

AN ELECTION-ORIENTED BUDGET: WATCH OUT!

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Next week bears an awful foreboding for Barbadians from all walks of life and all sectors contributing to the national economy. There is further predictable gloom on the economic horizon; this fact is based upon two significant things. For starters, the global economy remains as volatile and uncertain as it has been since 2007; the UK, USA, and Europe as whole are fighting stubbornly to bring about some stability in the context that their economies are still courting a double-dip recession, unable to kick-start employment, and are battling a series of corruption and other forms infelicitous charges regarding the public purse.

The second factor speaks to the lack or insufficiency of innovative economic mechanisms by government to deal with the shocks and turbulence impacting on Barbados given its peculiarities of a very low manufacturing base, a weak export climate, a restricted services economy, a fixed exchange rate regime, and an ever increasing import bill that far surpasses the capacity of the country's production and consumption. Together these things make the job of Minister of Finance a perplexing one especially considering his

'greenness' to the profession notwithstanding his enthusiasm and/or other attributes.

From recent memory, perhaps the only Barbadian that I may say who would cherish and not envy the current Minister's position is the Leader of the Opposition despite his acknowledgement of the tremendous task and acumen that is necessarily required for a return of Barbados to relative economic success. In my opinion, even with Mr. Arthur the difficulties would not disappear despite he may offer some confidence in the economy and inspire the local private sector based upon his track record. This is likely to be the case since in all fairness to potential leaders and economists, very few if any public statements made in the past year have suggested new economic paths for the country. Yet there is little dispute about the country's economic accomplishments under his leadership.

Earlier this year, Moody's alluded to two key concerns and moved, swiftly or hesitantly depending on where one sits, to downgrade Barbados' credit rating. The reasons expressed for the downgrade were primarily identified as:

1. The capacity of the domestic market to continue to absorb the elevated levels of government debt issuance at the same time that the country's already large current account deficit is expected to increase further due to the recent rise in oil prices;
2. The government's debt ratios are likely to deteriorate further over the next 12

to 18 months to levels that are no longer consistent with an investment grade rating given the small size and limited diversification of Barbados' economy.

These reasons, contested as they were by local officials especially since Standards & Poors did not proceed on a similar path, would indicate that Barbados was essentially spared by one agency and harshly undone by the other. Nonetheless, Standard & Poors by indicating a slow recovery for Barbados and the fact that there was a minimal reduction in the fiscal deficit still spoke to the challenges ahead. In fact, the agency made reference to the sustained policy wherein there is “ongoing restraint in capital spending and wages.” Yet, these are two issues that one cannot bank upon given recent trends arising from labour through public and private unions.

There are inefficiencies still existing in the public sector and there is the societal expectancy which is exacerbated by actions of the current administration suggesting that they are willing to bring on stream additional social-welfare entitlements and mechanisms without boosting the necessary productive sectors, reverse the increases in imports, or introduce new incentives while building upon portfolio and speculative investments as means for attracting foreign exchange – the single most goal of small developing countries in economic terms.

To my mind, there is every reason why next week's budget is widely anticipated to be

harsh, and at least daunting for a majority of the local population, housewives, business interests, and all major sectors in the economy. It is disheartening to hear from the Central Bank that “there was no surplus of foreign exchange earnings during the first half of the year.” This is in spite of the view expressed by tourism officials and the boast of the Minister of Tourism that there were significant increases in arrivals despite the relevant agencies to date can provide no data to show exponential or even proportional increases in revenues; indeed, the *alert* made by the Central Bank speaks to discounting at an ‘extent’. One may only hope that as poorly as the ‘Rihanna event’ was marketed, that Barbados gets adequate mileage from what should have been money in the bank from the airing and sale of television rights for the show in global markets; the hope ought to have been for attracting visitors to the island. If we think small, we are likely to receive small in return.

The last IMF Consultation IV Report for Barbados noted that the country “will have considerably less flexibility to respond to economic shocks in the future than it did in the past, particularly given its fixed exchange rate which not only eliminates the option of pursuing an independent monetary policy but may constrain the government's fiscal flexibility even further to the extent that continued deficits could put start to pressure on Barbados' fixed exchange rate.” This is scary and adds to the condition in which government revenues are down and there are still difficulties in making payments such as

those to Al Barrack and the many fixed expenditures. I can only surmise what would happen in Housing should houses keep springing up unoccupied for extended periods, but the administration speaks of shaping society without effectively addressing the economy.

This brings me to my final point in this pre-budget article. Can Barbados at this time afford the niceties of an election-oriented budget that may be set around a similar meeting of minds when political ambition got the better over economic prudence in 1991? The situation is awkward because the current Prime Minister is not the unenviable Minister of Finance. There is no secret in Barbados that many public persons believe that the Minister of Finance is much more a gravitating personality than the silent and almost pedantic leader.

In many pronouncements inclusive of the recent crop-over songs, Prime Minister Stuart has failed to do anything more than carry on with the politics of the previous Prime Minister despite having had opportunities to make adjustments in Cabinet and on policies based upon emerging requirements. The Barbadian public in multiple arenas have shown a propensity to have an excitable palate for proactive, firm, but equally astute leadership; one is not sure to what extent the Minister of Finance being a student of politics would not recognise this fact. Surely it is possible that Minister Sinckler may be inclined in some way to shape his portfolio to reflect the nuance of moving into the final year before

a general election is constitutionally due; he has the presence of mind and political streak (e.g. let us not forget his determination to get the job done when he was moved to the UDC) to position him even if that of the party remains as clandestine as the murky waters for which Barbados finds itself. Can one justify having the largest Cabinet in the history of Barbados during what is often described as its most tumultuous economic period? Put differently, will the Minister of Finance suggest a wage-cut for Parliamentarians? It would attract votes for the architect of such move, even if the Democratic labour Party is already condemned for falling way short of the expectations Barbadians assumed and the promises that were self-evidently not well thought out given the predictions for the global economy as early as 2007. Beware the Greeks bearing gifts!