

Payment of Pension and Gratuity to Public officers

By: Laurel Theresa Bain

The High Court has ruled, and the ruling must be honoured. Anything otherwise would be a disservice to public officers. The pension and gratuity must be paid. The issues how would this be paid, what are the implications and how any potential adverse impact could be mitigated.

Proposals or options for payment must be based on firm information on cost. Even before the Court ruling, technical officers should have been crunching numbers so the public would have a clear understanding of the cost of the ruling and the fiscal implications. In the absence of these, at least publicly, the proposals are indicative.

The Court ruling has created two types of liabilities, namely:

- i. The arrears of gratuity and pension for the public officers who have already retired. This is the public debt component of the liability; and
- ii. The annual payment that would be required to pay retiring officers their gratuity and the monthly pension for all pensioners. This payment would be a charge on the current account.

The two types of liabilities require different financing options.

For the payment of the arrears of pension and gratuity to public officers who have already retired, the Government could consider the issue of bonds with different maturity dates and use the cash proceeds to finance this component of the liability. The ruling has created a debt, and based on the West Indies Supreme Court Act, the debt is subject to the statutory interest rate of six (6) percent per annum from the date of the ruling. It is in the interest of the Government and the public to replace this debt with a cheaper debt by issuing bonds and use the cash proceeds to pay the public officers. The success of the bond issue would require intensive marketing and networking to identify agents that are interested in the purchase. The power of the State could be used to negotiate with local institutions, governments, regional and international organisations, economic entities, and individuals for the purchase of the bonds.

The Court ruling has increased the public debt which could reach over one hundred (100) percent of GDP. It is important to accurately capture all the liabilities of the public referred to as the public debt. The Central Government debt of \$2.1 billion or 70.6 percent of GDP is often equated with the public debt. This is inaccurate. The public debt, which includes that of State-owned enterprises of \$0.53 billion or 17.9 percent of GDP, amongst to \$2.6 Billion or 88.5 percent of GDP. The inclusion of the debt to retired public officers could push the public debt to over one hundred (100) percent of GDP. The Government should therefore create a sinking fund, where a portion of current revenue is deposited and invested to contribute to the repayment of the bonds on maturity.

The payment of the second component, that is, the gratuity for new pensioners and pension for all pensioners, should be derived from Government current operations. These payments should

be programmed as a part of the government's annual current expenditure. It is an opportune time to overhaul the public finance and its management to improve efficiencies and eliminate wastage. The areas for examination are expenditure on goods and services, the transfers related to the social safety net programmes and capital spending. On the revenue side, all outstanding obligations to the Government should be collected. The various agencies of Government should work together to recover outstanding public funds. The objective is to increase the available financial resources which would contribute to financing pensions and gratuity.

After this rigorous examination of revenues and expenditures, and the preparation of the forecasted government finances, then the additional amount needed to finance the pension and gratuity would be determined. The forecast should include all revenues and expenditures, including the operation of special funds such as the National Transformation Fund, established by Acts of Parliament.

If there is not adequate revenue for the ongoing payment of pension and gratuity, after the elimination of inefficiencies and wastage in the management of the public finances, a proposal should be packaged and budgetary support in the form of grants sought for a transitory period of approximately two years, while the Government addresses the state of the public finances. The Government has received budgetary support or current grants in the past which average \$18.5 M annually between 2018 to 2020. Current grants or budget support rose to \$41 M in 2021 and in February 2022 \$81 M in grants were received for budget support. Much of the funds received in February has not been utilised and some could be targeted to the payment of the pension and gratuity. Budgetary support in the form of grants is a gift and could be used as determined by the Government. Therefore, as an interim measure, the use of grants for budgetary support could be explored.

Prior to resorting to taxes to finance the pension and gratuity, the government should consider the Grenada Survey of Living Conditions and Household Budget Survey [SLCHBS] report which indicated a widening of the income disparity between the poor and the non-poor. Therefore, the burden of the tax system and the distribution of the burden must be assessed to inform future tax policy. In this context, if the Government needs to resort to taxing to finance the pension and gratuity, the Government could consider reversing the decision and return the top marginal tax rate on personal and corporate incomes to thirty (30) percent.

If additional domestic revenue is needed, the Government could introduce a new tax, but the burden of the tax should be limited to those responsible for the financial fiasco. The Constitution entrusts the management of the public funds to the Legislature and Executive. A transitory Pension and Gratuity Recovery Tax [PGRT], but this should be limited to the income and pension of Parliamentarians responsible for the fiscal fiasco. To the extent that Parliament consciously passed the Act to provide pensions to parliamentarians and the pension of public officers were not addressed, the tax would provide redress and contribute to financing the payment of pension and gratuity.

On the positive side, the Government should take the opportunity to transform the economy as a result of the increased government expenditure and the expected increase in incomes of households. There is a large pool of human resources who could benefit from the increased expenditure and the Government should guide and facilitate the process. There is a youth unemployment rate of 38.6 percent and women of 19.5 percent [official figures for the second quarter of 2021 and which do not include the discouraged workers]. The monetary poverty rate was twenty-five (25) percent in 2019, and if the analysis is extended to 2021, the poverty rate could have reached, at a minimum, forty (40) percent in 2021.

There are idle human resources, while there is need to adapt to a new economy. The use of the financial resources should be directed to support the emerging economic activities and to transform the economy. The transformation of the economy requires new types of skills, business processes and entrepreneurs. The Government could facilitate the use of the funds in the targeted areas by providing incentives and supporting infrastructure.

Through these programmes, parents should be encouraged to partner with children and youths and contribute financially to train or retrain in areas that are required to transform the economy. This could be done in the context of the digital economy, and to develop the creative industries, and other areas that would support the reorientation of the economy. Parents could enter into business relationships with children and youths to establish businesses which do not need significant overhead capital to operate. In this electronic global economy, there is scope for employment using virtual platforms in areas such as marketing, website design, data analysis, tutoring, editorial services, entertainment, and other innovative and creative industries.

The opportunity should also be taken to direct funds to address the imbalances in the economy. Agriculture is a small component of GDP and its contribution to GDP has declined over the past five years. The manufacturing sector is small and stagnant. The tourism industry which has been the impetus to economic growth seems not to be pulling these sectors. Meanwhile the food import bill has been increasing. Incentive packages and technical support should be provided for enhancing the scope for domestic production. Individuals could be encouraged and supported to form cooperatives to engage in agriculture, fishing, and agro processing. The Marketing and National Importing Board should be reformed to facilitate marketing.

The opportunity should be taken to pursue policies, provide incentives and establish infrastructure to facilitate the use of the funds for the integration of domestic production and the innovative and creative industries with the tourism industry. The objective is to direct the use of the financial resources provided to households to rebalance the economy from the heavy reliance on tourism by improving the agriculture sector and the development of innovative and creative industries to achieve an integrated economy with greater food security.

The home is the pride of many individuals. Housing is an area where funds could be directed particularly in the context of energy efficiencies and climate resilience. Houses may require retrofitting to accommodate alternative energy such as solar and for the use of high-speed

internet facilities to engage in the new types of entrepreneurs. Activities in the innovative and creative industries may not require high overhead expenses and with slight modifications could be accommodated in residential homes. In addition, there are building requirements for climate resilience and there are houses that need general upgrading for which funds could be utilised.

The payment of pension and gratuity is costly to the public purse. However, it is necessary to direct the funds into investments that would transform the economy and lead to sustainable economic growth.

Knowledge is power and experience is the greatest teacher.

Ms. Laurel Bain is a former employee of the Eastern Caribbean Central Bank, where she served for over 25 years. All Budget Alert articles could be obtained from website <https://www.innovativealliances.com/>.

16th April, 2022