**Economic plan (for discussion)**

Save Our Selves (SOS) economic plan (for discussion) presented by Leroy McClean.

*"In all recorded history there has not been one economist who has had to worry about where the next meal would come from."*

*Peter Drucker*

*“Many individuals are doing what they can. But real success can only come if there is a change in our societies and in our economics and in our politics.”*

David Attenborough

*“Results are gained by exploiting opportunities, not by solving problems.”*

Peter Drucker

Each of the quotes above touches on or resonates in some way to the present day reality in Barbados and of Barbados. We have had many economic policies and proposals but so far we have not been able to arrest the slide of our economy and the unravelling of many of our social norms. Today we have an economy that has suffered more indignity than at any other time in our history coupled with the rising concerns of the impact of crime on our society.

It is against this background that an attempt is made here to offer another perspective on how the people of Barbados can aid in the restoration of economic growth and development. I am not an economist and therefore cannot speak on the pros and cons of any economic theory. However, as a scientist, Peter Drucker’s comment that results are gained by exploiting opportunities, not by solving problems resonates with me. Barbados has problems and those problems provide us with opportunities which we must exploit. There is an old saying “use what you have to get what you can”. Our current situation forces us to look within as we have less access to external resources. We must therefore assess the environment in which we exist and like MacGyver or the A-team, make what we have work for us.

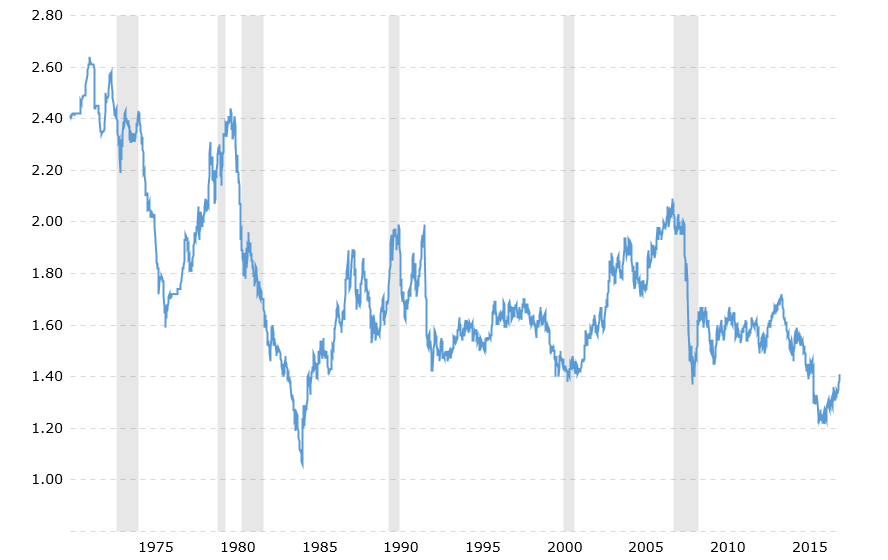
What do we have? For the purpose of this presentation, In addition to the many underutilized resources we need to focus on our people and the money which we have. The government has financial problems and as individuals we have financial problems; but as David Attenborough opined in the second quote above, while the government and individuals are doing what they can, real success will only come when we change our society, our economics and our politics. To succeed, this proposal calls for significant change in our thinking as a people. To be more specific, first, it asks that we think as a community and not as individuals. It appeals to the sense that we are stronger together. Secondly, it requires a political leadership in whom the people have confidence and trust to implement it in a manner that is in total keeping with what the people have bought into.

THE PROBLEM

One politician warned that our economy was approaching the brink of a precipice. At that time the main concern was the fiscal deficit and the country’s high debt to GDP ratio. At that point the issue was still an economic issue with contending views as to how we should tackle the problem. The issue is no longer one of economics only and the luxury of theoretical perspectives has diminished to a point of less irrelevance.

What is at stake now is the worrying increase in the probability of a currency devaluation, as suggested in the narrative surrounding the latest downgrade by the rating agencies.

The first devaluation of a country’s currency is like stepping on a banana peel on a slippery slope. There is little chance of getting back up. Some of us remember when the pound was valued at BD$4.80. The chart below gives a clear depiction of the fluctuation of the pound against the U.S dollar since 1975.



Interactive historical chart showing the daily British Pound - U.S. Dollar (GBPUSD) exchange rate back to 1971. The current GBP USD exchange rate as of January 24, 2018 is **1.41**. (http://www.macrotrends.net/2549/pound-dollar-exchange-rate-historical-chart)

In the debate on the devaluation of the pound sterling in the House of Lords on 21 November 1967 Lord Beswick rose to move, ‘That this House takes note of the actions of Her Majesty's Government in relation to the exchange value of the pound sterling.’ During that debate he said the following: “A basic point which cannot be over emphasised is that the purpose of these measures (devaluation included) is not to reduce total demand and activity but to alter the pattern. They are not deflationary measures. They are designed to enable us to expand output more strongly and steadily than in the past, and to achieve an export-led growth in place of the consumption-led expansion that we have had hitherto.” (House of Lords Deb 21 November 1967 vol 286 cc904-1036)

Lord Beswick clearly established the main planks on which a decision to devalue the pound sat:

i. To expand output

ii. To achieve an export-led growth

iii. Replacement of consumption-led expansion by export-led growth

While these objectives are all possibly attainable in the British economy that has the productive capacity and markets, the same does not apply with respect to the Barbadian economy which is small, open and lacking the capacity to increase exports over the short term. In fact our main export (tourism) would experience significant loss of revenue since it is highly unlikely that there would be a sufficient increase in long-stay visitors to compensate for the reduction of costs to the visitors.

In his contribution to the debate Lord Carrington, speaking on behalf of the opposition stated: “But, as Mr. Heath said last night, by making the pound worth 17s. 2d. you are not tackling the root of the problem. What you are really doing is to make it necessary for us to export 15 per cent more before we are back to where we started. We in the Conservative Party have said for a long time that in order to put the economy right there must be encouragement and not restriction—encouragement in personal incentives. People should be allowed to keep more money in their pockets and have more say in how they spend it. And for that purpose, our taxation system must be rearranged and penalties on high wages and overtime must be removed.”

The issues addressed in the debate in the U.K’s experience would suggest that if the Barbados dollar is devalued by 1% we are not in a position to increase our exports by that amount in the short term. It is also clear that we have reached the saturation point with respect to taxation and unfortunately, the level of government services provided for the Barbadian tax payer is not commensurate with the increased level of taxation. Our infrastructure continues to deteriorate and social services are stretched. Our high tax measures have now reached a point where it is almost likened to theft by government from the citizens of this country.

THE OPPORTUNITY

While the government is in the nadir of economic health, there are individuals, corporations and organizations in this country with substantial amounts of cash in the banks, which because of the high liquidity are offering very low interest rates and feeding the consumption-led economy through consumer loans for items which put great pressure on limited foreign reserves. This situation provides an opportunity for the people of Barbados to acquire a tangible stake in this country while earning significant returns on their investment. This is also an opportunity to raise the level of national cohesiveness and bring meaning to Attenborough’s assertion that *“Many individuals are doing what they can. But real success can only come if there is a change in our societies and in our economics and in our politics.”* Furthermore, as Peter Drucker said: *“Results are gained by exploiting opportunities, not by solving problems.”* We have the opportunity to turn this problem into an opportunity which we can exploit for our benefit.

THE SOLUTION

The people of Barbados need to exploit the opportunities available in order to provide the solution to the economic and social problems that confront this country. The fields and hills that we claim to be our own have provided for us over the years. We have attained a standard of living that is the envy of many around the world. Many look on in amazement, some with envy at the level of health, education and social services that we have achieved.

One of the things that contributed significantly to the stability of this country is the fixed exchange rate of two Barbados dollars to one U.S dollar. While the Barbados dollar has a fixed exchange rate with respect to the U.S it fluctuates against other currencies in consonance with the U.S dollar. This has been evident in the fluctuations in the earnings for sugar to the U.K over the years. When the pound sterling is high relative to the U.S dollar earnings are up, while a weak pound decreases earnings. Unlike the U.K, Trinidad and Tobago, Guyana or Jamaica; Barbados does not have the infrastructure nor resources that would enable us to expand output more strongly and steadily than in the past, and to achieve an export-led growth through a devaluation of the Barbados dollar. There are no short term benefits to be derived from a devaluation of our currency. On the contrary, a devaluation would bring degrees of hardship that would shock the average Barbadian to the core.

The alternative proposed by some is a massive reduction in government expenditure a.k.a, extensive job cuts in the public service. This is potentially as devastating as a devaluation. In addition to the untold hardship it could bring to families, government, through the National Insurance Scheme (NIS), has to meet severance payments thus putting more pressure on that fund. A smaller work force also means that there are fewer workers to make NIS contributions as well as a reduced tax pool from which to extract taxes. Both of these options could transform Barbados from a country that a few years ago was aiming for developed country status to a nation of impoverished disillusioned people.

SAVE OURSELVES (S.O.S)

The time has therefore come for an SOS, not a distress call for someone to come and save us. No one will. We are on our own and we must Save Our Selves (SOS). The conventional policies to date have not worked and the proposed solutions could create immense poverty in this country. Let us therefore try something different. If I am in need should I beg steal or borrow? Pride in Industry is our motto, therefore I will not beg. I am a God faring person at heart, therefore I will not steal. Maybe I could borrow, but the conditions for borrowing are too stringent because of my poor credit rating. That is the position of many individuals and this country. But while the individual has this great, seemingly insurmountable problem, the society as a whole has money, a lot of money. Money which the government steals from us with every new tax measure. Money that sits in foreign owned banks that use it to make profits while fuelling the consumption driven economy through loans for high priced imported items; but give little or no interest and even charge you for keeping it.

Many of us have quite rightly reached out and helped our Caribbean brothers and sisters who were so severely affected by hurricanes. We have not been hit by a hurricane, but the rating agencies have just issued a warning that an economic storm is quickly approaching. Canned food and bottled water will not help us to survive the impact, storm shutters and roof straps will not protect us. This is a hurricane whose impact will cripple the economic and social development of one or two generations. Are we prepared to save ourselves?

My proposal is simple, perhaps so simple that economists will scoff at it. But I believe in the MacGyver approach. In a bad situation, see what you have in your environment and use it to get out of a bad situation in which you have found yourself. We have money in the banks, we have well educated people and underutilized resources.

I suggest that a government with goodwill and the trust of the people should launch a National Redevelopment Plan which aims to address the fiscal problem through debt consolidation and restructuring of the public service. Consolidation of the debt would be funded from two sources. (i) First by borrowing from the people of Barbados and (ii) raising funds externally mainly from international agencies and also by tapping into the Barbadian diaspora.

The funds borrowed would be for specific purposes, namely:

Repaying NIS debt

VAT and Income tax refunds

Infrastructure (road repairs and refurbishment of government buildings)

Health

Education (payment of arrears to the UWI)

The reasons for identifying these areas should be obvious. The economic activity that would be generated should also be obvious.

Once the quantum of money that is required is determined, fifty percent (50%) will be borrowed from the people through the issuing of National Redevelopment bonds at 6 to 8% interest per annum for ten years. These bonds would be issued at a discounted price but can be transferred or traded at face value. In other words, a $100 bond is purchased for $92 but the owner can trade it privately for a negotiated value. If bonds are surrendered

* at three years or less after issue, the owner pays 50% tax on the interest earned,
* at four to six years the owner pays 35% tax
* at seven to eight years, 20% tax
* for more than eight years no tax.

The other fifty percent would be raised externally in order to provide the foreign exchange component that is required to undertake infrastructural work.

It must be reiterated that a plan such as outlined can only be sold to the people by one who has credibility and in whom the people repose sufficient confidence that what is suggested will be done and also requires a change in the mind-set of the people of Barbados.

The tax burden borne by individuals could be reduced if the tax net is widened. Currently there are too many people who do not make their fair contribution. As a result the tax burden falls mainly on government employees and those employed by large private sector firms since a large percentage of self-employed professionals escape the tax net. It is therefore necessary to widen the net. This could be done through allowances to those already in the net in order to draw others in. To illustrate this: Each vehicle owner is given a tax allowance for vehicle maintenance of twelve hundred dollars ($1200.00) per annum for vehicle maintenance. In order to take advantage of this allowance, the tax payer must present a receipt from a person who is registered with the BRA as a practitioner in the particular field. On registration the practitioner would be issued with a book of receipts which carry the necessary security features and BRA watermarks for a fee. This would be applied to all trades and professions. This is not merely a tax credit for tax payers. This is a means of identifying persons who presently evade the payment of taxes and drawing them into the tax net.

RESTRUCTURING

In the present economic climate the issue of finding money to pay civil servants has been a monthly problem for the government. This exposes the fact that government has to spend more money than it collects. This has forced the treasury to rely on support from the Central Bank (printing of money) but this is no longer a viable option. This means that government must either earn more revenue or significantly cut expenditure. Some have suggested that this problem could only be solved through a drastic reduction of the size of government through drastic reduction of the public service. It has been suggested that government should reduce the number of public servants by fifteen hundred (1,500) per year for three years; a total of four thousand, five hundred (4,500). This, like devaluation, is not a desired course of action. There should be some trimming of the public sector through restructuring that places emphasis on the reallocation of workers from non-productive areas to productive areas and also in a manner that allows a significant number of those displaced from state-run entities to be absorbed by the private sector. This is a more viable option in the context of the SOS plan outlined above which should result in increased economic activity.

Some of the state run enterprises (SOE’s) should be merged and others eliminated completely. The private sector is quite capable of providing the housing to meet the needs of most income levels in the country. This is possible through access to financing that government cannot access. There is also the option of joint venture projects where government provides the land. This would certainly be cheaper than what is required to fund the National Housing Corporation (NHC) which has probably outlived its usefulness and should be down-sized. The NHC should be restructured to be a monitoring and regulatory agency.

Most of the major roadwork undertaken in the past thirty years in Barbados has been done by private companies rather than the Ministry of Transport and works (MTW) resulting in significant redundancy with respect to equipment and personnel in that ministry. The functions of vehicle inspection and the issuing of drivers’ licences could be brought under the Barbados Revenue Authority (BRA) which is now responsible for collecting all of the fees related to these activities. The MTW should therefore be reduced to serve as a technical agency that oversees work done by private contractors, manages and maintains drainage, sanitation services and National Conservation Commission (NCC). By bringing sanitation services under the MTW the Sanitation Services Authority (SSA) could be eliminated. Many of the workers displaced from the MTW as a result of this change would be absorbed by the private contractors.

Barbados currently runs a massive trade deficit with respect to food commodities. While it is impossible to turn this into a surplus, our food import bill can be reduced significantly. The institutional changes recommended would start with the merger of the Barbados Investment and Development Corporation (BIDC), the Barbados Agricultural Development and Marketing Corporation (BADMC) and the Barbados Agricultural Management Company (BAMC) to form an Agro-industrial entity that utilizes the output from agriculture in industry. This would see a significant increase in primary agricultural produce and agro processing. This increased agro-industrial activity would see an increase in employment in this sector. There would be fewer persons at the senior management level; since, rather than three of each, there would now be one of each senior member of staff and one Board. This would result in a significant reduction in emoluments at that level. An increase in agricultural activity at the field and processing levels would require an increased number of workers. This provides opportunities for workers displaced from MTW, SSA and the NCC.

The marine space available to Barbados vastly exceeds the land space. However, this extensive marine environment has not been exploited to the extent of its potential impact on the economy. The fishing industry must be fully integrated into the food resources sector since it provides opportunities for skilled workers in boat building, net making, marine navigation and fishing. With an increase in fishing at greater distances from the island, as well as in areas not now exploited, there will be opportunities for increased processing and the production of a wide range of fish based products. This sector must also be fully integrated into our food production system for increased food sovereignty as well as to exploit the export potential. A Marine Institute should be established at either The Samuel Jackman Prescod Polytechnic or the Barbados Community College in order to provide training in navigation, use of modern fishing technology, boat building, marine engine maintenance and other related topics.

Barbados has attained a high level of education that compares favourably with standards in developed countries. However, we have not been able to take full advantage of the opportunities to treat education like an economic commodity. A greater effort should be made to attract international students to Barbados. We can provide tuition in the teaching of English to persons whose native language is not English. There is a significant market for this in Latin America and other parts of the world where people are seeking to enter the USA and Canada as professionals but are deficient in English language. Government should also provide incentives to offshore medical and dental schools to set up in Barbados.

There are also immediate opportunities for expansion of the cultural industry. In addition to the current efforts, government should partner with the private sector to establish an audio and video recording studio and sound stage that can be used for music and movie production. Barbados could then become a venue for international music and movie production.

The measures here are in no way exhaustive but merely give insight into some of the things that could be done to provide short and medium term solutions.

Leroy McClean

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