TIME TO CALL A SPADE

Why the Caribbean is Digging its own Economic Grave

I want to shock you. I want to frighten you. I want to jolt you into the realization that we are in trouble; that you are in trouble; and so is your job, your home, your family, your sanity.

I want tell you that the world has changed forever; that the good old days of plenty will not soon return. Life may eventually improve, but certainly not for all of us. Those who survive these years of near-zero growth and disguised despair may see the future, but even so, it will not be back to business as usual.

I want this realization to cause you the kind of discomfort that prevents you from sleeping at night; causes you to rise up and demand better; forces you to be part of that long overdue revolution of thought and action which actually reverses St. Lucia's quickening step to self-destruction. But before I hang you over the cliff and ask you to fly, let me explain the nature of our circumstances.

The global economic meltdown which rattled economies some eight years ago, continues to suppress global output, investment and growth. It has profoundly altered the equitable accumulation and distribution of wealth worldwide. Generally, the rich are richer and the poor are much poorer. And that goes for individuals as well as countries.

In previous recessions, oil prices sagged with lower demand and cheaper energy jumpstarted economic recovery. Not so this time. Instead, green energy has surged, surpassing fossil fuels[1] in new investment and job creation: one sign that the world has moved on, and we have not.

TIMING

This has come at the worst possible time for us. We have mismanaged and sold off critical national assets. We are dangerously indebted. Our productive sectors are highly leveraged and overtaxed. Youth unemployment has surpassed 40%. Poverty is a persistent evil. Social infrastructures are severely under siege.

It seems after a few decades of post-independence progress, we abandoned good sense and have been undoing ourselves ever since. Where once we could wait in the shallows for some new economic wave to sweep us back to shore, this time our economies are stagnating close to rock bottom. The March 2017 IMF report on St. Lucia is very candid:

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[1] Bloomberg: International Renewable Energy Agency reports employment in the U.S. solar business grew 12 times faster than overall job creation. About 8.1 million people worldwide had jobs in the clean energy in 2015, up from 7.7 million in 2014.

Unless structural reforms are implemented, rigidities in the labour market, high costs of doing business, and low external competitiveness will continue to weigh on growth.

This is not a temporary scenario. In St. Lucia, average growth rates have been erratic and declining for the last three decades. We have had marginal and negative growth for the last 7 years. Real wealth has shrunk. Simply put, we have been getting poorer each year. Our economy now feels like an over-exploited, under-fertilized field, yielding smaller and smaller harvests. Eventually, there simply will not be enough to go around, and we will have to fight each other for what little there is. Pessimists may well argue that the days of Malthus[2] are already upon us.

FAMILIES AND HOUSEHOLDS

For many families, household income has shriveled. Life–cycle assets, like homes in safe middle-class neighborhoods, have been devalued by urban decay, crime and ghettofication. With less marketable wealth to collateralize or trade, personal savings are being consumed to support unemployed offspring and siblings. In some urban households, an elderly grandparent may well be supporting two generations instead of the other way around. And, there is no country garden to turn back to.

This implies that the social security pyramid is dangerously inverted. Instead of sitting firmly on a wide base of young healthy earners supporting the elderly and the sick, it is teetering precariously on its pinnacle. As such, we are losing the ability to sustain ourselves, to stay healthy, to educate our children, to maintain our homes and businesses. Social pressures, particularly in urban St. Lucia, manifest in declining civility, rising violence, crime and abuse.

BUSINESS

In the wider economy, businesses are similarly short of cash and savings. Cash reserves, where they exist, are earning 2% or less, and viable projects are hard to come by. Buildings, machinery, furniture and equipment have been allowed to depreciate. It is too expensive to replace, retool, update and upgrade. A large part of that expense is government taxes, fees, charges and levies which make business inefficient and uncompetitive.

Consequently, the country's asset base on which to build a recovery has less value today than we might hope. It will not support a rapid return to normalcy. So apart from dirty drug money and other forms of dubious capital, we are facing very limited options.

BANKING AND FINANCE

In the financial sector, banks have lent out money that was not theirs, to people who now cannot repay because jobs and incomes have dwindled or disappeared. Households built on two steady incomes may now have just one, if they are lucky. With many loans gone sour, and others teetering on the edge of trouble, all banks have pulled back on lending. They can't afford the risk.

The rich can still borrow but may not need to. The young, the poor, the marginal and inexperienced who really need capital, have little access to it. Government's small business funds won't change much. They are typically too little and too late, and are managed with no sense of urgency or practical understanding about entrepreneurial energy in the real world of risk and return.

Even more worrying, is that after 3 years of painful provisioning and negative profits, many banks are still hard pressed to find viable borrowers with viable projects. Even government paper is no longer

[2] Thomas Malthus: Principle of Population, 1798.

sacrosanct. Loans priced at 4.5% - about half of what they cost 5 years ago - are going a begging. A price war is in nobody's interest, but there are few options into which to deploy excess cash.

Meanwhile, real estate, the underlying security for many loans, turns out to be overvalued. For that, we can thank those unscrupulous professionals who overstated property values to inflate their own fees: a crazy system at best. We can also thank our bankers. They accepted those values as the basis for bigger loans and higher interest income, risking more than those properties could ever generate by way of lease, rent or sale.

Now, prices have to come down, either in a managed slide or a resounding crash. Rents are trending down significantly and sales remain depressed. Still, many mortgages are at risk. With rising defaulters, few tenants and even fewer buyers, a lot of real estate is empty and deteriorating.

Banks ought to be able to foreclose, sell the asset, and replace depositors' money. But alas, that is a long drawn out process, particularly in St. Lucia where archaic laws, intended to protect borrowers, now protect defaulters. The result: toxic assets, impaired bank capital, no secondary market, and depressed lending.

Impaired bank capital is very, very bad for all of us: especially rank and file depositors whose savings are ultimately at stake: all those big and little people who scrimp and save their pennies and entrust them to banks in the expectation of getting them back again, with interest.

The preferable alternative would be to turn over toxic assets at a discounted price. This would make property affordable again and jump-start a cycle of resale and re-investment. That one adjustment could rekindle some growth, if only ministers of finance would take heed and act logically. What we now have is a muddle of antiquated policies tying up the economy in red tape and protracted litigation.

INVESTMENT, EDUCATION & PRODUCTIVITY

Our ability to bail ourselves out of recession is dwindling instead of improving. Typically, we hope and pray that foreign investment will bail us out. But whether it's a buy-in or a buy-out, we go to the table with limited options. Indebted and cash-strapped, it's hard to negotiate any good deal with your back against that wall.

One reason for low investment is that risks are too high and yields are too low. These are macro-economic issues: the direct result of inefficiency, low productivity and disincentives in an economy crippled by punitive policies and a regressive tax system. Translation: it is just too hard to grow a dollar into something more, given the infertile field that our economic landscape has become. Says the 2017 IMF report on St. Lucia:

> ***Rigidities in the labour market, a costly business environment, and low external competitiveness severely limit growth prospects.***

Labour is just too expensive for what it produces. Not that we want our people to earn less, but that we need them to produce more. That speaks to our work ethic as much as our international competitiveness, both of which are abysmal.

We need to enhance core skills: literacy, numeracy, comprehension, and communication; the ability to receive and convey instructions; to understand a manual; to absorb training; to process written and verbal information; a certain dexterity in problem solving; the aptitude for creative thinking in the classroom, in the field and on the job.

These are woefully inadequate in many school leavers less than 5% of whom will attend a tertiary institution of any kind. No surprise then, that hordes of young boys, done with learning, have little prospect but to become minimum-wagers, heading to construction sites without a discernable skill. They will be carriers of blocks and haulers of lumber; their book-bags now empty, except for the dry bread and sugary drink that keeps them going for eight hours.

These bright, talented, but untrained minds will earn too little to support themselves; much less to contribute to a household, or support the 1.5 children they are inevitably going to produce. This is where the downward spiral into endemic poverty begins.

One solution: open up all those classrooms sitting idle after 3:00PM each day, and retrain that entire demographic. In just over three years, we could teach them skills that the economy really needs and rekindle their interest in life-long learning. That would take them off the block and create a new cadre of certified artisans and trades people, hopefully with a world view of their own future.

More fundamentally, our highly egalitarian education system needs radical reform. It is now an expensive, unambitious machine with an inbred aversion to excellence. Its conversion into a network of modern, dynamic learning centres is the single most urgent and profitable investment our nation can undertake.

Failure to invest in our people will perpetuate outcomes already observed in our lead sector, Tourism. Government statistics confirm that while Tourism has been growing, it is not producing the expected increases in employment or growth. Ergo: there is a mismatch of objectives, policies, skills and incentives. The result: Tourism is growing by itself, for itself. Benefits may be accruing to capital, but not to labour.

INVESTMENT BY EXCLUSION

We maintain considerable government machinery for ensuring that our most lucrative investment opportunities are promoted overseas. Agencies, ministries, embassies, consulates and a host of ministers with unfurled wings and outstretched hands are in constant motion trying to sell off national opportunity to foreign entities.

The way it now works, bona fide but unconnected St. Lucian investors will never catch wind of business opportunities before they are traded - either in light of day or dead of night - to our betters overseas. Meanwhile, entreaties to engage the domestic private sector in growth-generating strategies fall on deaf ears.

We need to create more vehicles for broad-based local investment. Mutual funds, investment groups, credit unions, and pension plans are all potential sources of local capital. Instead of giving it all away, Government can take shares in ventures and hold these in trust for the nation. These can be divested to the general public in subsequent years. The assumption that we will not invest in our own strategic assets is wrong.

PUBLIC DEBT

Governments across the region including our own, are up to their eyeballs in debt. St. Lucia's current stock of debt is over EC$3.5 billion. Some EC$850 million falls due this year.[3] With government expenditure racing ahead of revenue, it is difficult to see where such an amount will come from. Current options include roll-over, refinancing, renegotiation or default. At any rate, we will not be credit worthy for more borrowing any time soon. The IMF predicts:

[3] Source: Ministry of Finance, St. Lucia.

Rising interest payments will add to expenditure pressures, leading public debt to an unsustainable path.

This comes in the wake of conspicuous investment in social rather than economic infrastructure. Several well-intentioned but unsustainable investments have produced no returns; only higher debt and higher recurrent expenditure. Says the IMF on St. Lucia's public debt:

> ***In the absence of corrective measures, financing difficulties will increase and force inefficient fiscal adjustment - typically by reducing already low capital spending - with negative effects on growth.***

Too often, Governments forget that having failed to make any strategic investments of their own, they do not actually earn any money. They just cream off the value-added generated by citizens and corporations. So, if your government is going to commandeer your earnings even before you see them, they have a moral obligation to use that money sustainably, in the best interest of current and future generations. This is a fundamental precept of the social contract which is presumed to exist between any government and its citizens.[4]

Even if Government could raise new money, it will be sucked into the black hole of recurrent expenditure: mostly debt and public sector wages that produce virtually no new growth. So, let's just deal with the fact that the public sector or the cost of keeping it has to shrink, dramatically.

One innovative solution is to cost-share with the private sector. The public service is full of bright, well-trained, productive minds and bodies; many of them underutilized and demotivated. The private sector needs additional human resources if it is to grow. Why not create a "skills bank" and "lend" that vital human capacity to growth-producing companies? Such cost sharing would reduce resource burdens in both sectors, spurring new investment and growth.

OVER LEVERAGED PRIVATE SECTORS

The Eastern Caribbean Central Bank (ECCB) should review its capital reserve regime and pay 1% interest on statutory deposits. This would prompt a decrease in lending rates across the currency union, and provide a modest return to banks. It is a small concession ECCB could easily afford which would improve prospects in the financial sector, thus igniting a modest recovery.

That alone will not be enough. The very investment environment needs to change: less bureaucracy, more responsiveness, more transparency, less corruption. To energize investment, we also need a simple transparent path to fiscal incentives. Anyone – foreign or local, politically connected or not – should be able to access standard duty and tax concessions if they satisfy certain objective criteria.

Those criteria should be clearly verifiable and contractual, reducing the need for ministerial interference. This is particularly important for small and medium-sized businesses who form the resilient backbone of the economy, and who cannot afford to offer bribes and handbacks to corrupt officials.

Incentives could then be granted in direct proportion to: jobs actually created and sustained; NIS contributions paid; foreign exchange deposited; domestic expenditure on goods and services; technology transfer; skills enhancement; environmental and corporate responsibility; and bricks and mortar actually laid down.

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[4] See John Locke: Second Treatise of Government (1689). According to the principles of social contract, when a government fails to secure their natural rights, fulfill the general will, or satisfy the best interests of society, citizens can withdraw their obligation to obey, or change the leadership through elections or other means.

Similarly, the high cost of capital needs to be reduced. It is ironic that in a scenario of excess labour, our governments insist on taxing every piece of growth-enhancing capital that citizens wish to import. This is an old colonial mentality intended to keep the natives in their place as hewers of wood and drawers of water. Instead, our government should find every possible way to encourage the importation of modern plant and equipment, advanced technology, green solutions, world-class tools and inputs that would thrust our people to the forefront of competitive production.[5] Again the IMF concurs:

If enough fiscal space can be created, considerations should be given to reducing high taxes and duties on imports, which harm external competitiveness.

No such enlightenment so far. On the contrary, St. Lucia fell several places on the Ease of Doing Business index: an important indicator, but one intended to measures how easy it is for foreign businesses to set up here. It is not so accurate in measuring the thousand tribulations small local businesses face each day just trying to stay alive.

For evidence, see the worrying shrinkage in the number of businesses falling off the tax role since the introduction of VAT, and in what critical areas this has occurred. In related news, raising the VAT eligibility threshold to ECD$400,000 is a Trojan horse. It merely denies small businesses the right to reclaim VAT already paid to Government. This is precisely the sort of policy smokescreen the current administration should avoid, particularly on the eve of another rocky budget cycle.

Shortsighted policies designed to suck more and more money into a bloated public sector makes the whole economy less competitive. It also widens the gap between big and small enterprises, concentrating economic power within a few dominant conglomerates. This may produce critical mass and higher efficiencies for a few companies, but it also reduces competition, increases hegemony, and skews political influence.

Rather than encourage more exploitative businesses whose primary goals are market share and repatriation of profits, what we need is fundamental reform to encourage broad-based growth. Truth is, a few mammoth projects will not produce that result. Again, the IMF report confirms:

A comprehensive reform programme is needed to appropriately address key weaknesses and improve growth prospects, but downside risks, both external and domestic, dominate the outlook.

Since we don't want to throw civil servants out into the streets, we should at least make the public sector more efficient by redeploying and energizing its people. That requires a new work ethic, driven by productivity audits, systemic re-engineering, skill upgrades and new technology. Just the sort of rethink a World Bank would like to fund, and, just the sort of reform that renews the faith of progressive investors seeking viable destinations for long-term capital.

So, the time has come to get over all that testosterone and call public sector unions back to the table. If they can set aside their own politics, they should be very interested in a negotiated approach to public sector reform. Productivity enhancement that drives up employment and wages goes straight to their own bottom lines.

Bilateral and multilateral donors would also be impressed. They too are looking for success stories. It is therefore in our interest to bring them together in a joint recovery strategy led perhaps, by the Caribbean

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[5] See Arthur Lewis: Unlimited Supply of Labour (1954). See also Arthur Lewis: Industrialisation by Invitation (1950).

Development Bank (CDB) and ECCB. Both institutions need to stop the lofty shoptalk and the interminable reports, and get down and dirty with the rest of us in the street where it really counts.

Serious and immediate consideration must be given to an IMF structural adjustment program simply because adjustment with resources is more likely to succeed than adjustment without. Barbados remains in denial and is struggling to delay the inevitable. Better to treat the cancer at stage one. Fresh elections will hardly help.

THE ROAD TO GLORY

To get this economy going again, we need capital – lots of it. It should be long-term, well priced, and deployed in coordinated investment programs, monitored by joint private/public watchdogs. Applying this logic, Jamaica has finally achieved growth after decades of degradation. The model comes highly recommended.

Most important, our government needs to engage the local private sector: it is time for a serious tete-a-tete. Kiss and make up, boys; the days of détente are over. Government is not the anointed messiah. It's a wonderful role if you can pull it off, but the evidence suggests that you can't.

Also imperative is a shared understanding of just how and why economies work, and what a hemorrhaging private sector needs to heal and get moving again. More inflationary taxes in a recessionary environment is just about the worst combination of economic circumstances imaginable, and unfortunately, a very current definition of VAT.

The private sector also needs to critically refashion its role as development partner with government and civil society. If we merely focus on what we want, then we bring nothing new to the table. Eyeing each with suspicion is not going to get us anywhere. Attitudes like winner-take-all and devil-take-the-hindmost will not work. We are deep in this thing together, but if we can agree that growth, productivity, innovation, investment, and diversification are common goals, then it's a simple matter of drawing one roadmap that we all can follow.

Government must resume its prime responsibility as facilitator, catalyst, and guardian of the public trust. Too many side agendas are polluting the development debate, so that even well-intentioned governments have become obstructionist without knowing how, when or why. Now that the goody bag is empty perhaps government will stop posing as the grand benefactor; the ultimate Santa Claus deciding who's being naughty or nice.

Civil society must also now be embraced and dissenters allowed their voice. Communities should be given back their local government rights and responsibilities, and made to feel more like partners. Citizens need to be cast less like perpetual takers, mendicants, and askers for more. Based on information supplied by the Government of St. Lucia, the IMF insists:

Structural reforms remain critical to remove obstacles to long-term growth.

Several obvious priorities are readily identifiable: a better skills mix; improved labor productivity; curriculum reform; performance-based pay in the public sector; growing the green energy sector; reducing the cost of doing business; improving competitiveness; reducing import duties; improving access to credit**.**

So, perhaps the late Sir Dwight was right.[6] The problem is not merely money. It's LEADERSHIP; not just on

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[6] Sir K. Dwight Venner: Address to the St. Lucia Chamber of Commerce - April 12, 2013

the political front, but across the entire spectrum of our small interdependent societies. We have had enough talk about how best to share a shrinking pie: at the end of that story, we all starve. Right now, our economy must grow by a minimum of 5% per annum, just to begin tackling poverty, ignorance, crime and hunger. To do that, we need all our resources consistently and coherently deployed.

Our Prime Minister presumably sits at the top of the food chain surrounded by all manner of counsellors and carnivores. His role is to know the difference and to take the lead in shaping the future; not out of adversarial politics or civil controversy, but out of a new and necessary consensus.

If he believes in his own leadership and legitimacy, the best thing he can do now is to bring all players into the arena - civil society, chieftains of industry, cabinet colleagues, political cronies and opponents – all, kicking and screaming if necessary.

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