The Barbados Economics Society

Response to the 2019-2020 Budgetary Proposal for Barbados

Sentiments of the BES President, Mr. Simon Naitram

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Issue 1

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Summary

Our focus for the first budget in Barbados' IMF era is growth. Without growth, the IMF programme would fail, the country would continue to suffer, and our livelihoods would be put in deep jeopardy. Then has the Government of Barbados delivered a real growth strategy?

The vision for long-run growth outlined by Prime Minister Mia Mottley is designed to empower citizens to chase their own success through public investment in education, skills, and healthcare. This form of public investment can achieve sustainable long-term growth rates. The emphasis will be on high-skill, high-wage economic activity—particularly in services sectors. It entails a utopic view of Barbados that we can strive towards. Their first step in this direction is the creation of a National Training Initiative along with a First Jobs Initiative. We impatiently await further details of the implementation of this long-run growth strategy. It will require substantial physical investment in technology for both healthcare and education.

This budget presents a coherent growth strategy focused on laying the foundation for Barbadians to grab hold of the reins of their future success!

This budget presents a coherent growth strategy. No longer is our long-run growth strategy dependent on Government driving economic activity or foreign investors' cash. It is a growth strategy focused on laying the foundation for Barbadians to grab hold of the reins of their future success. No longer can the growth strategy be found in the *numbers*. Instead, we must look to the *details*.

Barbados has suffered from the failure of the financial system to turn our savings into productive investment. While BBD $9 billion of cash sat twiddling its thumbs in our financial system, businesses and entrepreneurs have been suffering from an inability to get funding for ideas. The budget lays out six measures designed to put Barbadians' savings to use:

1. The creation of an Innovation and Growth Market within the Barbados Stock Exchange that would allow small companies (with assets greater than $200,000) to access equity financing while retaining a majority ownership.
2. The creation of small investor regimes such as crowdfunding and peer-to-peer lending that would allow small individual investors to lend to small businesses.
3. The creation of a National Unit Trust to host mutual funds that would see professional investors channelling our funds into local projects.
4. The sale of minority stakes in the Hilton and Sam Lord's on the Barbados Stock Exchange.
5. The creation of a robust and open secondary market for government debt instruments.
6. The development of a regulatory regime for Green Energy Bonds that would allow investors to receive energy credits for investment in renewable energy.

These measures are a first step towards filling a large hole in the financial system. These measures democratize investment and ownership of business. We cannot pretend that access to funding or investment opportunities is equally available to all Barbadians. This is an enormous step towards ensuring that all Barbadians have the opportunity to dream, innovate, create, and become wildly successful. This is a blank canvas, and we are responsible for the art.

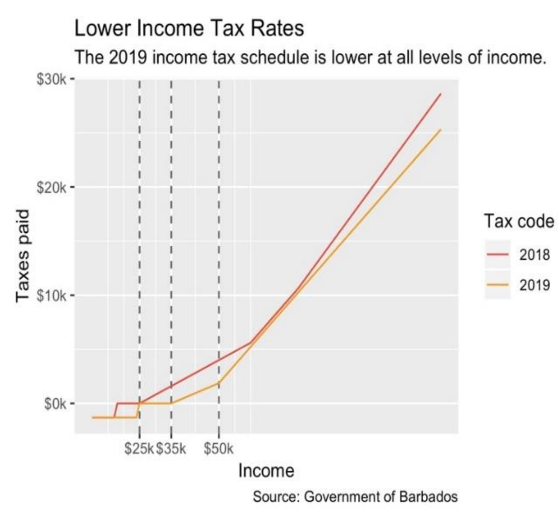
The institutional details are also key. The Government is proposing in the first phase to digitize its Immigration, Customs, Registry, Police, International Business, Town and Country Planning, and Licensing departments. It is proposing to move a number of services online: renewing driver's licenses, applying for passports, applying for certificates of character—and hopefully all the other tedious things that waste our days. The establishment of a commercial court should speed up the process of deciding business matters, hopefully improving the certainty of doing business in Barbados.

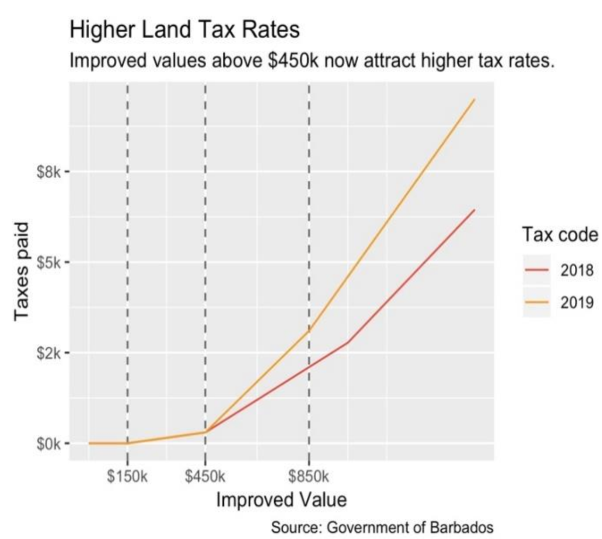
In the short run, confidence is key. We all know that the increase in the foreign reserves from $400 million to $1.1 billion is entirely due to borrowing. But it gives us a buffer—a new lease on life. It is entirely up to us to create the growth that would see this buffer grow. The foreign reserve buffer is designed to instil confidence in the 2:1 peg. And the relaxation of capital constraints is reciprocal vote of confidence in the people of Barbados. With this freedom comes great responsibility.

The distributional effects of the multiple changes to the tax system appear to be a major concern. Income tax rates have been lowered for all income levels except those at the very bottom (less than $18,000 per year). Meanwhile land tax rates are higher on improved values over $450,000. Domestic corporate tax rates have been lowered from 30% to a maximum of 5%, while taxes on interest and dividends are up from 12.5% to 15%.

Increases in bus fare were necessitated by the effect of the Government's fuel tax on public service vehicles' operating costs. The fare-increase from $2 to $3.50 will increase monthly costs for those at the bottom of the income schedule by around $90 to $180 per month. This appears to be a knee-jerk reaction. It has not been accompanied by a considered restructuring of the public transportation system.

In addition, the shift to indirect taxation will increase the cost of consumption for both rich and poor. The broadening of the VAT base is expected to rake in an extra $7 million, some of which will come from the pockets of the lower income. Those earning less than $18,000 per year will be most affected by the change in bus fare and the VAT base broadening, *but have not received any additional protection*.





Consider in contrast the effect on the top 1 percentile of the income distribution (those earning $150,000 per year and above according to the 2010 census). A person earning $150,000 per year receives a $5,250 tax break, while a person earning $200,000 pays $8,500 less tax.

If they own a $1.2 million home, they only pay an extra $2,325 in tax. If they own a $2 million home, they still only pay an extra $4,325. Now further consider that many of the highest earners in society are business people who will have received an enormous tax break on their corporate profits from 30% to 5%. The increase in the dividend tax rate (profits paid out to owners) from 12.5% to 15% does very little to offset the huge corporate tax cut. What of the "ability to pay" principle?

In summary, we are pleased with the emergence of a high-value long-run growth strategy. We are beginning to see the first fruits: creating new vehicles for production investment, the digitization of the Government, and the new National Training Initiative. While we are entirely in agreement with the need to raise tax revenue, we are concerned with the re-distributional implications of the raft of tax reforms. We are concerned that those at the very bottom are facing higher prices for goods and services targeted at them without additional income. Meanwhile those at the top of the income distribution and business owners seem to be in pole position to benefit from the tax changes.

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