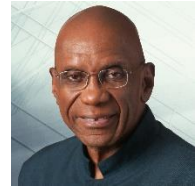




# Economic Letter July 2018



## How the Retrenchment of Public Servants Benefits the Economy

The proposed retrenchment of public sector workers, which is a central element in my recommended strategy for economic prosperity in Barbados, would be funded by borrowing from international financial institutions. A programme for reform of the public service would be among the conditions negotiated with the IMF and others. The local currency counterpart of some of the finance provided by the lenders could fund the retrenchment.

Retrenchment funds could be used to:

- provide a cash grant, over and above other benefits they might be entitled to, to public servants who volunteer to leave;
- to fund a top-up to full retirement benefits to anyone who retires early;
- to support funded retraining and further education for public workers who are retrenched;
- to provide grants and advisory services for all leaving officers who wish to start small enterprises;
- to provide personal and financial advisory services; and
- to provide a small fund and support services for any exceptional cases.

Separations which are funded in this way would have economic benefits immediately and in the long run.

The immediate benefit would be to avoid any dampening effect of retrenchment on the economy. All departing public workers would have the means to maintain their livelihoods. In addition, some would undoubtedly use severance funds to do home extension and repair, and others might take up farming or other enterprise.

The longer term benefit comes from the increase of productivity in the public service. There should be no fall in the quality or delivery of public services; in fact both quality and delivery should increase, with fewer but better qualified public servants. With fewer numbers, this produces an improvement in the productivity of each worker. In addition, with lower numbers, senior public servants could be better paid, providing an incentive to attract talent into the service. The result would be public services that are better managed, improved morale within the public sector, and the recovery of Barbados' reputation for efficient public administration. The evidence would be seen in a marked improvement in Barbados' ranking in the *Global Competitiveness Report*, and in the *Doing Business Report*. In such an environment we could expect renewed investment interest by foreign, regional and local investors, and a sustained boost to growth and jobs.