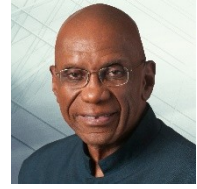




Economic Letter July 2020



Five Suggestions for Turning the Economy Around

Fear of the deadly Covid-19 virus has disrupted economic activity everywhere to an extent that calls for a change in economic strategy which is both radical and practical. I offer five suggestions for a strategy to turn the Barbados economy around.

The first and most urgent task is to restart the tourism industry. Barbados cannot do this alone; in order to bring forward the procedures and protocols that will restore confidence in Caribbean tourism, an international cast of actors must be mobilized. The systems and guidelines needed must be developed, agreed and implemented by a worldwide coalition of governments, international agencies, international hotels, airlines, travel companies and all other tourism players. The most effective way for Barbados to engage in this global effort might be via the agency of the Caribbean Tourism Organisation and the Caribbean Hotel and Tourism Association. These discussions should be conducted at the highest level by all parties, including the Prime Ministers of Caribbean tourist destinations. My [June Economic Letter](#) has additional suggestions.

The importance of the earliest possible revival of tourism cannot be overestimated. The Barbadian economy is fuelled by foreign exchange, and tourism provides two-thirds of our foreign exchange. Nothing can make up for that loss in the near term.

Secondly, the need for a complete makeover of our public services remains the key to sustainable future growth. The need for public services that are led by executives of proven ability and manned by highly skilled staff has been highlighted by the Covid crisis. A change of the scope and magnitude required is beyond the capacity of our Government and the agencies providing finance and advice to the Government. The skills of a world-leading firm of management consultants is required.

A twenty-first century public sector is needed in order to reverse the decline in Barbados' competitiveness. The things that have attracted investment to Barbados in the past are the good quality of roads and infrastructure, efficient up-to-date public utilities, good health and educational facilities, a highly skilled and trainable labour force, and macroeconomic stability. The country's performance in every one of those areas has been compromised because of the continuing decline in public sector performance, over decades. Public sector reform was the subject of my Economic Letters of [February](#) this year, [August](#) and [March](#) 2019, and [September](#), [July](#), [May](#) and [February](#) 2018. In my publication [*The Barbados Economy: The Road to Prosperity*](#), published in 2017, I recommended public sector reform as the centerpiece of Government's economic strategy.

Thirdly, Government needs to produce a document with a practical strategy, action plan, deadlines, monitoring and reporting, for replacing fossil fuels with renewables. Barbados is squandering an opportunity to gain energy independence by its failure to devise and put in place an actionable 15-year strategy for renewable energy. To ensure its success, the renewables strategy should be actively co-ordinated by a high level committee led by the Prime Minister. Such a strategy would set clear objectives

for the proportion of electric generation by wind, solar, waste-to-energy and bio-fuels by 2035, and for the proportion of vehicles, machinery and other fuel uses to be converted to renewable sources. The strategy would have five 3-year benchmark progress evaluations, involving all stakeholders, to make course corrections when and where necessary, to ensure the 15-year goal is achieved. (See my Economic Letters of [September](#) and [December](#) 2019.)

Renewables are the energy of the future; the use of renewables saves us considerable foreign currency, making it the equivalent of a second export sector of considerable weight. Equally important, it frees the country of the uncertainty and instability due to oil price fluctuations.

However, a 100 percent renewables target is out of reach for the foreseeable future, because BL&P has been obliged to install a new 33MW plant that runs on fossil fuel, in order to stabilise the grid. That plant probably has a 30-year life span. Moreover, only a tiny fraction of vehicles imported in recent years is fully electric, and most of the petrol and diesel engines imported will still be in use in 2035 and beyond.

Fourthly, Government faces a chronic shortage of finance for the multi-million dollar public works programmes which are urgently needed. A resurgence in private foreign investment, crucial to the economy for the foreign exchange it brings, can be confidently expected when financial markets fully regain confidence in Government's economic policies. There will then be no shortage of foreign investor interest in well thought out projects that offer competitive returns on investment.

However, there is a shortfall in finance for public investment, in sewerage, water supply, sanitation, public transport, the QEH, roads and other infrastructure and equipment. Government's declaration of a debt moratorium in June 2018 was a severe blow to the confidence of foreign investors, and the heavy restructuring losses suffered by banks, insurance companies, credit unions, companies and individual bondholders have evaporated the appetite for Government debt. Government is therefore entirely dependent on the IDB, the CDB and friendly foreign Government agencies to fund its capital works and purchases of capital goods.

In these circumstances the sensible alternative for upgrading the port and the airport is to secure long term lease agreements with carefully-selected major global players, who might have an interest in developing the capacity of the port and airport to a high international standard as part of their global network. Such companies would bring their own sources of funding, as well as a large increase in through traffic. (My [Economic Letter, August 2018](#).)

Fifthly, the time has come to say a fond farewell to the Barbados dollar. Our dollar, like the other currencies of the Caribbean, is on its way to extinction. The currency is of value only within our 166 square miles, and of limited value even at home, because most of what we buy and sell comes from abroad anyway. We earn next to nothing on savings in Barbados dollars, and what local currency saving we do have is under constant threat of devaluation. We needed local currency decades ago when most payments were made with notes and coins, which were scarce in the island. With most transactions now done by cheque, credit or debit card and online, and with a good supply of US dollars from visitors, it makes sense for the Central Bank to redeem all the outstanding Barbados dollar notes and coins, and to abolish the Barbados dollar once and for all.

This would immediately relieve all Barbadians of fears that their savings will be worthless when they come to retire, and assure foreign investors of the value of their investment and the expected returns from that investment. The Central Bank would still be able to provide an overdraft to Government, using the reserves which commercial banks are obliged to hold with the monetary authority. However, the Central

Bank would not be able to create new money to lend to Government. Only the US Federal Reserve can create monetary liabilities in US dollars.

The changeover to the US dollar would need to be carefully planned, fully advertised and explained, and skillfully implemented by the Central Bank. It would be advisable to begin the makeover of the public sector with the Central Bank, and task the renewed Central Bank with this as its first assignment. (My Economic Letters, [June](#), [July](#) and [October](#) 2019, and [March 2020](#) discuss issues related to dollarisation.)