Promoting prosperity for all

Think Piece #1

The Economy, or should we be really talking about society ...?

Presentations from Compete Caribbean

and

CARICOM Commission on the Economy

Wednesday July 26, 2017

11:30 am to 1:00 pm

In its 2012 - 2017 Programme of Action (PoA), the PSI committed to participating in economic debates to ensure that policy makers hear an alternative economic agenda by, inter alia:

a) *Setting up a network from within affiliates to work on sustainable economic strategies.*
b) *Preparing good practice studies of affiliate responses to the crisis.*
c) *Identifying mechanisms of influence to ensure trade agreements are fair to workers, do not restrict government options for service provision, and do not promote privatisation of public services*[1].
d) *Identifying pathways to influence the international financial institutions.*
e) *Working with other global actors to regain the momentum in exposing the flaws in the current economic system.*

In addition, the PoA reaffirmed that the public sector has a key role in achieving sustainability and that the PSI would:

a) *Urge affiliates to promote the public sector as a means to achieve sustainability.*
b) *Produce and circulate policy linking the achievement of sustainability to quality public services.*
c) *Distribute policy on the role of public sector workers in sustainable development.*
d) *Work with the ITUC and the Council of Global Unions on these issues, including within the overall Quality Public Services-Action Now! campaign.*

The CARICOM Commission on the Economy was established at the direction of the Bureau of the Conference of Heads of Government of the Community following its meeting of September 2013, with the mandate to advise on the Growth Agenda which was endorsed by the 34th Conference in July of 2013. The main **objective** of the **CARICOM Commission on the Economy** is to provide advice on implementable solutions to return CARICOM economies to a path of sustainable growth and development. The Commission will specifically

[1] "Public services are those which are universally provided to the public and available equally to all; they affect life, safety and the public welfare and are vital to commercial and economic development; they involve regulatory or policy-making functions; the service is incompatible with the profit motive or cannot be effectively or efficiently delivered through market mechanisms."

provide advice on the priority areas set out in the Growth Agenda and will monitor regional economic developments to enhance the economic intelligence capability of the Community.

Low growth, High debt

"Countries in the Caribbean have been growing at roughly 2% per year for the past two decades, while small island states, in other parts of the world, have been growing, on average, at a much faster annual rate of 3.5%. Think about that for a moment. The economies of the Caribbean are significantly lagging behind all other similar economies in growth performance.

The slowdown in the Caribbean started in the 1990s, triggered by the loss of trade preferences to European markets, reduced fiscal space, and recurring natural disasters, usually hurricanes and floods. Slower economic growth also reflects deep-rooted competitiveness problems. Most Caribbean small states rank poorly on the World Economic Forum's Global Competitiveness Index."

"While it's widely accepted that most developing countries need to borrow to finance their economic development, there's a threshold beyond which high debt for an extended period of time forces governments to cut social spending and public sector investment, exposes the financial system to the threat of debt default, and acts as a drag on economic growth.

In general, public debt/GDP ratios over 50-60% are considered high and close to the debt tipping point."

See also article from Financial Times on "The Caribbean's Silent Debt Crisis".

Re-thinking GDP?

In January of this year during World Economic Forum's Annual Meeting in Davos, two giants of the financial world and a leading academic seemed to be in agreement that GDP is up for review.

Joseph Stiglitz, "a Nobel Prize winning economist, Christine Lagarde, head of the IMF and MIT professor Erik Brynjolfsson all said GDP is a poor indicator of progress. They are arguing for a change to the way we measure economic and social development.

"We have to go back to GDP, the calculation of productivity, the value of things – in order to assess, and probably change, the way we look at the economy," said Lagarde.

Read more

So what does this mean for the Caribbean? Using the traditional measurements we have been told that we are in high debt, low growth mode and that drastic changes have to be made. And so there is austerity.

As Joseph Stiglitz said in Davos: "What we measure informs what we do. And if we're measuring the wrong thing, we're going to do the wrong thing."

So, was the prescription for Jamaica flawed?

Are current recommendations equally flawed?

Doing business in the Caribbean – attracting investment

The World Bank's Doing Business Report series have been in existence since 2003.

The annual publication assesses the ease of compliance in 10 areas of private business, from starting a business to getting electricity to paying taxes. The country ranking that is produced, gives governments n developing countries a score card on their economic stewardship.

The trade union movement has argued, from the publication of the first report, that the aim seems to be to reward countries with the lowest levels of regulation.

In one study in the Journal of Economic Perspectives, the claim is made that "… for developing-country policy makers, focusing on rising in the Doing Business ranks could draw scarce resources away from more-substantive reforms that would help the government better administer and enforce business regulations."[2]

Excerpt from Eurodad blog[3]

> **How has the *Doing Business* report evolved in recent years and why?**
> The 2016 edition of Doing Business includes a series of methodological changes that were taken on after extensive criticism of the report from the Bank's own Independent Evaluation Group[3] – an Independent Panel appointed by the Bank – and civil society organisations (CSOs). The conclusions of the Independent Panel mirror concerns raised by CSO groups that the DBR is irrelevant to the two goals that the Bank set for itself – ending extreme poverty and promoting shared prosperity.
>
> The changes concern three main areas. First, the Bank changed the way ranking calculations are made. Second, the case scenario that serves as a basis to collect the data now incorporates a second city for 11 countries that have more than 100 million inhabitants. And third, some indicators have been changed by broadening what is being measured but also by changing the way data is scored. The expansion of the collected data brings some added value to the report, notably as there is now more qualitative information included in the indicators. However, the methodological changes implemented in the 2015 and 2016 editions of the report completely miss the target of contributing to ending poverty.
>
> **What are the main problems with *Doing Business*?**
> There are three main problems: First and foremost, *Doing Business* indicators do not take into consideration the social or economic benefits and cost/risks of regulation. They regard regulations as obstacles to efficient markets. Under this assumption, those obstacles need to be removed to achieve poverty reduction. The report of the Evaluation Group pointed out that regulation "*performs a necessary function in enabling markets to function and in protecting public health and safety*". Translation: insufficient regulations can be an obstacle to private sector development.
>
> In addition to the lack of consideration for the benefits of regulations, the *Doing Business* indicators focus on some topics, such as corporate tax rates, despite their negative spillover effects, especially in developing countries. The main focus of this indicator is the tax burden on SMEs. However, the 'tax rate' and 'number of payments' sub-indicators are not relevant when it comes to fair assessment of the tax burden on SMEs.
>
> Second, and in contrast to aid effectiveness principles, *Doing Business* indicators promote one-size-fits-all solutions to development. The Busan Declaration on Aid Effectiveness outlines five fundamental principles for improving cooperation for effective development. The Declaration highlights how ownership is the first of those principles, stating that, "*Partnerships for development can only succeed if they are led by developing countries, implementing approaches that are tailored to country-specific situations and needs*".
>
> The DBR is designed under the assumption that there are 'good' and 'bad' policies. This assumption clearly misses the need to examine the specific context of each country it assesses. According to the World Bank, the DBR should not be seen as a one-size-fits-all model. However, the Bank's communication around the report continues to maintain this image. In addition, the DBR heavily promotes deregulation as the best strategy for private sector development.

---

[2]https://www.webssa.net/files/is_the_world_banks_doing_business_report_at_odds_with_how_business_is_done_in_the_developing_world_-_real_time_economics_-_wsj.pdf
[3] http://www.eurodad.org/Entries/view/1546503/2015/11/25/Doing-Business-ranking-at-odds-with-how-business-is-done-in-the-developing-world-how-the-World-Bank-s-flagship-publication-influences-policy-makers

How relevant are these Doing Business Reports to the Caribbean?

Should our governments be relying on them to guide policy?

Development Finance

"With the exception of Barbados and Trinidad and Tobago which receive no official development assistance, Caribbean SIDS currently receive ODA ranging between 0.13% and 5% of their GNI. Haiti is at the upper end with 4.9%, followed by Dominica and St Kitts-Nevis with approximately 4%, and Guyana and Belize with 3.3% and 3.2% respectively. At the low end are Antigua and Barbuda (0.1%), Suriname (0.6%) and St. Vincent and the Grenadines (1%). In the middle are Grenada (1.2%) and Saint Lucia (1.9%)." [4]

So again, the burning question "*where will the money come from*"?

Public-Private Partnerships (PPPs) continue to be pushed by the IFIs and more recently bthe UN as a way to finance the SDGs. PSI is leading the fight against privatisation and PPPs at the UN, World Bank, IMF, OECD, ADB, and many other regional and global platforms. "**Why Public-Private Partnerships don't work",** is a key publication, providing many details and evidence on the failures of PPPs.

PSI's privatisation work during the UN negotiations on the Sustainable Development Goals and the Financing for Development Summit served to alert a number of governments, and allowed us to coalesce a global network of NGOs willing to engage directly in PSI work. Partly as a result of our pressure, the UN Department of Economic and Social Affairs (DESA) recently published a working paper on public-private partnerships which is more balanced (and critical) than anything seen before:
http://www.un.org/esa/desa/papers/2016/wp148_2016.pdf

PSI and its coalition of partners are coordinating resistance to the attempts by a dozen governments to manipulate the UN Economic Commission for Europe (UN ECE) into setting "global standards for PPPs" by sector. Any attempts to negotiate guidelines for PPPs have to be more transparent, participatory and inclusive."

Some other questions to ponder

- How do you think Caribbean governments go about re-structuring and transforming their economies?
- What sort of transformation are we seeking?
- What is the role of the public services sector in this transformation?
- What kind of Caribbean do we want?
- What should be our countries' focus as we seek to build prosperous, sustainable societies? Where are the growth areas?
- Where are the intervention points for public services unions in the Caribbean?

Some additional references

- IFI's and their use of DBR - http://www.ituc-csi.org/IMG/pdf/doing_business.pdf
- Newsletters from Compete Caribbean - http://competecaribbean.org/media-centre/newsletters/
- De-risking in the Caribbean, Central Bank of Barbados
- See PSI's website pages on privatization - http://www.world-psi.org/en/issue/privatisation

SYM/07/2017

[4] http://www.undp.org/content/dam/rblac/docs/Research%20and%20Publications/Poverty%20Reduction/UNDP_RBLAC_Financing_for_Development_ReportCaribbean.pdf