

Budget Alert 3.5 Managing the Economy with Fiscal Policy

By Laurel Theresa Bain

As outlined in Budget Alert 3.4, there is an increasing dependence on non-tax sources of revenue to finance government operations. The substantial increase in non-tax revenue, estimated at \$311M for 2023, is mainly associated with the inflows from the Citizenship by Investment programme, accounting for \$243M or 78 percent of the non-tax revenue. The other non-tax sources of revenue are categorized as licenses; fees, fines and permits; dividends; and rents and interest, which are estimated at \$68M or 22 percent of the non-tax revenue. The greater component of non-tax revenue is related to commercial activities, but some components could place a disproportional burden on the lower income earners. It is therefore important that both tax and non-tax sources of revenue be examined in assessing the impact of fiscal policy on the welfare of the population.

Among the non-tax sources of revenue, dividends, rent and interest are the rewards from Government engagements in commercial activities and, with efficiency, could be a valuable source of revenue. Among this category, dividends which are projected at \$16.2M for 2023, are the most significant contributor. Licenses, amounting to an estimated \$20M, are directly related to the granting of permission to entities for conducting private activities and for permission to produce goods and services, generally of a commercial nature. Revenue from fees, fines and permits is estimated at \$26M, most of which is derived from fees and fines. Permits consist of activities associated with legal status such as marital, residency and nationalization and consist of a small component of non-tax revenue. Payments of fines are the penalties for legal breaches, estimated at \$6.9 M comprising \$1.8M in court fines and \$5.1M in other fines and penalties, some of which the burden could be eliminated by avoidance. Fees provide an important source of revenue of which the major components are passport stamp duty estimated at \$5.4M, registration/inspection of motor vehicles and examination of drivers at \$4.4M and health fees accounting for approximately \$3.7M of which fees from hospitals are \$2.7M.

The burden of non-tax revenue is generally linked with the payment of fees. These are the income derived by the Government from its production of goods and services, some of which are described in economics as meritorious goods.

The meritorious goods and services are considered essential to a functioning economy. These goods and services could be provided by the private sector as the consumer pays and receives a direct personal benefit. However, meritorious goods and services are beneficial to society as well as to the individual. If left to the private sector, these goods and services will be produced but the amount would be less than what is needed to support a high standard of living for the population. The Government, therefore, intervenes to ensure that there is adequate provision of these goods

and services at affordable prices. Broad-based sources of revenue from essential meritorious goods and services could contribute to a disproportionate burden on the lower income groups.

Education and health are notable examples of essential merit goods and services.

The fees associated with the payment for health services, if left unchecked, could be burdensome to the lower income earners, particularly accessing private health services which are not included in the analysis. Health is an essential meritorious service. It is inelastic in demand, that is, whatever is the price, the service or product is needed and will be purchased. The revenue intake from health-related fees has increased over the years. This could be associated with a larger number of people accessing the service or higher prices for the service. Whatever contributed to the increasing revenue intake, there are costs and health implications.

Among the fees for health services, the growth in revenue was more pronounced for laboratory and theatre. Revenue from laboratory fees grew from \$973,220 in 2014 to \$1,640,031 in 2019, and to an estimated \$2,295,064 in 2023. A similar trend was observed for revenue from Theatre fees which increased from \$84,942 in 2014 to \$89,456 in 2019, and to an estimated \$274,030 in 2023. The trend in the revenue from fees is shown in the following table.

Table 1: Ministry of Health Revenue from Selected Services

	2014 Actual provisional	2019 Actual provisional	2023 Estimates
Hospital fees	\$180,768	\$237,374	\$84,187
Receipts Government dispensaries	\$257,518	\$224,970	\$210,497
X-ray	\$406,716	\$407,203	\$446,373
Laboratory	\$973,220	\$1,640,031	\$2,295,064
Theatre fees	\$84,942	\$89,456	\$274,030

Source: Grenada’s Estimates of Revenue and Expenditure 2015 – 2023.

For segments of the population, the cost of health services could be beyond the reach of some or absorb a high proportion of income. Therefore, the coverage and design of the National Health Insurance should be based on a thorough situation analysis, and the financing system should be designed to ensure that citizens have access to essential health care services.

Education is the other main meritorious service. The individual benefits from education, but there are some positive spill-over benefits to the country. The Government therefore produces or

subsidizes the production of education services to supplement the production by the private sector. Revenue from education fees is minimal, related to local examination fees. A cost recovery system was established, requiring the payment of a registration fee for each student attending secondary and tertiary schools. This was a mechanism for transferring the education subsidy from the Government to the private sector, through the parents and guardians of students. The elimination of the school fees for secondary education would have contributed to alleviating some of the disproportional burden for education services.

Knowledge is power and experience is the greatest teacher.

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Disclaimer: This article is written in my personal capacity and not in my capacity as Chairwoman of the Fiscal Responsibility Oversight Committee.