

Economic Woes Caused by Decline in Banana Industry

by

[Swinburne Lestrade](#)

"Surely to talk of the levy as a mistake is to miss the point ..."

THE CHRONICLE, May 03/03: Director General of the Ministry of Finance and Planning, Swinburne Lestrade pinpointed the decline of the banana industry as the catalyst for Dominica's current economic difficulties.

Speaking at the annual general meeting of the Dominica Association of Teachers, Lestrade said, "Our country's economy has suffered a serious body blow from the fall-off in earnings from the banana industry and changes in the external economic environment."

According to him, of all the Windward Islands, Dominica was always the most undiversified economy and the most dependent on the fortunes of the banana industry. "No surprise therefore, with the industry in the state that it has been over the past few years, that our economy has been tottering on the brink," he said.

Lestrade believes that Dominicans for a long time have been living in something of a fool's in paradise and off donor countries' tax payers' money, whether through subsidized prices for this island's bananas, through aid or soft loans.

"This calls for adjustment - in our economy as a whole, in our life styles, in our expectations. It's tough; it is not a bed of roses; but can anyone deny this need for adjustment?" he questioned.

Lestrade explained that this sharpened need for adjustment required courageous action by Government, something that contained an element of political risk.

"To the Government's credit, it decided to take strong action. The specific action taken was not the 'first best' solution that had been recommended by various experts, i.e. an across-the-board cut in the public service along with a 10% reduction in normal wages. The Government did not feel able to proceed with that particular recommendation-the social and political cost would be too high; also the effect on effective demand in an economy already declining would be too drastic," he said.

"What it did instead was implement one of the measures that had been put in place in Barbados in the early 1990's i.e. implementation of a stabilization levy," Lestrade continued.

The Director of Finance said that persons wrongly believe the levy was a mistake. “Imagine life today without the levy. Growth was already declining when it was imposed; revenues from international trade transactions were already declining; the fiscal gap was already widening. Maybe persons sorely wish for the place to crash; this is the only basis for suggesting that the levy was a mistake.” Lestrade said the levy has contributed significantly to keeping the country going since July last year.

“Surely to talk of the levy as a mistake is to miss the point,” he declared.

“In Dominica, the levy on its own could have done nothing to reduce the wage bill to a level that is sustainable. This is the fundamental problem. Thus while the levy has been a saviour in terms of enabling the Government to meet its recurrent obligations, including salaries and wages, it could do nothing by itself to bring about a reduction in the size of Government to a level that the country can afford and sustain. Truth is therefore that while it certainly was no mistake, it was a mistake to leave it all for the levy to do” he explained.

If we fast-forward to today, Lestrade said, the situation is that the country is facing cash shortage and things have caught up with us again. The injections of funds from Caribbean countries and institutions were a result of the Government’s commitment to a stabilization programme. He clarified that these funds simply would not have come without an IMF supported programme. He added that because of the depth and immediacy of the cash problem, most of these injections of funds have to be used for budgetary support-to pay the NCB, to pay the commercial sector, to pay for utilities, and to revert to paying salaries on time.

“Only a small amount went to ‘counterpart support’ to capital projects. The hope was that these funds would buy some time for the country to get its act together, to get on with its capital programme, and thereby create some employment and economic activity,” Lestrade said.

He pointed to some encouraging signs. “The government has spent some time examining the source of ‘over spending’ during the current fiscal year; and everyone involved is now more on top that situation . I made a public reference to the need for greater control of expenditure by the Government system. Unfortunately, this observation was pounced on and extrapolated in the public domain to mean poor economic management by the elected representatives. The capital programme is beginning to come on stream and will be accelerated over the next few months. Indeed, encouragingly, the recent fund mission to Dominica identified what it referred to as “incipient recovery’ in agriculture and tourism,” Lestrade revealed.

He cautioned that an economic adjustment programme of the type and severity that Dominica is seeking to implement is not easy. “Among the other things it requires a psychological /attitudinal adjustment on the part of the population and the governmental system as a whole. The kinds of measures that have been on the table for example, containment of the wage bill from non-established workers are especially

difficult in a very small society such as ours, where employment alternatives are almost non-existent.

“This is a factor that should be borne in mind, by those very vocal PSU representatives who criticize Government over-spending. Also, even the measures already in place, in particular the stabilization levy, are causing pain, May persons exist at the margin, with a high level of commitments and the additional 4 percent imposition has certainly affected disposable incomes, as well as affected demand” he said.

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