A budget with a future

by

Alick Lazare, (Jun. 21/2002)

Government's failure to pay public service salaries on time last month must have brought home the reality that governments do go broke. The problem now is that too many of us are still reluctant to accept that something serious should be done to bring the situation under control. After all the hype about the Fiscal Stabilization Programme and, recently, about government's negotiations with the IMF for a programme of support, there is still ambivalence on the part of government and uncertainty on the part of the Public Service Union and the private sector about what should be done to stabilize the government's fiscal account and position the economy towards a path of recovery, expansion and growth. On the one hand, the Public Service Union is reluctant to accept measures to reduce expenditures on civil service salaries; and one can understand that since the public service is asked to bear the brunt of the sacrifice needed to correct a situation not of their own making. On the other hand, the private sector does not support the raising of taxes to bridge the fiscal gap for good reason. Additional taxes either directly on wages or on consumption will reduce demand for goods and services and business earnings will fall.

Then there is the much publicized Integrated Development Programme (IDP) which will hold the key to social and economic recovery. We have not had details about the strategy that has been worked out for stabilizing the current situation and setting the economy on a sustainable growth path. But expectations are high.

That is why this year's budget is going to be so vital for everybody and should arouse much public interest. It is difficult to speculate what exactly is going to happen beyond what we have already heard from the Prime Minister and Minister of Finance and Planning, and from the Director of Finance and Planning. One thing is certain: sacrifices will have to be made one way or another. The question is: for how long?

As regards expenditure (and in particular civil service salaries and wages), any decision to postpone expenditure cuts is not a solution. The problem will remain and government should give a commitment to reduce expenditure over a period of time. That is understandable. In a period of depression and high unemployment, cutting civil service employment may make fiscal sense; but it also carries high social risk. A plan must be worked out to reduce the size of the public service during the period of adjustment and recovery.

If it is not possible to make significant cuts in public expenditure, and considering the already high level and cost of public debt, then more revenue must be raised to bridge the fiscal gap. However, new and additional taxes must be seen as a temporary measure and should be rescinded as soon as possible. The government has already taken steps to initiate a tax reform study, the elements of which should point the way forward towards a tax regime that is appropriate for supporting investment and trade and easing the lot of the poorest among us. Above all, the government must make up its mind not to give away revenue that is due to it frivolously. If we are to pay more taxes, then it must be apparent that everyone pays his fair share.

The issue of the public debt is critical since debt servicing takes such a large share of revenues at the expense of vital services. Government must demonstrate in the budget that it will contain the size and cost of the public debt and stop borrowing at high cost for non-essential projects, especially those that add to recurrent expenditure without bringing in additional revenue or those that have low impact on economic growth.

But all of these, by themselves, will not make the economy grow. They will not increase employment. They will not increase incomes and improve the welfare of the poor. That is why the work of the IDP is so important. After months of extensive consultations with key stakeholders in every part of the community, we should now have some idea of what people's expectations are and what can be done to bring improvement's in their welfare. We should know where investments are possible and what is required to get those investments going. In the end, that is the final solution. Without new or expanded investments we are soon back to square one.

Government has a key role to play in setting the stage for stabilization and recovery through prudent changes in public policy and effective support for private enterprise. But, in the end, it is private investment that matters – both domestic and foreign. That is where sustainable growth in employment and output takes place. That is what enables sustained improvements in social welfare to happen.

In a pre-budget analysis last year I wrote "All in all, the minister will have his hands full. How he will deliver will determine our fate. And his, of course". We can all expect that this year's budget will be much different and that the Prime Minister and Minister of Finance and Planning will deliver splendidly.

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