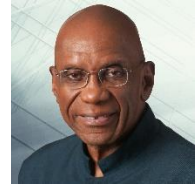




# Economic Letter October 2018



## There is a Second Opinion on the Health of the Barbadian Economy

In November last year I published a diagnosis and prescription for the economy in *The Barbados Economy: The Road to Prosperity*, which you may find on my website, *DeLisleWorrell.com*. Barbados has a competitive tourist industry, a well regarded international business and financial services sector, and quality rums and other exports that are coveted in the Caribbean, North America, Europe and elsewhere. On the basis of the foreign exchange they earn, our economy should be growing by 3 percent per year.

Instead, our economy did not grow at all last year, and it is expected to contract this year. The main reason is that \$2 billion of investments have been held up in official processes of one kind or another. To make matters worse, taxes failed to cover Government expenditures by a wide margin. Government was obliged to borrow to make up the difference, including from the Central Bank. As a result, the foreign reserves fell to low levels, deterring potential investors.

I proposed seven measures to eliminate bureaucratic delays, improve public services, and reduce Government spending to avoid overburdening taxpayers. Those measures were summarised in my Economic Letter of January this year. The cornerstone is a makeover of the public sector, to be implemented over three years, to eliminate Government's operating deficit and achieve measurable improvements in public sector productivity. In May I suggested the first steps should be to institute a functioning system of timely publication of annual reports by every Government agency, department, ministry and state corporation. In September I pointed out that new leadership will be needed in the public sector.

Clearly there needs to be a major reduction in public sector employment. The required makeover will eliminate numerous obsolete processes and procedures, and the personnel that are associated with them. Higher levels of skill and expertise are required; to attract people of the right calibre, better salaries must be offered. All this must be achieved within a lower overall spending limit, because people are already paying too much tax for public services which are deteriorating.

To achieve the necessary reduction in a way that minimises economic difficulties, I recommended that the retrenchment be planned over 3 years, with about 1,500 separations each year. No one would be left empty handed. Retrenchment should be funded through negotiation with the IMF and other international agencies. In my July Economic Letter I recommended that cash grants should be used to reward public servants who volunteered for separation. Long serving officers should be allowed to retire early without loss of pension. In addition, there should be retraining programmes, family counselling and a safety net for exceptional cases.

I also recommended divestment of carefully selected assets. In my August Economic Letter I identified the Port and Airport as the primary candidates for privatisation. I pointed out that Government could provide a significant fillip to the economy by leasing these facilities to major international operators. Such companies would have the finance and expertise to upgrade our

port and airport to an international standard. They would fit Barbados into their global network, attracting business far beyond the reach of the Barbados Government.

The Barbados Government has been trying to reform itself for more than two decades, without success. I therefore recommended that the centrepiece of a structural adjustment programme to be negotiated with the IMF should be conditionalities on the implementation of fiscal reform. There should be an agreed list of specific actions to be undertaken by Government and state owned enterprises. They would include targets for the reduction of subsidies to state enterprises, targets for the publication of annual reports, targets for the privatisation process, and targets for the delivery of public services. Every quarter the targets should be reviewed, and disbursement of funds would be approved only if targets had been met.

Barbados has a quite healthy private sector, whose efforts should be giving us 3 percent growth. To unlock this growth action must be taken to remove bureaucratic barriers, and to reduce Government to a size our taxes can support.

I maintain that my seven recommendations, taken together, are the correct prescription for addressing the ills of Government obesity and poor performance. With this strategy we may unlock the 3 percent growth rate, and set the country on the path to even greater future prosperity.

*All the documents referenced may be found on my website, **DeLisleWorrell.com**.*