



**Hosts a Lecture**

**The Case for a 3<sup>rd</sup> Established Party**

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# CONTEXT

**What is the purpose of Government?**

**To fairly and faithfully represent the people's interests.**

**What is the people's interest?**

**To properly manage our National Economy.**

**What is the National Economy?**

**All Government services (all ministries and departments).**

# **What is proper management?**

**Includes using available resources efficiently,  
and over-spending only on strategic  
investments or emergencies.**

## **What is to be managed?**

**Employees      Equipment,  
Materials      Money,  
Time              Methods  
Any other resource.**

**CONTEXT: How do we know if the  
National Economy is being properly  
managed?**

**Examine critical  
economic indicators.**

# **Barbados' Critical Economic Indicators**

- 1. \$12 Billion National Debt**
- 2. \$1.6 B Projected Deficit**
- 3. National Debt > 130% GDP**

## **WHAT DOES IT MEAN?**

# **\$11.7 Billion National Debt (2014)**

1. Many businesses and countries are in debt.
2. Problems occur when debts are unpaid.
3. Both BLP and DLP administrations have been paying Barbados' debt obligations.

**Being in debt is not a justification to start another Party.**

*(Data source: IMF Article IV, 2015)*

# **\$1.6B Projected Deficit (2016/2017)**

- Revenue = **\$2.7 Billion**
- Spending = **\$4.3 Billion**
- Over-spending =  $\$4.3\text{B} - \$2.7\text{B}$   
= **\$1.6 Billion**

*(Data source: Government 2016-2017 Estimates)*

# DEFICIT (OR OVER) SPENDING

Normally used for **Investments** and/or **Tragedies**.

- Making more than what you invested = **positive return**, which can reduce the National Debt.
- Making less than what you invested = **negative return**, which adds to the National Debt.
- Spending on tragedies normally adds to the National Debt.



# **\$1.6B Projected Over-spend (Deficit)**

1. Many businesses over-spend when investing in their ideas.
2. Both BLP and DLP have over-spent to invest in their ideas.

**Over-spending is not a justification to start another Party.**

**National Debt > 134% GDP (2014)**

**What does this mean?**

**How much debt is too much?**

*(Data source: IMF Article IV, 2015)*

# How Much Debt Can Barbados Sustain?

It depends whom you ask.

- Government – Much more.
- Opposition – No more.

## Who should we believe?

**I want to believe the Government ...**

**... but Governments rarely tell  
the public the true state of a  
poorly performing economy.**

# Case Studies: Guyana and Jamaica

- Two of the most prosperous Caribbean countries in 1970's.
- Embarked on a Socialist experiment (Cooperative Socialism in Guyana and Democratic Socialism in Jamaica – and Barbados).
- Socialism – the Government, not the private sector, manages major industries.

## Case Study: Guyana

*“We have concluded that the standard IMF prescription is not only palpably **irrelevant and useless**, but also positively dangerous and counter productive in **our particular situation**.*

*We must **resist, with all our might**, the pressures that might be exerted to force us on to the IMF's procrustean bed.”* Prime Minister Hoyte, 1985

*"But let me make our position clear on this issue. While the People's National Congress remains in office, the bauxite industry, the sugar industry and the other strategic industries **which we have nationalised** in this country will **never, never, never** be denationalized [privatized].*

*For one thing, to do this would be an admission that we are abandoning the **socialist ideal**, and we have no intention of doing that." Hoyte, 1985*

# Guyana's Historical Record

- 1988, Hoyte finally admitted that his Party's 19 year Socialism idea had failed, and he surrendered the Guyanese people to an IMF programme.
- 1989, IMF Stabilization programme – 70% devaluation and doubling of income tax.
- Privatized Industries: Mining (Bauxite and Gold), Rice, Timber, Sugar, Fishing and Telecommunications.

**(Industries are not toys for politicians.)**



# 1998 Guyana Debt = 135.7% GDP

GUYANA GOVERNMENT DEBT TO GDP



**Public Price**    **1975: G \$2.55 = US \$1**  
**Paid:**            **2016: G \$207 = US \$1**

GUYANESE DOLLAR



# Guyana Public Price, 1989

- Ruined economy.
- Dilapidated infrastructure.
- Lack of supplies.
- Reduced social services.
- Mass emigration of professionals.
- 75% of population in poverty.

*(Source: Worldbank Report No. 12861-GUA)*

# 2013 Jamaica Debt = 135.5% GDP

JAMAICA GOVERNMENT DEBT TO GDP

**135.5%**



SOURCE: WWW.TRADINGECONOMICS.COM | BANK OF JAMAICA

# Public Price Paid:

1977: J \$1 = US \$1

2016: J \$121 = US \$1

JAMAICAN DOLLAR



SOURCE: WWW.TRADINGECONOMICS.COM | OTC INTERBANK

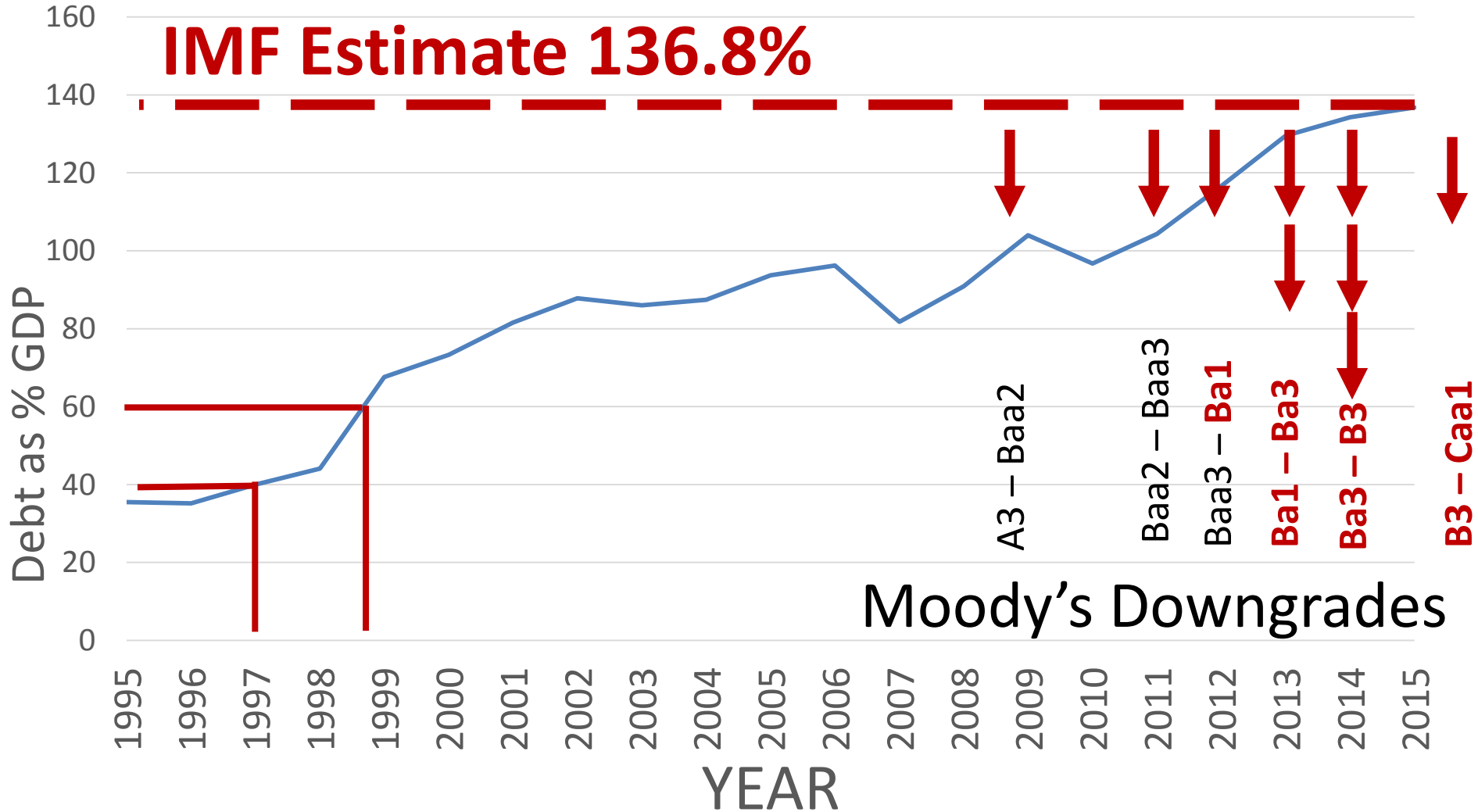
# National Debt > 134% GDP (2014)

- Advanced Economies Debt Limit = 60% GDP
- Emerging Economies Debt Limit = 40% GDP
- Guyana 1998 Debt = 135.7% GDP **[DEVALUATION]**
- Jamaica 2013 Debt = 135.5% GDP **[DEVALUATION]**

**Our National Debt seems very high.**

*(Source: IMF, Cottarelli, 2010)*

# Barbados National Debt, 2015



# Moody's Dec 2012 Downgrade Reason

- “Debt/GDP equaled 80% as of March 31 this year (net of holdings of government paper by Barbados' National Insurance Scheme totaling an additional 30% of GDP), **a ratio generally reached only by much wealthier countries with considerably larger economies**”.

*Note: 2012 Debt (including NIS) = 110% GDP*



# Moody's Dec 2013 Downgrades Reasons

“1. Barbados' continued **anemic economic growth** with limited prospects for improvement” **[FAILED IDEAS FOR GROWING THE ECONOMY]**

“2. The country's **persistently large fiscal deficits**, which are **driving further increases** in already high debt levels” **[FAILED DEFICIT INVESTMENTS]**

“3. Increasing government liquidity risk, as reflected by greater reliance on **short-term** funding and rising cost of funding” **[LOW INVESTOR CONFIDENCE]**

“4. Rising **external vulnerability** due to a sharp decrease in foreign exchange reserves” **[DEVAL RISK]**

# Moody's June 2014 Downgrades Reasons

- “Reinforcement of **negative** fiscal trends;”  
[HIGH DEFICIT]
- “**Increasing** government debt ratios;” [HIGH DEBT]
- “Moody's expectation of a **decline** in international reserves this year” [LOW SAVINGS]
- “Central bank financing of the fiscal deficit that will **increase pressure** on the country's currency peg to the US dollar.” [DEVALUATION RISK]

# Prime Minister's Response, June 2014

*“What they say is only relevant if we want to embark on an orgy of foreign borrowing in which people should know how much we should have to borrow, how much our money should cost”.*

*“But if we are not intending in the short or medium term to go to the capital markets to borrow money, **what they say has as much value as what you would see in any garbage dump collected by the Sanitation Services Authority.**”*

# Moody's April 2016 Downgrade Reasons

- “Slow progress towards achieving fiscal consolidation consistent with a sustainable debt trajectory.” **[HIGH DEBT]**
- “Low level of foreign exchange reserves and weak funding conditions.” **[DEVALUATION RISK]**

# **National Debt > 134% GDP (2014)**

- Repeatedly downgraded by Moody's
- Repeatedly downgraded by Standard & Poor's
- Repeatedly warned by the IMF

## **Government's Response:**

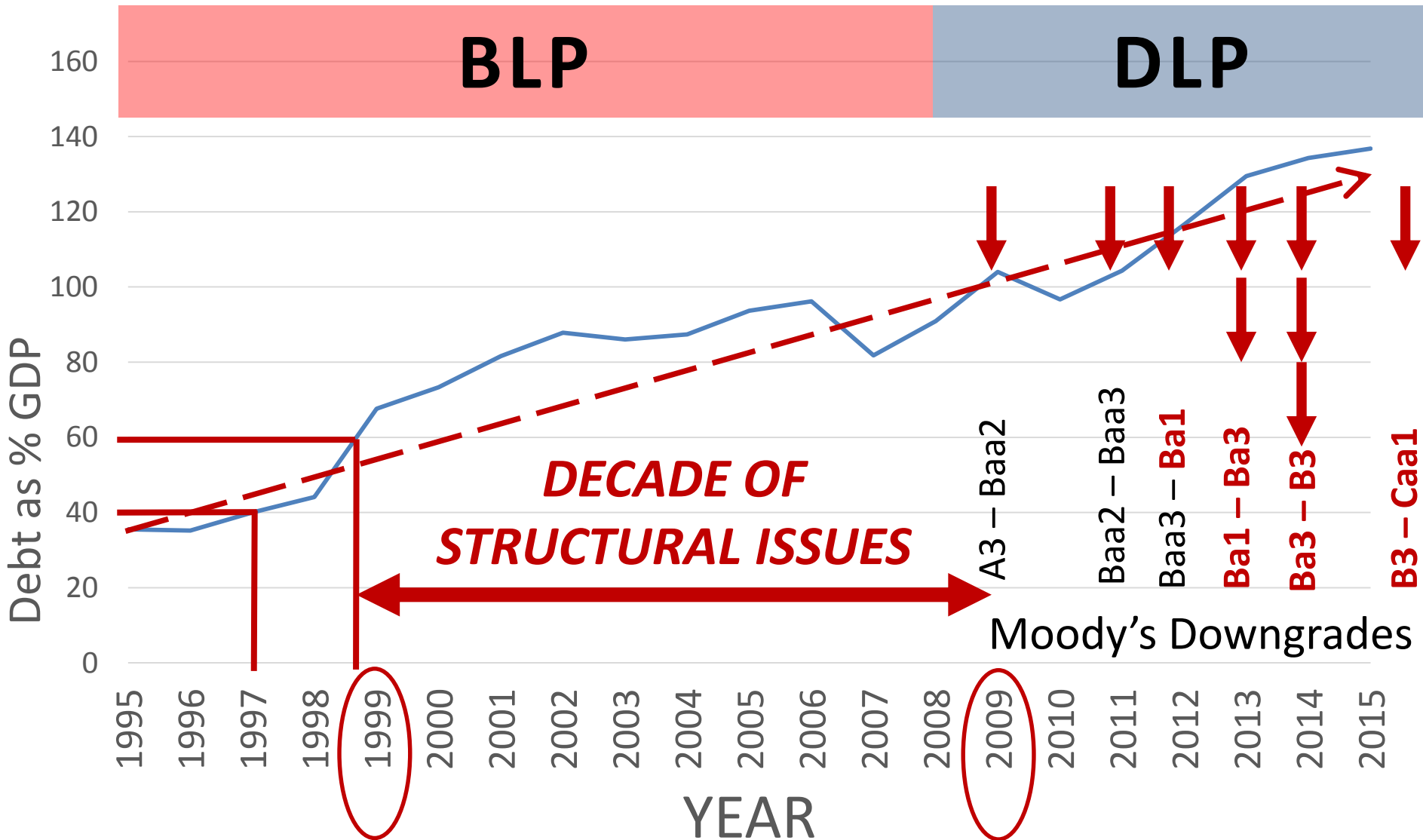
**They do not understand Barbados' economy.**

**Red light bulbs have blown &  
warning sirens have worn out.**

# Moody's Oct 2009 Downgrade Reasons

- "Barbados' key debt indicators have been on a deteriorating path **over the past decade** *[1999-2009]*"
- "While the global crisis has clearly exacerbated this trend, the worsening of debt indicators **over a long period of time** suggests that **structural issues are at play**. These include a steady increase in expenditures, **including off-budget**, as revenues have remained at roughly the same level in terms of GDP."

# Barbados National Debt



# No Debt Limit Myth

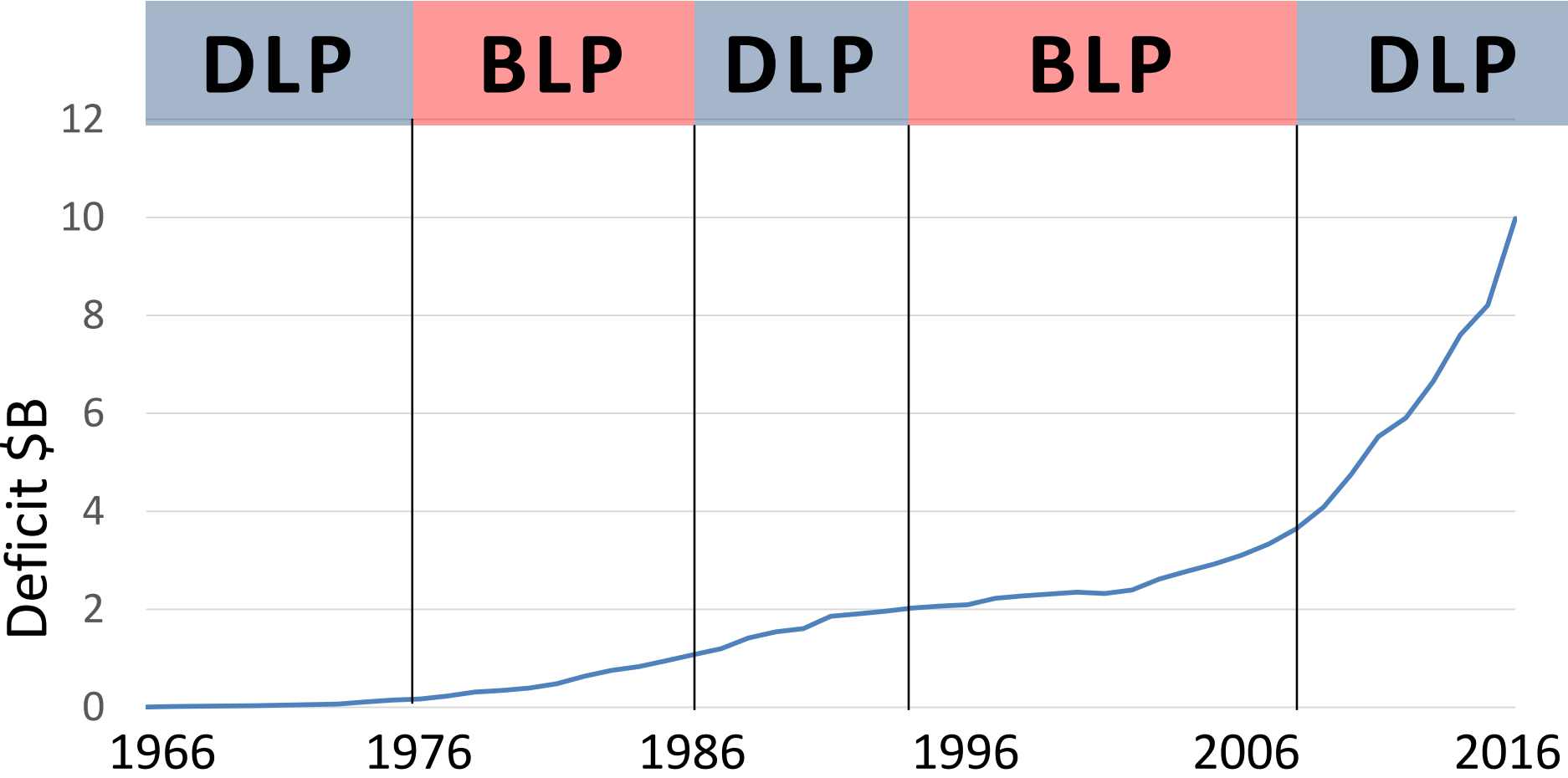
- The BLP surpassed the IMF recommended 40% GDP debt limit for emerging economies like ourselves in 1997, and the 60% GDP limit for advanced economies like the US two years later.
- Since the consequences were not felt right away, they kept spending until they more than doubled the national debt to almost 100% GDP.
- The DLP then seemed to believe that the IMF debt limits were not relevant to Barbados.



# 50 Years of Accumulated Debt

<u>Years</u>	<u>Time</u>	<u>Admin</u>	<u>Debt</u>
• 1966–1976	(10 yrs)	DLP	\$259 M
• 1976–1986	(10 yrs)	BLP (IMF '83)	\$3.1 B [+2.8B]
• 1986–1994	(8 yrs)	DLP (IMF '92)	\$4.3 B [+1.2B]
• 1994–2008	(14 yrs)	BLP	\$9.2 B [+4.9B]
• 2008–2016	(8 yrs)	DLP	\$11.7 B [+2.5B]

# 1966–2015 Barbados Deficits = \$10 Billion



# Typical Results of Government Ideas

1. Inefficient.
2. Wasteful.
3. Expensive.
4. Financially unsustainable.
5. Adds to our national debt.
6. Management rewarded for failure.

# 50 Years of Negative Returns

- Deficits not used to fund tragedies, but investments.
- Sum of 50 years of deficits, including planned \$1.6B, is approximately \$12B, similar to the national debt.
- After 50 years of trying, we should be financing our development through tax revenues, instead, we are almost out of options.

**This is sufficient justification for a third established political party.**

# **Third Party Risk**

**If a 3<sup>rd</sup> Party is composed of people who are just as capable as those in the existing parties, then we should not expect any improvements.**

# **Barbados' Main Problems**

**1. Investment ideas not giving positive returns.**

**2. National economy not growing well.**

## **Solutions**

**The national economy should be managed by persons experienced in:**

- a) Successfully implementing investment ideas, and**
- b) growing a local economy.**

# The case for successful and responsible Employers.

1. They can identify workable ideas because they have completed the process of learning from their inevitable business failures.
2. They have learnt to satisfy the expectations of their customers and their employees.

# Employers Learn From Failures

1. Develop an idea – difficult to predict successful.
2. Invest only a small amount in the idea (vs Gov't).
3. Attract a few customers.
4. Iteratively refine the idea based on customer feedback – learn from failures (trial and error).
5. Once there is sufficient demand, invest increasingly larger amounts to grow the business.
6. Once sales are sustainable, improve the product development process to reduce wastage, increase efficiency and create wealth. (eg. ISO 9001)



# Two types of Employers

## Responsible

1. Compete in the market.
2. Tender for work.
3. Help competitors.
4. Influence market place for the public good.
5. Accept reduced profits to keep employees.
6. Focus on improving the product.

## Irresponsible

1. Do not compete.
2. No-bid contracts.
3. Harm competitors.
4. Influence the market place in their favour.
5. Lay-off employees to maintain profits.
6. Focus on increasing profits.

# **Employee (unconcerned) Expectations**

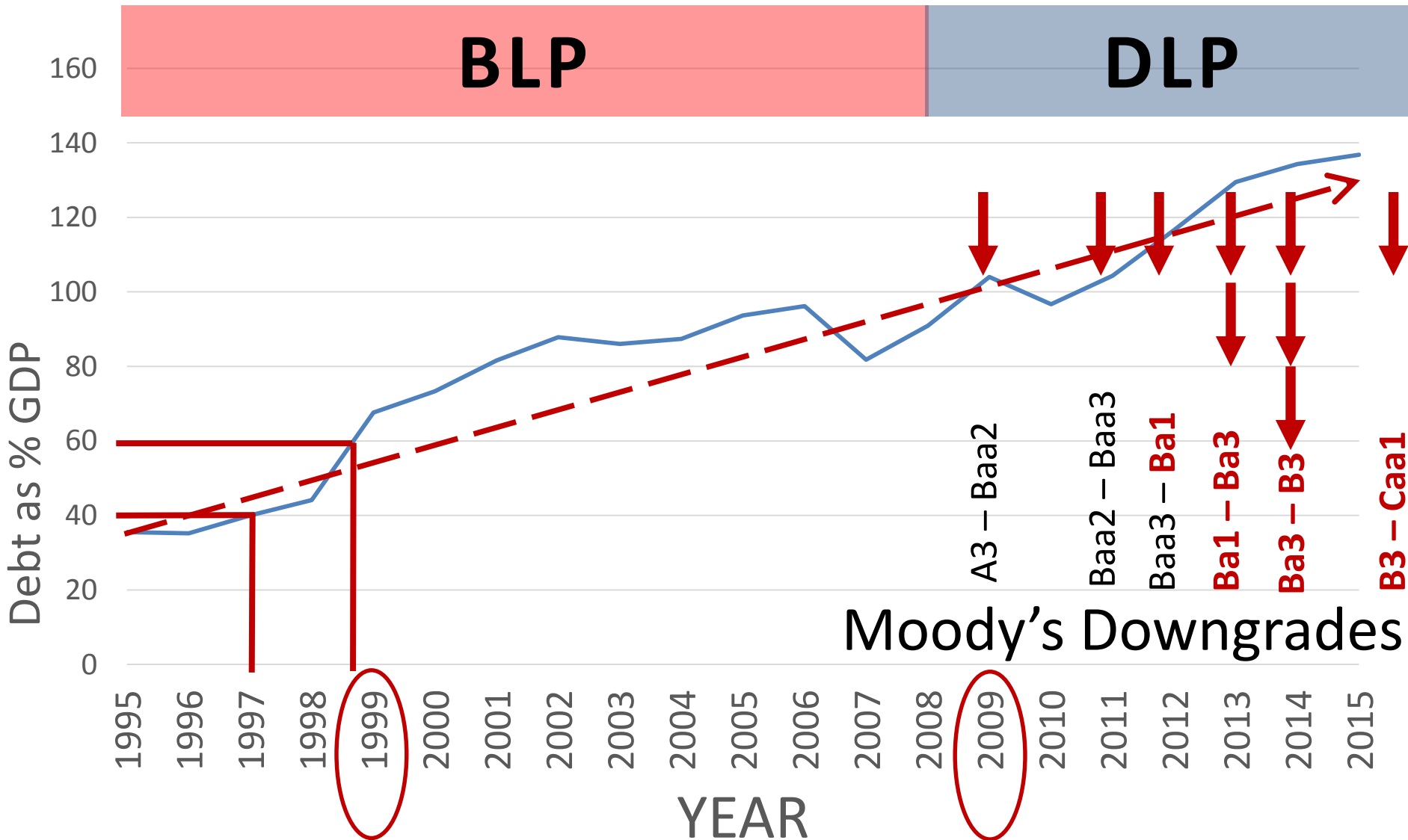
## **Employer (concerned) Responsibilities**

1. Work to be found for them to do.
2. Payment for the work.
3. Training and space to do the work.
4. Tools and equipment to do the work.
5. Materials to be incorporated into the work.
6. Time to do the work.
7. Management/supervision of the work.
8. Protection from the consequences of error.
9. Paid health, safety, vacation, etc benefits.

# Most Capable Hands on Deck Now

- If we were in the IMF recommended safe 40% GDP area, then everyone can be invited to have a try at managing the local economy.
- We are almost over the proverbial cliff at 135% GDP, so at this critical time, we desperately need the most capable people at the proverbial wheel.
- The most prepared people to manage the growth of the national economy are those who have grown a local economy responsibly.

# We did not need to exceed 40% GDP



# Barbados' Emergency Action Plan

## a) Reduce the Debt/GDP by increasing the size of the economy (GDP).

1. Implement ideas that give a positive return on investment (**Capable advisers**).
2. Properly manage public services to reduce wastage and improve efficiency (**ISO 9001**).
3. Train the public to start and grow home-based family businesses.
4. Reduce personal and corporate income taxes.

# THE CASE FOR LOWER TAXES

- In a paper<sup>1</sup> published in the December 2009 Journal of Public Sector Policy Analysis, a review of the results of tax policies in several developed countries was performed. The authors found the following.

<sup>1</sup> Greenidge, K and Drakes, L. (2009) *“A New Measure of Taxation: An Application to Barbados”*, Journal of Public Sector Policy Analysis, December 2009, volume 3, pp. 40-61.

# General Findings

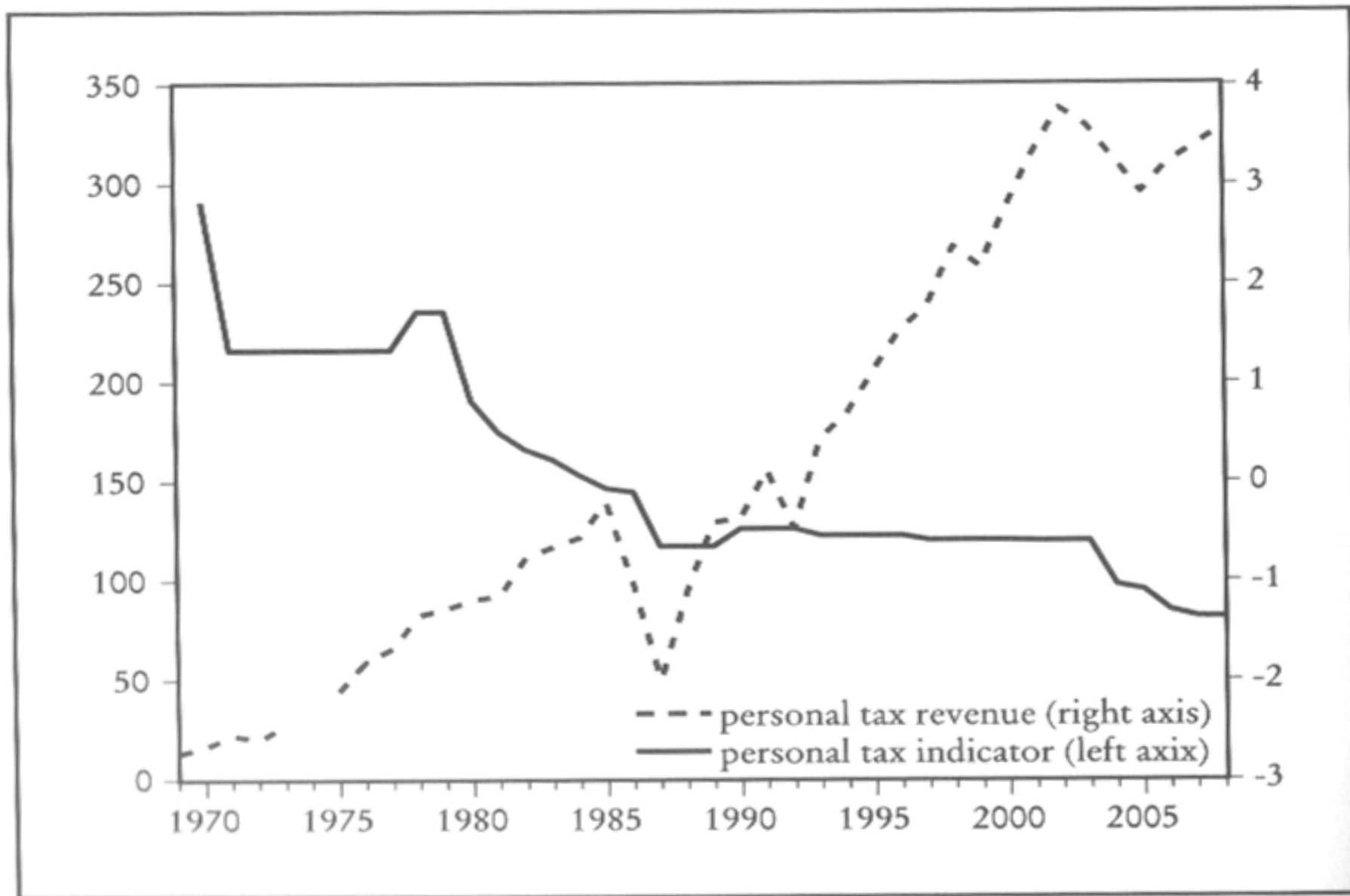
- *The higher the tax rate, the lower the growth of the economy and vice versa.*
- *Reduced taxes encourage investment while increased taxes discourage investment and shrink the economy.*

# Barbados' Taxation Policies

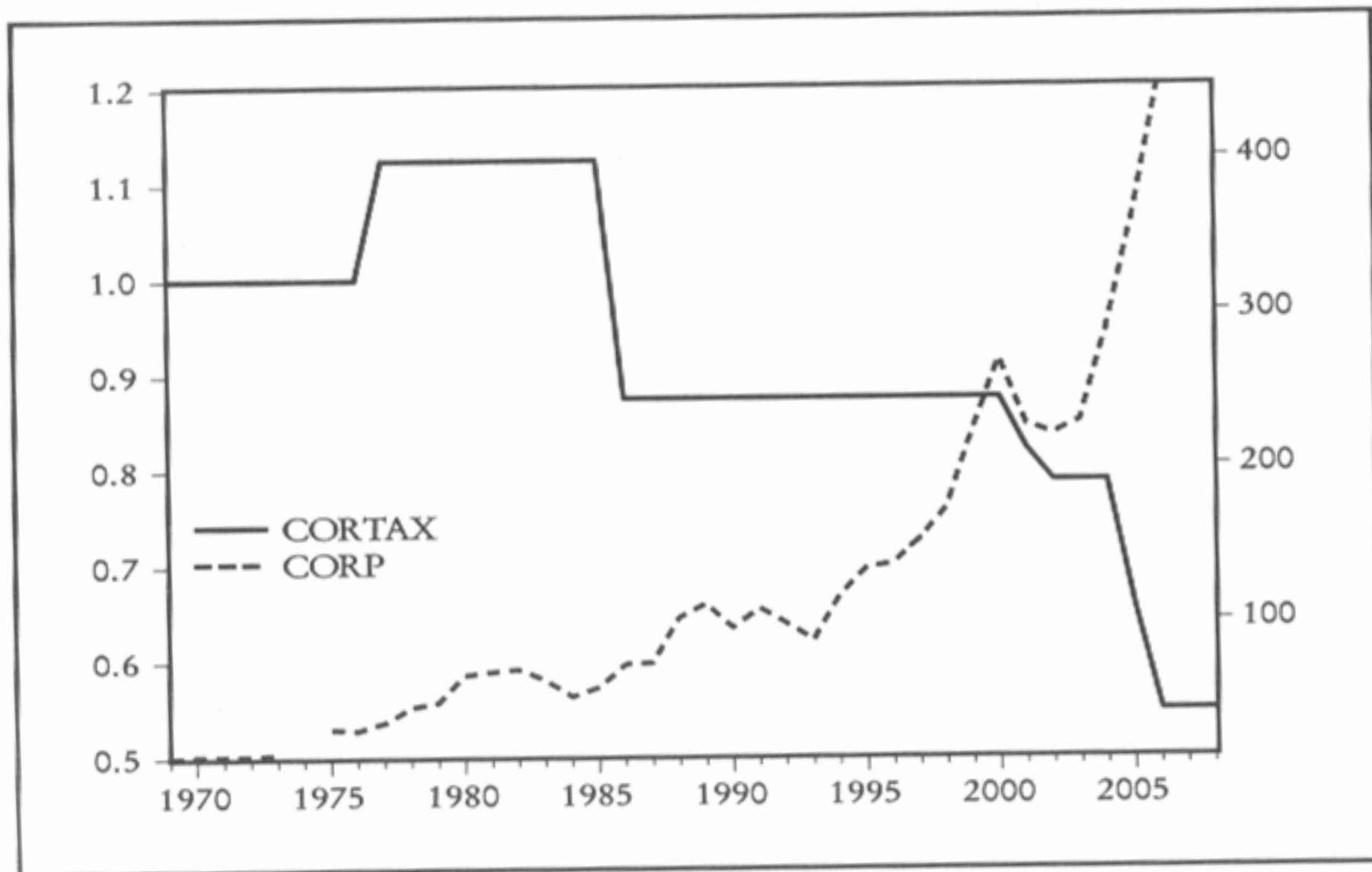
- The authors then studied Barbados' taxation policies from 1970 to 2009 and found a similar trend of increased tax revenues with lower taxation rates.



# Graph of Personal Tax Revenue and Personal Tax Index



# Graph of Corporate Tax Revenue and Corporate Tax Index



## **b) Respond to Solutions Barbados' Ideas.**

1. Reduce cost of healthy foods to be less expensive than unhealthy food.
2. Change the curriculum to allow students to leave school with at least one marketable skill that they can use to generate income.
3. Manage Government departments to the ISO 9001 quality management standard.
4. Promote all public servants on merit alone.
5. Privatise the public transportation system.

6. Make taxes affordable, and easy to pay and audit.
7. Fine criminals to pay for the criminal justice system.
8. Establish a new national bank.
9. Tender all government contracts.
10. Privatise the sugar industry.
11. Reimburse farmers for crop thefts.
12. Enact whistle-blower legislation.
- 13. Train the public to start and grow home-based family businesses.**

# Home based Businesses

- All of the recommendations require Government action except the last.
- Walbrent College will commit to a 5-week workshop (1 day per week), after the secondary school exams, to train families to start home-based businesses without start-up capital.
- The aim of each business will be to export products and receive foreign currency to assist the family should the Barbados dollar devalue as expected.

# Thank you. Questions?

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## Rules:

1. Be polite.
2. Be brief.
3. Avoid defamatory remarks (you are liable).



Walbrent.com