



What Should Government Do to Stimulate Development?

The living standards of the population, and the prospects people see for the advancement of their families, are the concerns which governments are expected to address, rather than the rates of growth with which news media are usually obsessed. What should governments focus on to enhance people's livelihoods and to create solid grounds for general optimism about future prosperity?

First and foremost, we need government services that operate with acceptable standards of efficiency. That means we must have annual reports of all public sector bodies and institutions that are in receipt of funding from taxation, social security contributions, fees paid to public sector institutions and interest, rents and other income derived from assets owned by the public sector. These reports must be available to the general public, online, within three months of the end of each financial year. They must set out the tasks that were to be performed during the year, as well as the revenue received and spent, and they should evaluate the year's performance against budget.

Secondly, government must set national priorities for the allocation of spending, and strengthen financial control to ensure that actual expenditure respects those priorities. The need for public services always exceeds the financial resources available to government, no matter how high or low the tax burden is. Government's responsibility is to prioritise the needs according to sensible criteria, and set a cutoff point that will depend on the total revenues available. In the absence of prioritization, services such as policing, health and education are not given budgets sufficient for their needs, and maintenance services may be neglected altogether.

Thirdly, government must set aside funding to support small and medium enterprises and ventures in renewable energy. These funds are best administered by banks, credit unions and other non-governmental organisations. They may take a number of forms, including credit guarantees, loans that may be converted into grants, operation of innovation incubators or other arrangements. Whatever their nature or mode of operation, they must be performance-based; that is, beneficiaries will be expected to meet specific targets for sales and profitability within agreed time frames; those who repeatedly fall short should expect to be dropped from the programme after a reasonable probationary period.

Fourthly, the infrastructure of ports, airports, roads and public utilities must be continuously upgraded to keep pace with international standards. The public utility enhancements should include universal access to high-quality telecommunications.

Fifthly, the public sector budget must be managed so as to produce a small surplus of public sector revenues over the costs of running public services, including interest payments. This provides a contribution from the revenues to help to cover depreciation costs, and ensures that all borrowing is used to acquire additional assets for public sector use.

Efficient public administration and services, modern, well maintained infrastructure, and a coherent, well-articulated medium-term government strategy for development will lend confidence to potential investors, as they see the strategy unfold through the annual reports of public sector entities. Prudent budget management serves to improve government's credit worthiness at home and abroad. The improvement of external credit ratings and access to foreign funding for public sector projects is vitally important for small economies, to provide the foreign exchange they need for equipment, construction material and other inputs for investment.

There is one other action which would greatly enhance creditworthiness, investor confidence and general well-being in small nations: the withdrawal from circulation of national currencies which are of limited use and subject to risk of devaluation. Instead the US dollar should be used domestically, as it is for the international commerce which is the lifeblood of every small economy.

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