



## INTRODUCTION

The factors which affect the size and distribution of public spending are several and varied. Their relative influence, of course, varies from one context to another, depending on social, political and economic circumstances. The growth and structure of the population, the level and pattern of employment, the level and distribution of income, the tax structure, the level of tax rates, the adequacy (both in terms of quantity and quality) of social services provided by private organisations and ideological orientation are some of the general factors that affect the level of public outlays. There are certain basic functions (e.g. public service administration, maintenance of law and order, defence, justice, the regulation of private activity, etc.) which are common to most governments. Involvement beyond this may be motivated by economic philosophy, political ideology, the failure of market forces to operate in the desired way, or by public dissatisfaction with the rate of growth or the quality of development. This latter factor has had a crucial bearing on the level of government intervention in poor countries, in forms ranging from control of certain essential services and the development of the basic infrastructure, to participation or ownership

in productive enterprises which may be important in the fulfillment of national objectives. In many cases, the level and scope of government involvement reflects a pragmatic response to certain endemic social and economic conditions rather than a purely ideological motivation.

However conscious government may be of the importance of their role in bringing about social change, because of certain constraints the actual level of public spending may be below the desired level. Revenue is one of the most important of these constraints. It is often contended that in certain circumstances the size of government expenditure determines the level of revenue. In an ultimate sense, however, it is revenue which places a limit on public spending. Since finance is only one factor in capital formation, the removal of the revenue constraint may not be sufficient in itself to accelerate development at the desirable pace. The presence of bottlenecks of various kinds can complicate the process of change. The ready availability of funds itself, too, may affect attitudes and policies in a way that can retard development, or at least increase its costs. In a situation where government spending comes to be informed essentially by vote-catching considerations,

or where not enough attention is paid to efficiency in the use of public funds, the wastage can be considerable. One can have a situation where huge sums are spent on undertakings which normally should cost only a fraction of the expenditure actually incurred in their execution. The effect of this is that the size of public spending in itself may not be a true indication of real accomplishment.

The approach to the study of public expenditure tends to take two main forms. The first (which is the more common of the two) uses the cross-section technique which seeks to compare certain public finance aggregates or variables in one country with their counterparts in other countries within a given sample.<sup>1</sup> The criteria for choosing the members of the sample group can vary widely, depending on the objective of the exercise. The other approach used is essentially a time series analysis in which movements in the interested variables (defined in a given context) are examined over time with a view to ascertaining trends and seeking explanations for the changes observed.<sup>2</sup> Both approaches have their variants and the two can be combined to do comparative studies over time. In this paper we use the time series approach in examining the growth and pattern of public

expenditure in Trinidad and Tobago in recent years. The analysis is confined to the central government<sup>3</sup> outlays, and for the most part covers the period between 1963 and 1983.

The paper is divided into five main sections. The first provides some background data on the country in order to put the analysis that follows in perspective. The second is devoted to an examination of the trends in expenditure and revenue aggregates over the last two decades. The third discusses the composition of current and capital expenditure by using different classification schemes in an effort to gauge the significance of Government spending activities in the economy. In the fourth we provide a general overview of the role played by public savings and borrowing in the finance of government capital expenditure. This includes a discussion on the trends in the public debt. The fifth section takes a critical look at some of the current issues arising from the pattern of public spending.

#### The Political, Economic and Social Background

By any definition Trinidad and Tobago is a small country. Together both islands have a land area of 1,980 square miles and a population of 1.149 million.<sup>4</sup> The population is a young one.

In 1980 57% of the population was less than 24 years of age. Of this, 34.2% was in the 0-14 age group, 12.4% in the 15-19 group and 10.4% in the 20-24 bracket. Only 5.5% of the population was estimated to be over 65 years. If we assume that persons in the 0-14 and over 65 years categories comprise the dependent population (i.e. people not earning income), the ratio to overall population in 1980 would have been around 40%. The average population growth rate during the 1953-73 period was in the region of 2.2%. Since 1973 it has averaged around 1.4%. Overall, national income (in current terms) has increased at a faster rate than population growth. This is reflected in the movements in per capita GDP (at factor cost) which increased from about TT\$569 (US\$332) in 1953 to TT\$2,400 (US\$1,225) in 1973 and to an estimated TT\$16,000 (US\$6,660) in 1983. (See Table 3). In real terms per capita GNP is estimated to have increased by 1.6% over the 1960-76 period as compared to 3.9% over the 1970-80 period.<sup>5</sup> This growth in per capita income has to be seen against a situation where the distribution of income is highly skewed. In 1975-76 (the most recent period for which we have data) the lowest 30% of household received 6.2% of total income, while the lowest 50% received 19% as compared to over 30% for the top 10% of households.<sup>6</sup> ~~This~~ <sup>There</sup> is no reason to believe that the situation has improved significantly since.<sup>7</sup>

Although the buoyancy of the economy in recent years has resulted in fairly high levels of employment, the problem of creating enough job opportunities to keep pace with the growth of the labour force remains an important area of concern. Between 1970 and 1980 the unemployment rate is estimated to have dropped from 12.5% to 8.8%. At the end of June 1983, the ratio is estimated to have been around 11.1%. The major factor in the favourable growth rates experienced by the economy in recent years has undoubtedly been the high levels of government spending which has been made possible by the revenues derived from the oil sector. One of the areas most significantly affected has been the construction sector and this can be readily seen from the following figures. Of the roughly 400,000 persons employed in the latter part of 1982, 9.2% (25.5% in 1970) were in agriculture, 16.9% (20.8% in 1970) were in mining, quarrying, refining and manufacturing, 25.7% (12.0% in 1970) in construction (including government utilities), 19.6% (20.9% in 1970) in commerce and transport, 28.6% (20.8% in 1970) in other services (including government). A large proportion of the jobs created in recent years are of a non-permanent nature, and these are certain to be affected by any slow down in economic activity.

Another prominent feature of the Trinidad and Tobago economy is the high degree of openness in terms of the dependence on foreign trade. Over the period 1979-83, for instance, <sup>exports</sup> (of goods and services) averaged about 45% of GDP and imports about the same. Trade is highly concentrated in oil which tends to account for over 80% of domestic exports. Between 1979 and 1983 the contribution of the petroleum sector to GDP (at current factor cost) averaged about 33%. Despite attempts to diversify the economy, petroleum remains the most important determinant of the level of economic activity. ~~The important determinant of the level of economic activity.~~ The importance of agriculture in the economy continues to decline, while the manufacturing sector has so far failed to obtain a significant place in the economic structure either as a net earner of foreign exchange or as a creator of employment opportunities. The largely assembly type operations which have been encouraged, offer limited scope for local value added or job creation, given their orientation and the capital intensive nature of their production techniques. The estimated contribution of the various sectors to GDP (at current factor cost) in 1982 were as follows: Oil, 28.9% (26.0% in 1966), Agriculture, 2.5% (5.3% in 1966), Manufacturing, 6.0%



(5.8% in 1966), Construction and Quarrying, 15.2% (4.2% in 1966), Transport, Storage and Communication, 11.6% (15.2% in 1966), Distribution, 9.9% (16.7% in 1966), Finance, Real Estate and Insurance, 6.8% (8.0% in 1966), Electricity and Water, 1.3% (2.0% in 1966), Government, 11.4% (8.5% in 1966) and other services 6.4% (8.3% in 1966).

With respect to political arrangements the present legal framework is provided by the Trinidad and Tobago Republican Constitution which became effective on August 1, 1976 and which provides for the appointment of a President and for the establishment of a Parliament comprising a Senate of 31 nominated members and a House of Representatives of 36 elected members. The system is based on single member constituencies and universal adult suffrage which was introduced as far back as 1946. Since 1956 power has been in the hands of the People's National Movement which currently holds 26 of the 36 seats in the House of Representatives. Failure of a strong Opposition Party to emerge as a possible alternative government has removed a great deal of pressures for sensitivity to the public mood, which would have been extant in a situation where organisations of equal or near equal strength are vying for power.

Against the above background we now proceed to an examination of revenue and expenditure in Trinidad and Tobago in the period under review.

### The Growth of Revenue and Expenditure<sup>8</sup>

Table I gives an indication of the growth (in nominal terms) of revenue and expenditure in Trinidad and Tobago in the period between 1953 and 1983. Current revenue (Consolidated Fund as shown in Column 1) grew from \$185 million in 1963 to an estimated \$6,362 million in 1983. - a thirty three-fold increase in this 20 year period. Since 1970 Government has been operating what has been called an Unemployment Levy Fund<sup>9</sup> which is kept separate from the Consolidated Fund. Receipts into this Fund are shown in Column 2 of the Table. Column (3) includes columns (1) and (2) as well as interest from the Funds for Long Term Projects to which resources have been appropriated since 1974. The expenditure figures in Columns (5) and (6) relate to all three Funds, i.e. the Consolidated Fund, the Unemployment Levy Fund and the Long Term Projects Fund. It should be pointed out that the current expenditure figures shown in Column (5a) exclude loans and grants to Statutory Authorities and capital repayments and Sinking Fund contributions. Column 5 (f

Notes to Table I

1. Consolidated Fund only.
2. Includes revenue from Unemployment Levy (Col. 2) and interest on Fund for Long Term Development.
3. Column (3) plus capital receipts and grants. The figures exclude loan receipts.
4. Combined accounts of Consolidated Fund, the Unemployment Fund and Funds for Long Term Development. Figures in Column 5(a) exclude Loans and Grants to Statutory Authorities. Figures in Column 5(b) include the latter expenditure. While both columns include interest payments on the public debt, capital repayments are excluded.
5. Expenditures from all three Funds i.e. the Consolidated Fund plus the Unemployment Fund plus the Fund for Long Term Development. Column 6(a) exclude capital repayments (including payments into Sinking Funds) which are included in Column 6 (b). Both columns include loans - grants to Statutory Authorities, as well as expenditures relating to the acquisition of assets.
6. This column shows actual expenditure from the Funds for Long Term Development.
7. Actual expenditure from Unemployment Fund.
8. Recurrent receipts for 1981, 1982 and 1983 exclude repayment of loans, which was included in the figures for previous years. This item is now included in Capital Receipts.

Re - revised estimates.

Sources: Central Bank, Annual Report, Various Issues; Auditor General, Annual Report. Various Issues; Ministry of Finance Estimates of Revenue and Expenditure, Various Issues; Ministry of Finance, Review of the Economy and Review of Fiscal Measures, Various Issues; CSO, Financial Statistics, Various Issues.

excludes the latter but include loans and grants to Statutory Authorities.

Current expenditure (Column 5(b)) increased from \$166 million in 1963 to an estimated \$6,496 million in 1983 - a thirty eight-fold increase. Total expenditure (Column 6(b)) on the other hand increased by more than \$9 billion (a more than forty-fold change) over the period.

A close examination of Table 1 would show that there has been spectacular increases in all the aggregates since 1974. For example, in the ten year period between 1963 and 1973, current revenue (all Funds) increased by \$309 million at an average rate of 10.4%. Between 1973 and 1983 the corresponding increase was \$6,118 million at an average rate of 29.6%. Current and total expenditure figures grew in a similar fashion. A comparison in average growth rates of revenue and expenditure for sub-periods within the series from 1953 is given in Table 2 which highlights the correlation in growth rates between the two aggregates in a more striking manner. It can be observed in the Table that even in real terms growth in the 1973-83 period was considerably higher than in the previous ten years.

TABLE 2

Average Growth Rates<sup>1</sup> of Public Finance  
Aggregate for Selected Periods

Periods	Current <sub>2</sub> Revenue <sub>2</sub>	Total <sub>3</sub> Revenue <sub>3</sub>	Current <sub>4</sub> Expenditure <sub>4</sub>	Total <sub>5</sub> Expenditure <sub>5</sub>
		<u>Nominal</u>		
1953-1963	10.7	11.5	11.3	12.7
1963-1973	10.4	9.3	11.7	10.7
1973-1983	29.6	29.6	29.1	31.4
1953-1983	16.3	16.5	17.0	19.9
1963-1983	19.6	19.1	20.1	20.6
		<u>Real<sup>6</sup></u>		
1963-1973	5.2	4.2	6.5	5.5
1973-1983	13.3	13.3	12.9	14.9
1963-1973	9.1	8.6	9.6	10.1

1. Geometric average
2. Column 3 of Table 1
3. Column 4 of Table 1
4. Column 5(b) of Table 1
5. Column 6(b) of Table 1
6. Current figures adjusted to 1970 prices.

Source: Calculated from Table 1.

It is recognised that it is difficult to draw meaningful conclusions by merely looking at the growth rates (whether in absolute or percentage terms) of revenue and expenditure in themselves. To grasp the real significance of movements in the two aggregates, it is necessary to view them against changes in other magnitudes, particularly against such variables as prices, national income and population growth. A glance at Table 3 shows that between 1963 to 1973 the proportion of recurrent revenue to GDP (at current factor cost) fluctuated between 15.6 and 20.2%. The corresponding ratio for 1953 seems to suggest that the proportion prevailing during the fifties may not have been much different. Since 1974, the ratio has risen markedly to over 30%. Receipts from the Un-employment Levy during the seventies amounted (on average) to between 1% and 3% of GDP. Revenue from the sale of stamps under the National Insurance Scheme<sup>10</sup> (which is administered by a statutory board) has averaged around 1% of GDP. Together revenue from the Un-employment Levy and the National Insurance Scheme tend to lift the current revenue/GDP ratio by about 2 to 3%. (It should be pointed out that while the ratios in Column (4) of Table 3 reflects receipts from the Un-employment Levy, revenue from the National Insurance Scheme is not taken into account. The significant increase in the revenue/GDP revenue ratio

TABLE 1

## Growth of Revenue and Expenditure in Trinidad and Tobago, 1953 to 1983

TTSmn										
Year	(1)	(2)	(3)	(4)	(5)		(6)			
	Narrow Current Revenue <sup>1</sup>	Un-employment Levy	Broad Current Revenue <sup>2</sup>	Total Revenue <sup>3</sup>	Current Expenditure <sup>4</sup>		Total Expenditure <sup>5</sup>			
					(a)	(b)	(a)	(b)	(c) <sup>6</sup>	(d)
1953	67.0	-	67.0	68.1	54.1	57.2	68.9	70.4		
1963	185.4	-	185.4	203.2	157.8	165.8	221.9	228.5		
1964	202.9	-	202.9	204.9	174.5	186.2	238.7	247.1		
1965	206.2	-	206.2	238.3	182.9	189.9	242.2	250.7		
1966	214.4	-	214.2	234.9	186.3	200.3	260.6	266.5		
1967	226.8	-	226.8	260.3	199.0	213.3	261.4	271.0		
1968	268.0	-	268.0	284.7	217.2	228.1	289.9	304.8		
1969	303.7	-	303.7	315.3	232.8	248.9	308.9	325.7		
1970	313.2	9.6	322.8	327.4	257.4	274.0	371.7	390.1		(
1971	341.9	11.8	353.7	363.8	325.0	341.7	445.7	465.1		(
1972	398.3	12.3	410.6	415.3	388.9	411.7	518.8	539.7		(
1973	476.0	14.6	494.1	495.0	480.1	502.4	606.8	631.3		(
1974	1,217.2	<del>69.0</del> 77.9	1,306.9	1,387.7	545.1	679.8	959.2	1,038.3	(125.2)	(1
1975	1,680.2	102.0	1,816.1	1,847.4	730.4	856.6	1,201.1	1,251.9	(54.8)	(1
1976	2,125.0	121.0	2,302.6	2,302.9	967.1	1,095.1	1,870.9	1,984.8	(393.0)	(5
1977	2,749.1	176.0	2,985.5	2,991.4	1,140.9	1,318.2	2,263.1	2,299.1	(602.9)	(6
1978	2,769.8	174.0 8	3,124.0	3,126.5	1,458.1	1,655.8	2,892.5	2,934.2	(797.5)	(8
1979	3,643.5	229.4	4,059.2	4,059.3	2,229.6	2,596.7	4,190.9	4,237.9	(1,508.8)	(24
1980	5,771.4	416.3	6,472.0	6,496.0	2,222.3	3,152.8	5,466.3	5,910.5	(2,204.7)	(23
1981 <sup>8</sup>	6,617.6	201.0	7,032.7	7,064.8	3,135.9	3,586.4	6,675.0	6,753.3	(2,933.1)	(28
1982	6,668.0	156.0	7,117.8	7,117.8	5,300.8	6,046.9	9,473.1	9,573.2	(3,225.0)	(54
1983 <sup>re</sup>	6,361.8	120.0	6,612.0	6,614.3	5,335.5	6,495.8	9,333.8	9,661.8	(2,610.4)	(19

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TABLE 3

Growth of Revenue and Expenditure<sup>1</sup> in Relation to GDP, 1953-1983

(1) Year	GDP at Current Factor Cost \$mn.	Per Capita GDP <sup>2</sup> \$	Current <sup>3</sup> Revenue as a % of GDP	Current Expenditure <sup>4</sup> as a % of GDP	Total Expenditure <sup>5</sup> as a % of GDP
1953	386	569	17.3	14.8	18.2
1963	1,038	1,123	17.8	16.0	22.0
1964	1,149	1,208	17.7	16.2	21.5
1965	1,188	1,220	17.3	16.0	21.1
1966	1,246	1,255	17.2	16.0	21.4
1967	1,337	1,324	17.0	15.9	20.3
1968	1,522	1,491	17.6	15.0	20.0
1969	1,561	1,523	20.0	16.0	20.9
1970	1,657	1,609	15.6	16.5	23.5
1971	1,748	1,691	20.2	19.6	26.6
1972	2,073	1,984	19.8	19.9	26.0
1973	2,579	2,445	19.1	19.5	24.5
1974	4,201	3,937	31.1	16.2	24.7
1975	5,392	4,988	33.7	15.9	23.2
1976	6,213	5,659	37.1	17.6	31.9
1977	7,641	6,822	39.1	17.2	30.1
1978	8,182	7,241	38.2	20.2	35.8
1979	10,871	9,453	37.3	23.9	39.0
1980	15,877	13,570	40.8	19.9	37.2
1981	18,129	15,234	38.8	19.8	37.2
1982 <sup>p</sup>	19,034	15,862	37.4	31.8	50.3
1983 <sup>e</sup>	20,074	16,590	32.9	32.3	48.1



Notes to Table 3

1. All Funds.
  2. Based on mid-year population estimates published in the IMF Financial Statistics and CSO, Annual Statistical Digest, Various Issues.
  3. Column 3 of Table 1.
  4. Column 5(b) of Table 1.
  5. Column 6(b) of Table 1.
- P. Provisional  
e. Estimate

Source: Table I; IMF Financial Statistics, Various Issues; C.S.O., Annual Digest of Statistics, Various Issues; Central Bank Annual Reports, Various Issues; Ministry of Finance, Review of the Economy, Various Issues.

since 1974 can largely be attributed to the windfall revenue accruing to Government in this period as a result largely of the several increases in international oil prices since 1973. Changes in the tax system with respect to oil companies, has also been a contributory factor, as has the expansion of domestic crude oil production.

When we examine the trends in expenditure in Table 3, it can be seen that recurrent expenditure as a % of GDP showed no clear trend during the period 1963 to 1975. The ratio fluctuated between 15% and 20%. Between 1976 and 1981 it averaged around 20%. In 1982 and 1983 it seems to have climbed to over 30%. Total expenditure as a proportion of GDP appeared to have increased slightly from the early fifties, but during most of the 1960's remained at a little above 20%. Between 1970 and 1975 the ratio averaged around 25% as compared to 35% between 1976 and 1981. In the 1982-83 period it rose to around 50%. It is appropriate to point out at this juncture that while there are certain limitations attached to the use of the expenditure/GDP ratio in <sup>examining</sup> ~~experi-~~ ~~menting~~ the growth of public expenditure, the measure does provide a good indication of the growth of public spending in relation to the growth of the economy. It should be borne in mind, however,

that not all public expenditure represent purchases of goods and services produced in the economy, as we shall see later.

The trend in the expenditure/GDP ratio is a good indicator of the expenditure elasticity, that is, the responsiveness of expenditure to changes in GDP. A rising ratio reflects an elasticity coefficient greater than unity, while a falling ratio indicates a coefficient less than one. A constant ratio is associated with a ratio equal to one. Fluctuations in the

TABLE 4  
Expenditure Elasticities<sup>1</sup>

Periods	Current Expenditure <sup>2</sup>	Capital Expenditure <sup>3</sup>	Total Expenditure <sup>4</sup>
1953-63	1.12	2.25	1.33
1963-73	1.37	0.58	1.19
1973-83	1.76	3.85	2.11
1974-83	2.26	2.42	2.20
1953-83	2.21	4.72	2.67

1. All Funds
2. Column 5(b) of Table 1
3. Development Programme plus Expenditure from Funds for Long Term Projects
4. Column 6(b) of Table 1

Source: Tables 1 and 3.

expenditure/GDP ratio reflects changes in the elasticity coefficients from one period to another. A glance at Table 4 shows that generally the expenditure elasticity (both with respect to current and capital spending) has been greater than one reflecting its tendency to rise faster than national income.

To put the preceding discussion in perspective we compare Trinidad and Tobago's tax revenue/GNP and expenditure/GNP<sup>11</sup> ratios with those of certain selected countries (See Table 5). As can be seen, the ratios vary widely from country to country. At this point it may be noted that for various reasons public spending has generally tended to grow at a faster pace than national income, resulting in an increasing ratio over time for most countries both in the developed and developing world. Observers have for long speculated on the reasons for the rising share of GNP taken by the public sector. Writing in the 19th century the German economist Adolf Wagner explained the 'expanding scale of state activity' in terms of both political and economic factors. While it is not clear whether Wagner was concerned with the growth of the absolute size of the public sector or its relative growth (i.e. the growth in the ratio of public expenditure to GNP), modern researchers have tended to formulate Wagner's hypothesis (or 'law' as some people prefer to call it) in terms of the latter inter-

TABLE 5

Tax Revenue and Expenditure as a % of GNP (at market prices) for Selected Countries, 1980

Countries	Tax Revenue <sup>1</sup> as a % of GNP	Current Expenditure as a % of GNP	Total Expenditure <sup>2</sup> as a % of GNP	1980 Per Capita GNP <sup>3</sup> US\$
Barbados	27	24	33	3,270
Brazil <sup>4</sup>	19	18	19	2,160
Canada	17	23	23	<u>10,180</u>
Costa Rica	25	32	38	1,390
Guatemala	9	8	13	1,080
Guyana	31	32	55	690
India	11	13	15	230
Indonesia	24	14	26	450
Jamaica	23	28	37	1,090
Japan	11	15	19	<u>9,020</u>
Malawi	18	19	37	190
Mexico	20	16	24	1,980
Nigeria <sup>5</sup>	22	15	25	870
Norway	41	40	42	<u>12,830</u>
Sweden <sup>4</sup>	35	42	45	<u>13,730</u>
Tanzania <sup>4</sup>	16	24	37	270
Trinidad and Tobago <sup>6</sup>	35	21	39	5,444
United States	19	21	22	<u>11,590</u>
United Kingdom	34	41	43	<u>8,520</u>
Venezuela	22	18	22	3,910
Zambia	24	33	38	580

1. Including social security contributions
2. Figures have not been adjusted to reflect lending-repayment balances.
3. At market prices
4. 1979
5. 1977
6. Figures calculated on GNP at factor cost.

Source: IMF, Government Finance Statistics Yearbook, 1982; World Bank Atlas, Various Issues; U.N., Yearbook of Statistics, Various Issues.

pretation.<sup>12</sup> The tendency for public expenditure to rise at a faster rate than GNP is attributed to both economic and non-economic factors. As one of the measurable economic variables, per capita income has been widely used in exercises designed to explain differences in the expenditure/GNP ratio among countries and/or changes in the ratio over time. Using a sample<sup>13</sup> of high income countries and low income countries, Musgrave found a positive relationship between the current expenditure/GNP ratio and per capita income for the group as a whole. This finding at first sight appeared to be in full support of the rising-share hypothesis. However, when the sample was disaggregated into two groups (one including countries above US\$600 and the other countries below US\$300) it was found that the linear relationship did not exist for the lower income group, and consequently he concluded that the 'good fit' for the group as a whole merely reflected a difference in the average levels at the two ends of the scale.

In a subsequent work<sup>14</sup> when Musgrave used tax revenue as a proxy for expenditure he obtained essentially the same results, that is, no significant relationship for the low income countries, and a negative one for the high income members of the sample. In an effort to test the relationship between the expenditure/GDP

ratio and per capita income for Trinidad and Tobago, we undertook a similar exercise to Musgrave's (except this one is a time series analysis), using data for the periods 1963-83 and 1973-83. Our results showed a positive relationship between Government current expenditure/GDP ratio and per capita GDP. (See Equations (1) and (3) of Appendix I). The inclusion of the foreign trade ratio has the effect of increasing the  $R^2$ , but the coefficient of this variable turns out to be negative. (See Equations (2) and (4) of Appendix I). On the other hand it is interesting to note that both per capita income and the foreign trade ratio have positive relationships with the total expenditure/GDP ratio. (See Equations (5) to (8) of Appendix I). In fact a much larger part of the movements in the latter is explained by these two variables than is the case with the current expenditure/GDP ratio. This would seem to suggest a close relationship between capital expenditure, per capita income and foreign trade.

Martin and Lewis<sup>15</sup> argue that any attempt to attribute the rising share of current basic<sup>16</sup> expenditures in GNP as a function of rising per capita GNP in the rich countries of Europe and North America is a fallacy of post hoc propter hoc. The

main reason why these countries now spend relatively more on their public services is not because they are richer, but because they have a different conception of the duties of the state. The political, social and economic objectives of the state in developing countries may explain why the correlation may be even less in these countries than in the developed nations. The factors bearing on the expansion of public activities and poor countries tend to differ in nature. In the former group, one observer attributes the rising share of public expenditure in GNP as the probable result of "higher incomes and consequently larger revenue against the background of rising living standards, the welfare state pattern of social services and increased expectation of such services."<sup>17</sup> This observation is not altogether irrelevant to poor countries, particularly as development proceeds; but the more important determinant in the rising share of public expenditure in the early stages of development relates to the need for public investment in infrastructure and certain basic social services, without which increasing the output of the economy may not be practicable. The 'lumpiness' of many categories of overhead investment, and the time lapse before their effects start showing up in the level of production, explains the high marginal capital-output ratios that characterize many developing countries.



Also, because of social conditions, decisions very often tend to be based not on efficiency considerations, but on the need to act as a mitigating force in combating undesirable social trends. This can be seen particularly with respect to employment. Even in situations where governments can carry out their functions with a reduced work force, (and perhaps even more effectively), they often persist in maintaining an over-crowded bureaucracy as a means of providing jobs rather than of increasing production. The security associated with employment in the public service may be one reason explaining the low productivity in the government sector, and the greater resources which are needed to provide a given level of output.

In the foregoing section we discussed the growth of public expenditure in relation to the growth of GDP, and explored some of the influences that affect this relationship. As pointed out earlier, the absolute growth of public spending also has to be seen against the trends in population growth and the price level in order to gauge its significance. When viewed against the growth of population and prices, the trends in public expenditure since 1963 can be examined in Table 6. Mid-year population estimates<sup>18</sup> and the retail price index have been used as a deflationary indicators. The deflated series are the nominal figures

TABLE 6

Nominal and Deflated Per Capita Revenue  
and Expenditure, 1963-1983

STT

	Per Capita Current Revenue <sup>1</sup>		Per Capita Current Expenditure <sup>2</sup>		Per Capita Total Expenditure <sup>3</sup>	
	Nominal	Deflated	Nominal	Deflated	Nominal	Deflated
	(a)	(b)	(a)	(b)	(a)	(b)
1963	201	324	180	290	247	398
1964	213	340	196	313	260	415
1965	212	333	195	306	257	403
1966	216	325	202	304	268	404
1967	225	332	211	312	268	396
1968	262	357	223	304	298	407
1969	296	394	243	324	318	423
1970	313	406	266	345	379	492
1971	342	429	330	414	450	565
1972	397	456	394	452	517	594
1973	468	468	476	476	598	598
1974	1,224	1,002	637	612	973	797
1975	1,680	1,176	792	555	1,158	811
1976	2,189	1,410	1,000	644	1,813	1,167
1977	2,670	1,538	1,179	679	2,056	1,184
1978	2,765	1,445	1,465	766	2,596	1,357
1979	3,530	1,609	1,388	633	3,685	1,680
1980	5,532	2,146	2,694	1,045	5,052	1,960
1981	5,910	2,008	3,013	1,024	5,675	1,928
1982	5,931	1,805	5,039	1,533	6,978	2,428
1983P	5,420	1,416	5,324	1,390	7,920	2,069

1. Column 3 of Table I
2. Column 5(b) of Table I
3. Column 6(b) of Table I

p. Provisional

Source: Table I; CSO Quarterly Economic Report, Various Issues; CSO, Annual Statistical Digest, Various Issues; IMF, Financial Statistics, Various Issues

expressed in 1973 prices.<sup>19</sup> An examination of Table 6 shows that in both nominal and real terms per capita revenue and per capita expenditure have increased over the last two decades. Between 1963 and 1983 per capita nominal current expenditure increased from \$180 to \$5,324. At 1973 prices, however, this latter figure was worth only \$1,390. Between 1963 and 1983 per capita total expenditure increased from \$247 to an estimated \$7,820 - or by more than 3,100%. In real terms, however, the increase was only in the region of 500%. It is clear from these figures that despite the relatively high rate of inflation in recent years real capita public spending has tended to increase.

#### Composition of Current Expenditure

So far we have been looking at trends in total current expenditure. Clearly the composition of this expenditure over time is equally important, if not more so, in trying to gauge government's priorities and objectives within the framework of its overall responsibilities. Table 7 provides a breakdown of government's current expenditure for selected periods between 1962 and 1982. 'General Services' including defence and justice tend to take over 20% of current expenditure. Though the absolute expen-

diture of this category has increased since 1962, as a proportion of the total it has fluctuated between 20 and 30% in recent years. As a % of GDP, expenditure on 'general services' amounts to about 5%. (See Table 8). Expenditure on 'social services' (particularly education and health) not only account for the largest share of total current outlays, but has been experiencing the fastest rate of growth among the categories shown in Table 7. The proportion for this item increased from 34.7% in 1962 to an estimated 49% in 1982. As a percentage of GDP, social expenditure increased from 5.2% in 1962 to 6.8% in 1979 and to an estimated 13% in 1982. The bulk of the funds has been channelled into education and health. The share of 'economic services' in the total has fluctuated between 10 and 18%. Agriculture and transport (including storage and communication) are the two largest items in the category. Agriculture's

	1962		1969		1974		1979		1982P	
	\$mn	%	\$mn	%	\$mn	%	\$mn	%	\$mn	%
1. <u>General Services</u>	34.7	23.0	67.5	27.1	149.7	24.0	485.7	23.7	987.1	19.7
a. State Services	2.6	1.7	1.7	0.7	3.2	0.5	12.0	0.6	31.4	0.6
b. Fiscal Services	9.9	6.6	20.8	8.4	40.2	6.4	140.0	6.8	166.4	3.3
c. Foreign Services	0.5	0.3	5.7	2.3	12.3	2.0	27.7	1.4	46.4	0.9
d. Economic Regulation	1.2	0.8	2.2	0.9	8.1	1.3	19.4	0.9	54.4	1.1
e. Other General Services	7.2	4.8	15.3	6.1	32.0	5.1	107.3	5.2	214.8	4.3
f. Defence	1.3	0.8	4.9	2.0	9.5	1.5	33.6	1.6	75.0	1.5
g. Justice and Police	12.0	8.0	16.9	6.7	44.4	7.2	145.7	7.2	399.2	8.0
2. <u>Community Services</u>	10.8	7.2	14.5	5.8	32.9	5.3	120.3	6.0	296.0	5.9
a. Roads	9.2	6.1	8.6	3.4	21.5	3.5	75.2	3.8	205.1	4.1
b. Other Community Services	1.6	1.1	5.9	2.4	11.4	1.8	45.1	2.2	90.8	1.8
3. <u>Social Services</u>	52.1	34.7	96.0	38.6	235.5	37.8	738.0	36.1	2,427.6	48.6
a. Education	21.8	14.7	44.5	17.9	118.8	19.1	325.1	15.9	931.9	18.6
b. Health	18.6	12.4	28.8	11.6	66.1	10.6	200.2	9.8	541.4	10.8
c. Superannuation Benefits and Social Welfare Services	9.4	6.2	21.9	8.7	47.2	7.6	188.5	9.2	878.5	17.6
d. Housing	1.1	0.7	0.4	0.2	1.9	0.3	20.8	1.0	43.3	0.9
e. Other Social Services	1.1	0.7	0.4	0.2	1.4	0.2	3.4	0.2	32.5	0.7
4. <u>Economic Services</u>	21.3	14.1	28.4	11.4	96.3	15.4	371.1	18.1	482.4	8.7
a. Agriculture	7.6	5.0	10.2	4.1	36.2	5.8	111.5	5.4	214.5	4.3
b. Fuel and Power <sup>2</sup>	-	-	0.4	0.2	1.1	0.2	4.0	0.2	9.6	0.2
c. Transport, Storage & Comm.	13.2	8.8	13.8	5.5	18.9	3.0	40.0	2.0	175.4	3.5
d. Other Economic Services	0.5	0.3	4.0	1.5	40.1	6.4	215.6	10.5	82.9	1.7
5. <u>Un-allocated Expenditure</u>	31.7	21.0	42.5	17.1	109.1	17.5	330.4	16.1	804.5	16.1
a. Public Debt Charges <sup>3</sup>	5.5	3.6	19.6	7.9	62.9	10.1	142.3	6.9	227.1	4.6
b. Local Authorities	13.8	9.2	21.9	8.8	42.4	6.8	179.3	8.8	432.2	8.6
c. Other Expenditure <sup>4</sup>	12.4	8.2	1.9	0.4	3.8	0.6	8.8	0.4	145.1	2.9
<u>Total Recurrent Expenditure</u>	<u>150.6</u>	<u>100.0</u>	<u>248.9</u>	<u>100.0</u>	<u>623.5</u>	<u>100.0</u>	<u>2,045.5</u>	<u>100.0</u>	<u>4,998.1</u>	<u>100.0</u>

Notes to Table 7

1. Consolidated Fund only.
  2. These services are administered by public corporations, and the amount given here does not reflect the <sup>total</sup> expenditure on providing fuel and power to the community. The same could be said about housing.
  3. Interest only.
  4. These totals may not agree with the totals in Table I not only because they exclude the other Funds, but they may include sums excluded from the Appropriation Acts.
- p. Provisional.

Sources: Estimates of Expenditure, Various Issues; Review of Fiscal Measures, Various Issues; Central Bank, Annual Report, Various Issues.

~~Agriculture~~ share in total current expenditure has amounted to between 4 and 6% in recent years. As a % of GDP agricultural expenditure has generally amounted to around 1%. The share of transport, storage and communications in current expenditure has shown a tendency to fall moving from 8.8% in 1962 to 2.0% in 1979. The estimated figure for 1982 shows a small increase.

TABLE 8

Functional Categories of Current Expenditure  
as a % of GDP, 1962-82

Categories	1962	1969	1974	1979	1982 <sup>p</sup>
General Services	3.4	4.3	3.4	4.5	5.2
Community Services	1.1	0.9	0.8	1.1	1.6
Social Services	5.2	6.2	5.6	6.8	12.8
(Education)	(2.2)	(2.9)	(2.8)	(3.0)	(4.9)
(Health)	(1.9)	(1.8)	(1.6)	(1.8)	(2.8)
Economic Services	2.1	1.8	2.3	3.4	2.5
(Agriculture)	(0.8)	(0.6)	(0.8)	(1.0)	(1.1)

p. Provisional

Source: Tables 7 and 3.

In discussing public spending it is useful to make a distinction between transfer expenditures and expenditures on goods and services. The former, which includes items like pensions, subsidies, debt interest, un-employment benefits, social assistance etc., refers to payments which governments make in an intermediary capacity and as such do not represent claims by the government on the nation's goods and services. Transfer payments are essentially mechanisms for re-distribution resources in the community. In the case of public outlays on goods and services, these expenditures involve government in competition for the community's resources. Expenditure on goods and services can further be divided into current outlays and capital investment. Each of these categories of expenditure is affected by different factors, and it would therefore be instructive to examine the trends which have emerged in their composition within the framework of the overall growth that has taken place.

Tables 9 and 10 show the growth of current expenditure and its distribution by economic function between 1953 and 1983. The share of wages and salaries in total current expenditure increased from \$57 million (34%) in 1963 to \$243 million (51%) in 1973. Between 1973 and 1982 there was an absolute increase of almost 1,200%, but the share in the total fluctuated between



40% and 50%. In 1983 the proportion is estimated to have fallen to about 38%. The trend in wages and salaries payments is a reflection of both increasing wages and salaries and on expanding government labour force.<sup>20</sup> In absolute terms interest payments on the public debt have increased steadily over the years, reaching an estimated \$273 million in 1983. As a proportion of total current expenditure, however, this item accounted ~~to~~ <sup>for</sup> only 4.2% in 1983. Expenditure on 'other goods and services' has fluctuated from year to year. The share of this item dropped from 44% in 1963 to 15% in 1973. It rose to 22% in 1975, but in 1983 fell to about 12%. In absolute terms transfers and subsidies increased from \$28 million (17%) in 1963 to \$105 million (27%) in 1973 and to \$2,982 million (46%) in 1983.

In our 'transfers and subsidies' category we have included subventions given to the public utilities and other local bodies to help offset their operating deficits. We have not, however, included the gasoline subsidy which does not pass through the government accounts.<sup>21</sup> An important factor affecting the growth of this item stems from the Government's attempt to mitigate increases in the cost of living. Food subsidies increased from \$30.5 million (18.8%) of total transfers and subsidies and 2.3%

TABLE 9

Economic Classification of Government Current Expenditure,<sup>1</sup> 1953-83

Categories	1953	1963	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 <sup>P</sup>
Wages and Salaries <sup>2</sup>	18.1	56.9	243.0	351.1	383.1	498.9	663.5	782.6	1,131.4	1,291.3	1,435.2	3,111.6	2,494.4
Other Goods and Services	28.5	73.5	119.6	115.3	185.7	204.0	200.9	251.7	403.5	396.1	378.9	363.4	747.4
Interest	1.7	7.3	34.6	51.2	46.8	43.2	42.6	80.3	125.7	125.0	179.4	160.4	272.5
Subsidies <sup>3</sup>	8.9	28.1	19.3	68.6	63.4	149.7	184.6	249.0	502.6	656.6	819.7	1,083.1	1,189.3
Transfers <sup>4</sup>	a	a	85.9	93.6	167.6	199.3	226.6	292.2	433.5	683.8	773.5	1,328.4	1,792.2
<u>Total</u>	<u>57.2</u>	<u>165.8</u>	<u>502.4</u>	<u>679.8</u>	<u>856.6</u>	<u>1,095.1</u>	<u>1,318.2</u>	<u>1,655.8</u>	<u>2,596.7</u>	<u>3,152.8</u>	<u>3,586.5</u>	<u>6,046.9</u>	<u>6,495.8</u>

1. All Funds

2. Includes Personal Emoluments, Wages and Overtime, NIS Contributions and the Un-employment Fund Expenditures.

3. Includes Food and Cement subsidies and subsidies to WASA, PTSC, Port Authority, T&amp;TEC, and TELCO, but does not include agricultural and petroleum subsidies

4. Includes pensions and gratuities, Social Assistance, Old Age Pensions, Food Stamps and transfers to local authorities not other bodies.

a. Included in 'subsidies'

P. Provisions

Source: Ministry of Finance, Review of the Economy, Various Issues; CSO, Financial Statistics, Various Issues.

TABLE 10

## Economic Classification of Government Current Expenditure, 1953 to 1983

Categories	1953	1963	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 <sup>P</sup>
Wages and Salaries	31.6	34.3	50.8	51.6	44.7	45.6	50.4	47.3	43.6	41.0	40.0	51.4	38.4
Other Goods and Services	49.9	44.4	14.5	17.0	21.7	18.6	15.2	15.2	15.6	12.6	10.6	6.0	11.5
Interest	3.0	4.4	7.7	7.5	5.5	3.9	3.2	4.8	4.8	4.0	5.0	2.6	4.2
Transfers and Subsidies <sup>1</sup>	15.5	16.9	27.0	23.9	28.1	31.9	31.2	32.7	36.0	42.4	44.4	40.0	45.9
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.4</u>

1. Figures include loans and grants to Statutory Authorities

P. Provisional

Source:

of recurrent revenue) in 1974 to \$291.4 million (12.1% of total transfers and subsidies and 4.1% of recurrent revenue) in 1982. Since 1983 a number of steps have been taken to reduce government subsidy payments in the context of the poor prospects facing the oil sector and their consequent impact on public revenue. As a result of these measures food subsidy declined from \$291 million in 1982 to an estimated \$231 million in 1983, and may decline even further in 1984. The cement subsidy increased from \$8.8 million in 1977 to \$89.4 million in 1982, but is estimated to have declined to \$4.4 million in 1983. Gasolene prices have also been increased in 1983 and 1984 in an effort to reduce the subsidy on this item. One of the largest components in the 'transfers and subsidies' category is loans and grants to the public utilities. The figure increased from \$22 million (21% of transfers and subsidies) in 1973 to an estimated \$910 million (30% of transfers and subsidies in 1983)<sup>22</sup>. Recent increases in certain utility rates may have the effect of reducing the need for government's assistance to the utilities. A great deal, however, would depend on the steps taken by their respective managements to streamline operations and increase productivity.

When we look at the growth of expenditure on goods and services and transfer payments in relation to the growth of GDP an interesting picture emerges. Transfers and subsidies as a percentage of GDP increased from about 3% in 1963 to 4.2% in 1973. In 1984 the proportion is estimated to have climbed to about 15%. The proportion relating to interest payments has fluctuated around 1% in the period under review. Wages and salaries as a percentage of GDP increased from 5.5% in 1963 to 9.4% in 1973. Between 1974 and 1981 the ratio averaged 8.6%. In 1982 it rose to 16%. The estimated proportion in 1983 is 12.4%. The item 'other goods and services' as a percentage of GNP fell from about 7% in 1963 to 5% in 1973. Between 1974 and 1983 the ratio averaged 2.9%.

### Non-Current Expenditure

In the previous section we examined certain trends in Government current spending and some of the factors bearing on these trends. Though it is customary to make a distinction between current outlays and capital expenditure, this does not mean that the former is wasteful and the latter useful. Indeed, it is often difficult to decide what is current expenditure and what is

TABLE 11

Economic Classes of Government Current Expenditure<sup>1</sup> as a % of GDP,<sup>2</sup> 1953-83

Categories	1953	1963	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 <sup>P</sup>
Wages and Salaries	4.7	5.5	9.4	8.3	7.1	8.0	8.7	10.4	10.4	8.1	7.9	16.3	12.4
Other Goods and Services	7.4	7.1	4.6	2.7	3.4	3.3	2.6	3.1	3.7	2.5	2.1	1.9	3.7
Interest	0.4	0.7	1.3	1.2	0.9	0.7	0.6	0.9	1.2	0.8	1.0	0.8	1.3
Transfers and Subsidies <sup>1</sup>	2.3	2.7	4.2	4.0	4.5	5.6	5.3	6.6	8.6	8.5	8.8	12.2	14.9
<u>Total Current Expenditure<sup>1</sup></u>	<u>14.8</u>	<u>16.0</u>	<u>19.5</u>	<u>16.2</u>	<u>15.9</u>	<u>17.6</u>	<u>17.2</u>	<u>20.2</u>	<u>23.9</u>	<u>19.9</u>	<u>19.8</u>	<u>31.8</u>	<u>32.3</u>

P. Provisional

1. The figures include loans and grants to Statutory Authorities
2. At current factor cost.

Source: Review of Fiscal Measures, Various Issues; Table 3.

capital expenditure. Funds spent in training and education, for example, will be included in the current category, but technically this is investment in human capital, which eventually would have an effect on the productive capacity of the economy. In this paper we accept the Government dichotomy and try to discern trends and policies as they are reflected in the pattern of allocation of public resources.

A glance at Table 12 shows that we have divided non-Current Expenditure into four categories. The first comprises capital repayment and sinking fund contributions which have grown concomitantly with the growth of the public debt which we shall discuss later. The total increased from \$6.5 million (2.8% of total expenditure) in 1963 to an estimated \$328.0 million (3.4% of total expenditure) in 1983. The second category covers funds made available (in the form of grants and loans) to the statutory authorities such as the Public Transport Service Corporation, Water and Sewerage Authority, the Port Authority, etc. We should point out here that while this item is often treated as part of the current account in the Official Estimates, and even in the Review of Fiscal Measures that accompanies the presentation of the annual budget, it does also include expenditure of a capital

TABLE 12

## Composition of Non-Recurrent Expenditure, 1953-1983

Year	(1) Capital Repayment and Sinking Fund Contributions	(2) Funds for Long Term Projects <sup>1</sup> Appropriations		(3) Loans and Development Grants to Statutory Bodies	(4) Programme	(5) Sum of (1) to (4) <sup>2</sup>	(6) <sup>2</sup> (1) + (2) + (4)	(7) Current Surplus(+) Deficits (-) as a % of (6) <sup>3</sup>
		(a)	(b)					
1953	1.5	-	-	3.1	11.7 <sup>4</sup>	16.3	13.2	+ 74.2
1963	6.5	-	-	8.0	56.1	70.6	62.6	+ 31.3
1964	8.4	-	-	11.7	52.5	72.6	60.9	+ 27.4
1965	8.5	-	-	7.0	52.3	67.8	60.8	+ 26.8
1966	5.9	-	-	14.0	60.3	80.2	66.2	+ 21.3
1967	9.6	-	-	14.3	48.1	72.0	57.7	+ 23.4
1968	14.9	-	-	10.9	61.8	87.6	76.7	+ 52.0
1969	16.8	-	-	16.1	60.0	92.9	76.8	+ 71.3
1970	18.4	-	-	16.6	98.0	133.0	116.4	+ 41.9
1971	19.5	-	-	16.7	103.5	139.7	123.0	+ 9.8
1972	20.1	-	-	22.2	123.6	165.9	143.7	- 0.8
1973	24.5	-	-	22.3	104.4	151.2	128.9	- 6.4
1974	79.1	400.7	( 125.2)	54.3	154.2	412.8	358.5	+174.9
1975	50.8	501.7	( 54.8)	75.4	289.7	470.7	395.3	+242.7
1976	113.9	517.7	( 393.0)	94.4	382.5	983.8	889.4	+135.8
1977	36.0	1,556.2	( 602.9)	133.5	343.6	1,116.0	982.5	+169.7
1978	41.7	1,013.4	( 797.5)	156.1	439.2	1,434.5	1,278.4	+114.8
1979	47.0	1,370.4	(1,508.0)	320.0	85.5	1,961.3	1,641.3	+ 89.1
1980	444.2	2,143.0	(2,204.7)	486.3	108.8	3,244.0	2,757.7	+120.4
1981	78.3	2,981.7	(2,933.1)	450.5	155.4	3,617.3	3,166.8	+108.8
1982	100.1	2,671.0	(3,225.0)	746.1	195.3	4,266.5	3,520.4	+ 30.4
1983 <sup>re</sup>	328.6	1,503.6	(2,610.4)	1,160.3	220.0	4,318.7	3,158.4	+ 3.7

1. Column 2(b) shows actual expenditure from these Funds in the respective years

2. Actual expenditure

3. Column 6 less column 5(b) of Table I

4. All capital expenditures

re - revised estimates

Sources: Review of Fiscal Measures, Various Issues; Estimates of Expenditure, Various Issues;  
Central Bank, Annual Report, Various Issues; Table 1.



nature.<sup>23</sup> A glance at Table 12 shows that between 1963 and 1973 loans and grants to statutory bodies increased from \$8.0 million (3.5% of total expenditure to \$22.3 million (3.5% of total expenditure) in 1973. By 1983 the figure had grown to an estimated \$1,160 million (12.0% of total expenditure). There may be two main reasons responsible for this growth. One is the expansion taking place in the capacity of these utilities in response to the growing demand for their services. The other has been the inability of almost all of them to cover operational costs, far less to finance expansion of plant capacity from internal sources. This latter situation is to a large extent the result of keeping user rates below economic costs.

The other two categories in the Table showing non-current expenditure relate to resources placed in funds for long term projects and money expended under the various development programmes. There are no basic differences in the objectives to which expenditures under these items are aimed. There are, however, a few points worth noting. The figures under the Development Programme column refer to outlays actually incurred in the various fiscal years. On the other hand, actual expenditure from the 'Funds for Long Term Projects' in any particular year may be more or less than the total appropriations in that year.

The total of actual expenditure from these funds are shown in brackets under column 2(b). As can be seen in Table 12 the practice of setting up funds for particular undertakings started as a matter of policy in 1974, though it should be pointed out that before this date ad hoc provisions were made for certain projects. At the beginning of 1982 there were forty-seven funds in existence. At the end of 1983 these had been consolidated into eighteen. In the period between 1974 and 1983 total current revenue amounted to \$42.8 billion. Of this, \$14.7 billion (34%) were appropriated to long term funds. Actual expenditure from these funds up to the end of 1983 amounted to around \$14.5 billion. This was more than four times the expenditure (\$3.2 billion) under the Development Programme over the period 1963-83. Taken together expenditure from the Long Term Funds and under the Development Programme amounted to an estimated 29.3% of total expenditure in 1983 as compared to Development Program spending of 16.5% in 1973 and 24.5% in 1963.

Tables 13 and 14 give an indication of the main areas where government development efforts have been concentrated in recent years. Since the Special Funds have been administered separately from the Development Programme, we have attempted to provide two sets of breakdown: one relating to the Development Programme between 1969 and 1974; and the other to appropriations to

Special Funds between 1974 and 1982. Of the total funds expended on capital projects in the 1969/74 period, 4.7% was spent on 'general services', 27.1% on 'economic services', 39.3% on 'social services', 21.1% on 'infrastructure' development and 7.8% on purchasing equity in private companies. Among the economic sectors, agriculture and fisheries received the largest share - 14.5% of total expenditure. In the social services category, education's share was 15.8% as compared to 21.4% for 'housing and other'. Health received one of the smallest shares in the overall total - 2.1%. In the area of infrastructure about 15% of total capital expenditure in the period went into transport, roads and communication.

When Funds which have been set up since 1974 are placed in functional categories there appears to be shift of emphasis, at least in relative terms, among the various sectors. Of the total appropriation of \$14.7 billion made between 1974 and 1983, 30.6% was made to the 'economic' sectors, 22.6% to the 'social' sectors, 37.4% to 'infrastructure', and 9.4% to 'other sectors'. In the economic group, agriculture's share was 2.5% compared to petroleum's 17.7%, manufacturing 0.6% and commerce and finance 9.9%. In the 'social' category, education and health

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TABLE 14

Annual Appropriations to Special Funds by Sectors, 1974 to 1983

TT\$mn												
Sectors	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 <sup>re</sup>	Ten-Year Total \$mn	Total %
1. <u>Economic Sectors</u>	380.0	305.0	171.8	98.0	114.0	240.0	670.0	865.0	1,205.0	443.4	4,492.2	30.6
Agriculture	23.0	35.0	23.8	37.7	-	-	80.0	30.0	100.0	22.8	352.3	2.4
Petroleum	356.0	268.0	148.0	60.3	64.0	-	300.0	400.0	705.0	298.1	2,599.4	17.7
Manufacturing	-	-	-	-	40.0	-	10.0	35.0	-	-	85.0	0.6
Commerce & Finance	1.0	2.0	-	-	10.0	240.0	280.0	400.0	400.0	122.5	1,455.5	9.9
2. <u>Social Sectors</u>	2.7	1.1	129.7	363.5	494.4	317.7	357.1	764.7	375.0	506.2	3,312.2	22.6
Education	2.7	1.1	124.5	71.8	38.0	236.6	145.0	346.0	32.0	42.4	1,040.1	7.1
Health	-	-	-	19.4	-	20.0	40.0	75.0	19.0	89.4	261.8	1.8
Housing	-	-	2.6	131.7	450.0	48.1	150.0	315.0	385.0	374.4	1,756.8	12.0
Others	-	-	2.6	140.6	6.4	13.0	22.1	28.7	40.0	-	253.4	1.7
3. <u>Infrastructure</u>	12.0	193.6	211.4	1,000.5	360.0	662.7	860.9	960.0	813.0	450.6	5,479.7	37.4
Transportation	12.0	3.0	104.5	450.9	226.4	260.0	538.9	524.0	450.0	-	2,569.7	17.5
Communication	-	-	5.1	140.3	-	22.1	50.0	90.0	80.0	-	387.5	2.6
Electricity	-	-	23.7	35.7	-	40.0	40.0	18.0	90.0	-	252.4	1.7
Water & Sewerage	-	-	25.5	324.0	106.0	110.0	130.0	63.0	40.0	-	803.5	5.6
Other	-	190.6	52.6	49.6	27.6	230.6	102.0	265.0	140.0	405.6	1,466.6	10.0
4. <u>Others</u>	6.0	2.0	4.7	94.2	45.0	150.0	255.0	392.0	270.0	148.4	1,375.3	9.4
5. <u>Total</u>	400.7	501.7	517.6	1,556.2	1,013.4	1,370.4	2,143.0	2,981.7	2,670.0	1,503.6	14,659.3	100.0
6. (5) as a % of GDP <sup>1</sup>	9.5	9.3	8.3	20.4	12.4	12.6	13.5	16.4	14.0			

re. revised estimates

1. at factor cost

Source: Review of Fiscal Measure, Various Issues

TABLE 12

## Central Government Development Programme Expenditure by Sectors, 1969-74

TT\$mn								
Sectors	1969	1970	1971	1972	1973	1974	Total over \$mn	1969-74 % of Total
1. <u>General Services</u>	<u>3.2</u>	<u>4.9</u>	<u>5.0</u>	<u>5.7</u>	<u>7.2</u>	<u>4.6</u>	<u>30.6</u>	<u>4.7</u>
2. <u>Economic Services</u>	<u>21.7</u>	<u>25.1</u>	<u>24.8</u>	<u>26.4</u>	<u>31.4</u>	<u>44.8</u>	<u>174.4</u>	<u>27.1</u>
Agriculture & Fisheries	<u>14.4</u>	<u>11.2</u>	<u>12.2</u>	<u>13.4</u>	<u>18.2</u>	<u>23.2</u>	<u>92.6</u>	<u>14.4</u>
Industry & Tourism	<u>2.9</u>	<u>11.5</u>	<u>5.2</u>	<u>6.0</u>	<u>3.1</u>	<u>2.6</u>	<u>31.3</u>	<u>4.9</u>
Other	<u>4.4</u>	<u>2.4</u>	<u>7.4</u>	<u>7.0</u>	<u>10.1</u>	<u>19.0</u>	<u>50.5</u>	<u>7.8</u>
3. <u>Social Services</u>	<u>19.1</u>	<u>32.5</u>	<u>48.2</u>	<u>42.7</u>	<u>46.3</u>	<u>64.0</u>	<u>252.8</u>	<u>39.3</u>
Education	<u>5.1</u>	<u>8.0</u>	<u>14.2</u>	<u>19.0</u>	<u>15.1</u>	<u>40.3</u>	<u>101.7</u>	<u>15.8</u>
Health	<u>0.8</u>	<u>1.1</u>	<u>0.9</u>	<u>3.3</u>	<u>3.3</u>	<u>4.0</u>	<u>13.4</u>	<u>2.1</u>
Housing and	<u>6.6</u>	<u>12.4</u>	<u>18.4</u>	<u>11.0</u>	<u>10.0</u>	<u>14.0</u>	<u>137.7</u>	<u>21.4</u>
Other	<u>13.2</u>	<u>23.4</u>	<u>33.1</u>	<u>20.4</u>	<u>27.9</u>	<u>19.7</u>		
4. <u>Infrastructure</u>	<u>16.0</u>	<u>18.4</u>	<u>25.5</u>	<u>25.9</u>	<u>19.5</u>	<u>30.8</u>	<u>136.1</u>	<u>21.1</u>
Transport & Communication	<u>1.3</u>	<u>3.5</u>	<u>5.7</u>	<u>5.6</u>	<u>4.6</u>	<u>1.2</u>	<u>21.9</u>	<u>3.4</u>
Water & Sewerage	<u>5.8</u>	<u>4.7</u>	<u>5.8</u>	<u>8.6</u>	<u>7.6</u>	<u>10.2</u>	<u>42.7</u>	<u>6.6</u>
Highways & Others	<u>8.9</u>	<u>10.2</u>	<u>14.0</u>	<u>11.7</u>	<u>7.3</u>	<u>19.4</u>	<u>71.5</u>	<u>11.1</u>
5. <u>Purchase of Equity in Public Companies</u>	<u>-</u>	<u>17.1</u>	<u>-</u>	<u>22.9</u>	<u>-</u>	<u>10.0</u>	<u>50.0</u>	<u>7.8</u>
6. <u>Total</u>	<u>60.0</u>	<u>98.0</u>	<u>103.5</u>	<u>123.6</u>	<u>104.4</u>	<u>154.2</u>	<u>643.9</u>	<u>100.0</u>
7. (6) as a % of GDP (at current factor cost)	<u>3.8</u>	<u>5.9</u>	<u>5.9</u>	<u>6.0</u>	<u>4.0</u>	<u>3.7</u>		

Source: Official Estimates of Expenditure; O.A.S., Short Term Economic Reports Vol. VI, Trinidad and Tobago, 1979.

TABLE 15

## Government's Contribution to Gross Domestic Expenditure, 1953 to 1979

Year	Consumption Expenditure			Gross (4) Total \$mn	Capital (5) Gov't, \$mn	Formation (6) (5) as a % of (4)	(7) Oil as a % of (4)	(8) Manufacturing as a % of (4)
	(1) Total \$mn	(2) Gov't, \$mn	(3) (2) as a % of (1)					
1953	293.2	49.9	17.0	853.9	13.6	15.8	37.5	n.a.
1959	578.0	81.6	14.1	249.3	41.8	16.8	41.1	n.a.
1960	642.9	87.8	13.6	285.9	47.0	16.4	35.6	n.a.
1970	1,346.5	240.9	17.9	420.8	52.1	12.4	37.3	10.0
1971	1,421.5	289.5	20.4	639.3	71.1	11.1	49.6	6.4
1972	1,751.3	328.9	18.8	647.3	65.0	10.0	41.8	7.0
1973	1,949.3	380.3	19.5	620.8	57.2	9.2	40.4	11.4
1974	2,219.5	516.7	23.3	856.2	87.0	10.2	40.1	15.4
1975	3,224.6	708.1	21.9	1,150.6	93.2	8.1	49.2	8.0
1976	3,602.9	800.7	22.2	1,614.4	384.4	23.8	32.5	10.4
1977	4,584.6	1,030.3	22.5	2,219.8	n.a.	n.a.	n.a.	n.a.
1978	5,278.4	1,243.5	23.6	2,712.9	n.a.	n.a.	n.a.	n.a.
1979	6,774.1	1,680.8	24.8	3,456.6	n.a.	n.a.	n.a.	n.a.
1980	8,060.9	2,036.1	25.3	5,492.3	n.a.	n.a.	n.a.	n.a.
1981	9,922.9	2,781.7	28.0	5,215.8	n.a.	n.a.	n.a.	n.a.

n.a. not available.

Source: Annual Report of the Central Bank, 1978 and 1979; CSO, The National Income of Trinidad and Tobago, 1952-62; IMF, Financial Statistics, Various Issues; The Imperatives of Adjustment (Draft Development Plan, 1983-86) Appendix VIII.

received 9% compared to 12.0% for housing. With respect to the appropriations made for the development of the infrastructure, 17.5% went into transportation (air, land and sea) development, 2.6% into communication, 1.7% into electricity and 17.3% in water and sewerage and other infra-structural development.

A glance at Table 15 shows that the Government sector's contribution to capital formation varies widely from year to year. In absolute terms the contribution has increased over time, but the percentage share has shown a tendency to fluctuate. Between 1970 and 1975 the ratio declined from 12.4% in the former year to 8.1% in the latter. In 1976 it increased significantly, reaching 24% in 1976, and one suspects it has since risen further as a result of Government's high level of investment activities. The trends shown in Table 14 point to a situation where government's current and capital expenditure (excluding transfer payments) taken together may now be well in excess of 30% of Gross Domestic Expenditure as compared to about 16% in 1953.

The saving on current account has tended to finance a significant part of capital spending (including loan repayments and loans and grants to statutory authorities) in recent years. A glance at Table 16 (Col.3(b)) shows that between 1963 and 1973 there was an overall deficit in every year. Between 1974 and 1981 the pattern was reversed, and there was an overall surplus in every year, except 1979. In 1982, however, a deficit of \$2,455 million was incurred, <sup>and</sup> in 1983 this had increased to an estimated \$3,048 million. Whenever total revenue was in excess of total expenditure an increase in cash balances took place. A glance at Table 17 (col.4) shows that cash balances increased in every year between 1974 and 1981. In 1982 and 1983 there was a total drop in cash balances of almost \$4 billion. The figures in columns (2) and (3) show that even in years when there was a surplus, government still resorted to borrowing, both internally and externally. In the following section we examine some of the reasons for this, and look at the trends in the public debt.



## The Financing of Capital Expenditure

Column 2(a) of Table 16 shows the current annual surplus or deficit in the 1963-83 period when 'loans and grants to statutory authorities' are not included in current expenditure. Column 2(b) shows the position when the latter item is included. Column 3(a) shows the overall surplus (or deficit) when capital repayment and contributions to sinking of funds are excluded from the expenditure figures. Column 3(b) gives the balance when the latter item is included in total spending. Taking the figures in column 2(b) as the appropriate current balances, it can be seen that between 1963 and 1983 there were deficits only in 1972 and 1973. Between 1974 and 1982 the surpluses assumed significant proportions as a result of the abnormal increases in oil revenues. From a current deficit of \$8.3 million in 1973, there was a surplus of \$627 million in 1974. This increased to \$3,446 million in 1981. In 1982 the figure fell to \$1,071 million and in 1983 to an estimated \$116 million. Between 1974 and 1983, total current revenue amounted to around \$43,323 million while current expenditure (including loans and grants to statutory authorities) totaled \$27,484 million.

## The Public Debt

Borrowing by governments is a normal and acceptable part of public finance operations, both in developed and developing countries. Public borrowing is undertaken for a number of reasons related to different aspects of governments' functions. A change in the public debt may be incurred in the interest of stabilisation objectives. Also, since governments receipts and outlays do not usually follow the same pattern over the fiscal year, borrowing may be necessary in order to meet temporary shortfalls in receipts. Unplanned deficits between receipts and payments are often financed by resort to borrowing. In situations where raising revenue through further taxation is not feasible, increasing the public debt may be the only means through which a government can finance an expansion in its activities. In developing countries where the level of savings tend to be low and expectations high, governments often have to pursue a higher rate of growth than is warranted by the level of domestic savings. In such circumstances where assistance in the form of grants is not forthcoming and the further printing of money is not feasible financing through borrowing is inevitable.

TABLE 17

## Movements in Annual Cash Balances, 1973-83

(1) Year	(2) Overall Surplus (+) Deficit (-)	(3) Loans (Net)		(4) Change in Cash Balance Increase (-) Decrease (+)
		Internal (a)	External (b)	
1973	- 111.8	31.0	55.5	+ 25.3
1974	428.5	33.5	-15.7	- 446.3
1975	646.3	13.4	-20.2	- 639.5
1976	432.3	49.7	-80.3	- 401.7
1977	728.3	62.8	360.2	-1,151.3
1978	234.0	27.5	257.0	- 518.5
1979	131.6	26.7	129.9	- 25.0
1980	1,029.7	14.9	161.9	-1,206.1
1981	389.9	-12.4	25.9	- 403.4
1982	-2,355.3	113.7	265.2	1,976.4
1983 <sup>re</sup>	-2,721.8	316.9	436.3	1,968.6

*re - revised estimate*

Source: Ministry of Finance, Review of the Economy, Various Issues

TABLE 18

## Growth and Servicing of the Public Debt, 1963 to 1983

\$mn

Year	Total Debt Outstanding at End of Year			Internal Debt Ser- vicing <sup>1</sup>	External Debt Ser- vicing <sup>1</sup>	(6) Total Debt Ser- vicing	(7) (6) as a % of Total Expenditure <sup>2</sup>	(8) Debt Ser- vice Ratio <sup>3</sup>	(9) Col.(6) as % of GDP	(10) Col(3) a % of GDP
	(1) Internal	(2) External	(3) Total	(4)	(5)	(4) + (5)				
1963	68.2	111.9	180.1	4.1	9.8	13.9	6.1	1.1	1.3	17.3
1970	213.6	179.0	392.6	20.0	19.9	39.9	10.2	2.9	2.4	23.7
1971	275.9	162.1	438.0	23.1	19.9	43.0	9.2	2.6	2.5	25.0
1972	333.9	199.2	533.1	28.5	19.2	47.7	8.8	2.3	2.3	25.7
1973	370.2	255.7	625.9	35.7	23.7	59.4	9.4	2.1	2.2	24.3
1974	372.1	256.6	628.7	41.9	88.6	130.5	12.6	3.7	3.1	15.0
1975	413.5	222.6	636.1	46.8	51.0	97.8	7.8	1.6	1.8	11.8
1976	484.7	128.9	613.6	52.3	105.2	157.5	7.9	2.7	2.5	9.9
1977	557.6	499.6	1,057.2	51.3	27.3	78.6	3.4	0.6	1.0	13.8
1978	599.1	756.5	1,355.6	63.0	62.0	125.0	4.3	1.3	1.5	16.6
1989	637.1	898.5	1,535.6	70.6	103.1	173.6	4.1	1.9	1.6	14.1
1980	661.8	1,047.1	1,708.9	77.3	494.5	571.8	9.7	6.0	3.6	10.8
1981	631.2	1,074.9	1,706.1	78.8	179.8	258.6	3.8	2.2	1.4	9.4
1982	756.9	1,338.1	2,095.0	79.0	285.1	264.1	2.8	2.5	1.4	11.0
1983 <sup>re</sup>	1,094.8	1,774.8	2,869.2	101.7	510.2	611.9	6.3	7.7	3.0	14.3

1. Capital (including Sinking Funds) and interest payments; management expenses are included in cols. (5) and (6).
  2. Actual expenditure.
  3. External debt servicing as a % of earnings from the export of goods and services.
- re. Revised Estimates

Sources: Review of Fiscal Measures, Various Issues; C.S.O., The Balance of Payments of Trinidad and Tobago, Various Issues; Table I.

A common feature of most developing countries in the post-war period has been a rapid growth in public borrowing, both internally and externally. There is an important distinction between the internal debt and the external debt, and this should be pointed out here. With respect to the former, public borrowing implies a transfer of current purchasing power from the private sector to the public sector. There is no direct addition to the country's resources. Repayment of the internal debt implies a reverse process. Borrowing from abroad adds to the purchasing power of the country and permits the importation of real resources. Repayment of foreign loans ultimately implies an outflow of goods and services. In view of these differences it is clear that internal borrowing is not a complete substitute for foreign borrowing, and as such it is possible for a country to have a high level of domestic savings and still be in need of foreign funds in a situation where it has to purchase essential requirements from abroad.

A glance at Table 18 shows that the total public debt of Trinidad and Tobago grew from TT\$180 million (62% external) at the end of 1963 to \$626 million (41% external) at the end of 1973,

(defined as foreign debt service payment as a proportion of the export of goods and services in the current account of the balance of payments) has generally been of a relatively low order, even in recent years with the rapid growth in the foreign debt outstanding. Between 1970 and 1982 the ratio averaged about 2.5%. In 1983 it is estimated to have risen to over 7%.

It is clear from the above discussion that in considering the level of public debt there are a number of factors that has to be taken into account. There is no one figure that could apply to all countries or to the same country at all times. Since economic conditions vary widely, a level that might be small for one country might be too large for another. One factor that has a critical bearing on the level of the debt is the use to which the funds are put. Resources devoted to the expansion of the productive capacity of the economy enhances the ability of the country to service its debt in future years. For this reason it is essential that the level of public borrowing be seen in a dynamic framework, or the country may deprive itself of the benefits of foreign funds when these are available. Borrowing, of course, to finance non-productive expenditures will put pressure on the servicing capacity of the country in future years.

and to an estimated \$2,869 million (62% external) at the end of 1983. The internal component increased from \$68 million at the end of 1963 to \$1,095 million at the end of 1983, or by more than 16 times at an average rate of 14.9% per annum. On the other hand the external portion grew from \$112 million to \$1,774 million or by almost 16 times at an average rate of 14.8% over the period.

In order to see the growth in the absolute level of the public debt in perspective, we have to examine changes in this magnitude in relation to movements in other variables which reflect the performance and expansion of the economy. Column 10 of Table 18 shows that as a % of GDP the total public debt outstanding increased from 17.3% in 1963 to 25.7% in 1972, but declined to 9.4% in 1981. In 1983 the ratio is estimated to have risen to over 14%. Total debt servicing, (interest, capital repayments and management expenses) as a % of total expenditure increased from 6.1% in 1963 to 12.6% in 1974. The ratio declined to about 3% in 1982, but is estimated to have risen to over 6% in 1983. As a % of GDP total debt service payments increased from 1.3% in 1963 to 3.1% in 1974. Since then it has fluctuated between 1 and 3.6%. With respect to the foreign debt, a common measure used to assess a country's ability to service this particular component is what is often referred to as the debt service ratio. This ratio

Besides the direct borrowing undertaken by Government, several of the industrial projects being promoted by the present administration, either alone, or in collaboration with foreign enterprise, are expected to be financed through external borrowing. Table 19 shows the amount of debt incurred in the 1974-78 period and the extent of borrowing that was projected for the 1980-83 period. Here we can see that over 75 of Tringen's capital was furnished by debt finance. With respect to the Iron and Steel Company, (which is now wholly-owned by the Government of Trinidad and Tobago, despite the initial intentions), the debt/equity ratio is about 40/60. The methanol and aluminium projects are yet to be realised. Fertrin (a 51/49 partnership with Amoco) is being financed up to about 75% with the debt capital. Some of the other projects (e.g. the LNG project including a tanker fleet and pipeline) envisaged for the future are expected to be undertaken on the basis of substantial foreign borrowing. The decision to set up these <sup>expensive</sup> enterprises on debt finance seems to be based on the premise that eventually they will be able to perform sufficiently well not only to justify their huge capital investment, but to service the debt incurred in financing their construction. Failure to perform in the



As indicated earlier, borrowing by governments in developing countries is strongly motivated by the need for funds to finance a desired rate of growth. In the case of Trinidad and Tobago, foreign debt has grown side by side with a bulging foreign reserve position. Foreign exchange reserves as a proportion of outstanding foreign debt increased from less than 50% at the end of 1973 to over 500% at the end of 1982. As pointed out earlier, the expansion in public debt is only partly explainable by the desire for funds to meet financing requirements. Another reason advanced has been the need to 'establish the country's credit worthiness in the international capital markets.'<sup>24</sup>

Whether this is a plausible reason for incurring debt has been the subject of some controversy. It has been argued that the premise on which this is based is quite illusory. While it is easy to attract lenders on the basis of a strong foreign reserve position, it does not necessarily follow that the credit-worthiness established in such circumstances would necessarily prove to be of value in situation where the country is experiencing economic difficulties. Lenders tend to put great weight on the prospect for repayment rather than on past economic conditions or performance.

surplus of \$751 million in 1981, however, was followed by a deficit of \$1,786 million of 1982 and an estimated \$2,320 million in 1983. With respect to the overall performance the country experienced a surplus in every year between 1974 and 1981. In 1982, however, there was a deficit of \$647 million and this was increased to an estimated \$2,000 million in 1983. The external assets of the Central Bank increased from \$120 million at the end of 1973 to \$7,876 million at the end of 1981. This figure declined to \$5,504 million at the end of August, 1983.

As we saw earlier, the significant increase in revenue which the government has enjoyed since 1974 as a result of developments in the oil sector has had an equally significant effect on the growth of public spending. One can therefore expect any adverse developments in the oil sector to have repercussions on public expenditure policies. The windfall of recent years has enabled the government not only to undertake certain capital projects requiring large sums of money, but has also encouraged a considerable expansion in current spending in the form of subsidies on a wide range of goods and services, increased wages and salaries, greater employment, increased pensions, etc. With the current glut in world oil supplies and the contraction of the

TABLE 19

## Long Term Debts for Energy-Based Industries

Industries	1974-78			1980-83		
	Gov't Equity	Debt	Other Equity	Gov't. Equity	Debt	Other Equity
Tringen's	30.7	203.4	29.3	-	-	-
ISCOTT (Iron and Steel)	373.8	263.3	-	-	265.0	901.3
Methanol	-	-	-	115.0	173.0	-
Aluminium	-	-	-	333.4	839.8	-
Fertrin	55.0	161.8	52.3	29.0	293.0	27.8

Source: 1980 Budget Speech

projected way, could have serious financial implications for the Government, particularly if earnings from oil were to drop significantly.

#### Some Problems and Issues

Since 1981 there has been a dramatic change in Trinidad and Tobago's balance of payments position, and this can be readily seen in Table 20. Between 1974 and 1981 there was a current account deficit in only one year, viz, 1979. The current account

This concern arises not only from the fact that the level of government spending is the major determinant of the level of economic activity, but to some extent from an awareness that the prospects facing the energy-based projects at Point Lisas are not too bright, and this can adversely affect government's revenue position. It is also well known that certain types of expenditure once they have been introduced, become a permanent part of the recurrent budget, and are not easy to reduce or eliminate without incurring serious social consequences. As far back as 1978, some of the current difficulties were foreseen by the then Prime Minister and Minister of Finance (Dr. Eric Williams) and a Committee<sup>25</sup> was appointed "to review the pattern of Government expenditure with particular reference to its distribution between productive (investment) and non-productive (welfare) expenditure in view of:

- a. The increasing percentage of total expenditure to total revenue;
- b. Continued requests for reduction in income and corporation taxes;
- c. Government's subsidy programme;
- d. The fact that oil is a wasting asset;
- e. Government's planned industrialisation programme."

domestic petroleum sector, great concern is being expressed about the possible impact of these developments on the local economy.

TABLE 20

Trinidad and Tobago: Balance of Payments Performance 1973-83

TT\$mn			
(1) Year	(2) Current Surplus Deficit(-)	(3) Overall Surplus Deficit(-)	(4) External Assets of Central Bank <sup>1</sup>
1973	- 50.7	- 28.1	120.4
1974	576.0	602.6	807.3
1975	716.0	973.0	1,768.4
1976	618.7	563.3	2,432.1
1977	515.6	1,072.1	3,550.9
1978	86.5	776.7	4,312.0
1979	- 87.0	879.1	5,089.6
1980	944.8	1,472.4	6,546.5
1981	751.3	1,342.8	7,876.4
1982	-1,785.8	- 646.7	7,186.5 <sup>2</sup>
1983 <sup>e</sup>	-2,319.8	-2,005.8	5,503.9 <sup>2</sup>

e. Estimate

1. Year-end position

2. End of August position

Sources: Ministry of Finance, Review of the Economy, Various Issues; Central Bank, Annual Report, Various Issues; CSO The Balance of Payments of Trinidad and Tobago, Various Issues.

of the general population. The Port is a case in point. Since extra charges incurred by importers tend to be passed on to domestic consumers, an increase in the efficiency of the Port may reduce the need for government subsidy in order to help keep down the cost of living. It is also generally well known that one reason why many of the utilities have been unable to increase their rates or tariffs to desired levels stems directly from the unsatisfactory services provided by them. Public resistance to periodic rate increases could be substantially reduced and the gap between revenue and expenditure closed with the institution of measures designed to increase the quality of the service offered by the utilities. The subsidy borne by Government with respect to gasoline is not unrelated to the existing inadequate public transport system in the country. Reduction or elimination of this subsidy may need to be tied to an intensive effort to improve transport facilities in a way that can lead directly or indirectly to greater economy in the use of gasoline, or the effect of such a policy may be a worsening of the inflationary trends in the economy. In short, while subsidies can sometimes be functional, very often they are simply a compensation for badly conceived policies or poor management and organisational deficiencies which

Having looked at the evidence the Committee recommended:

1. that no new welfare programmes should be instituted nor should Government approve improvements in the real value of existing welfare programmes;
2. that Government should be cautious in expanding permanent employment in the public service;
3. that there should be an immediate moratorium on further tax reductions; and
4. that Government should commission a comprehensive review of the tax system and the structure of utility tariffs in order to ascertain the scope for additional taxation and higher user charges, as a pre-condition to any decision for rapid expansion in welfare and other recurrent expenditure.

These recommendations have had a deep influence on government's policy since. By failing, however, to look adequately at the cause and effect factors in the situations to which it drew attention or to identify in detail the influences affecting the main trends which formed the object of its policy recommendations, or to examine the efficiency of public expenditure, the Report showed some serious shortcomings. While the fiscal consequences of certain courses were discerned, the underlying social and political factors were hardly touched. It is well known, for example, that inefficiency in the government sector exert some effect (in some cases a significant effect) on the cost of living

the long construction periods associated with some projects. The shortages of materials is to some extent the result of failure to gauge properly the rate of expansion of certain sectors of the economy and to implement policies which could have anticipated the needs of a programme of rapid expansion. In short, the level of government expenditure not only affects the rate of economic progress, but to a considerable extent is conditioned by socio-political forces and bureaucratic processes which have to be explicitly recognized in any analysis dealing with public expenditure, and particularly with transfer items.

With respect to changes in the tax system, the Committee quite rightly felt that these should be undertaken only after a comprehensive study had been done. The perspective suggested, however, seems to be quite narrow, emanating as it seems mainly, if not entirely, from a concern with tax yields in relation to Government's welfare and subsidy programmes. In a situation where basic conditions are under-going rapid change, the tax system clearly has to be examined in a much broader context, including such aspects as its effects on incentives and the relevance of the existing rates and structure in highly inflationary circumstances. Failure to do this is not only likely to make the tax



could not be corrected by merely manipulating aggregate revenue and expenditure figures. Also, if a subsidy program is not well structured, the people it is intended to assist may not turn out to be the ultimate beneficiaries.

Another area that might have been examined in greater depth, and which needs to be urgently analysed, is the implications of Government industrialization programme for the fiscal operations of the country in the next five to ten years. Some of the projects involved are being financed to a substantial degree by debt finance. A basic premise of this approach is that the enterprises <sup>concerned</sup> would be able to perform sufficiently well in the international markets to help service the loans on which they are being set up. Failure to meet this expectation could have serious financial consequences for the Government, particularly in a situation where the revenue from oil is beginning to decline. The procedures governing the approval of government projects and the spending of public funds also need to be investigated. In an inflationary situation delay is costly, and this is evidenced by the large differences in the cost of several major undertakings between conception and completion (in some cases the beginning of construction). The lack of proper supervision also explains

productive undertakings does not seem to have been properly thought out.

With the decline of international oil prices and the contraction of the domestic oil sector, government's revenue position has been adversely affected, and this has led to some curtailment in spending which in turn is being felt on overall economic activity. Between 1982 and 1983 real GDP declined by an estimated 3.8% as compared to a positive growth rate of 3.4% in 1980/81 and 3.5% in 1981/82. The level of employment declined by 1.3% between mid-1982 and mid-1983 and there is evidence that this trend is continuing. There is a tendency to describe the present state of economic affairs in the country as a 'recession' which in the industrial countries (from which the term is borrowed) refers to a temporary downturn in economic activity stemming from a fall off in demand and investment. This is not the same kind of phenomenon being experienced in Trinidad and Tobago. With the decline of public spending and foreign reserves (which in the boom years served to cover up weaknesses in the economy), the structural problems are beginning to re-assert themselves. Despite the high levels of public spending since 1974, the economy remains extremely vulnerable to external developments. There has been

system a 'scapegoat' for deficiencies in other sensitive areas, but may lead to the institution of measures and changes which could increase the burden on residents and also affect productivity.

### Concluding Observations

In 1973 Trinidad and Tobago like most other Third World countries was experiencing what the then Prime Minister and Minister of Finance referred to in his 1980 Budget Speech as "an increasing gap between our national aspirations and our capacity to achieve them." Beginning around the <sup>end</sup> of 1973 the financial capacity of the country was significantly enhanced by increases in international oil prices and the expansion of the domestic oil sector. While the revenues gained from the oil industry encouraged a rapid increase in current spending, a certain amount of savings was affected, and these have played a major part in the financing of capital formation in the economy, particularly in the area of physical infra-structure and the utilities. It has also encouraged governmental involvement in a number of highly capital intensive industries based on the country's energy resources and intended to diversify the structure of production. The balance, however between spending on infra-structure and expenditure on directly

the hopes on which they were conceived, and far from enhancing government's revenue or foreign reserve position as was originally intended, could adversely affect it in a very serious way. In the short term, the government would need, of course, to institute policies consistent with its changing revenue and foreign reserve position. These adjustment policies, as they are termed, are likely to result in a decline in real living standards, and would, therefore, have to meet certain equity criteria if they are to get public support. Very often short term policies tend to affect the attainment of long term goals, and in order to avoid conflict there would be the need for a clear articulation of a development strategy rather than a simple statement of objectives.

no significant impact on the productive base (or exports) of the economy where diversification continues to remain an elusive goal. Oil continues to be the key sector, while agriculture has declined concomitantly with the rapid growth of the food import bill which is now in the region of TT\$1,000 million. The manufacturing sector is still largely oriented towards the internal <sup>and</sup> market. Given its dependence on external sources for raw materials, intermediate and capital goods, its survival hinges critically on the availability of foreign exchange to finance these imports. Since the viability of the new energy-based industries rests heavily on their ability to penetrate foreign markets, adverse developments in the latter will no doubt put further pressure on government's revenue and foreign exchange position.

If after several development plans and the huge windfall of 1970's, little progress has been made towards such fundamental goals like greater agricultural production, full employment and economic diversification in terms of production and exports, this may indicate the need for critical appraisal of past and existing strategies. Despite the lack of information on the energy-based industries at Point Lisas, it appears that in the present international environment these enterprises will be unable to fulfil

## Footnotes

1. See, for example, Alison Martin and W. Arthur Lewis, "Patterns of Public Revenue and Expenditure", The Manchester School, Vol.23, 1956.
2. See, for example, A.T. Peacock and J. Wiseman, The Growth of Public Expenditures in the United Kingdom (Princeton: University Press, 1961). See also M.A. Odle, The Evolution of Public Expenditure (The Case of a Structurally Dependent Economy: Guyana), (Mona:I.S.E.R., 1976)
3. Although there is a Local Government system in Trinidad and Tobago, the highly centralised nature of fiscal operations has left the Local Authorities almost powerless. The central government provides the bulk of the funds on which these bodies operate.
4. Mid 1983 estimate. The provisional census non-institutional population for 1980 is 1.056 million.
5. See the World Bank Atlas, Various Issues.
6. See Winston Dookeran, "The Distribution of Income in Trinidad and Tobago (1957-1976)." (Mimeo), Department of Economics, U.W.I., St. Augustine.
7. Some data from the 1980 population census seem to re-inforce this view. The following Table shows the distribution of the employed population according to income groups.

### Income levels of the population of Trinidad -1980

<u>Income Group</u>	<u>Number</u>	<u>Percent</u>
Less than \$100	6,510	1.86
\$100 - \$499	66,560	19.06
\$500-\$1,099	153,700	44.00
\$1,100-\$1,899	55,140	15.70
\$1,900-\$3,999	23,100	6.60
\$4,000+	13,750	3.94
Not stated	30,540	8.74

Source: The Imperatives of Adjustment, Draft Development Plan, 1983-86, 1983.

APPENDIX I

GCE = Government Current Expenditure

TGE = Total Government Expenditure

PCI = Per Capita GDP at Current Factor Cost

GDP = Gross Domestic Product at Factor Cost

FT = Exports plus Imports

CEP =  $\frac{GCE}{GDP}$

TEP =  $\frac{TGE}{GDP}$

FTR =  $\frac{FT}{GDP}$

- (1) CEP = 15.2141 + 0.0007046 PCI (1963-83)  
(0.0001252)  
 $R^2 = 62.50\%$   
D.W. = 1.31
- (2) CEP = 23.7551 + 0.0007164 PCI - 0.1346 FTR (1963-83)  
(0.0001247) (0.1192)  
 $R^2 = 64.98\%$   
D.W. = 1.57
- (3) CEP = 13.5721 + 0.0008350 PCI (1973-83)  
(0.0002460)  
 $R^2 = 56.15\%$   
D.W. = 1.54
- (4) CEP = 30.5836 + 0.0007096 PCI - 0.2397 FTR (1973-83)  
(0.0002681) (0.2165)  
 $R^2 = 61.98\%$   
D.W. = 2.0
- (5) TEP = 20.0690 + 0.001582 PCI (1963-83)  
(0.0001345)  
 $R^2 = 87.91\%$   
D.W. = 1.83
- (6) TEP = 12.4151 + 0.001571 PCI + 0.01206 FTR (1963-83)  
(0.0001354) (0.1294)  
 $R^2 = 88.47\%$   
D.W. = 1.72
- (7) TEP = 20.2487 + 0.001564 PCI (1973-83)  
(0.0002620)  
 $R^2 = 79.84\%$   
D.W. = 2.08
- (8) TEP = 14.8440 + 0.001604 PCI + 0.07615 FTR (1973-83)  
(0.0003048) (0.24622)  
 $R^2 = 80.08\%$   
D.W. = 1.99

8. The data used in this paper (except where otherwise indicated) come from several sources. Among the major ones are: The Ministry of Finance, The Review of Fiscal Measures and The Review of the Economy, Various Issues; Central Bank, Annual Report, Various Issues; Ministry of Finance, Estimates of Revenue and Expenditure, Various Issues; CSO, Financial Statistics, Various Issues, and the Auditor General, Annual Report, Various Issues. It is necessary to point out (particularly with respect to revenue and expenditure figures) that there are often large and unexplainable differences between the data appearing in the various sources. It has not always been possible to reconcile the differences.
9. The Un-employment Levy was imposed in 1970 (Act No.16) to provide the Government with additional funds to help relieve the unemployment situation which came into sharp focus following the disturbances in that year. The Levy is essentially a tax (5%) on the chargeable income of individuals and companies beyond a certain amount. The original figure for individuals was \$10,000.00, but since 1979 it has been increased to \$20,000.00.
10. This scheme has been in operation since 1973. Receipts from the sale of stamps increased from \$47.4 million in the financial year ending 30.4.73 to \$87.8 million in the financial year ending 30.6.79. This latter figure was equivalent to less than 1% of the country's 1979 GDP.
11. We use GNP instead of GDP because data on the former were more easily available.
12. See, for example, Richard Musgrave, Fiscal Systems (New Haven: Yale University Press, 1969), p.74.
13. The sample consisted of about 30 to 40 countries and data related to the middle 1950's.
14. Richard A. Musgrave and Peggy B. Musgrave, Public Finance in Theory and Practice (London: McGraw-Hill Inc., 1973) p.124.



15. Martin and Lewis, op. cit.
16. Defined as expenditure on administration, economic, education and health services.
17. D. Horowitz, "Government Expenditure in Countries of Accelerated Growth", in A.T. Peacock and G. Hauser (eds.) Government Finance and Economic Development. (Paris:OECD, 1963)
18. Mid-year estimates published in CSO, Annual Statistical Digest, Various Issues and IMF, International Financial Statistics, Various Issues.
19. The index based in Sept., 1960, was spliced with that based in Sept., 1975 and the base shifted to 1973.
20. For instance, in the period between 1976 and 1979 the numbers employed in the government services increased from 66,900 to 80,810. The figures exclude workers in the Development and Environmental Works Division (DEWD)
21. This subsidy was introduced in 1974 and applies to local sales of certain petroleum products. The mechanics of the arrangements are as follows:

The refineries sell gasoline destined for local consumption to the National Petroleum Marketing Company (NPM) at the international price. It is then sold by the NPM to domestic consumers at a controlled price. The Government then reimburses NPM and bills the cost of the subsidy to the oil producing companies. The latter, are however, permitted to offset the amount as a production cost in computing their tax liability. The Government, therefore, by foregoing the revenue which would have accrued, shares the cost of the subsidy with the oil producing companies.

Between 1974 and 1980 the subsidy is estimated to have amounted to \$753.3 million. Of this, Government's share (cost to revenue) was \$403.0 million.

See Budget Speech 1979, p.55 and

Budget Speech 1980, p.71.

22. These figures exclude loans and grants to B.W.I.A. and Caroni Limited, which in 1983 amounted to about \$250 million.
23. To obtain total expenditure we would have to add column 5(b) of Table 1 (which include 'loans and grants' to statutory bodies') to column 6 of Table 12. Alternatively we can add column 5(a) of Table 1 (which excludes 'loans and grants to statutory bodies') to column 5 of Table 12.
24. See the 1978 Annual Report of the Central Bank, p.23.
25. The Committee's report was entitled Report of the Committee to review Government Expenditure (sometimes referred to as the Bobb Report after its Chairman, Dr. Euric Bobb).