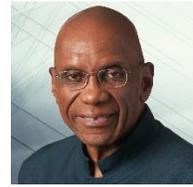




Economic Letter, February 2018



Public Sector Inefficiency Stifles Growth

The Barbados economy would have grown by at least 3 percent last year, if major investments in tourism, housing, renewable energy and infrastructure had not been delayed or frustrated by bureaucratic delays and inefficiencies over the past several years. Barbados has a very competitive economy, with high-end tourist facilities, highly regarded international financial and business services, world-renowned rum and entrepreneurs that are making a name for themselves internationally.

However, the bad news is that our Government is overspending, and it is failing to deliver public services efficiently. That has stifled the economy's growth, and eroded the foreign reserves of the Central Bank.

If a private company's expenses are higher than revenues, that company will go bankrupt. When the Government overspends, the central bank runs out of foreign reserves. That is the situation that now threatens the Barbados Central Bank, after almost a decade of overspending.

The inefficiency of the public sector undermines the country's competitiveness, and damages its international reputation. The current sewerage crisis is the latest example of this.

In order to release the economy's true growth potential, two things must be done:

- Government expenditure must be cut sufficiently to eliminate the current account deficit; and
- Fundamental structural reform must be undertaken to assure internationally competitive delivery of public services.

The main reason for Barbados' declining competitiveness in the *Global Competitiveness Report 2016/17* is the continuing fiscal imbalance. The large budget deficit, the fact that Government's current spending exceeds tax receipts, and the rising debt levels are especially worrying for investors.

Moreover, there has been a decline in the performance of public sector institutions, according to the respondents to the World Economic Forum's annual survey. The public's trust in politicians has waned, and there is an increasing concern about bias in the decisions of Government and officials. Government regulation has become more burdensome, and our legal framework has become less efficient. Survey respondents believe that Government has been wasteful in its spending, and that the situation has been getting worse. The widely quoted *Doing Business Report 2018* documents the unnecessarily burdensome and time-consuming processes involved in starting a business, obtaining construction permits, registering property and securing customs clearance, among other hurdles. Barbados ranks poorly, compared with countries with similar levels of development.

In my January Economic Letter, I proposed a 7-point strategy to improve public sector efficiency and correct Government overspending. As in the field of medicine, the prescription must fit the diagnosis. What ails the Barbados economy is bloated public sector which the country cannot afford, and which does not deliver many critical public services to acceptable levels of internationally comparable efficiency. I have offered a prescription to address these ills. As far as I am aware, it is the only targeted and comprehensive prescription on offer.