

A Look At The Budget Proposals

by

[Dr. J. Bernard Yankey](#)

The cry for fiscal discipline and sound management of Government has been a long one which now rings out in the distance. We all knew of the bad state of affairs in Government fiscal performance in the late 1990's. We all knew that there were crazy projects being undertaken with burdensome commercial credit. We knew what the result would be. Despite all the IMF Article IV Consultation warnings, we went on merrily along. So what do we find facing us – A Crisis Situation. It has become a matter of “Do or Die”. It should never have been. But let us all play our part. So the Budget for 2002/2003 is a harsh budget that demands tremendous sacrifice at a time of real declining economic activities, leading to falling incomes and employment (jobs). But as a nation we must put our best foot forward. It is our country to save. And we must make the concrete efforts to work with Government to turn around the economy regardless of our own personal feelings and persuasions. We now have to marshal all our forces to vow to do the best for our country. So let us be unified in our efforts. Let us work together to find the correct solutions and to pursue them diligently.

This is therefore an effort to examine what Government is planning to do. Do they make sound economic sense? Will they achieve the objectives of closing the fiscal gap, stabilizing public sector operations and providing immediate/short term growth in the various economic sectors to avoid the path to persistent poverty? It is a healthy national process to evaluate the economic proposals of Government and where sound differences exist, to exhort Government to consider change and decide in the interest of the country. A budget is not cast in stone I hope, so our contributions should be useful.

I start by hoping that sound strategies, projects and programmes, with adequate in-depth... analyses determining strengths, weaknesses, opportunities, threats, objectives, key result areas, etc. from the Integrated Development Plan (IDP) will be forthcoming to feed in the budget process. It is already late. The results should have been available even in draft form for consideration in this budget formulation with a completion date as mid-August, its entry into putting the economy right will not be immediate or short term. Without appearing to place less emphasis on the fiscal imbalance measures, I wish to touch on the strategies for growth as prescribed in the budget.

AGRICULTURE

It will be a big struggle to get banana production from 17,000 tonnes in 2001 to 39,000 in 2005. This is more than doubling production. We are clearly concentrating

on the wrong measure. Privatizing DBMC will take us no where. It is like taking the same old wine and placing in new bottles (so-called). What will make the difference is work in the field. We need to work with the core of existing and potentially productive and capable farmers by ensuring investments in production on-farm (irrigation, soil improvement measures, quality packaging facilities) and off-farm (feeder roads, collective transportation, infrastructure; cost-effective input distribution system, and a pay-as-you-achieve extension service focussing on productivity results and paying particular attention to farm management practices). In the budget, there are no specific projects/programmes for agriculture. That is where the immediate short term income/employment results can be achieved. Short term agricultural crops for specific regional markets will bring an early impact on growth. There are allocations made which, in this urgent period, could be redirected to utilization of Government owned, now idle lands at Londonderry Estate in production of high value short term export crops by capable selected farmers, supported by the services of Taiwanese agricultural expertise. Additionally, special incentives could be given to intensive production farms using high level technology in export promotion and supporting arrangements to deal effectively with private sector regional buyers. This is where DEXIA can concentrate its effort as a private sector organization, working collectively with existing private sector traders.

In the case of Tourism, a national tourism strategy and plan is urgently required to work towards the future in a coordinated manner. There is a need for specific and realistic projects/programmes in the areas of redesign and refurbishing of small/medium hotels, guest houses, quality improvements to tourism sites with good access roads, development of the entertainment industry to link with hotels, assistance to hotels/guest houses to provide quality services at competitive prices, and incentive support for a distinct breakthrough in nature resorts which will attract special high quality clientele.

The impact of all these will bring results in the medium term. But these are also essential for economic recovery using the economic diversification approach and the potential growth of the tourism sector.

SMALL BUSINESS

Small business is having a difficult time, particularly the small/medium agro-processing ones. There is also a need for a financial support programme in the areas of working capital at concessionary terms for a specific period. Removal of consumption tax on production to facilitate export competitiveness and development of a strategy to attract partnerships in worthwhile joint venture regional initiatives.

INFORMATION TECHNOLOGY

Information Technology is a growth point service sector that must be taken seriously and given urgent implementation. There is need for clear policies and the enabling environment to attract investments with decisiveness. A strategic plan/programme is urgently required.

POVERTY ALLEVIATION

Poverty alleviation is a good objective. But poverty can only be successfully tackled by increasing economic growth with opportunities for income and employment. It cannot be tackled by social programmes which undoubtedly pass on as 'hand outs'.

EDUCATION

Education brings fresh air with its new focus. The issue of vocational education and computer literacy, with continuing training in Information Technology, has to be priority. The recurrent expenditure for 2002/2003 compared with 2001/2002 shows little room for adjustment downwards except in the area of personal emoluments and wages. This is why the IMF made the proposal to reduce salary and wages of public officers by 10% effective July 2002. This seemed difficult to achieve. However, in a troubled country with severe economic problems, if the private sector has to lay off people, why can't the public sector do the same on a 'last in, first out' basis? What about poor performances shown up by appraisals? What about over-staffed situations? Of course, as the economy rebounds, people will get back their jobs from some source. Maybe persons who are so displaced can turn to training at the Youth Skills Training Programme or elsewhere.

In the Public Sector Investment Programme, I see little scope to move agriculture which is where immediate short term effects in growth will emerge. In the tourism sector, air access improvements are welcomed. This is a good decision and implementation should be quick. However, more effort beyond feasibility and design of the Roseau/Melville Hall Airport Road Improvement must be undertaken in this fiscal year. This should not be a difficult task.

The Stabilization Levy, however, is a critical issue that merits revisiting. It should be placed on CONSUMPTION rather than on INCOME.

- On income, you are dealing mainly with fixed income earners who bear the blunt of taxation.
- Self-employed will pay the levy on a quarterly basis. How? How will this be policed and verified. What is the cost of administering this approach?
- How are those who make money, sizeable sums in some cases, who elude the tax net presently, going to pay the levy? Some of these are Artisans, private daily workers, rental income earners, itinerant vendors, hucksters/traders, and so on.

So the Stabilization Levy on income is selective, does not cover all income earners and has a significant administration cost.

On the other hand, the tax on Consumption will allow all consuming Dominicans to make the required sacrifice. It should also cover all services, including petrol, television, telephone, etc., and there will be no need for the special provision made in the budget. Administrative costs will be low relatively. The consumption levy will

provide the logical basis to move to the value added tax in 2003/2004, after experience, careful study and public education.

Given the tightness of individual incomes, and the financial commitment of people, the consumption levy will draw less from personal gross incomes. However, because it covers many times more persons, the objective will be achieved at relatively low cost.

If we are serious of protecting the environment, a differential licence fee charge could be applied to vehicles of varying horsepower, with high horse power vehicles discharging destructive fumes charged significantly higher vehicle and drivers license fees in a discriminatory manner.

Finally, the hard decision has been taken and I wish to applaud Government for that, though somehow late. The reduction of Cabinet size and elimination of advisors is welcomed since these brought very unnecessary administrative overheads to Government operations. I do hope that we stick to that and continue the reduction process.

© Dr. J. Bernard Yankey: Re-publication with author's permission only

[Back to Budgeting and Finance](#)