



**ADDRESS TO PARLIAMENT
BY PRIME MINISTER OF JAMAICA
HON. BRUCE GOLDING
ON THE SUPPLEMENTARY ESTIMATES
WEDNESDAY, SEPTEMBER 30, 2009**

The Supplementary Estimates

The expenditure adjustments contained in the Supplementary Estimates and the new revenue measures announced by the Minister of Finance have become necessary because of three factors:

- (1) the continuing adverse impact of the global recession;
- (2) additional provisions required to meet public sector wage adjustments particularly for teachers and nurses;
- (3) increased interest payments on the public debt.

Faced with these inescapables, our only options are to cut expenditure, borrow more or cut some expenditures and borrow some more. We have had to do the latter.

The changes in the Budget can be summarized as follows:

Additional interest payments	\$16B
Public sector wage adjustments	7B
Other inescapable	<u>4B</u>
Total additional expenditure	27B
Less budget cuts	<u>21B</u>
Net increase in expenditure	\$6B

These adjustments, unavoidable though they are, do not address the underlying fiscal problems the country faces. They are simply a tourniquet – an effort to narrow the imbalance of “unbalanceable” books.

Effects of economic downturn

The economy is experiencing a severe downturn. Our export earnings have been cut in half due largely, but not only, to the shutdown of a large portion of the bauxite/alumina sector. Some 30,000 people have lost their jobs; others have seen a decline in their earnings. Remittances

which support so many families have dropped by 15%. The result is that almost every category of revenue collections is below what we had projected and in some instances below even what was collected last year. The shortfall in revenue collections is projected to be \$16 billion for this fiscal year and as a result the projected fiscal deficit has had to be revised upwards from 5.5% to 8.7%.

We are not unique in this regard. Almost every country in the world is battling rising fiscal deficits. The USA has had to revise its deficit forecast from 11% to 13%, Britain from 12% to possible 15%.

Deeper, more fundamental problems

Our persistent fiscal problems, only made worse by the current crisis, are merely the symptom of deeper, more fundamental problems that have long bedeviled us:

- Chronic indebtedness

So burdensome is the total debt that for the last 10 years our interest costs and principal repayments have exceeded our total revenues. For this year our interest costs and principal repayments total \$325 billion while our total revenue is estimated at \$310 billion.

- The unaffordable cost of government:

Wages & Salaries	\$125B
Travelling & Subsistence	10B
Pensions	15B
Utilities	5B
Rental of property & equipment	<u>2B</u>
Total:	\$157B

Our fiscal profile can therefore be represented as Follows:

Debt service costs	\$325B
Cost of government administration	<u>157B</u>
	\$482B
Total Budget	<u>561B</u>
Available to finance government programmes	\$79B

We need to understand the effects of this.

- The Jamaican people are being shafted. They pay taxes but they are never able to see a commensurate return in the delivery of

government services e.g. roads, water supplies, good quality education and health services.

- Jamaica remains perpetually “hooked” on borrowings. Our earnings cannot support our level of indebtedness so we have to keep borrowing to repay what we have borrowed and to do what little we can to provide desperately needed services to the people.
- Government operations constitute an impediment to growth. Government gobbles up the largest chunk of the money in the banking system that ought properly to be going toward financing investment. So, instead of money looking for investments that will create jobs and stimulate growth, that money is captured by government to service debt and pay for the high cost of government. Interest rates remain high because the market knows that the government has to borrow and therefore it can demand exorbitant interest rates.
- Government operations remain cumbersome, government requirements in many instances are unnecessary or no longer relevant and, where necessary, are often inefficient and costly to the taxpayers who have to pay for it, business people who are frustrated by it and ordinary people seeking to do ordinary things who cannot avoid it.

We cannot go on like this. To do so would be to keep the country permanently on life support, breathing but lifeless; incapable of asserting ourselves, never able to stand on our own two feet, never able to be productive and forever denied the quality of life that our people deserve.

We saw that incapacity during the 1990s when, despite the unprecedented, sustained global economic boom when many countries similar to Jamaica were enjoying record rates of growth, the Jamaican economy grew **in aggregate** over that period by barely 3%.

We need to change course

We have had to confront the need for change and adjustment before. In the 1980s, Jamaica went through a process of structural adjustment that sought to allow the energizing stimulus of market forces to transform the economy. In the 1990s, we underwent the liberalization of the foreign exchange market, a further step in transforming the economy into market competitiveness.

But the process of transformation is far from complete. The operations of government and its stifling effect on the economy must be reconfigured so that the entrepreneurial spirit which is so instinctive to the Jamaican character can be unleashed, so that as we have demonstrated in our music and on the international athletics track, we can be the best in the world and on top of the world.

For too long, we have been playing catch up, trying to meet illusive targets, trying to get through one fiscal year hoping that better will come next year, only to find that next year brings more despair.

We must stop trying to play catch up. We must exit the game in which, each year, our dreams seem to be more impossible to attain. We must make the bold decisions now to secure our future, to give our children a fair chance to accomplish what they will – not to have their chances blighted by the burdens we are bequeathing to them. It is time to make a paradigm shift.

The changes that need to be made are not novel. They are things that other countries have done that have placed them on a path of sustained growth and development. Many of them are not new to us – not new in the sense that they have long been identified as necessary, have been the subject of elaborate study engaging the best minds from home and abroad, producing voluminous reports. But, so often, we have lacked the will to implement.

So often, we have postponed what needs to be done, waiting for a more appropriate time. Timing, they say, is everything. But the time can never be more appropriate than when it is necessary and when that necessity is so significant that it becomes an imperative.

So often, we have flinched because doing what is right and what is necessary may be unpopular and the next elections are never far away. But the hopes of our children and the future of our country will be defined and determined not by how many elections we win but by what we have won.

We must start with some basics.

Role of government

In the recent budget revision exercise, every Minister and every Permanent Secretary were hard pressed to identify where cuts could be made. Cutting expenditure here will have this effect. Cutting expenditure there will have that effect.

Governments are inclined to try to be all things to all people. Some of the things we do, we must do; some things we are pressured to do; other

things we have chosen to do. The truth is that we cannot do all the things we try to do – not if we are to do well the things we must do.

We will have to make some radical decisions as to what are the functions of government, what are people entitled to expect of their government.

We must, first of all, define and secure the core functions of government in relation to which our limited resources must be prioritized. I suggest that these are:

- Providing a safe and secure environment
- Effective and accessible justice system
- Good quality education system
- Access to basic health care
- Social welfare support for the disadvantaged and vulnerable
- Public infrastructure and related services
- A healthy environment
- Efficient public bureaucracy
- An appropriate policy environment and regulatory mechanisms
- Effective diplomacy

I am not suggesting these to be exclusive. What I am suggesting is that these are the core functions on which a stable society must be built. These are the obligations we must assume and discharge before, over and above all else. And the structures and processes of government must be designed to ensure the discharge of these functions in the most efficient and cost-effective way.

Restructuring the machinery of government

It is not a matter of re-inventing government. It is a matter of restructuring government to be definitive in what it is about, efficient in what it does, less of a burden to the country's taxpayers and a stepping stone instead of a stumbling block to growth and development.

We are not starting from scratch. As I alluded earlier, the Public Sector Modernization Division of the Cabinet Office is a repository of numerous studies that have been done, many plans that have been designed. What must now be done is to proceed purposefully and determinedly to implement the changes that are long overdue.

There are instances in which some of these changes have already been implemented. The executive agency concept, for example, is a good one and some of these agencies have achieved significant levels of efficiency improvement and I give credit to the previous administration for

instituting it. But in the context of the overall bureaucracy, they remain few and far between.

The executive agency concept may not be appropriate in every instance. Other systems will need to be introduced to achieve efficiency and cost effectiveness.

Much of our public sector is governed by a structure and culture that we inherited from a colonial era. It is a pyramid structure in which authority is concentrated at the top and responsibility not clearly defined nor effectively located. It may have been appropriate for the time of its inception. It is antiquated, inefficient and largely irrelevant today. Efficient operations require a flatter structure, devolution of authority with responsibility and authority conjoined. It requires that every department be conscious of corporate goals and plans. It requires strong leadership not only at the top but throughout the structure. It means that at every level there must be set targets and clear work plans that must be monitored and assessed virtually on a daily basis. It means that managers must have identified cost centres, must know the resources that are available to fund their operations and must have the responsibility and authority to manage those resources. And it means that every department and every employee in that department must be subjected to rigorous performance evaluation and accountability.

As I said, it requires both a structural and cultural change. Culture is not so easy to change but it does change. What is required are the appropriate systems and strong leadership.

Over the past few weeks, I have held intense discussions with senior technocrats within the government to prepare the path for a concerted effort toward restructuring and modernizing the machinery of government. Within the next few weeks, we will establish within the Office of the Prime Minister a high-powered unit to drive the process. We intend, over the rest of this fiscal year, to roll out an action plan and to be ready to commence implementation in the next fiscal year. We will seek, through consultation in the Social Partnership, to build consensus, to draw on the expertise of its membership including the private sector, trade unions and, indeed, the Opposition which wrestled with this challenge during its term in office.

Public sector wages

The issue of public sector wages continues to be contentious despite the existence of successive MOUs. No one begrudges any public sector worker a decent wage, whether civil servant, teacher, nurse, policeman, fireman, correctional officer or public health inspector. Indeed, if government is to be efficient, it must have efficient and motivated staff and it cannot do so unless it is able to offer competitive remuneration.

But what we are able to pay public sector workers is limited by our ability to pay. The public sector wage bill has increased by 50% in the last two years. Our ability to pay is not only stretched, it has exceeded the limit.

Growing the economy so that we can improve our revenues is what is required to be able to offer competitive salaries to our public sector employees. Restructuring the public sector to be more efficient and cost-effective is what is required to enable the economy to grow.

In crafting the budget earlier this year, I gave an assurance that there would be no redundancies in the public sector this year. Since then, we have been confronted with new wage settlements for teachers and nurses that add a further \$16 billion annually to the public sector wage bill not including retroactive payments. This wage bill burden cannot be sustained or else we will do nothing else but pay salaries and service debt.

We will have to trim the size of government; and I'm talking about the entire government bureaucracy not just what is known as Central Government. The Civil Service Establishment order shows that there are 41,353 posts in the Central Government. But the total number of persons employed by government in all its Ministries, agencies and companies and statutory bodies who have to be paid every week or fortnight or month is 117,000. Some categories cannot be reduced. We need more nurses and pharmacists and policemen. But some departments and agencies will have to be eliminated because some of the traditional chores of government departments and agencies will have to be eliminated. Some will have to be merged in order to achieve greater efficiency and avoid overlapping. Processes will have to be simplified. Some of the bureaucratic requirements we impose on the public and on businesses serve no useful purpose and will have to be abolished. Some things that now require approval don't need to require approval. We require too many forms to be filled out, too much to-ing and fro-ing, too many people that you must speak to, too many places that you must go. And with every transaction that has to be undertaken, we create an opportunity for corruption.

Government must show people the way, not stand in their way.

Will the process lead to job cuts? That can hardly be avoided. But we would make a mistake if job cuts were what informed our approach because cutting jobs by themselves do not necessarily lead to efficiency improvements or, indeed, cost savings. It is modernizing and improving the efficiency of government to stimulate economic growth that will ensure that opportunities are created for the absorption of displaced workers in endeavours that are perhaps more rewarding than they currently enjoy.

The Leader of the Opposition has called for a reduction in the size of government. With that I fully agree. That is what I have been talking about for the last 15 minutes. And in reducing the size of government, the size of the Cabinet and the number of Ministries will also be dealt with. But I don't think the Leader of the Opposition is positing the view that by simply reducing the number of Ministers you reduce the size of government. We need to do much more. That is the task on which we must now embark.

In reordering the business of government, agencies which provide or regulate commercial services, e.g. Registrar General's Department, Passport, Immigration and Citizenship Authority, Firearm Licensing Authority and the Private Security Regulatory Authority will be required to fully fund their operations from fees and user charges. Issuing passports and granting licences and monitoring private security companies are part of the core regulatory functions of government but the cost of doing so must be borne by the service users and not be piled onto the overburdened taxpayers.

Tax Reform

We have been talking about tax reform for as long as I can remember. That, too, has been the subject of exhaustive studies, reports and recommendations. Some elements of tax reform have been implemented but the approach has been, at best, piecemeal. Our tax system remains inequitable and unjust. The PAYE employee is caught and can't escape. Thousands of other income-earners play the game of "catch me if you can". Some income earners are difficult to catch and they are in no hurry to identify themselves. Their incomes, too, are difficult to determine. But filing income tax returns is not the only way in which taxes can be exacted. If Mohammed won't come to the mountain, then the mountain must go to Mohammed.

Government, itself, has been weak and dilatory in its enforcement. Take, for example, property taxes that are a primary source of funding for critical local government services such as sanitation and street lighting. We have had to provide \$908 million in the Supplementary Estimates to pay JPSCo for streetlights because we are collecting less than 40% of property taxes due. Yet, the properties are known. They can't hide. They can't be relocated.

We intend in the next fiscal year to roll out the full programme of tax reform, easing the burden on those who, for too long, have been bearing too much and sharing the burden with those who have been able to get away for too long. If Mohammed won't come to the mountain, then the mountain must go to Mohammed.

Incentives and tax concessions

In implementing the programme of tax reform we are going to review and streamline the complex structure of tax incentives and tax concessions. Some of them date back to a long distant era whose circumstances no longer exist. Some of them are inappropriate to address the need to encourage investment in the current environment. The mere fact that incentive sand concessions are considered necessary suggests that something is wrong with our tax system. Provide a just and equitable tax system and there will be less need for incentives and concessions.

Fiscal Responsibility Framework

Credibility requires that government intentions be backed by concrete action. Our Balance of Payments problem will be addressed in the short and medium term by a stand-by agreement with the IMF. The loss of foreign exchange flows occasioned by the global recession leaves us with no other option. The funds we hope to secure will ensure that we can comfortably meet our external – not just that of the government – but be able to satisfy the country’s foreign exchange requirements despite the fallout in traditional flows. Our fiscal problems are more challenging. I have spoken about the strategies to reduce the cost of government. Our debt to GDP ratio will remain high in the short-to-medium term because of the additional borrowings we are forced to undertake to protect our Balance of Payments and make up for the shortfall in revenue. The BoJ has been leading the way in reducing interest rates. Some of the borrowings we will incur will not increase the debt stock but will be used to retire more expensive debt and so reduce the burden on the fiscal accounts.

However, our purpose must be demonstrably firm and our actions must be consistent. In our Manifesto, we committed ourselves to statutory limits on the fiscal deficit and public debt. The impact of the global crisis has not diminished that commitment for our policy was always to allow for deviation under circumstances such as the global crisis or a natural disaster.

We will bring to Parliament legislation to provide for a Fiscal Responsibility Framework to set parameters for fiscal performance and enhance transparency and accountability. I note that the British government announced last weekend that it, too, would be introducing a Fiscal Responsibility Act.

Central Treasury Management

The Minister of Finance has already advised the House of the steps being taken to establish a Central Treasury Management system so that the

government stops borrowing its own money through expensive intermediaries at huge cost to the taxpayers.

Divestment

Government assets that are not critical to the discharge of its core functions will be divested. In the current economic circumstances, the market for divestment is soft and this will, therefore, have to be pursued strategically. Government assets will not be part of any fire sale. Where these assets are a burden on the Budget, we must divest them to entities that can better manage them. Where they are not, they represent asset value that can alleviate other burdens that we carry.

The Air Jamaica Privatization Team reported to Cabinet yesterday. The negotiating partner completed its due diligence on September 12th and Cabinet will shortly make its decision and advise Parliament.

The government-owned sugar assets in St. Thomas and Trelawny have already been privatized. The remainder is still the subject of negotiations that we hope will be concluded shortly.

Promoting growth

Our strategies for growth and development and jobs cannot lie only in better fiscal management, vital though that is. It is also dependent on attracting and stimulating investments. The investment market is not now robust but it is not dead. Creative investors are anticipating the recovery from the recession and are positioning themselves to be the first out of the box to ride the upswing. We must place ourselves within their sights.

- The Minister of Industry, Investment and Commerce and JTI are working assiduously to identify new investments that will help us in our own recovery efforts. Plans for the industrial park at Caymanas Park are moving apace. The Minister reports strong, firm investor commitments.
- The UDC is returning to its core function of leading the way in urban development projects through a combination of joint ventures, sale of land to facilitate private investments and own-account projects.
- The NHT, the Ministry of Water and Housing and the Housing Agency of Jamaica will be undertaking over the next 12 months over 10,000 housing solutions (housing units and serviced lots) at a cost of some \$24 billion.

- The House will shortly be asked to approve a government guarantee for a loan of \$19 billion from Scotia Bank to finance extensive water supply projects covering several parishes.
- Next week we will be meeting with overseas investors to negotiate the redevelopment of the Ocho Rios Pier, consolidating both the existing pier and the Reynolds Pier to facilitate the new generation of large cruise ships.
- The development of the Falmouth Port is well underway and every effort is being made to meet the deadline for the arrival of the Genesis class of mega ships.
- The Casino Gaming Act is scheduled to be debated by the House within the next few weeks and construction of the expanded Harmony Cove project is on schedule to commence next year.
- Our agricultural sector has performed very well and has recorded such significant growth over the last few quarters that its output has now exceeded the pre-Hurricane Ivan level.
- Tourism, despite all its challenges, continues to perform better than most could have expected and better than most other Caribbean destinations are experiencing.
- We are doing everything possible to promote the establishment and expansion of SMEs because they are the fastest means of creating new jobs. Loan financing provided through the DBJ are substantially disbursed and efforts are now being made to source additional funding.
- Although the budgeted provisions for the Ministry of Transport and Works were a casualty of the budget cuts, we have been able to more than replace those funds through the additional petroleum tax, a portion of which is dedicated to the Road Maintenance Fund. Not all the bad roads can be repaired in the short term. But the Ministry will be able to carry out much needed repairs on a priority basis.

We may have been battered and bruised by the global crisis but we are not going to roll over and die. The land is green and the sun shineth.

Energy

I have said repeatedly that if we are to secure our future on the global market, we have to achieve global competitiveness. The Jamaican Brand is strong. Our musicians and our athletes have ensured that the world will have to grow tired of seeing our face or hearing us. But the strength of our brand is not enough. We must be able to offer products of value at competitive prices. And in order to do that, we have to deal with the high cost of our energy. It is critical to our manufacturing sector in which I have an abiding faith. It is vital to agro-processing which holds the key to continued growth in agriculture.

Last year, the Member for West Central St. James in his capacity then as Minister responsible for energy tabled a Green Paper on a National Energy Policy. The new Minister of Energy and Mining has completed the work that he started. It has been the subject of detailed discussions and consultations.

Last week, I had extensive discussions with the Minister and his team and the final submission to Cabinet will be made within the next two weeks. Thereafter, it will be presented to Parliament.

I am pleased with the work that has been done. Once approved, we will proceed to negotiate and secure long term supply contracts for natural gas and we will then invite tenders for investors to establish the Floating Storage and Regasification Unit that is the recommended option.

Our commitment and the national imperative

I have signalled the direction in which our circumstances and the bitter experience of several years demand that we go if we are to secure our future, if we are to see the kind of growth and development that has for so long eluded us but which is within our capacity as a people to achieve. The actions that we must take, the adjustments that we must make are not all going to be easy or painless. Yet, we have a choice. We can shirk from our responsibilities; we can do what appears to be easy and palatable – what we have done so many times before – and remain in the expedient comfort of life support. That, I suggest, is not a choice we can afford to take.

Accustomed as we have become to short-term palliatives, we are finding out that the duration of their effectiveness is becoming shorter and shorter and the damage that they do to our system is becoming more and more severe.

The political risks, I know, are there but there is little in life that is worth striving for or can be achieved without taking risks.

To the Jamaican people, I say I know the difficult times you are going through: the breadwinner who has lost a job, the mother who struggles every day to send her children to school and find dinner for them when they come home, the communities that cry out for a little water and better roads.

This is not the way we had planned it. The global recession was not part of our Manifesto but it has become part of the problem we must overcome, a huge hurdle over which we must stride.

It is a hard road to travel and it might be a mighty long way to go. But our courage is strong, our vision is not blurred and our mission is even clearer now than it was before. With God's help, we will smile at the storm and we will make Jamaica a better place for all our people.