for Consultation is really where you subject yourself to the International Monetary Fund, in circumstances where you are not obligated, but you do it so that you can evaluate what is happening, as it relates to economic policies. The IMF has told us, for example, that they do not believe that we should be subsidizing some of our people. They do not believe that the revenues that we have should go towards housing. They do not think that is a good thing.

I recall that Sen. Mark and myself had the pleasure of being invited by the same International Monetary Fund and going to the United States to listen to them talk to backward Caribbean countries about economic policy. While they were busy telling us about the fact that we should not be doing this, we asked a very simple question: If you are telling us all of this and holding us to the standard, who is talking to the United

States? The United States has the biggest deficit that you can basically find in the world. The United States tells everybody do not subsidize anything but, yet, the agricultural subsidy inside there makes it difficult for the rest of us to compete. Therefore, do not tell us to do things that you yourself are not doing. We reject that. Therefore, in the context of the prescription and in the context of what comes to us, we look at it, we take what we believe will move us forward and what does not move us forward, we just ignore.

Fortunately, under a PNM administration, many of us went to school; at the same schools that they went to and, therefore, we are able to sit down and analyze the circumstances and determine what is required for our own future. That is what we do. I would say it again; if it is one issue, I think, that we are guilty of is that we do not spend sufficient time engaging in what we have done and why we have done it, so that the population and colleagues in the Parliament understand it.

This measure, the Treasury Bonds Bill, 2008, is simply one additional instrument that we are asking for your support only to deal with the vexing issue of inflation caused by an economy that is generating revenue at a rate that is extremely fast. If that is a bad thing and if you are saying that because the Government has been able to move revenues from $12 billion in 2001, to $46 billion in 2008, and make all of that available to the people of Trinidad and Tobago, including reducing personal income tax; moving a significant number of people from never having to worry about paying income tax, creating the circumstances by which we have lights almost everywhere and all kinds of issues; if you are saying that is a bad thing, then I wish that the people of Trinidad and Tobago never consider you as somebody who should represent them. [*Desk thumping*]

Because what the revenue does—[*Interruption*]

Hon. Senator: Convention talk.

Sen. The Hon. C. Enill: I am practising for the next one—is that it allows us to transform Trinidad and Tobago into what it is. And so colleagues, I wish to ask for your support in assisting us to create an instrument that allows us to direct some resources into savings, rather than into consumer spending, which we believe this—[*Interruption*]

Sen. Dr. Charles: I thank the Hon. Senator for giving way. I wonder, while he is on his feet before he wraps up, whether the Minister actually had an argument against establishing a ceiling on this measure.

Sen. The Hon. C. Enill: We had argued this particular point. What we have found is that one needed to give the Minister of Finance some flexibility. When we approved the budget, the estimated interest cost for this measure would in fact be inside there and if this was a debt instrument, if this was developmental loans yes, I would be extremely concerned about a limit, but because it is not, and because it is simply a liquidity management tool, I am of the view that in the past, where we have set limits, we have in fact created some challenges for the Central Bank. Because what happens is that if you do not use this, then you have to use the higher cost tool of open market operations. Open market operations really have no limit on it, but it is the same kind of instrument. It is simply that the Central Bank goes in, takes it up and they store it and charge the Government for it. In a sense, what this is seeking to do is reduce the cost of a high cost instrument, to one that is low cost, because it is really passed on within the system, rather than picked up by the Government.

My sense is that, because it is that type of instrument, we should not have a limit. However, we did include in the Bill a provision that says:

> "The Minister shall report to Parliament semi-annually on the issuance of the bonds."

I think that allows us to understand two things, the level at which we have had to deal with the liquidity issue as it relates to this and also that would give us an indication of the cost and other things. I think that is what the concern is. We have to ensure that the Parliament is aware. I think this meets the requirement.

Our technical people have advised us and we have taken that advice on this occasion, that because of the persistent liquidity overhang in the system and what we expect will be a continuation, because of the high energy prices, that putting a limit; one does not really understand how to put a limit. I have heard $20 billion, $30 billion and $40 billion, but on the basis of information that we have available to us, when we have looked at it, $20 billion is absorbed in six months, in some instances. It is simply because of the response of what is happening with our energy sector and the receipts on the basis of what we are doing, coming into the system and the need to deal with it.

On this occasion, we chose to go with the advice of those who technically advise us from time to time and, therefore, I am not minded to change that advice at this time.

Mr. President, I think that is what I wish to say on this particular matter and I do ask that our colleagues support the measure and allow us to do that which is necessary, as we all try to deal with this whole issue of inflation and inflation control in a society where success has some challenges and we are in fact dealing with those challenges.

I thank you.

Sen. Dr. Jennifer Kernahan: Thank you, for the opportunity to put in my two cents worth on this Bill before us, Treasury Bonds Bill, 2008.

The Minister presented this Bill which seeks to authorize the issue of Treasury Bonds for the purpose of liquidity management. In fact, clause 3 of Bill seeks to allow the Minister to raise money by the issue of Treasury Bonds.

Clause 4 of the Bill would provide for moneys raised by the issue of bonds to be paid into a blocked account that would form part of the Consolidated Fund.

The Minister, in his presentation, made the case that this administration needs to manage liquidity in order to control inflation, which, as the Minister said, has a destabilizing effect on the economy. In fact, Sen. Dr. Dick-Forde emphasized the point that inflation is the core and central issue and, therefore, control of liquidity is one of the means of controlling inflation.

The Government's solution to the problem of excess liquidity and inflation at this point in time, is this Bill before us, which would curb this inflationary trend by the issuance of Treasury Bonds, which, as they say in the jargon, would "mop up liquidity".

Mr. President, the issues that must be central to this discussion and the issues I would like to raise this evening address the question: What are the factors internal to our economy; factors which are central to government policy, that causes inflationary spirals in this country? I recognize, and think we all recognize, that the issuance of Treasury Bonds is a valid and internationally recognized method of controlling liquidity, and, therefore, inflation. But the question that we have to ask even further than that is: What are the other decisive and complementary policies that need to be addressed, in terms of the policies that the Government is implementing at the moment, to support and complement the effect of the issuance of Treasury Bonds to control inflation?

7.55 p.m.

Mr. President, liquidity is not the only issue. There are other issues that fuel inflation and Sen. Prof. Ramesh Deosaran spoke to these issues. We have to look at the issue in a broader context than the context of liquidity.

It would be obvious to any intelligent layperson that if you are going to issue Treasury Bonds on the one hand in order to mop up liquidity and curb inflation, and on the other hand you are implementing policies that tend to increase and spiral inflationary trends, then you are effectively spinning top in mud. [*Desk thumping*]

What is the definition of inflation? I went to the Central Bank for a definition of inflation. In the Central Bank of Trinidad and Tobago Inflation Public Education Pamphlet Series No. 2 it says:

> "Inflation is a sustained increase in the general level of prices. Since inflation is concerned with increases in the general level of prices, changes in the price of a single good or service cannot be characterized as inflation."

It went on to say:

> "Inflation as measured by the change in the overall retail prices index, is sometimes called 'headline' inflation. This contrasts with core inflation, which excludes volatile changes in the prices of items like food (and in some countries, fuel)."

So, the consequences of inflation were also elaborated on. It emphasizes the point that the Minister made that uncurbed inflation is very destabilizing to an economy. This document lists a number of consequences of inflation. It says here:

> "First, inflation affects the purchasing power of money, i.e. it reduces the quantity of goods that can be purchased with a given amount of money. The higher the inflation rate, the faster one's purchasing power is eroded
>
> Second, inflation distorts incentives to save. Under inflationary conditions, one's purchasing power is eroded over time and this encourages consumption rather than savings."

So, when we hear a lot about the fact that there is a high consumption pattern and an expansion of credit and so on in this economy today, we have to look at the cause and effect—which comes first? Is it the chicken or the egg? Is it because of the high inflationary spiral that people are consuming today, because they know that their money would be worth less tomorrow? Is it because people are consuming a lot that we have inflation? That is an issue to look at.

The third point that the Central Bank's document makes is:

> "Inflation also affects investment decisions as it adds greater uncertainty to the future and this complicates business planning."

So, these are all destabilizing effects, as the Minister said. If you have a situation where the business sector is unwilling to invest because of the uncertainty of planning for the future, then this is going to do further damage to our economy.

Another negative effect of inflation is:

> "Economic agents seek to protect themselves from the consequences of inflation in several ways. For example, savers seek to protect themselves by demanding higher interest rates…
>
> Wage earners protect themselves by seeking larger wage settlements."

They went on to talk about that whole spiral of inflationary wage increases. The more inflation increases is the more workers want and then the more the cost of goods go up is the more they want. All these are negative effects which the Central Bank spoke to in terms of inflation and, clearly, this is something that has a very negative effect on all sectors of the society. It is interesting that the Central Bank made the point:

> "Whilst some are able to protect themselves, inflation affects disproportionally those who are on fixed incomes, like pensioners and the poor. These groups face major hardships also because a significant part of their income is spent on basic cost-of-living items which are most affected by inflation."

So, when we discuss this issue, what we are really discussing is the whole question of a major effect that inflation causes on the most vulnerable like the poor and pensioners on fixed income, and the fact that the policies advanced by the Government—be it in terms of Treasury Bonds or other instruments—is geared toward dampening inflation and, therefore, protecting the most vulnerable in the society.

Even ordinary citizens who do not know what inflation is, suffer from the effects. They might not be able to define inflation, but they feel it in their everyday life—the deteriorating quality of life—the inability to purchase food; the inability to cover their expenses with their incomes; the inability to maybe purchase a house to house their families and so on; and the disincentives to save. All these are issues that affect them every day. The Government's fiscal and monetary policies are important to the man in the street, even though he might not be aware of it. We have to understand what is really the Government's policy, especially with respect to inflation.

Mr. President, I want to quote the *Central Bank 2005 Annual Economic Survey*. This point was made by Sen. Mark, and I would like to quote this document, because this quote actually reinforces the point that Sen. Mark made with respect to how the Government's policy influences inflation and the most fundamental issues of the quality of life of the most vulnerable in our society. It says here under "Overview of the Economic Developments":

> "While an expansionary fiscal stance boosted non-energy sector growth it also contributed to the increase in inflationary pressures. In fiscal 2005, the significant growth in the energy sector revenues (74.8 percent) masked an underlying weakening in the central government finances, as reflected in the expansion in the non-energy sector deficit from 7.9 percent of GDP to 9.7 percent of GDP."

This was exactly the point Sen. Mark was making. The expansionary fiscal stance in the non-energy sector was boosted by the income from oil and gas revenues, which increased by 74 per cent in 2005 and, therefore, boosted the non-energy deficit from 7.9 per cent of GDP to 9.7 per cent of GDP.

So, while Sen. Prof. Deosaran was making the point that he is not sure about whether this non-oil deficit really contributes to inflation and the inflationary spiral that we are observing in our country to the utter detriment of the poor, the vulnerable and the pensioners and so forth, the Central Bank said it. They said that there was a massive increase in energy income, and there was a massive input into Government's spending into the non-oil sector.

Mr. President, the Government is, in fact, injecting huge amounts of earnings from oil and gas to finance an increasing non-oil deficit. That is one of the policies that Sen. Mark said is a major contributor to the liquidity in our economy.

So, if you are going to continue with that policy, what is the use of coming to this Parliament and asking for the issuance of Treasury Bonds? As one person put it, you are filling a barrel with water with a hose and you are attempting to empty the barrel with a teaspoon. That is what you are actually doing when you come to the Parliament with this proposal.

Under the UNC administration, the man in the street may not have known about fiscal deficits, fiscal policy and monetary policy, liquidity overhang and inflationary pressures and so on, but he knew that the cost of his food was not increasing. He knew that he could have gone to the grocery over that six-year period and he would not have been faced with massive increases in the price of food. [*Desk thumping*] He knew that the cost of his transport was not increasing out of all proportion to this income.

Farmers were getting a foothold in this economy. The costs of the inputs were not skyrocketing as they are today. I am going to talk about that issue later on. They were accessing export markets, and the increase in the production of fruits and vegetables and so on was growing. Farmers had excess to export and the citizens of this country could have accessed these foods and vegetables and so on at reasonable prices. The quality of life was improving. You do not have to know all the big terms and how to define them and so on to know that in your daily life the Government is doing what it is supposed to do and that is taking care of the monetary and fiscal policy in a way that benefits the ordinary citizens and the most vulnerable which is the poor and the pensioners.

So the question that comes to mind now is: What is the situation today with regard to these issues of inflation and poverty? I have a document before me which is the Central Bank of Trinidad and Tobago media release and it says: "Inflation at 10.0 per cent: 'Repo' rate stays at 8.25 per cent but liquidity absorption intensifies". This document is dated June 20, 2008. It is interesting, because in this document it says:

> Liquidity in the financial system has been relatively tight over the past two months. In response, commercial banks have made greater use of the inter-bank market and the repurchase facility of the Central Bank to meet their funding requirement. As a result, the weighted average inter-bank rate rose from 7.3 per in April to 7.4 per cent at the end of May.

So, it seems a bit contradictory to what we heard this afternoon, but I am not an economist, so I leave that for the economist to figure out.

Mr. President, this document says:

> "The latest data on inflation released by the Central Statistical Office indicate that headline inflation rose to 10 per cent on a year-on-year basic to May 2008 from 9.3 per cent in the previous month. This increase was led by food prices which rose by 21.8 per cent in May from 19.5 per cent in the previous month…The main contributors to food inflation were increases in the prices of bread and cereals (35.1 per cent on a year-on-year basis) fruit (33.6 per cent), vegetables (22.6 per cent) oils and fats (20.2 per cent) and meat (13.4 per cent)"

The people of this country know that. We do not have to tell the housewives in this country that inflation rose to 10 per cent. They know that when they go to the supermarket, at this point in time, a two kilogram pack of parboiled rice which cost $14 in January has now risen by 36 per cent to $22 in four months.

In January, a 400 gram pack of macaroni which used to cost $4 in 2008, four months later is now priced at $6.50, an increase of 38 per cent; cheese, which in January was $30 per pound has risen by 11 per cent, costing $34 per pound; and cooking oil has risen from the price of $17.50 in January to $22.50, an increase of 28.5 per cent.

8.10 p.m.

This is how the ordinary housewives, the man on the street and so on know about inflation. They know that when they go to the grocery, the prices become impossible and they cannot take home much food for their families and people are screaming under the weight. You know this administration, the Ministers here this evening, always like to talk about put the blame on global inflation; it is imported; there is nothing we could do about that; our hands are tied and so on. The problem is that we understand from the Central Bank figures that the movement of food prices in the Caribbean shows a marked difference, even between countries which have high food import bills, which import a lot of their food, and Trinidad actually shows the highest movement of food prices in the whole Caribbean. In the very same Central Bank Report, which I quoted on inflation, it says:

> "Between 2000 and 2005, food prices in Trinidad and Tobago increased on average by 14.6 per cent, almost twice the average increase for the CARICOM region.
>
> By 2005, while many CARICOM Countries (with the exception of Haiti and Jamaica) recorded single-digit rates of food price inflation, food prices in Trinidad and Tobago increased by as much as 22 per cent, almost three times the regional average of 8.7 per cent. This increase in food prices was heavily concentrated in the 'fruits' and 'vegetables' component, which rose at an annual average rate of 20.2 per cent and 48.4 per cent respectively, in the period 2003—2005"

So, clearly, we are doing something wrong here. We are the only country in the Caribbean that has shown such a marked increase in the movement of food prices even though other countries—Haiti. We are talking about Haiti; we are doing worse than Haiti; worse than Guyana; worse than Barbados; we are worse than everybody. What is it that we are doing different to those other countries? I want to look at the issue of the fruits and vegetables components, which they say is central to this marked increase in food prices.

The Central Bank gives some sort of explanation for the difference and it says:

> "The high rate of increase of food prices could be attributed in part to supply constraints related to the structural decline in domestic agriculture over the past several years…"

This is a very sophisticated way of saying that there is a lack of supply on our local market of food items, especially fruits and vegetables and the decline of the agricultural sector under this administration.

So, I will look at the figures involved in this decline because they are very central to the whole question of food price increases and the rate of inflation as opposed to other Caribbean countries. In this document that I am going to quote, "Central Bank of Trinidad and Tobago, Feature Address on 'Macro-Economic Management in a Hydrocarbon Economy' at the Trinidad and Tobago Petroleum Conference, 2008, by Ewart S. Williams, Governor, Central Bank of Trinidad and Tobago, February 25, 2008."

It traces what this table is called "Tradeable Non-tradeable Sectors in the Non Energy GDP/per cent/" and it traces the percentage increase in different sectors, in the non-energy sector between 2002—2007. It traces agriculture; manufacturing; construction; distribution; finance, insurance and real estate; government and other. I am going to look at agriculture. In 2002, there was a 1.9 per cent increase; in 2003, 1.5 per cent; in 2004, 1.3 per cent; in 2005, it went down to 0.9 per cent; in 2006, 0.7 per cent and 2007, 0.6 per cent.

So, clearly the production of food in this country is on its way down, it is in decline. This is part of the whole scenario where we have the biggest increase in Trinidad in the cost of food in the whole of the Caribbean. This is one of the things that we are doing wrong. Why are we so different from all of the other Caribbean islands, in spite of all the talk about global food price and inflation is global? Clearly, we are doing something different and something wrong by our increases in inflation, the price of food is so much larger than the other Caribbean countries and we can see the decrease in the production of agriculture is one of the things we are doing wrong.

What are some of the other things that the Central Bank very euphemistically calls structural constraints? Some of the things that you can look at that are called structural constraints by the Central Bank, is the life and blood of the farmers in this country. We see these issues every day in the media; the cost of fertilizer; the destruction of crops; the importation of meats or Government's attitude to farmers. I am going to go into some of the headlines that indicate that we are doing something wrong in this country with respect to our food that is causing all this inflation and it is not going to be solved by a treasury bond.

We have a Government boasting of providing farmers' markets and while they are boasting of providing farmers' markets; the Minister of Legal Affairs and the Minister of Agriculture, Land and Marine Resources up and down, all over the place talking about farmers' markets, the Government's agencies are going around destroying farmers crops all over this country; bulldozing hundreds and thousands of acres of vegetables and fruits, which are essential to the food inflation in this country, but they are providing farmers' markets. They are not easy, you know. So, what the farmers will carry to the markets when they bulldoze all these crops all over the country?

Minister Enill spoke a few minutes ago about all the things that the Government is doing for poor people to ease the sting of inflation and so on and he spoke to social programmes, and the Government said they increased the conditional cash transfer to the poorest sectors; they have the Smart Card. Then what is the use of the Smart Card if when you go to the grocery inflation is 10 per cent, food prices increase by 22 per cent and every time you go you have to pay so much more for your food? We are spinning top in mud.

Mr. President: The Minister of Energy and Energy Industries.

Sen. Dr. J. Kernahan: Pardon?

Mr. President: The Minister of Energy and Energy Industries.

Sen. Dr. J. Kernahan: Oh, the Minister of Energy and Energy Industries. You give people a Smart Card worth a certain amount, then every time they go to the grocery they get less and less and less and less and less food. Maybe the card is smarter than we would have given it credit for.

I want to quote some of the issues that the farmers are raising. These are the issues the Government has to rectify if they really want to get grips on the root cause of inflation and especially food inflation in this country. We have a *Guardian* newspaper article, July 13, 2008: "Farmers threaten to boycott market", by Shaliza Hassanali and it says here:

> "Hundreds of farmers are gearing up to boycott sales at three of the country's wholesale markets due to high chemical and fertilizer costs, which the Government has refused to tackle.
>
> The boycott is being organized by research and education officer of the National Foodcrop Farmers' Association (NFFA) Norris Deonarine and its president Terrence Haywood.

> One of the most burning issues that have affected the farmers, Haywood said, was the steady increase of imported fertilizers and chemicals, which have been cutting into their profits.
>
> 'This matter was even brought up at Government's food consultation held last September in Trincity, but so far nothing has been done,' Haywood said."

So you hold these big consultations, spend a lot of money; a lot of propaganda and nothing has come out of it in terms of any support for farmers; in terms of the prices that they face in imported fertilizers. It says here:

> "Aranquez farmer Sahadeo Babwah said within the last eight months the price of a 45 kg bag of Blaukorn fertilizer had jumped from $140 to $420."

This is what our farmers are facing to produce food in this country.

> "A 1 kg bag of Coopertan fungicide had skyrocketed from $70 to $195."

The farmers are asking if:

> "...the Government could import chemicals, fertilizers and seeds and sell it at a standardized price."

Because one of the farmers is saying and I quote:

> "'If the prices keep escalating I would have no other choice but to downsize my farm.'"

Now that translates into more inflation; that translates into food inflation; that translates into the fact one of my reasons why we have a higher food price inflation than any other country in the Caribbean, even the poorest countries. That is what we are doing wrong. They said here:

> "'The Guyanese have been coming here and buying these fertilizers in bulk to take home, leaving us high and dry.'
>
> Guyanese farmers are given subsidies by their Government."

This is one of the issues; this is one of the things we are doing wrong; why we have all this inflation in food affecting the poorest and the most vulnerable sector. Another issue that the farmers are undergoing was raised in the *Guardian* on Sunday, November 11, 2007:

> "Gov't trying to put us out of Business
>
> by Yvonne Baboolal"

This has to do with livestock farmers now and I quote:

> "Government promises to boost local agriculture is what goat and sheep farmers say is an undermining of the industry by giving concessions to a state company.
>
> Members of the Sheep and Goat Society said the Government was allowing National Flour Mills (NFM) to build a massive cold storage facility for imported meat, and it noted that the company had actually begun selling cheap, imported lamb."

This is the Government's response to food inflation in this country. You undercut the local farmers instead of implementing policies that would raise the level of production in this country; drive them out of business and you import food, which the Minister of Energy and Energy Industries just said that is subsidized in those developed countries. He said it, that we import subsidized food here.

The farming industry in the United States, Europe and so on is subsidized to the tune of billions of dollars. Over $300 billion is used to subsidize food. One of the problems they are having in the European Union right now is the whole question of getting rid of the subsidy. Certain countries are not prepared to give up subsidizing their farmers and that is one of the serious issues in the whole issue of the European Union.

So, farmers here are faced with competition from a national government company, no doubt, which is importing food and subsidizing foreign farmers to the detriment of local farmers, driving them out of business. That is another thing that we are doing wrong. When you come here this evening and talk about liquidity and about Treasury Bonds to mop up liquidity and talk like that is the be all and end all of the problem, you have not begun to scratch the surface unless you deal with agriculture in a serious way. Unless you deal with small farmers in a serious way. Unless you are prepared to subsidize them, support them, ensure that they are able to grow, develop and provide food for this country, we will always be faced with a serious inflationary issue based on the price of food. And headline inflation is the major problem and it includes food prices and all the fruits and vegetables that we are bulldozing every day in this country and importers turn around and import subsidizing the foreign farmers.

So, Mr. President, it is another thing that we are doing wrong. We are undercutting our own local farmers; we are making false promises; you are leading them down a false road; you bring them to a big consultation and tell them you will help them. In fact, the Prime Minister promised some lands at Mon Jaloux for these livestock farmers; for the Sheep and Goat Society and nothing; since last year, nothing.

8.25. p.m.

In fact, they are being subjected to increasing levels of praedial larceny and the police are refusing to assist them despite repeated pleas. This is what he is saying. He said that the Praedial Larceny Act passed in 2000 mandated the establishment of a Praedial Larceny Squad, but it has never been created. Khan, who is the President of this group, said that he has had several break-ins on his farm with thieves stealing 25 heads of livestock. One farmer, Ben De La Rosa submitted a video to the Freeport police showing the thieves making off with 12 pure-bred boar goats worth $10,000 from his Chickland Farm. The police had no equipment to view the video and De La Rosa gave up the business and migrated.

This is what is happening in this country and you come to this Parliament to talk about curbing inflation? How are you going to curb inflation when you destroy your farmers and destroy your farming sector?

We have other issues of wholesale destruction of fruits and vegetables. On Friday, February 29, 2008 "EMBDC slams greedy farmers" by Asha Javeed:

> "Uthara Rao, Executive Chairman of the Estate Management and Development Company Limited has said that the company did destroy about 300 pounds of tomatoes belonging to farmers who had been squatting on lands at Orange Grove, Tacarigua. Last week, angry farmers staged a protest outside his office over the recent destruction of $2.5 million worth of crops and agricultural equipment by the EMBDC."

This is the Government agency destroying farmers' crops to the tune of $2.5 million worth of crops and equipment, and you are coming to talk about inflation? You want to get support from this side for you to use Treasury Bonds. How are Treasury Bonds going to help the farmers recover the $2.5 million they lost in crops and equipment? How are Treasury Bonds going to compensate for the fact that because of that destruction the prices of fruits and vegetables would have skyrocketed on the local market and it is causing what the Central Bank says here?

We have the highest increase in food prices in the whole of the Caribbean and that is what we are doing wrong. [*Interruption*] We are bulldozing crops in this country. We are undermining the farmers and we are destroying their equipment.

Do you know why? Because this administration has a big plan to bring in the foreigners to set up megafarms and take our best agricultural lands and produce food that they will send abroad. That is why they are doing that.

This is not the end of the story. We have a serious issue here in Bon Air. Sad! This has to do with inflation. I am saying that the liquidity issue is not the only issue that affects inflation. Headline inflation, which includes food prices, is a major driver of inflation in this country, and if you are not going to deal with that, if you are going to destroy farmers then there is no point. You are spinning top in mud, you are filling the barrel on one hand and you are emptying it at a much slower pace on the other hand.

The Bon Air farmers had to watch as the HDC this time—every government agency gets into this destruction issue—the EMBDC; everybody gets into the brew. They went into Bon Air and destroyed hundreds of acres of crops of the farmers who had been there. The farmers said that it was not two cents they lost. They had put all their blood, sweat and tears into the land, and now were at their wit's end because they have nowhere to go and no income coming in. This is what is happening in this country.

When the Central Bank says that we have a serious problem with headline inflation, food inflation and that we are the worst off in the Caribbean, that is what we are doing wrong. And they are laughing and grinning on the other side because they do not understand the pain and the suffering that people in this country have to undergo when they do that; not only the farmers, but the housewives who have to face the increased cost of goods in the markets. [*Desk thumping*]

You cannot buy two pounds of bananas, some tomatoes, some onions and so on to carry home. You go to the market now with $200 or $300 and buy practically nothing. It cannot even last two days, especially if you have a big family because a pound of "gros michelle" in the market now is $10 and $12 for a pound.

Sen. Browne: No, not $12. [*Crosstalk*]

Sen. Dr. J. Kernahan: What? [*Inaudible*] Well, try facing the market. There are cheaper—

Hon. Senator: Grade.

Sen. Dr. J. Kernahan: I mentioned the particular variety, and even the cheapest now is about $6 a pound—the "lakatan"—$6 a pound for bananas. So if you have four children at home and you carry home two pounds of bananas and everybody gets a half, they have to be satisfied with that.

There are other Third World developing countries. This administration does not understand the importance of agriculture in this country, but India and China, they understand it. I just want to quote from the *Economic Times*:

"Growth without development", this article is called—

Hon. Senator: [*Inaudible*] [*Laughter*]

Sen. Dr. J. Kernahan: It says here in this article written on December 12, 2006 by Kiran Karnik, printed from the *Economic Times*:

> "There is need for widespread recognition of the fact that sustainability of economic growth does not depend merely on containing the fiscal deficit and inflation, or on energy security and foreign investment; equally, it is contingent on social stability. In the present approach to long-term growth, social stability is, at best, paid lip service only. This is as evident from the widespread rural distress—the result of under-investment…in agriculture."

So, they have the same problem. People need to recognize that this writer is saying that social stability is a serious problem. When you have all of this hunger and all this poverty; you have people being unable to buy food and so on; all these inflationary trends, the highest inflationary trends we have in food in the whole of the Caribbean, you are heading towards social instability and that is very dangerous. It is based on neglect—they are saying in this article—of the rural sector and agriculture, and we are experiencing the same phenomenon here. There is neglect of the agricultural sector and this is going to lead to serious social instability.

How have we responded to food prices? That is one of the key inflationary factors. We know how other countries have responded. We know we have responded by bulldozing the farmers' crops, "mashing up" their equipment, importing food and denying them any sort of support or subsidy. That is how we responded. That is how this Government responded, but other countries have responded differently. [*Interruption*]

In Argentina, the policy measures to curb rising food prices was that they increased export tariff on soya beans from 35 per cent to at least 45 per cent. In India, for example, they removed and reduced import tariffs for edible oils and grains and banned the export of rice and pulses. So, clearly there is a trend in these countries, in Indonesia and so on, to reduce export prices; that they are keeping more food home for their people and, therefore, keeping the prices down instead of exporting all of the food and causing an increase in prices.

In the Philippines, they have subsidized rice prices for their people. In Venezuela, there are price controls on 400 basic food items, including bread, meat, milk and sugar. That is how other countries are dealing with the hardships that are imposed because of inflation and increasing food prices and so on. We are doing just the opposite. We are destroying our farmers, demolishing crops and destroying the will and the motivation of our farmers to produce in this country and we will come, after the inflation spirals out of control, to this Parliament and say, you know what, we want to—

Sen. Browne: Mr. President, on a point of order. I refer to section 35(1), relevance. [*Crosstalk*]

Mr. President: Senator, I am inclined to agree. This is a Bill about the issuance of bonds. It is not really a debate on food prices and I think you have gone into the ether and you are repeating basically the same argument over and over again using different examples. I think that we have that message. I think you should try to press on and try to refer to the Bill and make your contribution a bit more relevant to the Bill in front of us.

Sen. Dr. J. Kernahan: Thank you, Mr. President. The fact that they are going to issue the Treasury Bonds at this time—I think it is between five and a half years and 10 years—means that there is a choice of the time frame for the issuance of the bonds that any subscriber would take up.

My colleague, Sen. Rahman, made the point—and I want to emphasize that point—that we are in effect deferring debt repayment. I refer to a maturity profile of the central government domestic debt. In this maturity profile, we have a graph showing that from this year, 2008, the kinds of debts that will mature over time, between now and the next 18 years, based on current government borrowings.

It was clear, despite what Sen. Dick-Forde said, that the issuance of these Treasury Bonds is in fact a borrowing. Despite the fact that it will be sterilized in the Consolidated Fund and so on, the fact is that you have to pay interest on it and Sen. Rahman made that point and Sen. Ramkhelawan, I think, made the same point.

Mr. President: Hon. Senators, the speaking time of the hon. Senator has expired.

Motion made, That the hon. Senator's speaking time be extended by 15 minutes. [*Sen. W. Mark*]

Question put and agreed to.

Sen. Dr. J. Kernahan: Mr. President, this is an indication that this Government's back is truly against the wall at this point in time. [*Laughter*] Their backs are against the wall; they cannot take the pressure. [*Laugher and desk thumping*]

I have a graph before me that shows the maturity profile of a central government domestic debt for the next 18 years. It shows that we will have a peek in domestic debt accruing in terms of $3.6 billion in the next six years. The debt that we are incurring now will take us, in 10 years time, to 2018. By the year 2018, what would have happened is that the accrual of debt would have been down to the baseline, which is about $230 million. But since we are accruing this debt based on the Treasury Bonds and so on, we are going to get another spike at that time. So we are looking at the progression of the maturity of the debts that the Government actually has and we are saying, based on the actual debt, that we can expect that in 2013 and so on—in 2013 there was supposed to be a very low debt repayment due and then it would have gone up by 2020 and so on.

You can look forward, you can plan based on what your debt structure is. However, when you keep adding to your debt structure, you keep prolonging the length of time for which these debts would become payable and you are just deferring the inflationary spiral that you can experience. As the Ministers have said here, they have no idea in what time frame they would get the high inflation that we are experiencing now under control.

8.40 p.m.

Therefore, if we defer this debt 10 years down the road, actually what we will be doing, is deferring that inflationary spiral because that money will go back into the system at that time. All the moneys, the principal and so on that need to be paid back to the investors would have to be done 10 years down the road and you are just deferring the inevitable.

So what we have to do this evening is to take a commonsense approach to the analysis of the Minister’s request and determine if it is in fact reasonable; if it will in fact solve the problem; or would it in fact defer the problem to a later date. Based on the fact that there are other inflationary policies which the Government has not repudiated, the massive spending, the non-oil deficit, all these issues and policies the Government has not repudiated, so therefore, we would expect the inflationary spiral to continue because these are issues that contribute to inflation.

On top of that now, you issue these bonds, defer them for a later date and because you have not done any of the things that the Central Bank has asked you to do in terms of, curb spending, cut down the non-oil deficit and so on, you would just meet the problems lower down the road.

This act of the issuance of Treasury Bonds adds to a public debt which increased from $29.758 billion in 2001, to $37.4 billion in 2007. That is the state of the public debt that we are experiencing right now. In fact, under the Development Loans Act, this administration had issued a bond in June to sterilize funds and to mop up the liquidity and so on—[*Interruption*]

Hon. Senator: [*Inaudible*]

Sen. Dr. J. Kernahan: Yes, in June 2008, this administration opened an auction for bonds under the Development Loans Act, Chap. 71:04, stating the purpose as follows:

> The bonds will be issued under the authority of the Development Loans Act, Chap. 71:04.
>
> This is the first Government bond issued for fiscal 2007/2008, and it is being issued to assist in the domestic liquidity management. Accordingly, the proceeds of this bond would be sterilized in the Central Bank and the maturity period is nine years.

So we have already taken a loan and deferred it for nine years and we are taking another one today and deferring that for between five and 10 years. So what this Government is effectively doing is firefighting. You have a problem, you push it aside, you push it lower down the road; you postpone it. Let somebody else deal with that. Because they know that they are not going to be there, therefore, they are saying, "Let the UNC deal with that when they come into Government. Let them deal with the inflation at that point in time." [*Interruption*] That is what you are doing; you are putting off the problems.

Mr. President, the Minister spoke a lot about the Central Bank and so on, but we know that the Central Bank has consistently expressed serious reservation about Government's spending and practically begged them to curb the unnecessary spending and to control inflation in that manner. Now, the hon. Minister of Energy came here this evening and pleaded with the Members on this side, with respect to supporting this Bill and so on, and he wanted to know what he can do to curb Government spending. Sen. Mark made the point to cut out the waste, cut out the corruption, cut out the unnecessary megaprojects that are fuelling inflation in this country.

The Minister of Finance, hon. Karen Nunez-Tesheira made the point. She made the point, but in a very sneaky way and she has been quoted as saying and I quote:

> "…in emerging market economies, the rise in inflation has been associated with rapid economic growth and economic overheating. The Government expects that inflationary pressures will persist in the Trinidad and Tobago economy in the face of emerging supply constraints, continuing credit expansion and rising imported inflation."

The Minister was really saying that this economy is suffering from economic overheating. But after having said that, she sort of pulled back and pretended that it did not apply to this economy; that this economy is affected by credit expansion; the usual talk we got here this evening on imported inflation. We "mashed up" that imported inflation argument because we see like we are the only ones importing all this inflation, because in other countries in the Caribbean headline inflation has not moved as rapidly and as widely as ours has done, so that is out. The fact that credit expansion has to do with the availability of moneys by the banks and so on is part of the capitalist experience.

The banks will lend money, as long as people are willing to borrow, to make money. Is that not a central tenet of the capitalist system? So why are you worried about credit expansion? That is how people will sell goods and services; that is how a lot of people will make money, how the businessmen will make money, and how Charlotte Street and all the businessmen will be happy, so credit expansion should not be a problem. But the real issue that the Minister mentioned and pulled back, is the overheating of the economy. It goes back to the non-oil deficit that Sen. Mark spoke about; it goes back to the non-oil deficit that the Central Bank spoke about; and it goes back to the overspending and the megaprojects being executed by this Government.

There is an article by Dennis Pantin, a commentary in the *Sunday Guardian* and when we look at the whole issue of the megaprojects and the vast quantities of moneys that are spent in these megaprojects, he gave us a little insight as to why that is so. He quoted a study done by one Professor Flyvbjerg, and I quote:

> "Flyvbjerg undertook a detailed study of 256 transportation infrastructure projects undertaken between 1927—1998 in 20 countries (including developed and developing countries).

> He found nine out of ten projects had cost overruns that were consistent across all 20 countries for the 70-year period. A similar pattern revealed itself in terms of benefit shortfalls."

So what this study pointed out—

Mr. President: Would you please give the full reference for that article, please. The date and—

Sen. Dr. J. Kernahan: July 13, 2008, *Sunday Guardian*, commentary by Dennis Pantin. So based on this study, Flyvbjerg suggested and concluded that the political economic explanation is not based on forecasted errors in the megaprojects, but really that public employees were often pressured to adjust cost and benefit to make projects look feasible. He says that:

> "In case after case, planners, engineers and economists…had to 'revise' their forecasts many times because they failed to satisfy their superiors.
>
> The forecasts had to be cooked in order to produce numbers that were dramatic enough to gain federal support for the projects whether or not they could be fully justified on technical grounds."

So basically, Flyvbjerg's study indicated that all these megaprojects being undertaken in developed countries and underdeveloped countries were actually underpriced in order to gain acceptance by the political directorate and so on. And afterwards, when they were in train and so on, the price would just escalate out of control. I think this is what is happening in our country. This analysis gives us a little insight and a little clue into Government's massive spending in this economy, which is fuelling inflation and which the issuance of Treasury Bonds is not going to solve, if the Government has no intention of pulling back on these massive megaprojects spending.

In fact, one of them is the whole question of the Prime Minister's residence. They said that the Prime Minister's residence had cost $148 million, but yet work is still going on. A government source said that with additional features, some of which were still under construction, the total cost would likely be increased beyond $148 million.

Sen. Mark: That is a lie because—

Sen. Dr. J. Kernahan: We have the issue of mega-spending and unwarranted spending by contractors and so on, employed by this Government without proper checks and balances. One of the issues was the Jusamco Pavers scandal where the airport was paved to the tune of $137 million and they had to go back and do it over; the same company got the job. The cost of the Scarborough General Hospital went from $135 million to $474 million and the job still is not done. So, I think that that commentary and that study give us a very good insight as to what actually happens here; that somebody actually under-prices in order to escalate these costs out of control and somebody makes money from that. We are the ones who lose because it pushes the inflationary spiral in our country, and the poor, vulnerable pensioners, are the ones who have to feel the pinch. We pay for that.

I just want to make one last point in terms of growth and development. We have all this close relationship with China and we are bringing in Chinese workers here to fast-track our so-called development; we are overlooking local contractors and workers and all our oil wealth is being exported to China. I found it interesting to listen to what the Chinese government has to say about their development policy at home. This document says: "China not to pursue 'Growth without Development'". It is called China's Political System and it says:

> "…the seven-percent growth target set by the central government for 2004 was in conformity…"

with their need to control development. They said that they were not going to fast-track development anymore because of the pressures it put on the environment and they were going to under-heat the economy. Mr. President, what we are doing here is bringing in Chinese workers to overheat our economy.

I thank you, Mr. President. [*Desk thumping*]

Sen. Helen Drayton: Thank you, Mr. President. I would try to get to the heart of the matter as quickly as possible, and to do so, I want to quote from the very Central Bank report that has been quoted quite widely:

> The Central Bank would continue to maintain a tight monetary policy to support fiscal restraint. Even though the proceeds have to be sterilized, the law requires that the issuance of the liquidity bonds count against the legal debt ceilings which have almost been reached, pending the increase in the ceilings, the Central Bank would need to utilize alternative mechanisms for liquidity absorption.

I think that goes quite to the heart of the matter, in that, if this Bill is not passed, we would severely handicap the Central Bank's ability to manage effectively the money supply, thereby, the liquidity and inflation.

I would comment on one or two things that were said. The Minister of Energy and Energy Industries and I think the Minister of Planning, Housing and the Environment, as well as the Minister of Finance, mentioned that this is not a debt instrument; this is a debt instrument. Once you are borrowing, you are paying interest; it is a debt instrument. You might not be using it for the purposes of your infrastructural development and whatnot, but it is technically a debt instrument.

The part in the Bill which spoke to foreign currency, at least having the flexibility to issue bonds in foreign currency, I certainly support this. If we are espousing Trinidad and Tobago as an international financial centre, then I do not see how we could be only issuing TT paper. Other financial institutions were mentioned and if I had to lean in any way, I certainly would have leaned towards the Central Bank being the only instrument since this Bill deals specifically with liquidity management.

8.55 p.m.

I would comment early on the open-ended nature of the Bill. I would say up front that I have no problem whatsoever in not having a ceiling in terms of the amount of funds to be borrowed under this Bill, but I do have an issue with having a Bill that is so totally open-ended, given its very nature. I would be inclined to say that you need some sort of deadline, if it is two or three years. I heard the Minister indicate that there would be a report every six months. I think that is excellent, that is fine, but Parliament ought to be in a position where it could exercise judgment when it has reviewed the performance under the Bill.

The Minister in the Ministry of Finance gave information with respect to the history, as to how we have arrived at this position, so I would not traverse that path, but in the context mentioned, it could not be denied that open market operations, such as the issue of the Treasury Bonds Bill, is quite appropriate to absorb and manage liquidity. As the hon. Minister stated, there are many instruments. The Central Bank, in fact, has been using all instruments. I have no doubt that it would continue to use all other instruments; this is only one. Indeed, using the reserve requirement, the reserve instrument for banks, as well as the use of the repo rate, those are very blunt instruments.

Using those instruments alone would not make the type of intervention that is required, at this time, given the excessive liquidity. Therefore, I believe that legislation which gives the Central Bank the ability to issue quality securities at varying maturities to absorb liquidity and, at the same time enhance the structure of the bond yield curve, is certainly in the right direction. It also creates an opportunity to effect a more dynamic bond market, which many investors have been calling for over the past couple of years.

I want to agree that it is both the rapid rate of economic growth as well as strong credit expansion that, in large part, have been responsible for the huge increase in liquidity and an increase at unprecedented levels. It was mentioned about the structural liquidity overhang; that has always been a situation which creates many challenges. I think it is to the credit of the Central Bank, in which I have a great deal of confidence; this is why I have no fundamental issue with this particular piece of legislation. The Central Bank has done an excellent job through its tight monetary policies and the situation, by and large, has been kept under control.

I also want to agree that money supply management and fiscal prudence have a very positive symbiotic relationship. It should not be denied by the Government that an expenditure review in the public sector is absolutely necessary in order to reduce the public sector's contribution to both inflation and excessive liquidity. I am not necessarily speaking here about stopping the projects under the development plans. It is not necessarily only what you are spending on, but how you are spending and how efficient you are spending.

I will always come back to that situation of efficiency because, whilst it might only be a theory, I certainly believe, just looking around with respect to maintenance, whether it is the schools, hospitals or our savannah—somebody is being paid to maintain our savannah, which is being murdered every single day. So just by examining these things, it is clear to me that probably for every dollar the Government is spending, 20 cents may be going down the drain, or more, as a result of inefficiency. The very fact that the Minister of Energy and Energy Industries mentioned the sum of $9 billion on a wage bill, that would tell me you probably have about 80,000 public servants, probably 90 per cent of whom are not adding value in terms of the services delivered. It is a question of efficiency.

The Government, really and truly, should pay a great deal of respect to sentiments which have been expressed in the context of its spending. That has been a mantra of the Central Bank.

The expansion of the economy certainly is not due to domestic productivity gains, neither were wage increases linked to productivity. I think the whole question of inflation, all the theories, is a very dynamic situation and there are many, many things that are contributing to inflation. It is a fact that if you have a developing country, in fact, an emerging market that has been growing at a rapid rate—the rate at which Trinidad and Tobago has been growing—then inflation would always be a major issue to be managed and managed effectively.

So the Government has brought the Treasury Bonds Bill 2008 which seeks to give the Minister, on the advice of the Central Bank, authority to issue Treasury Bonds for the specific purpose of liquidity management. Yes, it is an open-ended Bill; it does not give an amount of money over the period of time and it does not have an ending. While I endorse the use of this mechanism for liquidity absorption, I ask the Government to give serious consideration to a period of time when the Bill would come back to the Parliament and where there would be an opportunity to debate, to review performance, to look at and examine the liquidity situation at that point in time.

I agree that it is difficult to put a limit; the reason for this is because we speak of inflation and liquidity. The rapid increase in the price of oil—certainly I have heard what the Minister has said about our economy being more a gas based economy—it was $83 to $100 towards the end of 2007; it is now $145. There is a lot of speculation; there is expectation; there is the futures market apart from the continued growth and expansion of countries such as India and China. It is predicted that it could reach $200. We do not know if this is so, but the trends are pointing in that direction.

Our revenues, it is foreign currency, it is based on the oil market and the gas market; while we could look at trends, what has happened over the past three years, and try to make some sort of prediction for the future, you are really dealing, to some extent, with pie in the sky. So I understand why it is difficult to put a limit, but it should not be totally open-ended.

Is it the only other mechanism? I wonder why the Government has not brought the appropriate legislation to support the needs of the institutional investors with respect to investing more than 50 per cent of their pension surpluses in any one equity. That has been talked about, and I think it is important that that piece of legislation be brought as soon as possible as one other means of mopping up liquidity in the system.

Basically that is what I wish to contribute. I do hope that the Government would give serious consideration under clause 3(1) to simply add a few words after "liquidity in Trinidad and Tobago", "for a period of two years commencing" whatever. I think that would be quite satisfactory.

The Minister of Agriculture, Land and Marine Resources (Sen. The Hon. Arnold Piggott): Mr. President, I wish to make a contribution in this debate in support of the Treasury Bonds Bill.

Before I proceed, let me at the very outset make it abundantly clear to Members on the other side who wanted to find out about the factors that were internal to Trinidad and Tobago in respect to inflation, and, perhaps, to just indicate about four things that may impact inflation in Trinidad and Tobago in a very serious way: Structural inflation; imported inflation, huge, huge, huge demand in relation to production in Trinidad and Tobago, or anywhere in the region, and skewed local taste patterns, all of which are conspiring to influence the inflation mix in Trinidad and Tobago.

In terms of boasting about farmers' markets, which we are providing to facilitate marketing of farmers' products, I want to make it abundantly clear that, in fact, this is true, we are providing farmers' markets. I want to deny categorically that the Ministry of Agriculture, Land and Marine Resources is doing anything to destroy crops or bulldozing crops across the country. I also want to make it abundantly clear that we are not subsidizing farmers in Trinidad and Tobago. We are facilitating the development of agricultural production; we are encouraging investors to come to Trinidad and Tobago, and we are seeking assistance from the Cubans to assist us with technical ways of improving agriculture.

I also want to lay on the table or make it abundantly clear, that the issues of subsidies, the issues of incentives and the issues of praedial larceny are well on the way in terms of our analysis and our plans for those areas of activity in agriculture. The Minister of Agriculture, Land and Marine Resources, at some point when properly authorized by the Cabinet, would make further statements on those matters.

Mr. President, going back now to the matter at hand. Simply put, this Bill seeks to cause the absorption of money presently available within the banking system, to take it out of the system, remove it from availability and place it in a sterile holding bay, to keep it in a safe place in the Consolidated Fund; such funds to be held in its location for up to 10 years and not less than five and a half years.

[MR. VICE-PRESIDENT *in the Chair*]

Mr. Vice-President, why is this being proposed in the context of liquidity management? Well, too much money within the banking system leads to too much liquid assets in the system, within easy reach for spending. What does that excessive spending lead to? It leads to greater demand for goods and services in the system.

It is reported that headline inflation in Trinidad and Tobago, as measured by the 12-month change of the index in retail prices, declined from some 10 per cent in October 2006, to 7.3 per cent in 2007, on the strength of tighter monetary policies, influenced largely by one time reductions of tariffs and taxes. That, I believe, is well known to those on the other side.

Trinidad and Tobago has witnessed a surge in food prices, which rolls on a year on year basis from 16.6 per cent in October 2007, to 20.4 per cent in January 2008. Core inflation which filters out food prices has also increased substantially, moving from 4.5 per cent in August 2007, to 5.7 in January 2008, and down to 5.2 in May 2008.

9.10 p.m.

Mr. Vice-President, food prices have always been the main driver of inflation in Trinidad and Tobago as it impacts on the inflation rate. The food price index has always been up, from an annual average rate of 12.9 per cent in the decade of the

1990s, the annual increase in food prices reached as high as 27 per cent in September 2006 but declined to a rate of 20 per cent in early 2008. High demand pressures resulting from robust economic growth and rapid credit expansion lie at the root of Trinidad and Tobago's inflation problem. Capacity constraint and supply bottlenecks combined with the recent escalation in imported food prices have significantly added to these demand pressures. It has been reported that bank credit expansion has been adding significantly to demand pressures increasing at a rate in excess of 22 per cent. [*Interruption*]

Mr. Vice-President, I do not know why Sen. Mark is interrupting my contribution at this hour of the night. I never interrupted Sen. Mark at 2.30 in the afternoon. I crave his indulgence to allow me to make my contribution.

Within the portfolio of consumer credit, loans for the purchase of motor vehicles increased close to 50 per cent in 2007 moving from $1.4 billion in 2006 to well over $2 billion by the third quarter of 2007. Meanwhile, the Government provided support by way of subsidies of gasoline of approximately $2.2 billion per annum. So for many years, Government's policy had been meeting significant cost for transportation in this country. Will Sen. Mark or Sen. Rahman maintain their position that this is ridiculous to provide support for transportation as they make noises about sterilizing funds in the marketplace?

Mr. Vice-President, it is reported that the largest contribution to non-energy sector growth has come from the construction and services sectors. Indeed the services sector has been contributing in excess of 30 per cent of GDP while manufacturing output is somewhere in the order of 6 per cent of GDP. Looking at the loan portfolio across several banks, we will see that home improvement loans moved from some $517 million in 2001 to $919 million in 2006 and up to $1.1 billion in the third quarter of 2007. Looking at land and real estate loans, we see it moved from $432 million in 2001 to $1.1 billion in the third quarter of 2007. Looking at the motor vehicles, they have moved from $1 billion to $2 billion. Mr. Vice-President, I say this and make reference to show you what is happening in the system with money and bank credit and, therefore, what is happening in the system with inflation as it comes from all corners of the sectors of the economy.

On what basis is the query being made that there should be less spending by the State? Is it not leading to growth and development of the construction and services sectors which are engaging and employing significant numbers of people in Trinidad and Tobago and ensuring that they are able to put bread on their table? Is it not leading to national development and developing innovative people?

Mr. Vice-President, another area obviously is that which Sen. Dr. Kernahan loves, the area of agriculture. I am looking forward to the day when Sen. Dr. Kernahan would come to this Senate and advise the hon. Minister of Agriculture, Land and Marine Resources on some programmes that she would really like to see happen in agriculture for national development. Because what I get every time I come here is a quarrel about what is not happening, nothing about what can be recommended by the opposite side, those people who are waiting to come on this side to be in office. Come with some proposals as to what we can do, perhaps we will listen and follow some of your advice and change things in this country.

Sen. Dr. Kernahan: Stop bulldozing the farmers' lands.

Sen. The Hon. A. Piggott: I made the point abundantly clear that we are not bulldozing farmers' lands. The pattern of consumerism and particularly for imported food items is widely spread in Trinidad and Tobago. Consumerism is very high and is consuming substantial amounts of bank credit leading to higher levels of inflation.

In dealing with the supply considerations, at page 9 of the said Central Bank Report which is at reference, it says that the impact of import prices and domestic inflation has risen substantially since mid-2007. Rough estimates suggest that imports contribute some 25 per cent of the basket used in the measurement of the index of retail prices. It says clearly, therefore, that these imports are impacting significantly on the inflation situation in Trinidad and Tobago. How do we import? We must have money to import and we use the money to import. We need to take control of the liquidity in the system, and seek to dampen and mop up some of that liquidity so that we can have lower levels of inflation. The increase in import prices had been attributed to many factors, not the least of which is the depreciation of the US dollar it is reported, also higher petroleum prices, transportation charges and worldwide supply shocks in the case of food. Mopping up liquidity will certainly lead to some containment of such prices and the resultant inflationary pressures.

This country has been experiencing higher revenues and revenue flows continuously for one decade. There has been a discernible increase in the level of wage settlements within recent times and, therefore, we are seeing a lot more disposable income and its consequential thirst for increased levels of consumerism. Are we as a Government to allow excess liquidity to be chased by this high level of disposable income? Are we to sit idly by as a Government and allow for further expansion of bank credit which cannot be absorbed by the productive sectors of the economy of Trinidad and Tobago? What voice will we hear on the other side if we were to sit idly by and allow that to happen without taking some action? Mr. Vice-President, all this adds up to putting more money into the system if we do not take stock now. When Sen. Rahman proposes to further remove duties on VAT on food items, what is the revenue to be foregone? What is the cost to the Treasury? Is it a cost similar to mopping up liquidity by way of Treasury Bonds? Has Sen. Rahman been able to quantify those costs at all? Perhaps he should do a little more homework and see what he comes up with.

Mr. Vice-President, Trinidad and Tobago's vision for attaining the Government's target inflation rate of 6 per cent is well on track. We are working assiduously to bring some measure of relief. Moderating existing demand pressures will certainly require a number of fiscal and monetary policy actions among others. The Government of Trinidad and Tobago, while seeking to further accommodate a possible increase in poverty alleviation programmes and projects is gearing up to accelerate the resuscitation of the agricultural sector. There will be some measure of containment of prices, inflation, consumerism of imported foods as agricultural production increases in the short to medium-term and supply side initiatives kick in. We are hoping to reduce demand for imported and expensive food products.

Mr. Vice-President, the Government of the Republic of Trinidad and Tobago which fortunately is in the good hands of the People's National Movement at this time is working assiduously towards bringing relief from the supply side. [*Desk thumping*] We have a number of initiatives in place and we propose—as we have said in this Senate before—some 15 large commercial farms. We have initiatives for 7,000 plus 2-acre small farms with close to 20,000 new agricultural acreages for food production. Significant new infrastructure for these farms is being put in at a cost of some $600 million and proposed new unrevised incentives and plans for producing some 15 commodities from within the six food groups. We were not just going to produce food, but from the six food groups; the staples, the legumes, the vegetables, fruits and juices, spices and food from animals.

Mr. Vice-President, Sen. Mark says that cutting back to control is cheaper than borrowing to control. Is he also suggesting that there should be a roll back on Government's expenditure on all development projects, on a range of all the social programmes in Trinidad and Tobago? Is Sen. Mark asking the Government to stop development in Trinidad and Tobago? Is he suggesting that the Government take steps to roll back development progress and a better way of life for all the people of Trinidad and Tobago? Trinidad and Tobago has certainly been impacted by the actions of several food production countries, but we are working assiduously to turn things around to make Trinidad and Tobago a better place to provide food for all its people. Our policy response in Trinidad and Tobago includes the fact that the Government has implemented a number of measures to tackle the rising food prices.

On the fiscal side, the records suggest that value added taxes were removed on more than 50 commodities while the common external tariff was either eliminated or removed on approximately 30 commodities at the end of 2007. The Government currently offers direct cash transfers to the poor through the conditional cash transfer programmes and we are going to continue to look after those vulnerable people within the society; citizens all of Trinidad and Tobago, we discriminate against none.

Mr. Vice-President, how is the Government contributing to poverty based on all I have said? May I remind this honourable Senate that unemployment levels have fallen below 5 per cent because of the astute management of the economy bringing significant opportunities to the largest number of the population who are indeed willing to make a contribution to national development in Trinidad and Tobago. We have been able to bring the unemployment rate down to 5 per cent, not through CEPEP or URP, but by a series of measures which are able to engage the productive and mental capacity of all the people in Trinidad and Tobago who are seeking employment. That is what we have been doing.

9.25 p.m.

The Government also undertook initiatives to provide the markets for agricultural products and that famous thing that the hon. Senator on the other side spoke about, we have been providing farmers' markets so that the farmers can take their produce and have their products marketed. The Ministry, together with Namdevco and our sister Ministry responsible for consumer affairs, has also been putting out bulletins on prices across the country and this information is well-received by shoppers, consumers, supermarkets and by agriculturalists.

As I bring my short contribution to a close, let me say that the long arm of liquidity management is an important instrument which will bring some normalcy and control over excess liquidity, reduction in the expansion of commercial bank credit, excessive consumerism and food price inflation. Permit me to remind this honourable Senate of the purpose of this Bill, namely, to issue Treasury Bonds for the purpose of liquidity management, allowing for significant excess funds to be placed in a safe place, in a sterile holding bay which will, in effect, lead to a regularization of prices and credit expansion, all of which fuel inflation at the present time. At the end of it, all the people of Trinidad and Tobago stand to benefit by the absorption of liquidity in the system.

I thank you, Mr. Vice-President. [*Desk thumping*]

Sen. Dr. Carson Charles: Mr. Vice-President, I rise to make a few points on the matter before us, on this Bill. I will come straight to the point. You know, it is hard to be a witness to history repeating itself and not be able to do much about it, so I really hope that our voices on this side are heard by the Government and that it can avoid repeating the mistakes of the past. I really hope so. In the final analysis, under our system it is the Government that has the responsibility for directing the affairs of the nation and it is required to account to Parliament. But Parliament cannot itself direct; Parliament can only approve or authorize—oversee—but it can also advise.

I hope the Government takes it in this spirit this evening because the hon. Minister of Energy and Energy Industries, I think it was, spoke about the IMF and the meeting with the IMF and how our Trinidad and Tobago delegation was able to tell off the IMF. This is a wonderful thing to be in a position where you can tell off the IMF. But I was present when William Demas, now departed—a great mind—was doing his "Imperatives of Adjustment" after the very period that the Minister of Energy and Energy Industries referred to in terms of the march of inflation as against oil prices.

At the end of that period, William Demas was required to produce his document. I was there sitting, as a young man in one of his committees, so I had a ringside seat. He had many hard working committees. And it was too late when Demas produced his report, because by then we had already marched—you know, the road to hell, we all know, is paved with good intentions, so I never accuse the Government of having anything but good intentions. But we had already marched by then into so much trouble that no one knew the total debt of the Government; what was the public debt.

I want to repeat that point, that in the year 1986, so many years ago, we were forced to have a different relationship with the IMF then, were we not? You could not talk to the IMF the way you can speak now, when you march into trouble, when you over-expend, you over-borrow; you cannot pay your bills because of a collapse in the price of energy. Then when you met the IMF, you had to go cap-in-hand. So you could not speak to them the same way then.

Do not take us back on that path. At that time when we had to confront a situation after the rise in oil prices and then the inevitable collapse, no one knew what the public debt was; no official in any ministry or in any Government department, because the agencies were borrowing money all over the place; authorizing loans all over the place.

So when I see the Government come here with a Bill which is open-ended, it bothers me. And when the Government says, "this is not debt", it bothers me. Of course, you have to borrow money to do various things. In this case, you are not borrowing it for the purpose of development spending, and so on, so it is not as treacherous because you are not going to spend the money; you are going to leave the money there to pay it back at the right time. But you are going to incur interest. So you are going to spend some money and somebody will have to pay that interest in ten years' time.

I get worried because I have not heard any answer to our questions on the Ryder Scott Report. I have not heard anyone say something is being done and that you are having some level of success at increasing the reserves, whether it is the proven reserves or whatever level you wish to advise us of. I am not hearing anything about it and it concerns me. So I say you are taking us into some level of debt and in ten years' time somebody has to pay.

We want to know that we are going to have the resources to pay; not just to pay back the money, but the interest. Along with everything else that is happening in the country, higher expectations cannot really be reversed so easily. It is very hard to reverse high expectations, except you have a crash and everybody adjusts his or her expectations, of course. But you will have total disaster then. We do not want to repeat that experience which, perhaps, might be much worse now than it was then because so many things have changed in the country.

So I do not have a problem with the Minister in the Ministry of Finance coming here with this measure itself. My problem is not with asking for authority to issue Treasury Bonds; my problem is not with the use of this instrument as one of many for managing liquidity; my problem is with the open-ended nature of it, the fact that we have to leave it up to you; we have to simply assume that you know what you are doing. But that is not the function of Parliament. We are not here for that, to simply leave it up to the Government and leave it up to the Minister in the Ministry of Finance and assume he knows what he is doing so that at some point we will find out how much debt he has incurred; how well it has gone.

That is not what we are here for. You have to take the Parliament more seriously than that. You have to take the Parliament into your confidence, to some extent. You have to reach halfway, so that the Parliament actually is used for what it is meant to do, to apply some kind of check, some kind of control, some level of oversight, if you like. That is a word that somebody was using recently—oversight. I am not sure if it is the right use of the term, by the way, because there are so many definitions of it now—but some level of overview; let us be safe. The Parliament must do that.

I want to start on that point. That is my major concern, but I want to make a number of other points along the way and I want to say that I rather like the point that was made by Sen. Prof. Deosaran a while ago, about the “zaboca” phenomenon. I like that point because I am convinced that—and I am not an expert in the field at all—prices have been rising, not only because people have to make a living by selling their “zaboca”. Clearly, “zaboca” does not have to go from $5 to $20 for you to make a living off “zaboca”. But the general attitude these days is that, “Well, we charge whatever it is that we feel the market could bear.” That is the attitude at large in the population. At every level, people are charging whatever they think you can bear, and there was a time when people felt there was some kind of moral constraint as well, where you would have a problem in increasing the price of your goods, because this is a small country. We have a kind of, in a sense, I call it the urban village—that mentality we have here; we are urban but we are village.

So that people are familiar and if you are selling things to people, it is the same people who are coming all the time to buy from you and people used to have a difficulty in raising their prices because the consumer would complain. If it has gone from $5 to $6, the consumer would complain. But right now the environment is such that if you raise it from $5 to $10 or $15, the consumer has given up; the consumer cannot complain because you would simply tell the consumer that everything is going up and everybody feels he or she is justified in raising the price by whatever you raise it to, because of the overall situation.

So we have somehow created an inflationary environment which goes way, way beyond the actual normal market forces that you would expect in your economic theory to be useful in making your projections, and so on. I come from a different discipline, of course. We used to have a view of economists which was not very charitable. I remember when you do mathematics and sciences; you do engineering, you have a view of economists which is not charitable. I have softened my attitude to economists much over the years. But we always felt that economists were doing such crazy things because people who have grounding in the sciences have a much more clear-cut and definite way of assessing things and your rules and laws are clearer. Whether it is the physical sciences or other kinds of sciences—biological sciences—people have a certain amount of clarity, but in the field of economics, you seem to be making all kinds of arbitrary assumptions to arrive at your conclusions. You seem to be simplifying everything so much that by the time you apply your theory you wonder what is the value of that, because your assumptions are not even closely related to reality.

But I understand now that we have to work with what we have and if that is the level at which the science has developed, well, so be it. But if that is the case, as the hon. Minister of Planning, Housing and the Environment actually made the point about the new thinking in economics; if that is the point, then even more now you should recognize the limitations of theory and you should understand that there are a whole lot of other things that come into the picture now, beyond the theory, beyond the liquidity management instrument you are going to put there, for example, that has to do with managing inflation.

I do not think a Prime Minister saying that if inflation reaches 10 per cent the sky will not fall, has no effect on inflation. I do not think you can say that. I mean, really, what is that? You cannot make that statement and expect that after you say that it does not act as another trigger, because you are creating the inflationary environment and Government is important in terms of setting direction, setting trends.

It is like what has happened to us in crime, you know. I do not think it is really easy to solve crime anymore; it is really hard now, because when we just got into the whole thing and we told you the things that you were doing were causing problems, nobody did anything about it. Now it has become so complex—so big—it is way beyond the policies that we would have thought up a few years ago. So anyone having that responsibility now, has a really hard time to bring that back under control.

It is the same thing in terms of inflation. If you had tackled it at the beginning when people were warning you: do not make those kinds of statements; you cannot expect fiscal discipline in other sectors if you do not seem to be practising it; you cannot expect the average householder to seek to manage money in a particular way when you are sending the wrong signals. When your signals are all about money really is no problem; you can build anything; you can have a tsunami centre somewhere down in South that no one has any idea where it has reached, you are sending out the wrong signals.

That is my point. You are sending the wrong signals. So you must know by sending those signals what the result would be. Therefore, inflation now is really not easy to control. I wish you well with the instrument that you are going to have in your hands and the Central Bank is going to have, but it is like the Central Bank has its two hands tied and you are giving it an instrument to move its finger, because that is all it can do with this instrument—move its finger—but its hands are tied because it cannot control Government policy. The Central Bank Governor cannot really educate or direct the population. When he speaks, it does not have the same weight as when the Prime Minister speaks, or someone in Government speaks. So give him the instrument, I agree with you, but I wish you well in terms of how much impact this is going to have on inflation.

Now, I know you are afraid to put a limit because your limit might be difficult to actually mention; not so much difficult to quantify, but difficult to mention, because I do not know what limit you are going to have to use to get the desired effect.

9.40 p.m.

Whatever you do to manage inflation this year, you would have to do more next year. It seems to be that you would be in increasing difficulty along the way if that is the most powerful instrument at your disposal. No one has said anything about any other instrument being used. I do not see it. When the Minister of Agriculture, Land and Marine Resources was speaking—I could never cease to have empathy for him because he is part of an administration that has such a terrible track record in agriculture. I wish him well.

I hope with this new administration that is about change, congratulations to the chairman of the party on that side. He spoke about change and that is a good thing. If you can achieve that I wish you well even though I am on a different side. You have to change many things including the way in which your administration has traditionally seen agriculture. That is a fact. I do not think that it helps for you to be jeering and having fun while a contribution was being made on the seriousness of agriculture by Sen. Dr. Kernahan on this side. It is a very serious thing. [*Interruption*] It is the most relevant thing to this matter before us. That should be obvious. [*Desk thumping*]

When we complain about your expenditure you say it is food inflation. Do not tell us that agriculture is not important when you tell us that food inflation is contributing to headline inflation. [*Crosstalk*] It is relevant to this. This is about inflation management. If it were not for the management of inflation, I do not think that you would be doing this. This is your instrument. You are not managing liquidity for the sake of managing liquidity. It is not that you do not like liquidity. You are trying to control inflation. You said that. How can you think that food inflation is not important to this particular debate?

Understand our problem that we are having with you now. Let me explain something very fundamental. The administration of the PNM in power has an opportunity and a responsibility that no administration in this country has ever had. The last oil shock was not like this one. This one is more structural. I do not have to go into that. You have a unique opportunity in the history of this country. It is difficult to compare with any other administration. We can only speak to you in terms of this particular term that you have. You have a responsibility to the country. It was always a case of having to decide what to do with the windfall. You cannot stash away the windfall; you have to spend it on something.

I understand that if you decide that you will take the risk of inflation—because that is what you have done—in order to drive the economy forward. Our problem is that if you are going to do that, show us how your driving of the economy forward is taking place, not in terms of increasing the dependency on the same endangered sectors. If we are going to risk inflation—this is a price for inflation. This instrument will cost us money. We will pay money to control inflation.

If we have to pay a price, the average householder is already paying a price; the pensioner is paying a price in addition to which we would pay another price for having to use this instrument to manage inflation. It is the cost of interest because we are getting no money from it; we are putting aside and we have to pay the interest. If we are going to pay this money and price for inflation because you have decided that you will risk inflation in order to drive and spend money on the economy, show us how in driving the economy you are transforming the economy. If you are driving the economy by putting up infrastructure projects that depend on energy, or increasing our dependence on energy, we would be paying a price for nothing.

That is why agriculture is so fundamental. Show us that we are paying a price for something, so at the end of the day, in 10 years' time when we have to pay this kind of money that you would have invested so much money in transforming the economy, that it would have been worth it. That is my point. That is where the Government is falling down. You are not showing us and the country how it is worth it.

If you say that the private sector is supposed to do it, still it is your responsibility to show us how it is happening. The same way you can come with an instrument to manage liquidity, it is the same way you have to come with instruments to spur the private sector. You have to come with instruments to give incentives to the private sector. You still have to show us how you are getting there because you have chosen to take this risk. We agree that you have to take a risk. You must take a risk, otherwise the windfall would have been for nothing. The problem is never with the risk. I do not have a problem with the fact that inflation will rise. If it rises for a reason, what is the reason? If you cannot show us that there has been some remarkable change in the field of agriculture, the most important sector that you have to transform over the period, I cannot see why we are taking the risk and paying such a high price for inflation.

We cannot be paying a high price for inflation to change the landscape of the city. That is what he speaks about so much. That is not worth paying a high price for. It is nice; it is lovely. I am sure that people are very proud of the country. Let us go to the Hyatt. It is not that people do not like these things. Of course, they love these things. It might even be good politics for your party but it has to go beyond that.[*Interruption*] Do not get me wrong. I have not come here to mount a defence of the past administration. I have come to point out to you the mistakes that you should not make again, because they were made before. There is a very high price to pay for making those mistakes. You have the advantage of hindsight. Do not make the mistakes again. That is my point. I see that you are heading in the same direction.

We have the windfall and you are not spending the money to transform the economy. You are spending the money and creating more and more dependency, not by ill will. I am not saying that you have done it deliberately. Look at it. Today in the country there is more and more dependency rather than less. It is not an easy situation because the country is naturally structured that way. People like to be dependent. We do not have the culture that goes with it but you have to work at that. You cannot say to ignore it or make noise when someone points it out. This is important. That is the most fundamental aspect of the legislation with which I have a difficulty. I am not hearing or seeing these things.

I ask the Minister of Energy and Energy Industries to take the opportunity at some time to inform the Senate of what progress we are making with respect to energy security. It is so critical, it is like oxygen for our country.

Sen. Enill: I thank the Senator for giving way. In about two weeks we will have the information on the Ryder Scott Report which we would make available. That will provide you with the basis for some of the questions that obviously, we have to answer.

Sen. Dr. C. Charles: I am glad to hear that. We can look forward to some information to tell us that something good is happening. [*Interruption*] They are both important; gas even more than oil.

[MR. PRESIDENT *in the Chair*]

Early government action is history. I do not want to spend time tonight in pounding the Government for early action that led to all this.

What are our alternatives now? Where are we and what can we do about it now? Apart from the obvious one that we keep pounding all the time about the change to emphasize agriculture, I have to ask: What are you doing to find competitive areas for the citizens of Trinidad and Tobago? It cannot be laissez faire, let the private sector do what it can do. Surely it cannot be that. If it is so laissez faire, why bother with managing liquidity? Let it hang out. Let people pay what they have to pay for whatever. If that is your economic philosophy, surely, it cannot be. It must be that you are concerned about this.

Are there any particular areas of economic activity in which you think our country is likely to have competitive advantage or be capable of developing competitive advantage that the country ought to pursue? These are the kinds of signals that you are sending to the country that cause people to get involved and excited. You give incentives that cause private money to go in those directions. If we are going to have all this money around, people can help to direct it somewhere. You must do some research. You must do some kind of conceptualizing as to where you are taking the country. We need to share in this but we are not hearing anything about it. We are in the dark.

You talk about education. No country that is trying to develop is trying to educate all its citizens in all possible fields and do everything possible. Everybody is focussing on some particular areas that they think they can have competitive advantage or they have to educate their citizens in knowing where to go and what to do. Right now, the average citizen, the average youth is at a loss. The youth who comes out of the school system is at a loss in terms of career guidance. It is left to people who are operating the system to give them career guidance. Talk to the young people and you would find out that. They do not know into what particular areas to go. They go into anything and come out and have to look for the On the Job Training Programme (OJT). That is all they think there is. There is no area that you can go into and it is a preferred area.

There is no such thing except construction. If you do construction, of course, that is the only thing that is promoted. If you are a civil engineer or in any field of construction there is no shortage of opportunities for you. That is important for developing the country only in a physical sense. What about the manufacturing sector? What is happening there? Where is the focus? Members on the other side, these things are important to us. When you ask us to be with you in terms of the inflation being high and we having to understand that the country is paying a price for it, the other side of it is that we must understand why we are called upon to pay this price. It is not us alone; it is the average citizen of the country who is struggling and wants to know why. The average wage earners who can never seem to make ends meet want to know, if we have all these billions, how come they do not have?

You have to tell them something that is happening, otherwise you would have more and more discontent in the country. The average young person believes that there must be some money somewhere. "With all this money in the country I want to get my hand on a piece." That is how he thinks because it appears that there is money all over the place. That is the message that is sent and he thinks about the fastest way to get his hands on a piece. You have to find a way to focus him on a structured programme, so that he can get in some particular field. These are the things that the Government and the private sector are promoting. It is time that our private sector is brought into the picture in a proactive way. Our private sector is not part of any particular development thrust of the Government.

The private sector is trying to make money in the fastest way possible. That is the reality. Unless somehow you are able to bring them into the picture and share this, your vision with them, I put it to you that your Vision 2020 is far too general, vague and perhaps futuristic to mean anything to a particular businessman. It does not mean anything to the average businessman. What means something to the average businessman is how to turn over a dollar faster, because there is money in the country and money to be made. People figure that they better try to get their piece now because they do not know what will happen next year.

In case you do not know, that is the prevailing mindset now in the country. Let me see how fast to make mine now because "ah doh" know what is going to happen in five or 10 years time. Unless you fix that and create this sense of confidence that people are part of something bigger, you would have the mad rush. I am not suggesting that the mad rush is easy to fix. I am not for any moment seeking to underplay the importance of this matter or make it seem simple and say we have all the answers.

The Minister of Agriculture, Land and Marine Resources wants to get specific programmes from us. I am sure that you can get specific programmes. I have a copy of the UNC Alliance Manifesto, 2007. Perhaps, we can give you a copy. It would give you much guidance on some specific programmes that you can implement in agriculture and many other sectors.

9.55 p.m.

You do not read the news. The National Alliance for Reconstruction (NAR) is part of the UNC-Alliance. I can give you a copy of the UNC-Alliance Manifesto.

Sen. Narace: Was the marriage consummated?

Sen. Dr. C. Charles: You are always talking to these things. I cannot take on the Minister of Health this evening, but I will advise that we are not short on programmes. However, that is not the point. It is not our programmes; it is yours. You are the Government. What are your programmes? We can tell you what our programmes are. They may be completely opposite to what you think. We have no responsibility to tell you our programmes; we have a responsibility to ask for yours. You share with us what is happening that is good news. You seem to be speaking to us, but we are far less important than the national community. They have to be brought into the picture to play their part.

If there is no cooperation by the national community in these matters, you have no chance of success. You have to get the national community to cooperate with you in managing these things. These are the complexities of economics that I have grown to respect over the years. If you do not get the national community to be part of this, you have no chance of success because every policy will be frustrated and undone because, as fast as you can come up with instruments, they will be undone by other forces that have a completely different mindset and a different way of thinking.

The zaboca farmer will continue trying to get $20 and $30 while you are trying to mop up things. So you have to reverse the entire thing. How you do that is a very big task. We can give you some suggestions, but we want you to understand the importance of reversing what you have already done; what you have spent your first few years in government doing with the guidance of a prime minister making all kinds of reckless statements in matters of economics and crime; all kinds of dangerous statements that have created the kind of environment we have now.

It is too late; we cannot make him undo it. You now have the responsibility—you are part of this and so is he—to try to correct what went wrong over the past few years so that the task for us in a few short years’ time will not be so hard when we take over the job.

I only want to make these few points to let the Government understand it is a serious matter and that we are not being frivolous when we ask for limits. We have had the experience of knowing what happens when Government goes without limits. It is not only for our good, but also for the nation's good. I dare say that it is also good for the Government to have limits; to know that it has to account to the Parliament, not just to give a report, but that in a year or two it will have to come back and extend the life of this Bill if you have reached the limit and at that point have to account.

It is also good for the Government to have these limits to work with. It introduces an aspect of fiscal discipline but, more importantly, it sends the right signal to the country of financial responsibility and fiscal discipline, which is the only thing that will cause the country as a whole to change its attitude to the managing of money. That, along with some sense of direction for the economy that shows us why we are paying this price and what we will get out of it, will go a long way to ensuring that people actually are not as aggressive and as angry as they are right now, but that they are a part of a country which is seeking to transform itself; which is spending its money in a particular way. Where they do not get the money themselves, or where what they get disappears too quickly, they can have a better appreciation of where the money is going and why.

With those comments, I once again ask the Government to look into the matter, take into account what has been said, recognize that there is a general view that you should have some level of control on this measure and seek to put this in place.

Thank you very much.

The Minister in the Ministry of Finance (Sen. The Hon. Mariano Browne): Mr. President, I am reminded that everybody must wind up so I shall wind up. I thank hon. Senators for their contributions and comments made with regard to the Bill. A number of questions were raised and points made to which I direct my attention by way of clarification.

I thank Sen. Prof. Ramesh Deosaran for making the point that inflation is not merely a matter of monetary aggregates, but in fact it is about expectations. In fact, economic theory and the Nobel Peace Prize for economics have, within recent times, taken great cognizance of the role of expectations in the business of inflation. It is really about a deeper psychological expectation or expectations about the future, so much so that the monetarists spent a lot of time in the 1980s publishing their monetary aggregates as a leading indicator of how they expected things to happen and how they expected to control the rate of inflation. I might add that the reason for that particular development in monetary economics was because of the first oil shock that led to a worldwide increase in inflation and to stagflation. Economies slowed down; certainly North America and the UK went through a long period of adjustment.

The Senator is also correct that my transition to public life has brought me face to face with the issue that policymaking is indeed about conundrums; it is about policy choices which are certainly not clear-cut. In the private sector it is fairly obvious that when you make a decision, the objective is to increase your net result, if you want your net bottom line. The public welfare is not so easily measured. This particular instrument is a classic case of dealing with public welfare as a policy instrument.

Sen. Mark made a point and called the Central Bank a white elephant when nothing could be further from the truth. We have the very clear example of direct monetary intervention over the year 2006, when inflation was recognized as a target which needed to be dealt with.

Before I go there, in demonstrating my point, the Economist magazine, in its definition of monetarism, went on to identify—this is pulled off the Internet—that the monetary school has largely fallen out of favour, but there is a general recognition that there is a relationship between the volume of money in circulation and the change in prices, though one could not tell you what is the total relationship. In fact, the relationship varies depending on the velocity of circulation, which is something, unfortunately, we do not know in advance precisely because of that difficulty of "expectations" and the fact that it is a dynamic interplay in terms of people's expectations about the future and how they spend their money in the present.

Nonetheless, it is important to use the monetary variable, as and when required, to make an intervention in slowing the rate of changes in prices. In that regard, the Central Bank made a very positive intervention in the period 2006—

2007 as is demonstrated by the fall in the rate of inflation from its first headline number of 10 per cent to 7 per cent roughly at the end of 2007. That is very clear. It did so, I might add, by using the sterilization technique without the existence of a sterilization bond. That is also a demonstration of public spiritedness, conservatism and prudent economic management.

By way of explanation, in November 2006, the Central Bank, in consultation with the Government, issued an eight-year $700 million government bond, the proceeds of which were sterilized. This intervention took place even when there was not a specific instrument created to do so. It followed up, in February 2007, by doing the same thing with a $674 million bond with a maturity date of August 09, 2012 and a coupon rate of 7.8 per cent. This bond was also sterilized.

A third bond aimed at liquidity absorption was done in April 2007. This information is contained on page 13 of the *Central Bank Monetary Policy Report April 2008*. This bond was offered in the amount of $650 million but, due to the public reception, was increased to $1 billion, with a coupon rate of 8 per cent and a tenor of seven years. The proceeds of this bond were sterilized.

These issues were done under the Development Loans Act. That is not what the Development Loans Act was created for, Mr. President, but it was done nonetheless out of a recognition that this action needed to take place and the Government, with the assistance of the Central Bank, voluntarily sterilized approximately $2.2 billion in advance of this particular measure and did not spend those moneys.

Sen. Mark made the point that Government's fiscal policy has not reduced poverty. Nevertheless, poverty levels in the last five years have fallen from 30 per cent to 16 per cent. Unemployment is now down from 10.8 per cent to 4.5 per cent. It is half, but it is down.

This Government has been called, again by Sen. Mark, reckless and irresponsible. How have we been reckless and irresponsible? Because we have spent money on education, housing, subsidizing gas, tertiary education and building early childhood learning centres? Which one would Sen. Mark not have done?

"Fiscally imprudent while excessively spending." In that regard, it is useful to turn to page 58 of the *Review of the Economy 2007* and look at the numbers for total public debt and debt service ratios for the years 2001—2007. I think Sen. Dr. Carson Charles made the point that there was a time when they did not know what the total public debt service was. That is certainly not the case now. We can tell you what our contingent liabilities are and we include that as part of our gross public sector debt.

So all the contingent liabilities—Letters of Comfort and any other statutory borrowings done by a third party—are included in this number. That number as a percentage of GDP was, at the end of 2001, 58.3 per cent, of which the central government debt was 36.7 per cent. At the end of 2007, it had fallen to 28.3 per cent, of which central government debt was down to 16.1 per cent.

The argument was made that that matters only with regard to the percentage, but of course because total government revenues and the GDP had also increased, it really did not matter. What really mattered were the relativities. Well, in fact, the total gross public sector debt, including all those contingent liabilities amounted to $32.8 billion at the end of 2001 and at the end of September 2007, amounted to $37.4 billion; not reckless by any stretch of the imagination.

10.10 p.m.

In terms of comparing it with our total government revenue, certainly as a percentage of debt service ratio, debt service ratios have fallen considerably over the period of time, both with regard to payments of capital and, certainly, with regard to debt service cost, in terms of our interest expenses; noticeably, as a percentage of our total revenues, subsidies and transfers of our total expenditure. Subsidies and transfers had risen from 36 per cent in September 2002, or $5 billion, to $17.40 billion, or 47 per cent of the budget. Those subsidies and transfers would have included payments for education, education facilities and all those other matters, of which I asked earlier on, in terms of what we would have cut.

Concerning the non-energy sector debt, I think it was said by Sen. Mark once again, that we were misleading. Sen. Enill went through 20 years of numbers to indicate that this country has always had a non-energy sector deficit. [*Interruption*] Well, 30 then; 35 to be precise; you are right. He might have skipped the periods, but the contents are contained in a report on inflation which is published as Public Education Pamphlet Series No. 2, and is contained on pages 5, 6 and 7, and covers the period 1973—2005. So if you take that out, it is 32 years instead. There is not one year in which there is not a non-energy sector deficit. In fact, the highest level was 31 per cent, which occurred in 1982, falling to 18 per cent in 1987. During the period 1986—1990, it was never less than 10. So, 15 per cent or 16 per cent, which is where it stands now, is by no means excessive and cannot be considered the main reason for the changes in the price level.

This is not any misapprehension on our part, and it is certainly no attempt to mislead. This is the structure of the economy that we have and, I might add, we need to congratulate those who took the key and important decision in the early 1990s, when LNG was not yet a success story, when LNG was not something that was being done anywhere else in the world. That is part of the success and the foundation of our current good fortune. [*Crosstalk*] Our current economic success was built on a very important capital decision which was risky; a decision where we did not know what was going to take place in the future, and a decision which has served us in good stead. Those of us who would have sold all our energy sector companies, I want you to tell me which one of the energy sector companies, of the methanol and ammonia companies which were divested, has been sold by its initial purchasers; which one?

The inflation genie caused by too much money. I think it is important to read page 12 of the *Monetary Report of the Central Bank*; it contains pretty important principles. It was quoted both by Sen. Dr. Kernahan and by Sen. Mark. It is important that the Central Bank noted very important considerations with regard to the impact of inflation. First, the widely held view that the recent escalation in food prices is structural, and it is, therefore, unlikely to be reversed any time soon. It is a fact and it is a comment which has been made by every multilateral agency, that developing countries, more than the developed ones, are going to experience inflation from one of two causes: imported inflation by way of food or, alternatively, inflation by way of energy prices. In addition, there has been a notable rise in inflation expectations driven by the surge in food prices, and higher inflationary expectations could set in train higher markups in anticipation of future price increases and an increase in wage pressures.

So there is a demonstration effect; there is an inflationary expectation of which we must guard. The purpose of putting this particular instrument in position is to continue the work and the efforts which were done in the period 2006/2007 with regard to sterilizing a portion of the increases in the money supply.

In response to Sen. Ramkhelawan’s comments with respect to the alternative use of other instruments, I indicated very clearly that the use of direct reserve changes had fallen out of favour in developed markets. I made the point that it continued to be used in developing countries and in Trinidad and Tobago; so much so, that during the course of February 27, 2008, the reserve requirement was increased from 11 per cent to 13 per cent and the repo rate was changed simultaneously. So, it is not merely that there would be an increased use of open market instruments; direct reserve measures will be used as and when required. Of the approximately three pages of data, with respect to the use of direct reserve requirements, I can tell you that up to 1997, to be precise, the reserve requirement was increased, at that time, to approximately 24 per cent.

The last time it stood at that measure would have been somewhere in the mid 1980s. So there is still room for the reserve requirement to be increased; this is not to say that it would not be done, simply that the use of a sterilization issue adds to some deepening in the marketplace by some creation of other instruments.

I would make the point that it is not mattress money; this is a tool and a technique that is used by, literally, every Central Bank, where and when required. So it is not that we invented it, that we took it out of context, that it is not used somewhere else. Sterilization issues do take place and are used as a tool of economic policy. The difference is that they may not say so; it may not be directly said, but tap instruments are a function and were invented in other economies. That is one the conundrums of public policy, that it is sometimes better to take the money out of the system and pay for its non-use; you sterilize it. That is a valid instrument, that happens, and that takes place in other economies.

A comment was made with respect to the Royal Bank of Trinidad and Tobago Limited (RBTT) sale. I made no reference to the RBTT sale in any of my contributions. I did not touch it at all, but I need to make the point that the RBTT sale did generate approximately $4 billion, in terms of an immediate injection into the system, which accounts for approximately/ roughly 10 per cent of the total system. That is something that needs to be dealt with.

What were the alternatives? We have espoused a certain tradition and a certain investment market, where we allow individuals to sell and sell their bonds without restriction. What market signal would we have sent if we had said to RBC that you could not buy and you could not pay your shareholders? What would we have said to the market? I wonder if that would not have had a greater destabilizing effect.

Sen. Ramkhelawan kept making the point about when other people's houses were on fire, and he made reference to the North American market. I think today we have seen a decline in the North American market; over the last couple of weeks we have seen a great degree of instability. It is noteworthy that we have not had any instability in ours; certainly no instability of that nature. In fact, today the Dow Jones had a 2 per cent drop in market capitalization. Is 2 per cent correct?

Was 2 per cent the number? There was a significant drop. In fact, the index has been volatile, if nothing else. Of course, there is no risk-free investment; there is none. We could not provide one even if we wanted to; markets behave like that.

I take the point that there are no—how shall we call it—completely free markets; that is one of the reasons we have regulators. Sometimes market participants—if we are to allow a completely free market, and we allow the jungle to operate, different things might happen which we would not want to happen. There is always some form of regulator in every market, including the US market.

In the case of our market, and in the case of the particular RBC transaction, yes, there was an impact on the market, and yes, there is need for us to put sterilization measures to position. The Government of the Republic of Trinidad and Tobago cannot increase the supply of securities in the market in the short term, other than by way of government instrument and by debt instruments. We do not create new companies for publication or listing on the new market. I take the point that there may be some other possibilities in that regard. I think, Sen. Ramkhelawan, that you had given me some ideas for which we would need to have some other discussions.

Many Senators made reference to the fact that this bond does not have a limit, and pointed to the absence of a limit as an indicator, as a blank cheque. I have given the very clear example of what a prudent government does, even when it does not have a specifically designed instrument and acts in accordance with a conservative mechanism, in recognition of the need to bring financial stability and, at the end of the day, the key, the most important point in any financial market is to ensure that the market remains stable and strong, and that the indicators are clear, so that we all have confidence. That was the point, I believe, made with regard to the value of the dollar. The only time that your dollar has any value is when people have confidence in it.

We have examples, as we speak, of markets when there is no value in the currency as there is no confidence in the currency. That has to do with imprudent behaviour, both politically and fiscally. I do not need to call any names; they are in the press.

With regard to the limit, Sen. Enill asked the question: "How much was enough?" "What number would you use?" I made the point in my presentation that the money supply had moved from, approximately, $16 billion to $47 billion in the space of five years. If we were to use a number, if we had picked any number five years before, it would have been out of date five years later. On that basis, given the fact that this is a sterilization issue, notwithstanding the fact—and

I take the very technical point made by Sen. Drayton, that all bonds which are issued are, in fact, borrowings. The importance of looking at borrowings and gross public debt, from that perspective, is about your capacity to repay. If the capital sum of your bond is sterilized, let us put it that way, there is no difficulty in repayment; there is no issue with repayment. The capital is already there, so there is no issue along those lines.

In addition to which, there is not simply the warranty of the Government that this money is not to be used for expenditure. The explicit purpose of the bond is to sterilize the proceeds, so it cannot be spent; the Act says so. It is tied up; it is wrapped up; you cannot do anything with it; do not touch it; put it there. We have already demonstrated, on our own recognizance, without any third party, that we are prepared to behave in that fashion. We have done it three times before in the last 12 months.

In this particular case, for this particular bond, for this particular instrument, for this particular Bill, a limit makes no sense; there is no need for it. We have put some guarantees into the Act. We require the written advice of the Central Bank—in other words, the bonds are not going to be issued willy-nilly.

10.25 p.m.

The Central Bank, the institution that is charged with safety, soundness and regulations, the Government's banker, has to give us the advice. They are the experts in that particular field. They are the ones to tell us that this is a good time to do that and that is how much we should do. They are charged with that particular responsibility. They have put it in position—and we have said that it is on the written advice. It is not that they just simply whisper to us and say, look, we need to do it and we should do it.

In addition, we have also put some safety guarantees by saying that we are going to return to the Parliament at least twice a year to let you, hon. Senators, know what is the position. That is also what financial markets need. They need transparency and they need to be told what is taking place. If you are issuing bonds for sterilization purposes or issuing bonds to borrow money for developmental purposes, you need to make a clear distinction. We did not do it in the past because we could not. We had no other instrument to use. So, we did it under the Development Loans Act and we voluntarily sterilized it. Now, we are saying that we are setting up a specific instrument to do just that in a particular tenor so that you would know exactly what the purpose is for. Even though it comes as part of our total debt, it is also in a sense prepaid, because we have already determined that.

Mr. President, why would you want to issue bonds on which you would have to pay interest for which you would achieve no benefit? There is an altruistic requirement and, at the same token, it is a very commonsensical requirement. Every time that we come to this Parliament and we have to ask for permission to spend money, we ask for a particular vote and say how it is going to be spent and so on. So, you know exactly what it is going to be spent on. We are not making it up. In addition, you have a clear idea of what the debt requirements are. It is in our interest to ensure that it is only done when it is required, otherwise we would be using resources that we could use more productively, but there is a purpose and a benefit in reducing the rate of inflation and keeping the inflation rate in a manageable position, because that has an impact in terms of our total financial position; in terms of how the fixed income people live; in terms of those who invest; and in terms of what their rate of return is. So, it makes sense.

It is not a willy-nilly number and it is not something that we are afraid to disclose. There is fair disclosure, there is an economic rationale and there is even an incentive to keep the total amount that you issue on a liquidity sterilization basis down, because it costs you money and resources. It cost expenditures to move in different directions.

A point was also made by Sen. Subhas Ramkhelawan with respect to clause 10, where he noted that in clause 10 the Central Bank would give us some advice with regard to the type of currency. He said that it is not something he felt that he could live with. But I would ask Sen. Ramkhelawan to pay close attention to table 820 which shows the total deposit or the deposit market constitution—how it is disaggregated and broken out—and he would note that in 2002 the total currency market amounted to approximately $16 billion, if my memory serves me correct, and the total amount of foreign currency deposited in the system amounted to $4.3 billion. At the end of 2007 it had grown by 2.8 times. It amounted to $11.9 billion or approximately 25 per cent of the total aggregate in deposits.

In the foreseeable future, it may be required that we may need to issue an instrument in foreign currency. Rather than have to return to this honourable House to ask for permission to so do, it is put in the Bill as a facilitation, on the advice of the Central Bank. Once again, I wish to make it very clear that it is on the advice of the Central Bank. The Government does not have a discretion in terms of whether it goes into the market to do so or not.

All the points I made with respect to sterilization and the fiscal incentives not to maximize borrowing, in a sense, what you are doing is sterilizing it. You are not going to be using it for anything else. What you are using it for is a measure to keep the economy in control and to make certain that the system is stable and that it is sound, and at all stages of the game that is one of the Government's key requirements. If the system is not stable and sound, then all the other economic decisions that we wish to make would "go through the eddoes", to borrow a Bajan term. [*Laughter*]

Sen. Rahman made the point that the real interest rate on the bonds is effectively negative, given that the headline rate of inflation is approximately 10 per cent and the rate on the last issue would have been about 8.285 per cent. The point is that the bonds would be in existence for a particular period of time. The inflation rate is at today's date. So, as at today's date that is the position. It is not likely to be so over the next five years. We do not have a crystal ball, but invariably we do it on the basis of market expectations about where we are and where we expect to be.

I would invite Sen. Rahman—as you know, I would give you documents from time to time, and if you look at those documents you are going to see all the real interest rates of the major trading partners, in particular, the United Kingdom, the United States of America and our Europe partners and they are in the negative zones. So, on a comparative basis, if you had a choice between investing your money here or there, where would you get the best rate of return? The number still tells you Trinidad and Tobago.

With respect to the Government's debt profile, I think I have answered that—as I have pointed out and I have read the economic arguments—it is stable at this stage of the game. In fact, we have an external incentive to behave well.

When we take on energy projects invariably, we do not finance them in the domestic market, but we finance them in the international markets. Many of the companies that we treat with—some of the companies of which we are investors in the energy sector company—go to the international markets on their own, but because the Government of the Republic of Trinidad and Tobago is a shareholder and manages its business in a prudent way, the credit rating which attaches to the Government's debt attaches to their debt, and it reduces the cost of borrowing.

There is an economic incentive for us to be fiscally responsible, for us to manage our macroeconomic variables in a way that the rest of the world would see and understand that we know what we are about and they can trust us. That is one of the reasons we have one of the highest ratings in this part of the world. So, it is very important that we behave in a manner which is fiscally responsible. There is always room for improvement in managing our money. I would like to think that during the time that I am here and will be here, that I would be able to make an impact and help improve the management of those funds.

Sen. Mark: Has someone threatened you?

Sen. The Hon. M. Browne: No, I am not threatened. [*Interruption*] I am looking at my leader.

Sen. Mark: I am going to tell Patrick—

Sen. The Hon. M. Browne: As you know very well, threats do not bother me, especially coming from you. [*Laughter*] Sen. Subhas Ramkhelawan also made a point with respect to securities companies and why have we only mentioned the use of financial institutions. Well, it is important to note that in the Bill that we actually considered financial institutions as an alternative. The reason we did so is to treat with the institutions that are regulated. It is not to say that we have any particular preference for any particular security company.

Mr. President, I would add that the Government in strengthening the financial sector, as part and parcel of its requirement for safety and soundness in the economic environment of Trinidad and Tobago, will bring legislation to this House to strengthen, not merely the banking sector and not merely the insurance sector, but the credit union sector as well as to upgrade the Securities Act. That is going to happen during the course of this year. In fact, at this stage, we are a little behindhand, but we expect to have all of that completed before the end of this year. So, we can look forward to more time in this House discussing these matters.

Having regard to these comments, I suggest that the Government has acted in a fashion which is responsible. It has treated with the issues; it has created an instrument—not merely to take care of the difficulties that exist at today's date—which will help us in terms of management of the economy in the future, and which will give us another variable.

Mr. President, I beg to move. [*Desk thumping*]

Question put and agreed to.

Bill accordingly read a second time.

Sen. The Hon. M. Browne: Mr. President, in accordance with Standing Order 63, I beg to move that the Bill not be committed to a committee of the whole Senate.

Question put and agreed to.

Question put and agreed to, That the Bill be read a third time and passed.

Bill accordingly read the third time and passed.

ADJOURNMENT

The Minister of Energy and Energy Industries (Sen. The Hon. Conrad Enill): Mr. President, I beg to move that the Senate do now adjourn to Tuesday, July 22, 2008 at 1.30 p.m. and on that day would be Private Members' Day. However, I wish to advise that we propose to sit on Tuesday, July 29, 2008 and Wednesday, July 30, 2008 commencing on each day at 10.00 a.m., and continuing for as long as we have to in order to try and get through legislation before we take the break.

We will provide Senators with a schedule when next we meet. We propose to attempt to do the Children's Authority (Amdt.) Bill, some elements of the Pensions Act as it affects teachers and those that are absolutely required—what we think needs to happen in the context of some implementation or something like that.

Sen. Mark: Mr. President, before you adjourn, I just wanted to indicate to you and to this honourable Senate our very strong objection to the manner and style in which the debate has just been concluded. I know it has been the practice that whenever we have to deal with money Bills, the mover of the Motion or the Bill, will so indicate to this honourable Senate, and we would not have to waste our time circulating amendments and only to be told at the end of this debate, after the second reading of the Bill, that in accordance with Standing Order No. 63, the Bill would not be referred to the whole Senate because it is a money Bill.

10.40 p.m.

I think it is a bit disingenuous; I think that we have a practice in this Senate, if a Bill is certified by the Speaker and we know in advance it is certified then we will respect the wishes of the Senate. But I think for us to be taken for a ride, virtually, where for instance, Sen. Drayton advanced certain positions, we advanced certain positions and we were of the view that we were correct on this particular one. I want to serve notice that we intend to challenge this particular money Bill that has been passed and we will in fact seek legal advice on this matter, because we do not believe this is a money Bill and therefore, I serve notice that we intend to challenge it.

Mr. President, finally, I hope that you will take my comments in the spirit that it is given and in future, if you could use your office to insist that when a Bill is being introduced and it is certified as a money Bill, the mover of the Motion so indicate to us.

Because as you would know, Mr. President, the Bill that we received had no certificate from the Speaker, but at least, the mover of the Motion could have told the Senate it is a money Bill. We had no idea and no knowledge, Sir. I just thought that I should bring it to your attention and to the attention of the Senate, so that in future we do our business in a proper way and not be misled by the mover of the Bill, Sir.

Thank you very much, Mr. President.

Sen. The Hon. C. Enill: Thank you, Mr. President. We had indicated—certainly I had indicated—to those to whom I spoke, including, I think, Sen. Mark, that this was a money Bill. I think the issue is that Sen. Mark was of a different view. As far as I understand the Constitution and the Standing Orders, we have a Bill signed by the Speaker indicating that it is a money Bill. What has occurred in this instance, and in this instance only, is that the Bill that was circulated did not have the signature of the Speaker. That is so because we asked the House to bring this Bill for debate today by special circumstances. In those circumstances, the Bill that was circulated previously would have been the original Bill sent to the Houses, but the Bill that was sent here from the Senate—Maybe, Mr. President, if we erred is that the certified Bill was not circulated. Maybe what we should in fact suggest is that in circumstances where we ask the House to debate a Bill, as we have done on this occasion, when the Bill comes from the other place certified by the Speaker, we should circulate that for the benefit of all so that there is absolutely no doubt as to the issue and I suggest that for future consideration.

Sen. Rahman: Mr. President, may I have one moment please, Sir?

Mr. President: No, no.

Question put and agreed to.

Senate adjourned accordingly.

Adjourned at 10.44 p.m.