

A TANTALIZING BUDGET - 2001/2002

by
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I must admit I fell short in my [expectations](#) of what the minister was going to present in his budget last Monday. Nonetheless, I must also admit that the minister presented a careful and responsible budget for 2001/2002. Except as regards his fiscal policy.

I think the minister was careful and responsible in not preempting the findings and conclusions of his planners, since they are busily engaged in doing the analyses that will set the direction for the integrated development plan that will set us on our way for the next five years at least. If this is so, what the minister presented should be taken as a holding budget.

In this situation, the minister should be commended for venturing into those areas that put some meat into what could easily have been an arid budget. Clearly, a great deal of thought went into the strategy described in the budget address. The minister and his technical staff and advisers must have spent many a midnight crafting the address to make it sound convincing. To some extent they have succeeded.

I knew that the minister could not have much to say about bananas, except to hold out some hope about the restructuring and assistance expected from the EU for supporting the remaining farmers. But it was good to hear him say that there will be a safety net for those farmers who will be squeezed out in the process. No doubt we can expect more specific and comforting words from the planners when they have completed the agricultural sector plan.

Similarly, the minister had little to say about the tourism sector, except that he intends to focus on product development and marketing. What precisely he means by that we may have to learn from the tourism sector plan that is in the making.

We must admit that the minister was in the right frame of mind when he went ahead of his planners with a few important measures. I think, too, that the minister is honest in what he is trying to do since most of the measures announced do not bring much immediate political returns to him or his party. Lowering duties and taxes on software is a natural follow-up to what was done in 1986 with computer hardware. That will help businesses and students if the distributors are decent enough to pass the benefits on to them. Similarly, helping students by lowering the cost of student loans is a good gesture that will encourage more young persons to improve their skills and make themselves more employable. We need more qualified persons to help develop our country.

It is also a good move to help property owners everywhere to preserve buildings of historical or architectural value. Quite consistent with an eco-tourism strategy. I hope the planners will add a lot more to the eco-tourism package.

Small businesses must be excited about the carrot offered in the budget. The 1986 tax reform zero-rated all identifiable production inputs, including tools and equipment. The minister has taken this further by allowing small manufacturers tax-and-duty-free purchase of raw material, which, I presume, includes intermediate goods on which there will be some value-added. All our manufacturers are small; but the minister did not say what degree of smallness he had in mind. Still, the move is intended to make the small manufacturers more competitive. That is, if they pass on the savings to their customers. The minister will have to be careful to put in place effective control measures. Otherwise the revenue system will suffer more hemorrhaging. This, together with the incubator sheds for small business and the establishment of the communication technology zone, has the potential to bring in a few more jobs. But no major dent will be made in the unemployment figures and there will be no significant expansion in the economy. Not in the short term.

That is why I am so concerned about the minister's fiscal strategy. I mean, he is honest enough to say that he has budgeted for a current deficit. He did not try to hide it as the shadow minister of finance might have done. But his admission here sounds irresponsible, even reckless. In times of economic stagnation, to budget for a deficit is not always a bad thing, especially if the deficit derives from investments that have immediate potential to generate economic returns and expand the revenue base. But this is not the case here. The deficit is caused in part by consumption expenditure and largely by investment with no short or medium-term financial returns.

It should be expected that the minister would take a more serious approach to bring the budget in balance or generate a surplus on the current account. Without that the minister cannot hope to get out of the straightjacket that he is in and implement some of the good things he has proposed. Furthermore, when his planners complete their work (hopefully by early 2002), they will expect a viable budget to be able to execute them.

The budget has a financing gap of over \$60.0 million. In addition, there is a build-up of arrears, which should be cleared, especially debt to the Social Security and merchants' credits. If the minister is serious about getting technical assistance to restructure or refinance the large accumulation of existing debt, he should not be adding to it so generously.

It is not too late for the minister to strengthen the credibility of his budget by saying what he intends to do to control expenditure in a more meaningful way and to stop the wanton wastage of revenue through ad hoc tax and duty concessions.

Only then can we look forward with hope that the much vaunted integrated development plan will yield fruit and will be implementable in the context of a viable budget.

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