

FISCAL CAPACITY AND PERFORMANCE IN THE US VIRGIN ISLANDS

By

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Abstract:

The United States Virgin Islands, hereafter the USVI, is a Caribbean territory of the United States of America. For many years the islands comprised three main islands. Within the last few years one island which was under the jurisdiction of the Department of the Interior was formally handed over the USVI. Now there are four main islands. The Islands are St. Thomas, St. Croix, St. John and Water Island. Our paper will focus on the fiscal capacity and performance of the USVI over the period 1990 to 2004. We will note if there is any fundamental difference in the capacity and performance from the last time we assessed the islands twenty-nine years ago. In light of the changing nature of international economics, we will highlight a role that the USVI may wish to play as one of the two US off-shore jurisdictions in the Caribbean. Ultimately, our task will be to focus on the capacity of the USVI and establish if it has the present capacity to perform at a level that will lift it above the ordinary to some extraordinary level of economic development over the next several years, in keeping with the concentric circles of development such as the CSME, the FTAA and the WTO.

Introduction:

On December 1-3, 1976, the VIII Regional Conference of Monetary Studies was held in Bridgetown, Barbados. Then I presented a paper on “Fiscal Capacity and Performance in the US Virgin Islands” with a focus from 1950 to 1975. Thirty (30) years later we revisit this topic as part of the fiscal issues under discussion at the **XXXVIIth Annual Conference of the Regional Program of Monetary Studies**. That 1976 paper was subsequently published in ***Social and Economic Studies***, December, 1977.

As in the previous paper, we define “fiscal capacity and performance as attempts at coming to grips with the quantification and qualification of resource transfer and utilization (1) from the private to the public sector; and (2) from the federal government to the local government, or from agency to sub-agency within the USVI government. Once again we will use a time dimension to study the fiscal capacity and performance; this time we will focus on the period 1990 to 2004.

Then the USVI was three main islands of St. Croix, St. Thomas and St. John. Now a smaller island, Water Island, has been added to the mix bringing the total to 4 islands and an area of 342.4 square kilometers. From a pragmatic political point of view, the US Virgin Islands is a territory of the United States of America and enjoys privileges similar to states of the USA., except that even though the people of the USVI are citizens of the USA and enjoy all of the rights and privileges of citizens, they are unable to vote for the President of the USA. They serve in the Armed Forces, are free to go to and from the USA, even though they are now required to demonstrate some evidence of identity, given the current contextual situation as it pertains to the Patriot Act and the issues deriving from September 11, 2001.

We begin this paper by providing some background data on the USVI in terms of its population, labor force, employment and total visitor arrivals over period 1990 to

2004. This 15 year observation time frame gives us some interesting sights in terms of growth of the USVI in all of the usual macroeconomic data. Our objective is to go behind the data to understand what took place and to appreciate how the economy public sector performed, and finally what could be done in the years ahead.

Some of the first sets of basic background data on the USVI are observable from Table 1 where we illustrate the Population, the Labor Force and Employment and the total Visitor Arrivals of the USVI for the period 1990 to 2004. All of the data have the traditional upward trend, but our task will be to look behind the data and determine if there has been *any fundamental change* over the period of analysis.

Table 1: POPULATION, LABOR FORCE AND EMPLOYMENT AND VISITORS TO THE USVI (000)

YEAR	Population	Labor	Employment	Visitors
1990	101.8	48.3	46.9	1811.5
1991	106.9	48.9	47.6	1899.5
1992	103.1	49.9	48.2	1929.7
1993	103.8	53.5	51.7	1923.1
1994	104.5	50.4	47.6	1921.4
1995	105.2	47.8	45.1	1743.3
1996	105.8	45.8	43.4	1778.7
1997	106.5	46.2	43.5	2128.0
1998	107.2	46.7	43.7	2138.9
1999	107.9	46.4	43.1	1964.3
2000	108.6	47.7	44.5	2477.9
2001	109.4	49.7	46.1	2562.6
2002	110.0	49.3	45.0	2336.6
2003	110.7	48.2	43.6	2392.6
2004	111.6	50.0	46.4	2619.7

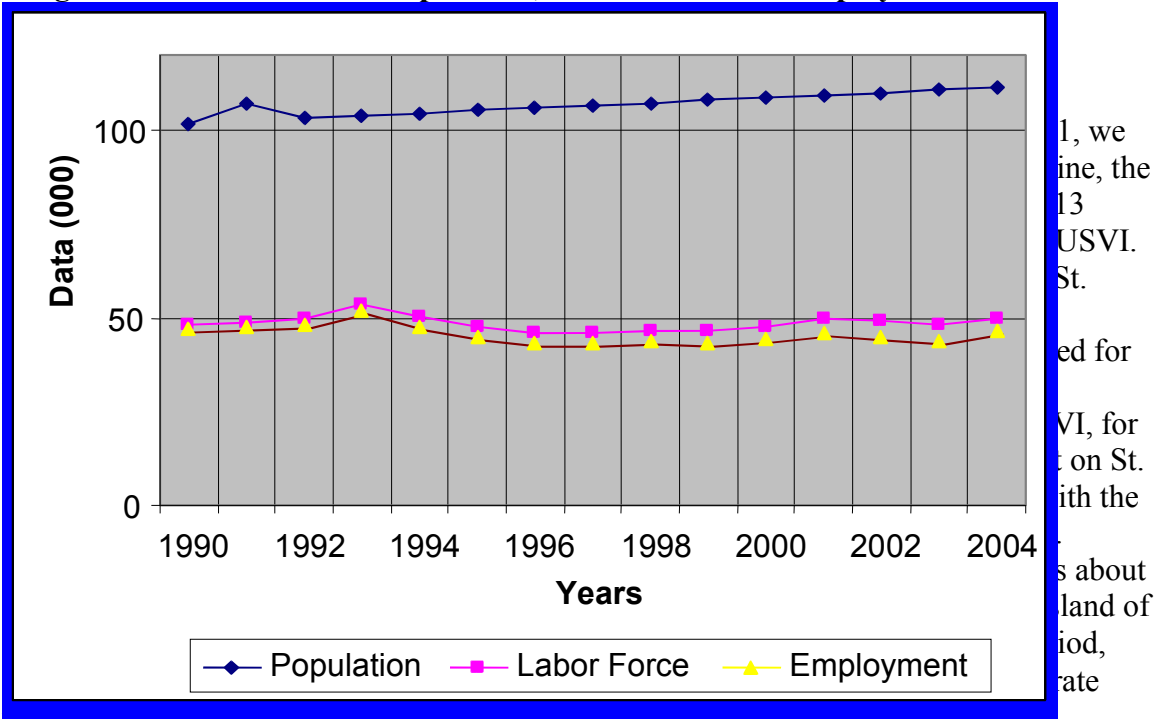
Source: USVI Bureau of Economic Research, *Annual Economic Indicators* and *Annual Tourism Indicators*. [www.usviber.org]

First we begin with the population. In the 1950's the population in the USVI was over 50 percent Virgin Islanders. In the recent 2000 census, the population, the population is about 49 percent persons born in the USVI. Whites are now about 13 percent of the population. Today, and since the 1960's many persons from the Eastern Caribbean and the wider Caribbean make the USVI their home. In the past many of the persons from the Eastern and wider Caribbean entered the USVI as blue collar workers. Occupational shifting has occurred over the years. Today there are nationalities from literally all over the world, and they could be found in all types of occupation from the Government to the private sector.

In the 1960's and the 1970's many of the persons who entered the USVI were birds of passage, or "snow birds" from the mainland USA. Today that is not the case. The growth today from the Middle East, pockets from Haiti, groups from the Dominican Republic, groups from the Philippines, among others. To a large extent many of the persons from the Eastern Caribbean or those who have Eastern Caribbean links, were born in the USVI.

A graphic display of the population shows a smooth, upward trend in the population growth. This smooth, upward trend was a growth rate of less than one percent per annum. The labor force and employment also mirror a slow smooth growth over the period, Total visitor arrivals was about a 2.9 percent growth over the years.

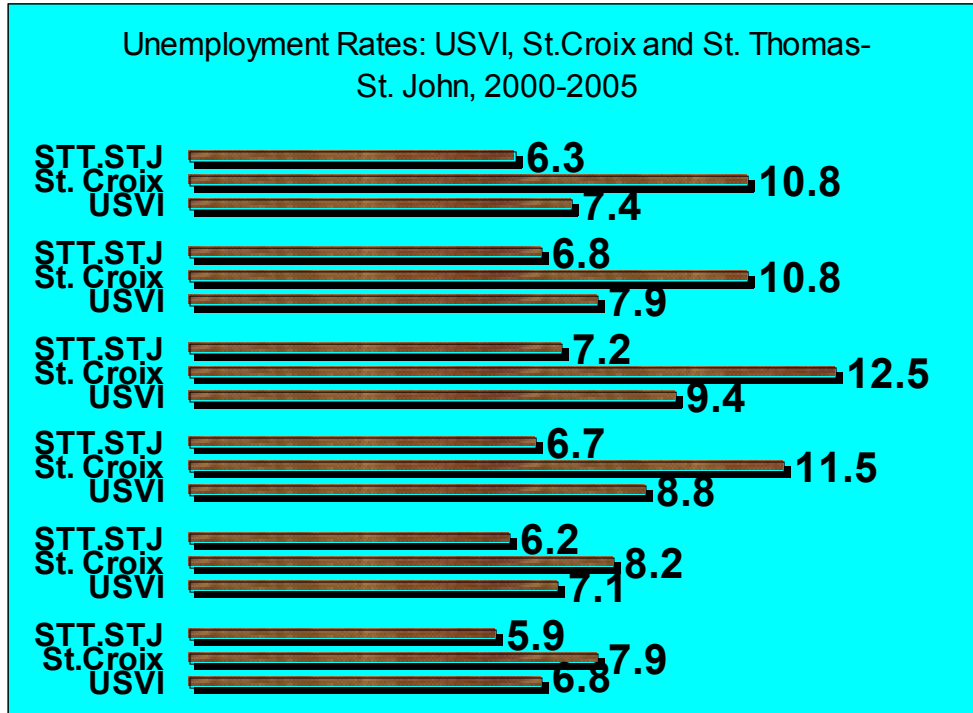
Figure 1: Trends in USVI Population, Labor Force and Employment



was an average of 10.5 percent.

Putting the data in another perspective, over the period 2000-2005, with 2005 data represented by a 9-month data base, we observe that St. Thomas and St. John unemployment rate was, on average, **63 percent** of that of St. Croix's. Or, if we consider the flip side of this picture, St. Croix's unemployment was, on average, **58 percent above** that of St. Thomas and St. John over the period 2000-2005.

Figure 2: Unemployment Rates in the USVI, St. Croix and St. Thomas-St. John



Source: Derived from Table 2.

In Table 2, we present the actual data for the USVI, St. Croix and St. Thomas and St. John. There the numbers are revealed in more stark contrasts. By looking behind the numbers, therefore, we get a better appreciation of the data than a mere presentation of the overall macro-data for the entire Virgin Islands. The macroeconomic data of labor and employment are particularly useful in an economy where service is crucial to the economy, where indeed the economy could be termed a service economy. But the macro-data could hide internal systemic problems if there is not an analysis behind the numbers. Table 2 shows the numbers and figure 3 provides an overall picture of how the labor force and the employment are related. The point that is being made is that whenever economic analyses are being made simply on macroeconomic data, stronger economic insights could be obtained from an analysis of the internals of the numbers, or the statistics behind the numbers, than merely looking at the absolute value of the numbers. So, figure 3 presents a seemingly rosy picture of the USVI economy, as the Official Release states, but if we are to consider the changes in the data, we will get a picture that may be cause for further analysis as opposed to what appears on the surface, at first blush.

TABLE 2: USVI Labor Force, Employment, Unemployment and Unemployment Rates, 2000-2005*

Years	Labor	Employed	Unemployment	Rate of Unemployment
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2000: USVI	47,730	44,500	3,230	6.8
St. Croix	19,820	18,250	1,570	7.9
St. Thomas- St. John	27,910	26,250	1,660	5.9
2001: USVI	49670	44500	3,530	7.1
St. Croix	26,610	19,840	1770	8.2
St. Thomas- St. John	28290	26300	1760	6.2
2002: USVI	49430	46140	4320	8.8
St. Croix	20320	17990	2330	11.5
St. Thomas- St. John	28980	26990	1990	6.7
2003: USVI	48170	44980	4530	9.4
St. Croix	19660	17480	2500	12.5
St. Thomas- St. John	28210	26180	2030	7.2
2004: USVI	50066	43640	3965	7.9
St. Croix	19470	17367	2103	10.8
St. Thomas- St. John	29665	27661	2004	6.8
2005: USVI	54785	46287	3665	7.4
St. Croix	19470	17367	2103	10.8
St. Thomas- St. John	29059	27211	1848	6.3

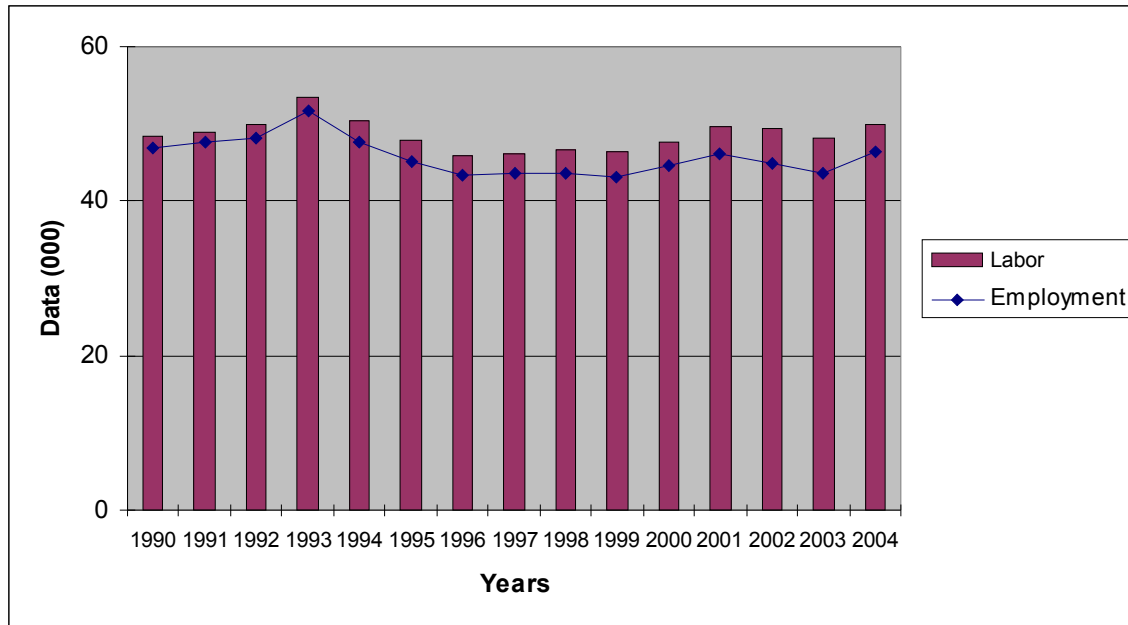
Source: VI Department of Labor, Bureau of Labor Statistics, and USVI Bureau of Economic Research, Calendar Years, 2000-2005.

* Data for 2005 is a 9-month average.

In figure 3, employment has been mirroring the labor force as that aggregate has been increasing over the last fifteen years. From the BER, “about 70 percent of the jobs in the USVI are provided by the private sector.” This is commendable, but to get a better picture of how the labor force, and subsequently employment has been trending, it is useful to consider the internal features of the labor force in terms of a time series analysis.

We are all are fully aware that when a time series consists of annual data there are trend, cyclical and irregular elements in the data. The seasonal elements are absent since they occur within a year. Thus, when we present data like those data in figure 3, we have to account for the trend, cyclical and irregular features of the data. We have to show the data from its deviations of the actual labor force, in this case, from a computed trend line which is attributable to the cyclical and the irregular features. Figure 3 shows a slight upward trend of the labor force with a miniscule downward drift of employment.

Figure 3: USVI Labor and Employment, 1990-2004



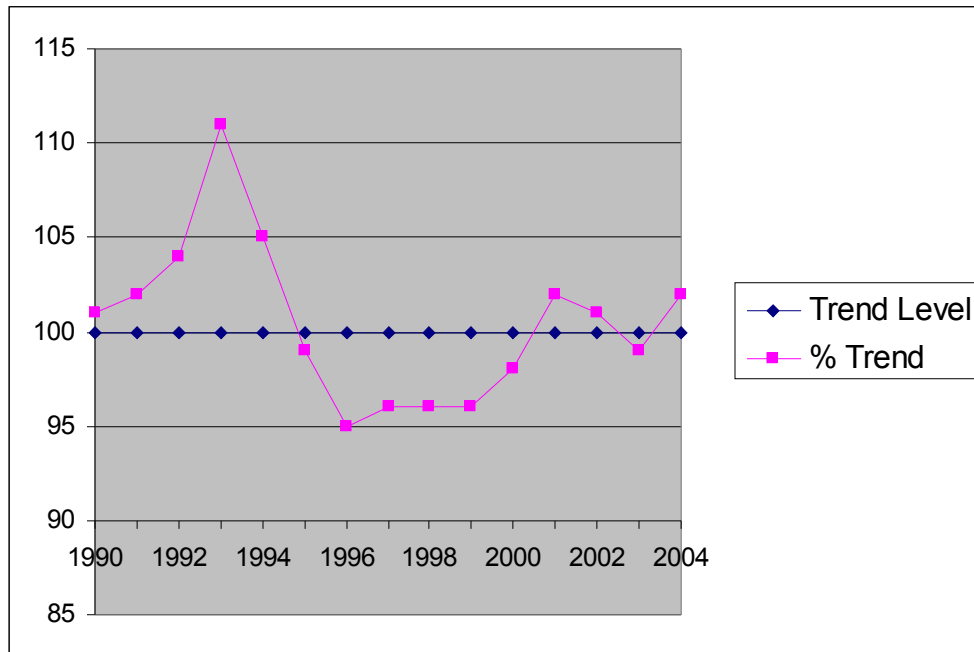
Source: Derived from data in Table 1.

However, when we express the data for the labor force in terms of its percentage of trend, the upward movement of the labor force is no longer present. But, what we obtain is even more important from a planning and understanding point of view. The percentage of trend in the labor force now fluctuates around a line that is labeled 100, which is the *trend level*. The percentage of trend is called the *cyclical relatives*. Basically, the original data are presented relative to the trend figure. Put another way, the cyclical fluctuations are nothing more than the original data minus the trend data, divided by the original data. This figure is converted to a percentage. Thus we may write the cyclical relative as:

$$\text{Cyclical Relative} = [(Y - Y_t)/Y_t] \times 100$$

Figure 4 permits us to put an actual figure to the cyclical relative of the labor force data in Table 1 and figures 1 and 2. For example let us take the years 1993 and 1996. In 1993, the actual labor force was 53.5 thousands. The relative cyclical residual was 11 percent *above the level trend*. This 11 percent was due to irregular features and cyclical features. In the case of 1996 the figure is 5 percent below the level trend; again these are due to irregular and cyclical features in the data. When the data are so decomposed, decision-makers are permitted to “go behind the data” and thus get a better handle of the data in terms of long-term planning in the economy. In fact, the beauty of decomposing the data in this light emerges from the point that decision-makers can then determine what caused the increase or decrease in the data. While this analysis is by hindsight, it permits decision-makers some insights in explaining such movements in the future. Irregularities cannot be fully explained or isolated, but at least the knowledge that that the data could be so de-trended, gives a better planning perspective than mere macro-numbers. We present the labor force around its trend in figure 4.

Figure 4: USVI Labor Trend Level and Percentage around the Trend



Source: Derived from Table 1.

Political Economy:

Up to November 1970, that is 35 years ago, the Governor of the USVI was appointed by the President of the USA. On November 7, 1970, the first popularly elected Governor of the USVI assumed office and became the Chief Executive Officer and decision-maker in the USVI. Since that time there have been six popularly elected Governors. Four of the Governors hailed from St. Croix and the last two hail from St. Thomas. There has not been much departure and radical philosophical differences between and among the Governors over the years. For the most part they were all caretakers with one or two attempting to widen their links with the wider Caribbean, when it was deemed convenient to do so.

The first elected Governor was a Republican which was somewhat reflective of the Republican Administration on the mainland USA; the second Governor was Independent Citizens Movement (ICM) member, which was really an outgrowth of the local Democratic Party; the third Governor was the ICM Lieutenant Governor who acceded to office on the death in Office of the second popularly elected governor; the fourth Governor was a member of the local Democratic Party; the fifth was an independent although he had he had tendencies of a Machiavellian personality, as opposed to a political ideologue, in the strict sense of the term; the present Governor, a former University of the Virgin Islands Professor of History is a Democratic by practice.

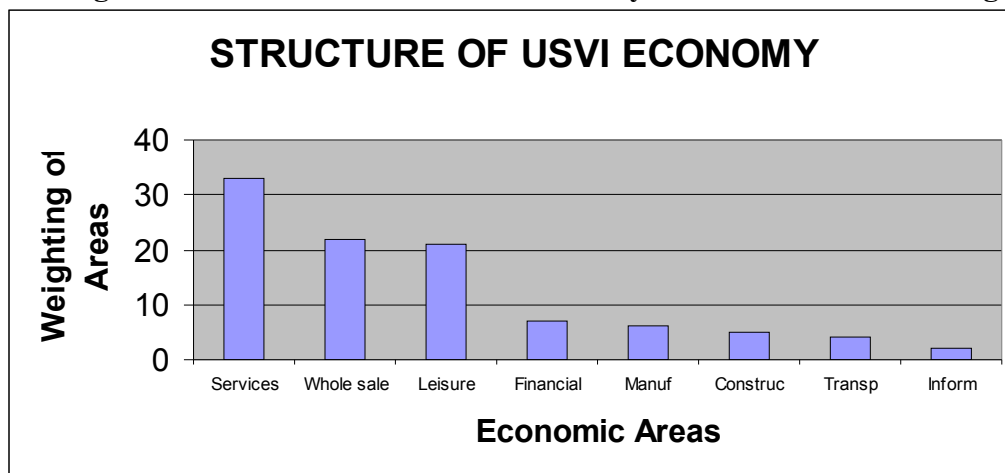
From a systemic point of view, however, all of these Governors practiced a philosophy that tended to work in conjunction with the dictates of Washington DC. Long before there was the notion of a Washington consensus, as it pertains to the wider Caribbean, such a consensus or directive existed in the USVI. It is to be noted that although there is a party dubbed the Independent Citizens Movement, it is not a party

aimed at attaining independence for the people of the USVI. It is merely a party whose symbolic differences do not coincide with the Republican and Democratic Parties of the USVI. This comment about the non-coincidence of the philosophy of the local parties and the national parties also refers to the local Democratic and Republic parties. They carry the titular names of their national counterparts, but most political experts would contend that they are not fully in line with all of the dictates, precepts and practices of the national parties. Let us now turn to the structure of the economy.

Structure of the Economy:

When the USVI wage and Salary employment numbers are evaluated, it is noted that on average 70 percent of the jobs are in the private sector and 30 percent is in the public sector construed as the local USVI government and the USA mainland Federal government. The break down in the public sector employment is 93 percent local and 7 percent Federal government. Over the years the economy has been undergoing a shift from agricultural to services. Today that shift is well-established and pronounced as is evidenced in figure 3 which depicts the structure of the economy. There we observe that a little over one third (34 percent) of the labor force is employed in the Services sector, by which we mean professional, business, education and health care services. Wholesale and Retail Trade is about 22 percent; Leisure and Hospitality constitutes about 21 percent; Financial activities constitute 7 percent; Manufacturing is 6 percent; Construction is 5 percent; Transportation is 4 percent and Information at 2 percent is an emerging contributory area to the GDP.

Figure 3: The Structure of USVI Economy Based on Economic Weights



Source: Derived from the USVI Bureau of Economic Research. [www.usviber.org]

In a recent Bureau of Economic Research (BER) document, it was noted that the USVI is in the “midst of an economic expansion.” Some of these same economic areas were mentioned as the growth areas. Naturally, as one internalizes the data, it is imperative that we look behind the data. This is the main purpose of this paper. We shall

perform some additional basic analysis on the macroeconomic data and then we shall delve into the fiscal capacity and performance, the core of the paper.

Leading in to the analyses we shall look at **the per capita components** of these data; then we shall turn to the budgetary area and get into the meat of our analysis as far as fiscal capacity and fiscal performance is concerned; we end with some observations that we need to look behind the data when we are doing analyses; this is particularly true when we look at the autoregressive nature of the data. Even though the series is short, we are still able to get some preliminary insights as to what may need to be done going forwardxxx

According to an *Official Release* from The United States Virgin Islands, Office of the Governor, Office of Public Relations, “The economic expansion reported by the BER is the result of hard work and sacrifices on the part of the people of the Virgin Islands.” The official release continued, “We took a hard look at the way we were doing business in the Territory with respect to running government, and decided that we needed to put in place some economic reforms that would spur private and public sector development while maintaining a balanced budget ad a stable and accountable economy.” [Office of the Governor, October 18, 2005].

The *Press Release* claims that the USVI is now into a success story. Total Tourism visitors were 2.6 million in 2004 and that figure is expected to rise to 2.7 million in 2005 and up to 2.8 million in 2006. The Gross Territorial Product (GTP, that is the traditional GDP) grew by an estimated 3.0 percent in 2004 and is estimated to grow by 3.2 percent in 2005. (Mills, and Governor’s Press Release, August and October, 2005).

The Manufacturing sector comprises watches, refined petroleum and rum, the famous Cruzan Rum. Hovensa, a joint venture of formerly Hess Oil Corporation and Pedvesa of Venezuela, under an agreement a business venture termed HOVENSA is responsible for the refined petroleum. Its exports were \$6.7 billion in 2004. Given the unusual oil market with prices per barrel between \$55 and \$62 per barrel, it is very likely that the refined petroleum products will exceed \$7 billion in 2005.

Before we consider the story of the success, we need to look at the internals of some of the macroeconomic data. Specifically we shall now consider some of the macroeconomic data, namely: GTP, Wages and Salaries, Tourism (Visitor) Expenditure, Exports and Imports. These data are presented in Table 2.

When we consider the GTP, the Wages and Salaries, the Tourism Expenditure, the Revenue and Expenditures, over the lat 15 years, we observe some very noticeable features as far as the trend in the data are concerned. While they are all trending upwards, the reality of the data are not what they seem.

In the first instance, if we consider the GTP we note that the growth rate per annum was about 4.3 percent. That was the nominal rate. Based on the GTP in 1982 dollars, as given in Table 2, were derived the implicit GTP deflator. Over the period of whether we let our base year equals to 1990, or the median year, 1997, the “derived” inflation rate was 2.97 percent. Thus the real growth rate of the GTP was 1.33 percent that is the 4.3 percent less the 2.97 percent. Historically, the USVI inflation series, as derived from the Consumer Price Index was proxied on the USA inflation series, given the high dependence of the USVI on the USA. Within recent years, the Eastern Caribbean Center, under contract to the Bureau of Economic Research has provided adequate data to enable some beginnings of a local inflation rate. Starting in 2001, a Consumer Price Index for the USVI was derived with a base year of 2001 equals 100.

Let us now turn the GTP as presented in Table 2. We ran GTP over time with 1997 set equal to 0, the base year. From that we were able to get an estimated GTP. We present the results in Table 3.

**Table 2: GROSS TERRITORIAL PRODUCT (GTP),
ESTIMATED GTP, GTP IN 1982 DOLLARS, USVI,
1990-2004***

YEARS	GTP	TPe	G	GTP (1982) Dollars
1990	1588.1	1519.1		1215.4
1991	1646.7	1591.0		1209.1
1992	1687.3	1748.2		1201.8
1993	1924.9	1733.4		1331.6
1994	1793.9	1804.6		1209.1
1995	1794.5	1875.7		1176.8
1996	1864.6	1946.9		1188.6
1997	1803.4	2018.1		1123.6
1998	1923.7	2089.3		1180.2
1999	1936.9	2160.5		1162.6
2000	2337.1	2231.5		1357.2
2001	2480.2	2302.8		1400.5
2002	2392.1	2378.0		1329.7
2003	2475.8	2445.2		1345.6
2004	2621.9	2516.4		1388.0

Source: USVI Bureau of Economic Research,
Annual Economic Indicators.
[www.usviber.org]

*All data are in millions of US dollars.

For the our Estimated GTP, Time = 0 in 1997;

Time is in one-year intervals

GTP is in millions of US dollars

GTPe is Estimated GTP.

In table 3 we present the coefficients of the regression GTP over time which permitted us to derive the GTP estimates in table 2. In table 4 we present the model summary where we are able to show the explanatory power of time and to give some indications of the issue of autoregressive and or multicollinearity problems by means of the Durbin-Watson statistic. There we note that Time is significant as a predictor. Of course, we are well aware of the problems with time series analyses in this form, and thus we shall perform another analysis later. Suffice to say we were able to get an equation such that for we were able to explain 86 percent of the variation in GTP by time alone. The time variable was very significant at the one percent the one percent level of significance, with a t value of 8.8. The very significant value for the constant indicates that if we were doing a more powerful econometric analysis we would want to find another variable on which to regress GTP. The present analysis, however, provides a first approximation to case that we are making. The Durbin-Watson coefficient is 1.02. In the present case, the critical values for the Durbin-Watson test for alpha = 0.05, with 15

observations and one independent variable is $d_L = 1.08$ and $d_U = 1.36$. Since $d < d_L$, we reject the null hypothesis of no positive autocorrelation and conclude that there is positive autocorrelation.

Table 3: Coefficients of Gross Territorial Product (a) on Time (b)

	Unstandardized Coefficients		Standardized Coefficients			
	B	Std. Error	Beta			
(Constant)	2018.080	34.867			57.879	.000
TIME	71.181	8.070	.926		8.820	.000

a. Dependent Variable: GDP

b. Independent Variable Time

Source: From Regression applied to GTP data in Table 2.

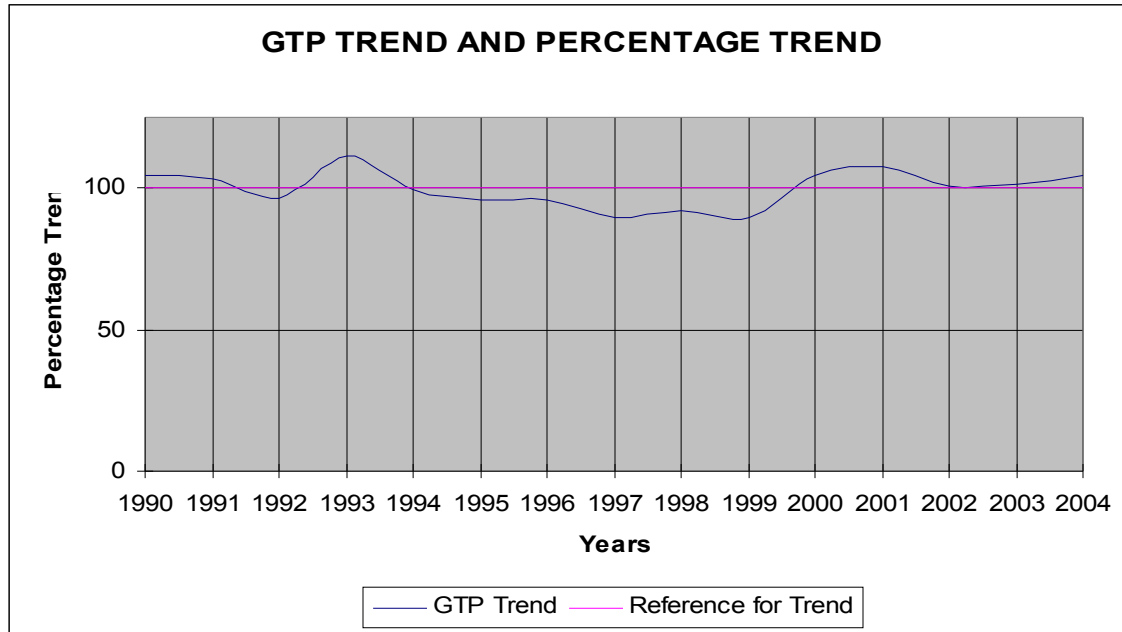
Table 4: Model Summary of Estimate of USVI Gross Territorial Product

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.926(a)	.857	.846	135.039	1.023

Source: From Regression applied to GTP data in Table 2.

We obtain some additional insights about the problems in the data from figure 4 where we show GTP about the trend level and the cyclical relatives. Like the data for the labor force, we are able to observe the features as they pertain to irregularity and cyclicity in the GTP data series. For the record we tested the GDP data based on the autocorrelation and partial autocorrelation functions, and applied the Ljung-Box (LB) statistic. (Ljung and Box, 1978; See also, Gujarati, 1975, p. 717). Given the short times series we did not report the results, although the results follow the practical features as nonstationarity of the GTP. We note from table 4 that there is some cyclicity and irregularity as is to be expected. While it does appear that we could forecast that there will be an upward trend in the GTP between 2004 and 2005, and perhaps into 2006, what we have to bear in mind is that the GTP series as presently constructed does not make allowance for inflationary factors. In this light we present in Table 3 the data for the implicit GTP deflator. These data were obtained from Table 1 and understanding the relationship between Real GTP and Nominal GTP. In the original data series, the GTP is set with a base year of 1982 (USVI **Annual Economic Indicators, 1990-2004**, www.usviber.org). Using the 1982 base-year data, we recalibrated the data such that 1990 was set equal to 100 and 1997 was also set equal to 100.

Figure 4: USVI GTP Trend and Relative Cyclical



Source: Derived from Regression analysis applied to GTP data.

The data are presented in table 5. Column 2 of Table 5 presents the implicit GTP deflator with 1982 equals 100, the base year. These are the actual data as obtained from the data of the USVI Bureau of Economic Research. Our derivations were based on the relationships between Real GTP, Nominal GTP and the Deflator. Once we obtained the Implicit GTP Deflator, we recalibrated the GTP based on 1990 as a base year, and on 1997 as a base year. The former was used since it is the starting point of the series. The latter was used since it is the mid-year of the 15 year series, 1990 to 2004.

The growth rate per annum over the period for both series based on 1990 and 1997 is 2.97 percent per annum. Of paramount importance, however, the value of the dollar based on either 1990 or 1997 has declined rather remarkably over the period of analysis. In the case of the 1990 series, the dollar went from \$1.00 in 1990 to 69 cents in 2004; this suggests that there was a 31 cent drop over the period. Put another way, in 1990, if you bought \$100 worth of goods and services, you paid \$100. In 2004, using 1990 as the base year, you would have had to pay \$144.57. Implicitly, therefore, the value of the dollar based on 1990 fell 31 percent.

In like manner, if we used 1997 as the base year, we observe that what \$100 could have bought in 1997, would have required \$117.69 in 2004. To put it another way, the 1997 was 85 cents in 2004; this represented a 15 percent drop from 1997. In whatever manner we approach the subject, over the 15-year period, the value of the dollar has been subjected to some erosion in terms of its purchasing power. Hence, when GTP are presented in the nominal dollars, it is important to consider the implicit GTP deflator, as well as the internal dynamics as they pertain to cyclicity, seasonality and irregularities.

Table 5: GTP Based on 1982 and 1990 and the Corresponding Purchasing Power of the Dollar Based on 1982 and 1990

Years	GTP Deflator (1982)	GTP Deflator (1990)	Purchasing Power of \$ (1990)	GTP Deflator (1997)	Purchasing Power of \$ (1997)
1990	130.66	100.00	1.00	81.41	\$1.23
1991	136.19	104.23	0.96	84.85	1.18
1992	140.40	107.45	0.93	87.48	1.14
1993	144.56	110.64	0.90	90.06	1.11
1994	148.33	113.52	0.88	92.42	1.08
1995	152.49	116.71	0.86	95.01	1.05
1996	156.87	120.06	0.83	97.7	1.02
1997	160.50	122.84	0.81	100.00	1.00
1998	163.00	124.75	0.80	101.56	0.98
1999	166.60	127.51	0.78	103.80	0.96
2000	172.20	131.79	0.76	107.29	0.93
2001	177.09	135.53	0.74	110.34	0.91
2002	179.90	137.69	0.73	112.09	0.89
2003	184.00	140.82	0.71	114.64	0.87
2004	188.90	144.57	0.69	117.69	0.85

Source: Deflators derived from a comparison of the Nominal GTP and the GTP at 1982. Base years changed to illustrate values based on 1990 and the mid-series, 1997. For original data, see table 2.

Now let us turn to Total Visitor Expenditure, Exports and Imports. There is a rationale for the choice of aggregates. The USVI is a heavy tourist economy. Tourism is an export, so it is important to evaluate this component of the economy. Next we want to get a feel of the openness of the economy via the export to imports ratio.

We will first present these data in the aggregates; then we will evaluate then in terms of the per capita values. Finally, we will consider revenue and expenditure over time and in terms of their relatives. Using data from the BER and the Office of Management and Budget, we will present a series in a meaningful a manner as it is possible, given the nature of the data and circumstances under which the data were obtained. We make this point to illustrate the instance that there are many data series as far as the aggregate data are concerned. In the first instance, there are data on the BER website which purport to show that Revenues and Expenditures of the Government. However, those data in the section headed USVI Government, General Fund (FY, millions of dollars) present data for the Operating Budget appropriation. There is no information on the actual expenditure. We shall discuss this some more in a later section.

Table 6: Exports, Imports, Visitors, and Visitor Expenditures, 1990-2004

Years	Exports	Imports	Visitors*	Visitor Exp	Population (000)
1990	2820.7	3294.7	1811.5	697.0	101.8
1991	2518.4	3118.0	1899.5	777.9	106.9
1992	2303.5	3550.8	1929.7	816.1	103.1

1993	2191.4	2625.6	1923.1	901.7	103.8
1994	2847.7	3154.0	1921.4	919.6	104.5
1995	3036.3	3166.0	1743.3	822.3	105.2
1996	3651.5	3594.9	1778.7	781.0	105.8
1997	3453.5	3825.8	2128.0	894.0	106.5
1998	2640.1	2760.4	2138.9	940.5	107.2
1999	3198.4	3297.8	1964.3	954.9	107.9
2000	5200.4	5349.9	2477.9	1205.9	108.6
2001	4234.2	4608.7	2562.6	1234.1	109.4
2002	3876.3	4213.2	2336.6	1195.4	110.0
2003	5660.8	5570.4	2392.6	1256.5	110.7
2004	NA	NA	2619.7	1356.9	111.6

Source: USVI Bureau of Economic Research, *Annual Economic Indicators* and *Annual Tourism Economic Indicators*. [www.usviber.org]

* Visitors and population are thousands, all others in millions

As in all of the other data, the data series in table 6 is also trending upwards when no allowances are made for the irregular features of the data; when no analyses are made for cyclical and season issues. When the data are presented based on population as in the case of the exports and imports, and on the total visitor base, as in the case of the Expenditures by Visitors, we get a different picture. There are high and significant correlations between Exports, Imports and Visitor Expenditure, as shown in table 7.

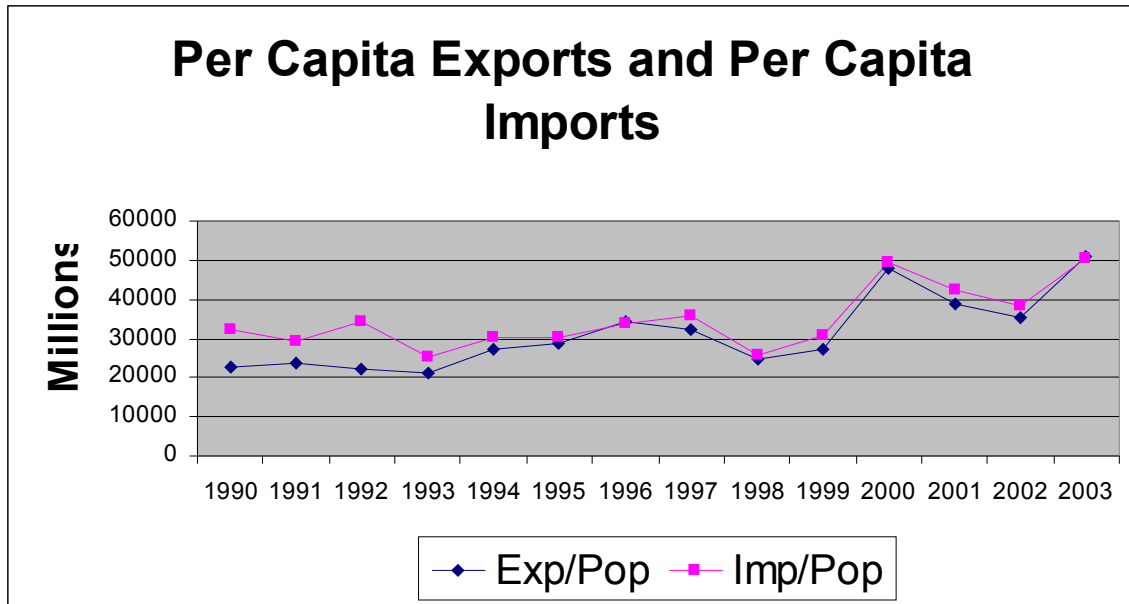
Table 7: Correlations of Exports, Imports and Visitor Expenditures

		EXPORTS	VISITORX	IMPORTS
EXPORTS	Pearson Correlation	1	.848(**)	.964(**)
	Sig. (2-tailed)	.	.000	.000
	N	15	15	15
VISITORX	Pearson Correlation	.848(**)	1	.843(**)
	Sig. (2-tailed)	.000	.	.000
	N	15	15	15
IMPORTS	Pearson Correlation	.964(**)	.843(**)	1
	Sig. (2-tailed)	.000	.000	.
	N	15	15	15

** Correlation is significant at the 0.01 level (2-tailed).

Thus, there may be a need to determine why this is the case. The overall numbers of visitors has risen, and is projected to peak at 2.7 million and even 2.8 million in one year's time. But having said that, the issue is not so much the numbers in an absolute sense, but rather the numbers in terms of what they are spending in the economy. We present the per capita exports and per capita imports in Figure 5.

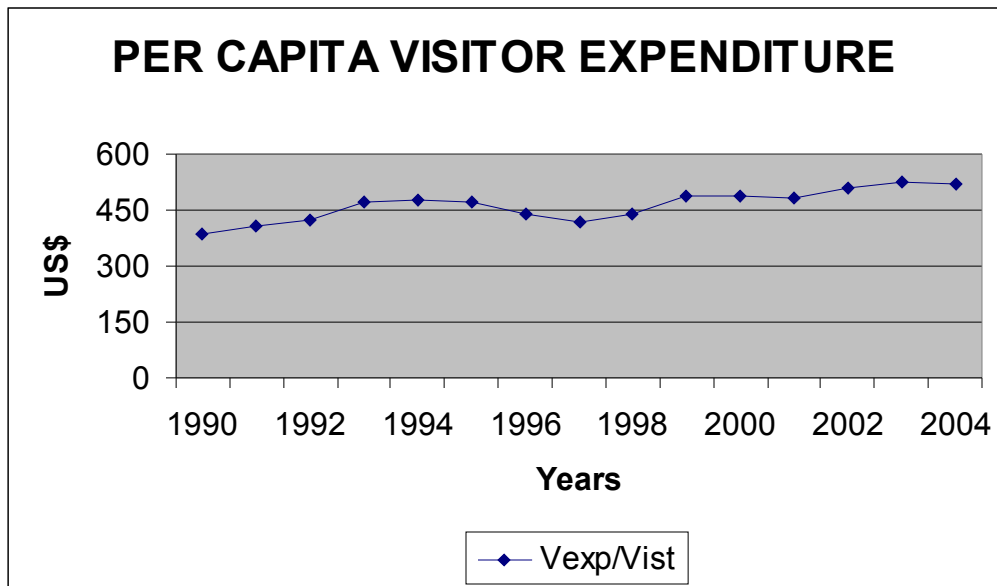
Figure 5: Per Capita Exports and Per Capita Imports, USVI, 1990-2003



Source: Derived from Table 6.

In the case of the Visitor Expenditure to Visitors, we notice that the Per Capita Expenditure has taken a slight downward drift. We present this picture in figure 6.

Figure 6: Per Capita Visitor Expenditure, USVI 1990-2004



Source: Derived from Table 6.

With dogged persistence, and the excellent cooperation from the Office of Management and Budget, we were able to obtain a data series for Revenues and Expenditures for the period 1995 to 2003. We estimated the missing years, 1990 to 1994 and 2004 based on comparables which present in Table 8.

Table 6: Revenues and Expenditures, 1990-2004

Years	OMB Revenues	OMB Expenditures	BER Net Revenues	BER Operating Budget
1990			327.7	381.4
1991			327.7	443.1
1992			344.5	447.3
1993			375.8	414.0
1994			343.2	422.5
1995	377.2	512.7	332.3	475.0
1996	369.7	492.9	335.8	490.3
1997	430.4	479.7	374.4	459.5
1998	452.1	511.4	460.2	560.2
1999	399.9	450.1	391.3	49104
2000	379.0	387.1	382.4	432.1
2001	443.1	395.2	539.2	549.4
2002	417.7	582.1	458.2	590.0
2003	466.9	576.7	462.1	616.5
2004			577.9	592.2

Source: Fiscal Years, 1995, and 1998-2003 from General Purpose Financial Statements Audited by KPMG and 1996 and 1997 are from audited Financial Statements prepared by the US Virgin Islands Department of Finance. Data in columns 2 and 3 were data faxed to me 10/27/2005 from the OMB. Columns 4 and 5 are from the USVI Bureau of Economic Research, *Annual Economic Indicators* [www.usviber

In the context of Net Revenues the following heads are the main head for a typical year, like 2004:

Table 7: USVI Main Source of Domestic Revenues, 2004 (M\$)

Individual Income Tax (gross)	\$343.7
Corporate Income Tax (gross)	40.8
Real Property taxes	78.6
Trade and Excise Taxes	17.6
Gross Receipts Taxes	113.1
Hotel Room Taxes (Including Tourism Fund)	14.7
All other Taxes	13.8
US Customs Duties	0.9

Source; USVI Annual Economic Indicators, BER, usviber.org

There are Remittances from the Federal Government and Other Federal Expenditures. Among these are Rum Exercise Taxes (returned to the USVI Government) and Direct Federal Expenditures. In essence these Federal Expenditures, so-called are really grants, remittances to the local USVI Government.

In the context of the Revenues and Expenditures, we can look at the trend over the period of analysis and for the representative years from the OMB. We present these data in Table 8.

Table 8: Revenues and Expenditures, 1990-2004 (1995 =100)

Years	OMB Revenues	OMB Expenditures	BER Net Revenues	BER Operating Budget
1990			83.7	77.6
1991			83.7	90.1
1992			88.1	91.0
1993			96.0	84.3
1994			87.5	86.0
1995	94.0	113.9	85.2	96.7
1996	92	109.6	90.9	99.8
1997	118.9	110.5	95.7	93.5
1998	113.1	106.6	117.6	114.0
1999	100	100.0	100.0	100.0
2000	100.5	86.00	97.7	87.9
2001	110.8	87.8	137.8	111.8
2002	104.4	129.3	117.1	120.1
2003	116.8	128.1	118.21	125.5
2004			147.7	120.5

Source: Derived From Table 6

In the context of the Revenues and Expenditures using the Office of Management and Budget short series, and with the base year set at 1999, we note the very intricate, but erratic performance of the Revenues and Expenditures over the period 1995 to 2003. On average, Revenues have grown about 16.8 percent over the period and Expenditures have grown about 28.1. This series is too short for us to do as much as we would want. We present the graph in figure 7. The drop off in the years 2000 and 2001, in terms of Revenues, points to what many persons were saying. The event of September 2001 only exacerbated the downturn of what was already in place.

In the context of the longer series as derived from the BER, we can only evaluate them as a point of comparison. The fact that we are given a data series that states "Operating Budget" (Appropriations) does not lend itself to the kind of analysis that one would have liked, were the actual revenues and expenditure available. Revenues and Expenditures are available, but these are limited by what is still added from the Federal Government. Nevertheless, as a point of comparison, we used the same base year as the OMB that is 1999 equals 100. In this case we are able to show relationship over time.

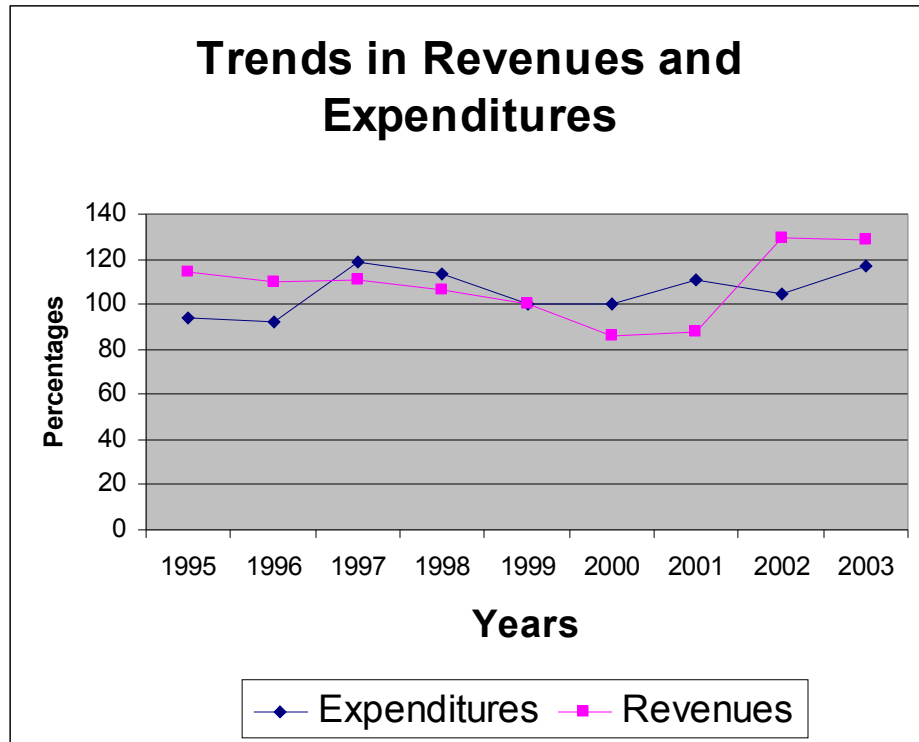


Figure 7: USVI Trends in Revenues and Expenditure, OMB

Even though the series is longer than the OMB's series, the same erratic pattern of Revenues and Expenditures are discerned. Both series are drifting upwards. In this larger series, it appears as if Revenues are increasing at an increasing rate. But over the same period for the OMB, Revenues are on a downward drift. This inconsistency has a great deal to do with the nature of the data, the manner in which the data are arrayed, and the underlying features of the economy.

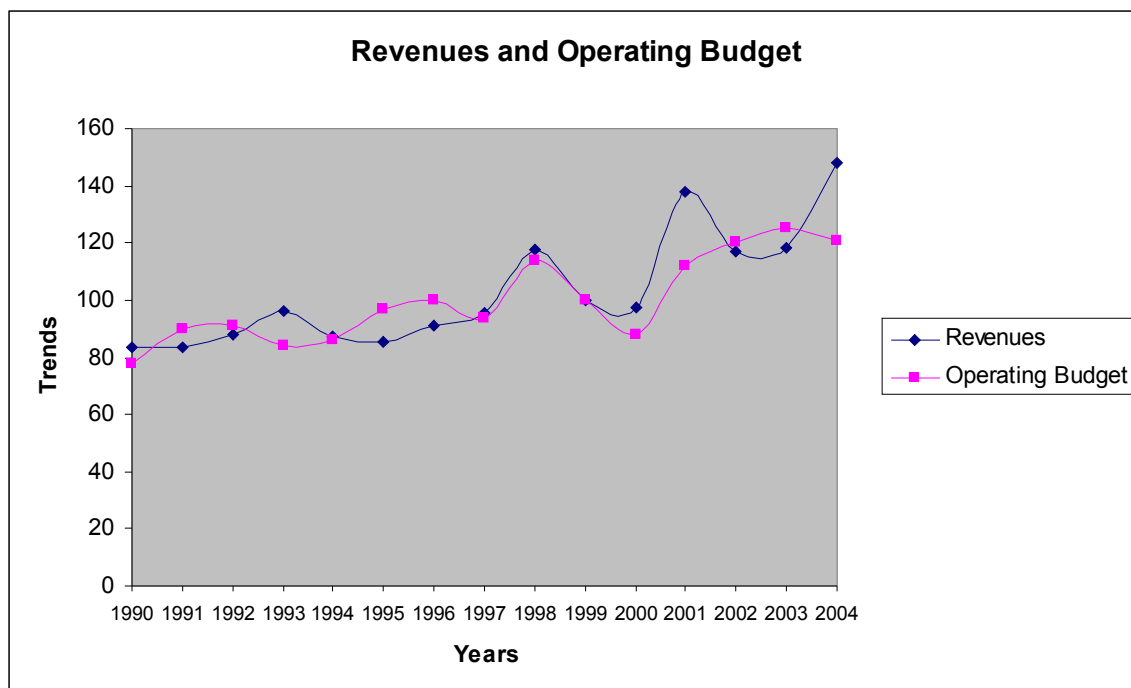


Figure 8: Trends in Revenues and Operating Budget. USVI BER.

In the era of globalization when hard data are useful to make economic decisions, the availability of those data is essential and of principal moment. In this paper we sought to look at the fiscal capacity and performance of the USVI over the period 1990 to 2004. While there are many data series, and many pronouncements on the data, there is a need to have a more comprehensive approach to the data such that comparable series with other countries could be generated, and thus analyses made according to established principles and precepts in Public Finance. This paper was geared to updating a work done several years ago. However, in light of many imponderables, it was not possible to do what was intended. Nevertheless a first approximation to what is needed was identified. And some preliminary conclusions about the fiscal capacity and performance of the USVI economy are possible. By and large, while there has been growth in the economy over the last 15 years, the question of a robust economy in the making may have to be revisited. The data do not stand up to such a robust statement. And the absence of the relevant data does not permit a full-blown analysis.

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