Election Issues Bulletin 5
Jobs, incomes, GDP and Public Debt

"It's the economy, stupid" is the aphorism that is commonly used during elections the world over.

The most important issues for the average voter are **his job** (or unemployment) and his **real income** (i.e. how his family is coping with the cost of living).

Governments and competing political party manifestoes are judged first and foremost by these two criteria.

But we must also add the issue of Public Debt, which is the burden deliberately passed on to future generations by the current generations, usually through their elected governments.

Jobs, Incomes and Gross Domestic Product (GDP)

Both the growth of numbers of jobs and incomes depend on how well the Gross Domestic Product (or total income produced in the country) is doing.

Unfortunately for Fiji, following the December 2006 coup, the GDP growth rate was negative for two (or three) years out of the first five years.

Table 1 gives the sectoral behaviour of real GDP (using FBS data in 2005 prices).

Table 1 Gross Domestic Product by components Index Numbers (2006=100)								% Ch.
	2006	2007	2008	2009	2010	2011		06-11
Agriculture, Forestry & Fishing	100	95	100	87	83	93		-7
Manufacturing	100	94	92	90	93	94		-6
Electricity and Water	100	179	104	156	192	205		105
Construction	100	90	94	82	88	88		-12
WholeS.,Ret.,Vehicles,Pers.Goods	100	105	99	93	94	91		-9
Hotel & Restaurants	100	115	139	142	159	167		67
Transport & Communication	100	99	94	103	101	101		1
Financial Services	100	136	154	137	139	139		39
Real Estate Business	100	99	97	97	97	100		0
Public Sector, Education Health	100	94	93	103	96	92		-8
Other Services	100	62	67	60	60	60		-40
TOTAL GDP	**100**	**99**	**100**	**99**	**99**	**100.9**		**1**
Source: Based on GDP data of Fiji Bureau of Statistics (2005 constant prices)								

100 is the 2006 base. An index number below 100 (in pink in the table) indicates that the GDP in that sector in that year was below that in 2006 (i.e. had gone backwards).

Note the many pink squares.

The numerous pink cells indicate how badly the Fiji economy did in these five years. The last column of Table shows that in 2011, the real productive sectors were worse off than in 2006.

Agriculture, for. and fishing	down by -7% (sugar in serious decline)
Manufacturing	down by -6%
Construction	down by -12%
Wholesale, Retail etc	down by -9%
Public Sector	down by -8%
Other services	down by -40%.

The only sectors doing well were Hotels and Restaurants (up by 67%).

And, for the wrong reasons (largely because of monopolistic pricing and profits)

Electricity and Water increased by a massive 105%
And Financial Services (banks, insurance companies) increased by 39%

overall, total GDP in Fiji in 2011, was a mere 1% more than that in 2006- after five years, or the normal parliamentary life-time of a normal elected government.

One of the reasons why the sugar industry did not recover was that the EU withheld $300 million of assistance to the sugar industry when the Bainimarama Government failed to hold the elections in 2009. ($300 million is currently twice the annual earnings from sugar exports).

It is almost certain that should elections not be held in 2009, then the EU will re-impose all the sanctions they have been relaxing because of the promise of elections in September 2014.

Overall, it is no surprise that the 2010-11 Employment and Unemployment Survey (Report not published yet) reveals that wage employment between 2005 and 2011 declined by -3%.

Second, real income (i.e. adjusted for inflation) declined by an unprecedented 30%. (the exceptions were for the military, police and prisons).

The incidence of poverty during this period may have increased to above 45%.

Poverty would have been even higher, had it not been for large foreign remittances of around $300 millions (which is twice that of the sugar industry).

Table 2 gives the most recent estimates of growth rates of Fiji's GDP since the 2006 coup (the figures for 2010 to 2014 have been recently revised by the FBS using 2008 prices).

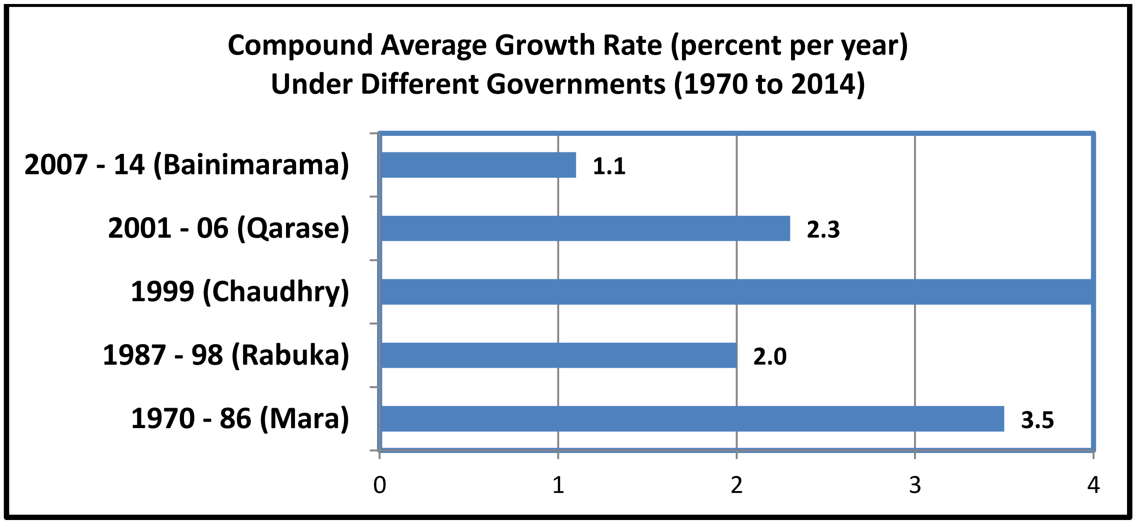
Table 2 Estimated GDP Growth rates (2006 to 2014) (2008 prices)

2006	2007	2008	2009	2010	2011	2012	2013	2014
1.9	-0.9	1.0	-1.4	3.0	2.7	1.7	3.6	3.0

There has been reasonable economic growth since 2010, but not enough.

Even taking the optimistic estimates from 2010 to 2014, the average growth rate between 2006 and 2014 under the Bainimarama Regime will be a mere 1.1% per year (see graph).

This is the worst record of any government since independence in 1970.



Under Ratu Mara it was 3.5% per annum (over 17 years)
Under Rabuka it was 2.0% per annum (over 11 years);
Under Chaudhry it was 8.8% (over 1 year)
Under Qarase it was 2.3% per annum (over 5 years).

Over the last 8 years, Fiji's record is also the worst amongst the Melanesian countries.

This poor performance is hidden from the public view and mind because of the daily propaganda praising the Bainimarama Government in newspapers, radio, and television.

Excessive expenditure on infrastructure over just two years

It is clear that the economic growth of the last three years has been underpinned by a massive increase in public expenditure, and especially on infrastructure: an increase of one billion dollars spent over 2013 and 2014.

The Reserve Bank of Fiji in its latest report recognizes this by projecting that growth rate for 2015 and 2016 will be a lower 2.4% when the effects of the infrastructure investment wears off.

Note also that such a massive expenditure of $1 billion over a two year period is likely to lead to significant wastages by both FRA and the sub-contractors as they rush to spend the large allocations (one of the contractors in Vanua Levu has already declared packed up with tax-payers apparently bearing part of the cost).

Questions have been asked through the media who is auditing the FRA (and if FRA has been paying its top executives massive salaries in excess of $800 thousands). There have no been answers from the PS Finance.

Remember that PWD used to have a maximum annual investment of around $80 million and its top executives barely earned $100 thousands, for doing similar work?

Lack of private sector confidence

Fiji's overall lack of growth has been due to the lack of private sector investment.

Total investment (both private and public) as a percentage of FDP should be around 25%.

Unfortunately it has been around 15% only, and most of that has been due to public sector investment by government and statutory corporations.

Why has Fiji's growth record been so poor between 2007 and 2011?

Put simply, private sector confidence and investment have been undermined by the numerous decrees which stipulate that grievances cannot be taken to court.

Of course, there has also been the lack of political stability, the absence of an elected parliament, and too many ad hoc economic decisions being made by a few people in power.

We have seen this with respect to the pensioners' legal case (which was already being heard by the courts), foreign investments at Momi appropriate, and the leases at Nadi Airport which were dissolved by decree (probably giving competing corporate interests more leased space).

It is accepted that there must be one law for the rich and the poor, and punishments have to act as deterrents so that criminals do not re-offend and potential criminals get the message. But, it cannot give private investors any confidence to invest in Fiji when one of the <u>largest</u> private investors and tax-payers in Fiji (and an elderly person moreover) is given a jail sentence, instead of a large fine which would have been more useful for the state coffers, and also served as a very effective deterrent to businessmen who feel hits to their pocket far more than free accommodation and food at Naboro.

Policy Issue 1:

> **Voters must ask all political parties whether they will guarantee to remove all decrees which stipulate that grievances may not be taken to court.**

Policy Issue 2

> **Voters must ask all political parties what their policy will be on public investment on infrastructure**

Public Sector Incomes

The Bainimarama Government for several years after 2006, refused to give any significant upward adjustment to public sector incomes.

Only in this last budget, and just 9 months before the elections, they granted an extremely large 20% increase to public servants.

They also granted, supposedly on the recommendations of an accounting company, outrageous large increases to $221 thousands per year, for select Permanent Secretaries.

Ministers' salaries have not been declared since 2007, with some believed to be paid through a private accounting company.

Most outrageously, the Public Accounts Committee has been sacked "to prepare for the next parliament".

Was the PAC beginning to query the payment of ministers' salaries through a private accounting company?

Policy Issue 3

> **Voters must ask all political parties what their policy will be on public sector salaries, including that of Ministers, Permanent Secretaries, and ordinary civil servants.**

Policy Issue 4

> **Voters must ask all political parties what their policy will be on the independence of the Public Accounts Committee, and the need for Auditor General Reports to be compulsorily and annually made public.**

Wages Councils undermined for the poorest workers

The poorest workers are those not represented by unions, and who are mostly paid wages well below the Basic Needs Poverty Line and who are supposed to be protected by the ten Wages Councils.

These were formerly under the Chairmanship of Father Kevin Barr, trying to adjust minimum wages sector by sector, depending on how well each sector was doing.

But Father Barr's Wages Regulation Orders, different for the different sector, were postponed year after year by the Minister, because of unethical pressures by employers and the Employers' Federation, with not a single employer showing their audited accounts to the Wages Council Chairman (Barr) or the Labour Minister (as required).

Eventually only partial adjustments were allowed, which did not keep pace with the large increases in the cost of living. Most of these workers fell further into poverty, because Government essentially capitulated to employers.

Finally Father Barr accused the Bainimarama Government of practicing "crony capitalism". Over a minor irrelevant remark, he was later abused on the phone and threatened with non-renewal of work permit and eventually sacked as Chairman of Wages Council.

For five years, the employers' interests were far more important to Government than these poorest workers in the country, who number around 50 thousand, potentially yet another large voting block in the next election.

Policy Issue 5

> **Voters must ask all political parties what their policy will be the independence of Wages Councils, and the implementation of their Wages Regulation Orders.**

National Minimum Wages

In 2013, with much fanfare, the Chairman of the Commerce Commission of Fiji (Dr Mahendra Reddy), issued a National Minimum Wage of $2.32 an hour, supposedly after an objective and scientific study

He rejected alternative arguments coming from me (at a debate at FNU attended by the Minister and PS of Labour) that some employers and industries might not be able to pay even that minimum wage (and enforcing a high minimum wage would mean that workers would simply lose their jobs), while others who could afford to pay more, would refuse to do so by pointing to the lower National Minimum Wage.

In any case, in the last month, the Minister of Labour (apparently again under pressure from the Employers' Federation, unilaterally reduced he National Minimum Wage to an even lower $2 per hour (with no comment from Dr Mahendra Reddy to enlighten the hordes of FNU students who had gathered at FNU to vote for him after the debate).

Policy Issue 6

> **Voters must ask all political parties what their policy will be the National Minimum Wage.**

Regressive taxation measures

Since the Bainimarama Regime took control at the end of 2006, they have changed the taxation system heavily in favour of the rich and wealthy.

While they keep claiming (quite falsely) that the poor now do not pay any tax because the income tax threshold had been raised to $15 thousand dollars per year, the reality has been that all pay tax through VAT on many of their essential expenditures.

(a) VAT, which affects the poor people far more seriously than the rich, has been increased from 12% to 15%.

(b) Income tax at the highest income levels has been reduced totally unnecessarily from 30% marginal tax to 20%, lower even than all our neighboring countries.

(c) Corporate tax has also been reduced totally unnecessarily from 30% to 20% (and for companies listed on the Stock Exchange even lower to 17%) lower than all our neighboring countries.

All these taxation changes have helped the rich, while hurting the poor.

The Bainimarama Regime has significantly worsened income distribution.

On the positive side, the Bainimarama Regime has in the last budget, brought in comprehensive subsidies in education, which mean that primary, and secondary education will not be a financial burden on poor families. Moreover, all students who get accepted at tertiary institutions will be able to access either full scholarships or loans. IN the last few days, pre-school has also been supposedly made free.

These education policies by the Bainimarama Government counter, to some extent, the changes in taxation policy, for those families with children at school, but not for others.

The building of rural roads should also be of great assistance to the rural poor, facilitating the marketing of their produce and better access to essential urban services.

For those being access to better roads, these progressive expenditures of taxpayers' money also counters the income distribution effects of negative changes in taxation.

However, good transparent public policy requires that income redistribution measures (such as through progressive taxation) must be followed independently of good measures in public expenditure, simply because the beneficiaries of the two are not the same groups.

Policy Issues 7: Voters must ask all political parties what their policies will be on

(a) VAT

(b) income tax at the higher levels

(c) corporate tax

Remittance incomes

Fiji's remittance incomes originate with those working abroad (caregivers, security guards, army personnel in the British Army and elsewhere), and emigrants sending money home to their families.

Considerably more Remittance Money may be generated if trade agreements with Australia, NZ and other developed countries could be signed so as to include the mobility of unskilled labour, whether as part of the Seasonal Worker Scheme or others to be negotiated.

Labour mobility as part of aid scheme will not have the same security as such benefits may be withdrawn if, as during election times in those countries, there is pressure from labour unions there.

This issue will be discussed more in a later Election Issues Bulletin on regional and international relations.

Policy Issue 8:

Voters must ask all political parties what their policies will be on Trade Agreements with Australia and NZ, and access to their labour markets for Fiji's unskilled labour.

Public Debt: unfair burdens for the future generations

All governments borrow money in order to pay for infrastructure, whose cost the future generations need to share with the current generations.

The real issue is: what should be the balance between the current generation and the future generation.

If excessive amounts are spent today to enable the current generation to enjoy the benefits of the current increases in recurrent and capital expenditure spending, then the future generations will be forced to unfairly shoulder a considerably higher Public Debt per household.

Remember that in every budget, Debt Repayments (Principal and Interest) is paid a a FIRST CHARGE out of Government Revenue (and always shown on the first page of the detailed budget estimate documents).

This Public Debt MUST be paid by future generations by combination of higher taxation, reduced public services (like education or health or social welfare), constraints on public sector salaries, and reduced recurrent and capital expenditure.

In the worst case secenario, irresponsible governments who insist on "living beyond their means" today, try to borrow more and more in the future, increasing Public Debt until it becomes totally unmanageable for the future generation. (this is what some of the nations in Europe were doing until they crashed recently, requiring a massive bailout from the European Union).

In the absence of Reports of the Auditor General since 2006, there is no guarantee that the figures quoted in the Annual Budgets on Public Debt are correct: Public Debt figures may well be higher than reported.

According to the unaudited Budget figures, the Bainimarama Government has increased the Public Debt quite significantly from the $2.8 billion in 1006 to about $4 billion in 2014.

But the Bainimarama Government's 2014 budget also stated that they will limit current borrowing, by raising some $450 million through sales of government assets.

[This is equivalent to a farm showing lower deficits today, by selling the farm assets, including the cash cows, to generate revenues].

If the planned asset sales of around $450 million are excluded (as they properly should), Government would have had to borrow $450 million more to finance their planned expenditure.

The Public Debt would increase correspondingly to around $4.5 billion (in red, under 2014* in Table 3).

Table 3: Public Debt	2006	2014	**2014***
Public Debt ($million)	2863	3,999	**4449**
Number of Households (000)	170	192	**192**
Debt per household ($)	16839	20869	**23218**

In practical terms, what this means is that the Bainimarama Government, without the permission of taxpayers through an elected parliament, has increased the Public Debt per household from about

$17 thousand in 2006 to
$21 thousand in 2014 (an increase of 24% per household (official figures)

and to more than

$23 thousands (an increase of 38%) if we exclude the planned asset sales.

Given that most of the poorer households in Fiji have not seen any significant increase in money incomes during this period, the 38% higher Public Debt per household must constitute a considerably higher burden on most households, compared to that in 2006.

Future pressures on tax-payers and households will be even more intense if the economy fails to grow after 2014, for whatever reason (e.g. elections being cancelled or postponed, or if the Fiji Military Forces do not abide by the election results).

An alternative way of looking at Public Debt in in relation to GDP. Table 4 indicates that the Debt:GDP ratio will not have gone down from 53.3% to 48.3% in 2014 (as officially claimed), but increased slightly to 53.7% (if we leave out revenues from asset sales).

Table 4: Debt:GDP ratio	2006	2014	2014*
Public Debt ($million)	2863	3999	4449
GDP ($millions)	5371	8283	8283
Debt:GDP ratio	53.3	48.3	53.7

Policy Issue 9:

> **Voters must ask all political parties what their policies will be on Public Debt, Annual Government Deficits, and Asset Sales.**

No New Industries of Scale

One of the major failures of the Bainimarama Government has been their inability to come up with any ideas whatsoever to generate major new industries.

Three areas which have gone begging have been:

(a) Retirement homes and villages in Fiji: tardiness in setting up ancillary medical services and other input services (possible employment of 20,000 within five years)

(b) Call-centre and data-processing industries: inability of Commerce Commission to reduce call charges (possible employment of 20,000 within five years)

(c) Value adding industries based on mahogany harvests: massive contracts given out to preferred corporate clients, for export of essentially unprocessed timber, while domestic timber processers are denied supplies. (possible employment of 5,000 within five years)

Policy Issue 10:

> **Voters must ask all political parties to explain their detailed economic growth and development strategies.**

Summary of Recommendations on Policy Issues in this Bulletin

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Voters must ask all political parties whether they will guarantee to remove all decrees which stipulate that grievances may not be taken to court.

Policy Issue 2

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Policy Issue 3

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(a) public sector salaries,

(b) that of Ministers and Permanent Secretaries.

Policy Issue 4

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(a) the independence of the Public Accounts Committee, and

(b) the need for Auditor General Reports to be compulsorily and annually made public.

Policy Issue 5

Voters must ask all political parties what their policy will be

(a) the independence of Wages Councils, and

(b) the implementation of their Wages Regulation Orders.

Policy Issue 6

Voters must ask all political parties what their policy will be the National Minimum Wage.

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