



SEPTEMBER ECONOMIC LETTER



Barbadians must work more productively in order to better our standard of living

Barbadians' standard of living and lifestyles depend on access to imports. Everything we need to sustain the quality of our livelihood is either brought in from abroad, or depends on inputs from abroad to produce and bring it to us. That means that our economy is fuelled by foreign currency. To maintain our standard of living we must keep US dollars and other foreign currencies coming in, and to improve our standard of living we have to earn more foreign currency.

We earn foreign currency from tourism, international business companies operating in Barbados, business and professional services Barbadians sell overseas, and from exports of manufactured goods. Barbadian producers are successful in these activities because they produce desirable products and services at prices that match those of overseas competitors. So long as the local producer keeps up their quality to match the international market, they can sell as much as they can produce. In order to earn more foreign exchange the producer must invest so that they are able to produce more. Investment is crucial in order to grow the economy.

In addition, each worker has to produce more output in the course of their workday, if the worker is to benefit from the increase in output and foreign exchange. If new investment requires the same number of new workers as existing investment - that is to say that the productivity of the additional workforce is the same as that of the old workforce - then the new workers will get the same pay as the existing workers. Workers can expect to earn a share of the additional foreign exchange earnings only if they are more productive. On average, each worker must be enabled, motivated and equipped to produce more, of better quality, with more variety and with better service. Improved productivity attracts further investment, creating even more productive capacity, better transport services, upgraded public services, and greater efficiencies, creating a virtuous cycle of growth and prosperity.

Public services do not escape the iron law of productivity. The standard of living of public servants depends on the supply of foreign exchange, just like everyone else. The performance of the public sector contributes to the country's competitiveness, as I pointed out in my August letter. Investment projects in the public sector attract foreign funding and provide additional foreign exchange. Public sector workers can share in the foreign currency inflow only to the extent that each worker provides more or better services.

Against this background, the record of the Barbados labour force is not encouraging. Over the past decade, output per worker in Barbados appears to have increased very slowly, by about \$600 per year, no more. In the public services, productivity has been falling. The value of services provided by the average Government worker has been declining by about \$900 per year over that same period.

The need to improve labour productivity overall, and to reverse the falling productivity in the public service is paramount. This issue must take centre stage in discussions of the Social Partnership; measures to improve worker productivity are a sustainable way to ensure improved living standards for the Barbadian workforce. The gains made will be permanent, and will contribute to improved competitiveness, growing investment inflows, and faster growth of our economy. Accelerating productivity increases creates a virtuous cycle of growth, and opens a highway to greater national prosperity for all Barbadians.