

GOVERNMENT FINANCE AND ECONOMIC GROWTH

by

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“The plans of the diligent lead to profit as surely as haste leads to poverty” - Proverbs 21:5.

15 OCTOBER 2007 - The management of small economies in the Caribbean poses a significant challenge especially when the pride of sovereignty militates against the proposals based on economies of scale. If there were one sovereign CARICOM nation, we could experience faster sustained growth due to the combined wealth of resources and the synergies which could derive from the resulting interaction.

In either dispensation, diverse or unified sovereignty, the plans of the diligent will lead to profit as surely as haste will lead to poverty. It therefore behooves us to focus diligently and carefully on the resolution of small economy problems, learning one from another as the individual economies evolve. We must resist the temptation to apply in haste “big economy” solutions, lest they may perpetuate the threat of sustained poverty.

I believe that, in small economies in particular, the desire to reduce poverty will only materialize if there is sustained economic growth. We must therefore focus diligently on economic growth strategies which will increase the GDP; contribute positively to the foreign reserves; generate employment; optimize the use of natural resources; protect the environment; secure food locally to feed our people, our most important resource; and pursue energy security through the use of renewable energy alternatives to soften the blow of escalating oil prices.

Enterprise development is the key to sustained economic growth and the optimal mix of the innovative business idea; the application of modern business systems; the timely access to appropriate financial instruments; and the shepherding of the entrepreneur along the journey to sustainable success to ensure the optimal use of modern business systems and finance. Business systems and shepherding systems can be bought. The challenge therefore is to find the finance and, I might add, in sufficient quantity at the appropriate time. Whence the sources of this finance?

The sources of funds available to us are venture capital, equity, grants and loans from the private sector or the pooled resources of local and international tax payers. The venture capital market in the Caribbean is not widely accessible, that is not to say that there are no venture capital investments. Participating in equity is usually restricted to “blue chip” investment or stock market opportunities or in support of one’s own

business or those of families or friends. There are grants available from local, regional and international sources, if one qualifies. Then, of course the tax payers can help especially if the business promises to contribute economic benefits to the country and hence to the tax payers themselves, thus leading to the enhancement of socio economic well being.

There is a current debate in Barbados on the propriety of the use of “tax payers’ money” in support of private sector investment. If one views this from the perspective of the roles of the private and public sectors and agrees that the private sector should “do business” and the government should “facilitate” the development of private enterprise in the interest of the growth of the economy, then I certainly have no difficulty in supporting the view that the “tax payers’ money” should be used to get business ideas off the ground or stabilize existing businesses. I would further add that these moneys should not be grants but should be repaid to the custodian, representing government, as soon as the cash flow of the businesses permit so that the tax payers’ money can be recycled to help other businesses.

In the event of a business failure then the loss will be spread over the wide tax payer base and not just a single company. It should be remembered that these potential losses may be mitigated if diligent attention is paid to the proper application of business systems and finance and that the shepherding process is in place.

Those who object to the use of “tax payers’ money” as suggested are probably concerned about majority government ownership and control in these businesses and the potential for political interference. These are justifiable concerns and should be addressed but not by throwing out the baby out with the bath water.

Government control, even in the case where the tax payers have the majority stake in a business, is not mandatory. One can use the preference share concept or other convertible bond concepts to allow control to remain with the private sector interests in the business. This was not done in the case of Exclusive Cottons of the Caribbean Inc. Time will tell how disastrous a decision that was. In addition, and in general, there should be a buy back clause which allows the company to buy out the tax payers when the cash flows are strong enough to effect this. This process incidentally also addresses the issue of political interference since the private sector control mitigates any negative effects in this context.

I would like to strongly promote that if we are interested in growth in the economy, and we must remember that “we cannot get growth without risk”, then the tax payers’ money has a major role to play and instead of emotionally and hastily objecting to this strategy there should be some diligent objective assessment of the benefits that can accrue from this form of investment on a case by case basis.

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