



FINAL

SHTA White Paper

Cost of Living

Proposes solutions to reduce the Cost of Living and Cost of Doing Business

Problem: Cost of Living

Resident Impact

The high cost of living on St. Maarten seriously affects the quality of life of its residents. Increased costs of housing, utilities, food, gasoline, etc. and the high tax burden significantly reduce spending power.

Business Impact

Increased prices of labor, utilities, real estate, construction, etc. and the high tax burden increase the cost of doing business.

Visitor Impact

Because of the high cost of living and doing business St. Maarten has become a high priced destination, with a low cost to value ratio. This will negatively impact the visitor's experience on St. Maarten

Goal: Reduce the cost of living

Proposed Solutions

Reduce Taxes

- Reduce Tax Rate
- Broaden Tax Base
- Simplify Tax System

Less Labor Costs

- Decrease Acquisition Cost of Labor
- Flexibilize Labor Law
- Increase Productivity

Lower Other Costs

- Housing
- Food
- Utilities
- Healthcare
- Transportation
- Education
- Safety and Insurance

Manage Growth

- Less condo's
- Value Added Investments
- Manage Immigration
- Limit on Imported Cars
- Zoning Laws

Conclusion

The cost of living is directly tied to the cost of doing business on St. Maarten and vice versa which can cause a vicious circle spiraling out of control if not managed properly. The costs are influenced by numerous factors, some internal that we can manage and adapt, and some external that are beyond our control. The goal is to reduce the costs of the basic living necessities of the average resident of St. Maarten. These necessities have been identified as housing, food, utilities, healthcare, transportation, education and safety. Solutions come in many forms and will have a direct or indirect influence on the cost of living and may be achieved by reducing the cost of doing business as well. In this, we aim to achieve a positive circle of cost reduction.



Reduce Taxes

Reduce Tax Rate:

Description

A reduction of the tax rate of income/wage tax as well as the profit tax will decrease the costs for residents and businesses and increase their spending power (calculate tax-burden).

Benefits

Reduced taxes will directly increase consumer spending power, thereby fueling the economy, and countering inflation. A tax reduction will decrease cost of doing business possibly leading to price-reductions, making the market (even more) attractive for foreign consumers.

By reducing tax-rates, compliance may increase automatically, as the risks involved with non-compliance no longer outweigh the 'benefits'.

Reliability

The reliability of this proposed solution would focus on the enforcement of the collection of taxes for everyone in order to avoid reduction in government tax revenues.

Restrictions

Reductions in tax rates require government adaptation of laws on island and federal level. Reduced tax rates would mean greater enforcement of the rules is required from the tax inspectorate, all citizens need to contribute to make up for the reduced income for the public sector.

Suggestions/Action:

- Lower wage/income tax
- Lower profit tax
- Encourage early IT filing by guaranteeing payouts within 2 months if filed by 04/30.
- Encourage early & accurate PT filing by offering discounts for early filing & paying.

Broaden Tax Burden

Description:

A broader tax base spreads the burden of society over all residents and businesses. If all businesses and residents are included in the tax system and they are all paying their taxes accordingly, the burden is spread more evenly. This will also compliment the reduction in taxes to ensure government revenues will not go down.

Benefits:

The tax burden will be spread more evenly among the population and will avoid government having to put more burden on those that are paying their taxes to compensate for those that are not. Furthermore this measure will result in more equal competition, with all businesses having the same tax component in their costs. It will ensure a level playing field avoiding the development of a black market.

Reliability

Greater compliance is required in order for public sector revenue to remain adequate. Therefore the tax inspectorate needs to actively pursue those who are currently evading the system.

Suggestions/Actions:

Equal tax audits: Not only the companies/residents that are registered with the tax department should be audited, but also the ones that are not registered.

Equal treatment: Everybody should receive the same treatment when it comes to permits, licensing, paying taxes etc.

Enforcement: Laws concerning permits, licenses, tax payments, etc should be enforced and regular checks should take place if businesses and residents are obeying those laws.

Simplify Tax System

Description:

The tax system should be simple and easy to manage. Laws and regulations should be easily accessible and easy to understand. Furthermore tax payments should be centralized and less cumbersome.

Benefits:

A more simple tax system will encourage residents and businesses to pay tax, since the system will be clear and manageable (compliance up). Providing easier, less cumbersome methods of payment will make it easier for companies to comply and it will reduce the cost of complying with the tax system, and therefore it will also reduce the cost of doing business. Furthermore it will reduce the costs for the tax department (less overhead), it will relieve the traffic congestion and it will increase government revenue. Increased tax revenue will also mean more money available for public transportation, schools, healthcare, etc. It should be easier to comply with the laws than to evade them.

Restrictions

Simplification of the in tax system require government adaptation of laws on island/federal level.

Suggestions/Action:

- Reduce/eliminate all (in) direct taxes for 1 or 2 broad based taxes (perhaps St. Barths model EXPLANATION OF ST. BARTHS MODEL)

Decrease Acquisition Cost of Labor

Description:

The cost of acquiring new employees is significant. Reducing the time and cost of acquiring new employees also reduce the cost of doing business.

Benefits:

Companies spending less time and effort finding new employees will decrease the cost of doing business. A reduction in the cost of acquiring new personnel will compliment this.

Suggestions/Action:

- Job agencies and website

By introducing job vacancy agencies and websites that promote local job vacancies, businesses can reduce the cost of acquiring applicants. These sites can be promoted internationally to attract St. Maarten people living abroad who may be thinking of returning.

- Facilitating the work permit application

Simplifying and speeding up the process of a work permit application also decreases the cost of new labor. Less bureaucracy, refusals, appeals, and court cases will reduce the time and money often invested in acquiring a labor permit.

- Upgrade local labor force so skills/demand match & therefore less foreign labor is required to keep the economy going

By better matching the end product of the local education system to the needs of the business community and economy, less foreign labor is needed, students can enter the job market easier since they will have the skills needed and grow within the industry faster once they have earned the needed experience.

- Synchronize the Economic/ Education and Labor departments

It is very important to have these departments interrelated so that one cannot function without the other. Once this happens, we'd be able to better match skills on the labor market to those required from businesses.

Reduce Labor Costs

Increase productivity

Description:

Increasing productivity of the labor force will reduce the cost of doing business. Better skilled and trained employees are able to operate more efficiently and produce more for the company in less time than someone who is untrained and inexperienced. This increase in productivity reduces the cost for the company, since one person is able to do more.

Benefits:

Besides decreasing the cost of doing business, increasing productivity through training and education will also increase the employee's sense of worthiness, give the employee a better negotiating position when it comes to salary negotiations. Furthermore better education and training will improve the quality of the local labor force, resulting in reduced imported labor, which in turn will decrease the acquisition cost for businesses.

Restrictions

Only possible if training in particular fields is available & accessible to the workforce (relatively low training fees). Employees must have drive to improve themselves.

Suggestions/Action:

Industry Specific Training

Industry training and certification programs, such as CARIBCERT, improve skills and increase productivity in addition to other advantages such as upward mobility, and career growth. CARIBCERT is a hospitality specific certification course that is offered regionally through the Caribbean Hotel Association. CARIBCERT can be adapted for the whole tourism industry and similar certification programs can be established for trade industries.

Hospitality and Trade School

A local hospitality and trade school would cater better to the needs of the local economy as well as offer students the chance to build up experience and a local network before graduating with summer jobs, internships and part-time jobs thereby facilitating their entrance into the job market.

Public/ Private Partnership

Businesses and government should join forces to ensure that the labor force is properly trained and qualified to meet the needs of businesses. This will reduce the time and cost for businesses to acquire proper labor.



Flexibalize Labor Law (numerical flexibility)

Description

Removing the dismissal law will reduce the barrier for businesses to hire employees. Many companies are now hiring through subcontractors, at a higher fee, to reduce the risk of not being able to terminate a contract if necessary. This will result in a reduction of the labor cost, which can in turn stimulate investments leading to an increased demand of labor.

Benefits

The removal of the dismissal law will eliminate the image of the difficulties of that terminating the employment of a non-productive employee has. This will reduce or even eliminate the abuse of short-term contracts and the use of subcontractors to avoid a direct employer-employee relationship. By establishing a direct relationship between the employer and employee, the costs of labor are significantly reduced plus the added advantages include more job security for the employee, career growth within the company and more.

Suggestions/Action:

- Remove dismissal law

The dismissal law unfortunately hampers the introduction of new employees to the work force, hampers growth within the industry and promotion of employees within the company. Whether perceived or a reality, the image of the dismissal law is very negative image and has led to several forms of abuse in the system to avoid indefinite employment.

Since all failsafe is in place for appeals for unjustly terminated employees, removal of the dismissal law will have little to no negative effects. The positive effects will reduce the cost of labor by reducing the court cases, use of sub-contractors at higher rates, and increase productivity.

Lower Other Costs

Reduce Housing Costs:

Description:

Although in other countries such as the US and the Netherlands, the average housing cost is around 30%, most people on St. Maarten spend about 50% to 60% of their salary on housing. The cost of renting or owning a house on St. Maarten is significant. Real estate prices are up because of a lack of land available, an increasing population and increasing foreign investments. Because of the high real estate prices it has become very difficult for local residents to purchase a house or a lot.

Benefits

Significantly reducing the cost of housing on St. Maarten would increase spending power for residents. This also reduces the cost for businesses since rent also has a large impact on the level of pricing.

Reliability

With the continuously rising costs of real estate, the reliability of this option is not guaranteed.

Restrictions

Reducing the cost of housing is not easily achieved. Based often on supply and demand and a very profitable condo market, landowners and developers prefer to cash in for the highly profitable condo market than build affordable housing developments. Incentives will have to be introduced by government to make this endeavor attractive.

Suggestions/Action:

Zoning

Zoning could be a solution, where different areas are allocated according to residential and commercial zones, or maybe even "locals only" zones. This way more local residents would be able to afford a house of their own.

Reduce Construction Costs

An increase in construction costs has also resulted in higher real estate prices. The two major cost components for construction are labor and materials. Most materials have to be imported, resulting in higher prices, because of shipping (increase in fuel prices), etc. As for labor: see "Reduce labor costs". Being able to reduce the real estate and construction costs will also result in lower rental fees.

Improve Building Codes

Additionally in recent years the cost of insuring a home against natural disasters has increased, and this trend appears to continue as natural disasters strike in large areas (Katrina/USA) and leave billions of dollars in (insured) damages. By adhering to building codes or by rebuilding safer, insurance costs should go down.

Tax Incentives for Local Housing Developments

The introduction of tax incentives for the construction of housing developments for the local population would make the building of local homes instead of condominiums more attractive for developers and stimulate the construction of more affordable housing.



Lower Other Costs

Reduce Food Costs:

Description:

The cost of food on St. Maarten is perceived to be very expensive. With the range of products coming in from all over the world, St. Maarten does indeed offer almost everything. However, when compared to other economies, the products are still quite expensive. Most of the products used by businesses and residents in everyday life on St. Maarten have to be imported. Being able to produce more on island will reduce the import costs and therefore cost of living.

Benefits

More on-island production would benefit the local economy by reducing the amount of dollars leaving the island (paying for imports → deviezen), reducing our dependability on outside economies such as Florida, and increasing the economy's diversification. Additionally, buying locally (produce) has as an added (green) benefit that it consumes less 'petroleum miles' to get from the farm to your table.

Suggestions/Action:

Purchasing Local Products

Although St. Maarten has little to offer in terms of local and regional production, many fruits and vegetables and some locally produced products are available usually at lower prices than in stores. These products' pricing is much less or not influenced by external factors such as shipping and fuel costs and stimulate the local economy by reducing the dependence on imported products.

Joint Purchasing

Encouraging wholesale shopping or joint purchasing by families can decrease the cost per item. Although the expiration dates need to be checked carefully to ensure that bulk purchased items do not expire before being used, this shift in purchasing habits can also help decrease the cost of living.

Ombudsman

An ombudsman would give consumers a venue to be able to voice complaints about the quality of products or prices where unreasonable or questionable.

Consumer Organization

A consumer organization similar to the Dutch "Consumenten Bond" would educate consumers to be mindful of value for money namely checking expiration dates to ensure that outdated products are not being sold, comparing prices, etc.

Lower Other Costs

Reduce Utility Costs:

Description:

The high cost of living on the island is also significantly impacted by the habits of residents. Actions such as leaving utilities (airco, tv, ceiling fans etc) on while they're not being used are prime examples. By improving the way we go about our daily lives we can reduce the cost of maintaining a healthy lifestyle.

Benefits

The reduction in consumption of utilities has many benefits besides the obvious cost reduction. The reduction also minimizes the impact on the environment and saves on natural resources such as oil and water. This really makes it a win-win-win situation.

Reliability

Should one take on a cost saving way of life, it will guarantee a lower cost of living for that person, because what he/she would save on utility costs, he/she would be able to spend on leisure goods.

Restrictions

The only restriction to reducing utility costs is the time that it would take to adapt to a different way of living.

Suggestions/Action:

Joint French/Dutch Utility Plant

Local utilities (water, electricity and telecommunication) are higher compared to surrounding areas, partly due to economies of scale that aren't attainable in our small 'market'. By uniting the production of these for both Dutch & French side, significantly higher economies of scale should be attainable, translating in cheaper utilities for residents and businesses on both sides.

Reducing Consumption

Savings in utilities on a short-term can be achieved by changing regular light bulbs to CFL's (Compact Fluorescent Light bulbs) and LED's (Light Emitting Diodes), both using significantly less energy (about 25% of regular bulbs), last years longer then regulars bulbs (thus require less upkeep/maintenance) and have the added 'green' benefit. These types of savings aren't limited to residents alone. Businesses and the public sector can greatly reduce their cost by lighting large areas this way, parking garages, traffic lights, stadiums, airport taxiways, public displays etc.

Re-Using

Re-using 'gray' water from washbasins and washing machines to flush the toilet (would require some serious 're-plumbing' in most houses/ businesses) or just watering a part of the garden and (continuing) to collect rainwater also help in keeping the water bill down, and also has an added 'green' benefit.

Alternative Energy Sources

By tapping into alternative energy sources such as solar, wind and water, the dependence on external factors such as crude oil prices decreases. Using a Solar Hart to heat water, a cistern to collect water, a windmill or solar cells to create additional energy, reduces the use of conventional utilities as well as reduces greenhouse gases, pollution and more. Ideally, government tax incentives and deductions would be introduced for use of alternative energy as well.



Reducing cost of Healthcare

Healthcare costs are continually rising, medication as well as insurance (SVB premium up, benefits down) while some private insurers don't insure citizens over the age of 60, shifting the burden on the residents and immediate family, and ultimately to the government. By using generic medications, some costs can be lowered, hopefully translating in a lowering of the insurance rate. Government can change the law applying to insurance companies, preventing them from 'kicking' senior citizens out of their portfolios. Additional investments in the local hospital / on-island healthcare facilities would in the long run reduce the costs as more treatments would be available on-island. Teach healthy life-styles to residents for a long-term benefit in increased quality of life and possibly reduced costs of healthcare.

Suggestions/Action:

Insurance Legislation

Laws dictating insurance companies to keep senior-citizens insured

Generic Medicine

Communicate the pros of using generic medicine

Medical Tourism

Start with medical tourism (dialysis) and invest proceeds in new facilities.

Reduce Transportation Costs

Description:

The traffic and congestion on St. Maarten increases the cost of living and doing business. Less traffic and congestion helps to reduce the cost of fuel, which has experienced a major increase, and time spent in traffic. Improving the traffic situation will decrease delivery time and increase productivity. This will all decrease the cost of doing business and consequently decrease the cost for the consumer, and increase the quality of life for residents, and help provide a positive experience for visitors.

The increase in cars on St. Maarten and the reduction of parking spaces also impacts the cost of doing business. Security guards now have to be hired to guard parking spaces and businesses that do not have access to sufficient parking may lose customers because of this.

Improvement and better maintenance of the road network, would go a long way towards the extension of the life of the average car, reducing cost of maintenance, tires etc, as well as reducing the depreciation burden. Additionally this may make financing more affordable.

Benefits

- increase quality of life by reducing time spent in traffic (less chance of road-rage)
- decrease cost of doing business by decreasing delivery time
- less time in traffic and easy parking help provide a better visitor experience
- reduce car-maintenance and financing

Restrictions

Restriction of number of cars would have to be done by government and at the very least would need to be accompanied by a public transportation system that services the majority of the Dutch side, is reliable and affordable. Improvement and maintenance of the road network/infrastructure is costly and in certain cases very difficult, as there are space/land limitations.

Suggestions/Action:

Alternative Transportation:

Making an alternative to using a car more attractive and feasible; by incentives (discounts for paying bills online instead of dropping off payments) and urging the public/private sector to explore alternative (employees working from home and citizens being able to request standard info from public sector via internet), this has an added 'green' benefit. Another alternative is to encourage carpooling and walking to distances nearby.

Reduce Traffic

Improving (reliability of) public transport so we can become less car-dependent but still be able to function (work, kids in school etc). Another suggestion would be to implement a shuttle service in the Philipsburg area and begin enforcing traffic control laws. See White Paper on 'Traffic'.

Improve Road Network

Increase road tax dependent on type of vehicle/weight, additional income to be used for improvement of road-system only

Lower Other Costs

Improving Education

With the disappointing results of the education system for the past years, many working parents have to spend more on the children's education in order to be assured of a reasonable quality of education. Schools are overcrowded and under funded, teachers are underpaid and the quality of the education is decreasing.

Benefits

A better education leads to better job possibilities, careers and earning capabilities in the future.

Suggestions/Action:

Affordable After school Programs

Idle hands make mischief, therefore the opportunity for supervised activities for youth whose parents have to work will also give them the opportunities to learn, be challenged and enjoy new learning experiences outside the classroom.

Increase quality of Education

The general education level, local and foreign, of the island needs to be increased to ensure that the large uneducated portion of the population is able to function properly in society.

Please also see SHTA Education Whitepaper



Lower Other Costs

Improving Safety

Because of the high level of crime and the feeling of insecurity, businesses are forced to take measures to assure their safety. For example security personnel is hired to guard the property, expensive alarm systems are put in place, paying out salaries has become more cumbersome, etc. All these measures will increase the cost of doing business and therefore also impact the cost of living by increased prices.

Benefits

A safer and more secure environment is a more pleasurable place to live, work and vacation. Additional costs of securing home and business could be decreased.

Reliability

The reliability is guaranteed. Most business owners/ managers indicate that a vast majority of their costs are devoted to protecting their assets. By reducing crime on the island, it will lead to reduced costs for the businesses, which in turn will affect consumer prices thus reducing the cost of living for consumers as well.

Restrictions

The current restrictions are the fact that St. Maarten is still an island within the Netherlands Antilles and cannot alter any laws. In addition to this, the Police department on the island is severely understaffed and cannot function as effectively as the community would like.

Suggestions/Action:

Broken Window Theory

Mayor Giuliani effectively reduced instances of crime in Manhattan and made New York a safer place to live and work by implementing the Broken Window Theory. By enforcing even the lowest levels of offences around the city, he reduced overall levels of crime.

Increased Police Visibility

Increasing police, visibility (in Marigot a temporary 8 month increase in gendarmes – visibly patrolling the city, reduced the amount of crime in that capital).

Neighborhood Controls

Set-up neighborhood watches, increase social controls

Improve Law enforcement

Create incentives for people to want to become police officers and replenish the police department so that crime is battled effectively.

Please also Read SHTA White paper Safety & Security



Less Condominiums

There are too many permits being awarded to condominium developers, leading to an influx of condominiums on the island. The island is already overdeveloped and the current construction boom will only lead to more traffic, resulting in higher fuel costs and a higher cost of living for all involved. Preference should be given to hotel developers over condominium developers, because hotels require more maintenance and would utilize more staff.

In addition, the influx of condominiums on the island attracts high-end visitors, whose interest is to settle on the island. This results in the increase of real estate prices on the island, eliminating the possibility of obtaining affordable housing.

Benefits

The increase in available jobs will lead to a lower unemployment rate and a more manageable cost of living for those persons.

By putting a limit on the number of condominiums being built, we will slowly begin to see the real estate prices being reduced. It will also prevent the island from becoming too overdeveloped.

Suggestions/Action:

Investments of Added Value

Government needs to evaluate which investments bring added value to the island. Based on that evaluation award permits accordingly.

Protect the end projects

By taking suitable measures when constructing new developments, such as: ensuring proper roads to get to the development, providing adequate parking facilities and ensuring proper sewage, the end projects will then be protected.

Reduce the Red tape

Implement a moratorium

To regulate immigration to the island.

Value Added Investments

By awarding permits based on the added value to the island that the investment will ensure, we will be able to better monitor the growth on the island. In addition zoning policies would also assist in preventing the island from becoming too overdeveloped. By being able to manage development on the island we would also be able to indirectly manage immigration to the island. This will lead to an increased feeling of job security and an increased quality of life for all.

Benefits

The island will be able to reap the benefits of the development of added value. Managed development will also lead to managed traffic, which may not exactly lead to reduced cost of transportation, but a more manageable cost of transportation.

Reliability

In order for growth to be managed in such a way as to reduce or improve the management of the collective cost of living, the responsible Government department would have to ensure that requests for new developments follow a new procedure taking into account the added value this development will bring and the new zoning policies.

Suggestions/Action:

Implement Zoning Policy

Implement Quota System to manage immigration

Establish natural reserves

Implement new policy when issuing permits (Added Value Investments)

Individual Tips for Managing Your Cost of Living

Housing

Groceries

- Shop on a weekly basis (wholesale) and spread out your grocery list among various grocery stores to save a few pennies.

Utilities

- Turn the AIRCO up two degrees, and turn down heater two degrees
- Maintain the AIRCO (clean filters and make sure the sensors work)
- Use Solar Heating instead of G.E.B.E
- Use more energy saving light bulbs
- Ensure that your fridge is properly insulated
- Unplug all electronic appliances that aren't being used
- Only turn on lights in a room if it is truly necessary
- Check toilet for water leaks

Transportation

Alternative transportation

- Consider carpooling (for example, if all of the kids in the neighborhood attend the same school it would be a good idea to rotate shifts). This will not only alleviate traffic in the school district but will save families on fuel costs thus reducing their cost of living.
- Make more use of alternative transportation, such as: the public transportation system and walking when going to nearby destinations.

Vehicle Maintenance

- Check tires to reduce your fuel costs
- Carry out regular maintenance on your vehicle
- Use less AIRCO when driving the car

Benefits

By carrying out the above-mentioned tips, it will ensure a lower cost of living for the family.

