Can the government be the Spender of Last Resort in small island developing states?

Dream Weaver Brain Teaser

Finish the Phrase

1. Dream with your eyes wide open and see the true essence of what can be achieved rather than a _ _ _ _ _ illusion.

2. If you don’t make your dreams a reality, _ _ _ _ _ _ _ will take away your _ _ _ _ _ _.

3. Dreams are like stars...you may never touch them, but if you follow them they will lead you to your _ _ _ _ _ _ _.

4. Don’t be afraid of the space between your _ _ _ _ _ _ and _ _ _ _ _ _ _. If you can dream it, you can make it _ _.

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From DREAMS to DESTINY
The mindset of an entrepreneur

Jermile Daniel, the Cell (St. Lucia) Ltd, Saint Lucia

"Desire is the key to motivation, it’s determination and commitment to an unrelenting pursuit of your goal - a commitment to excellence - that will enable you to attain the success you seek."

Mario Andretti, race-car driver

When I heard this quote, the words remained with me because I felt that it encompassed all of the necessary factors and qualities a successful entrepreneur should possess. My journey started with a dream that became my haunting desire. It made me understand who I was and what my new purpose-driven life would entail. It was not about success at first but simply defining where I was and where I wanted to be. The plan was never to become an employee: I always saw myself as an employer, charting my own course and I started with the end in mind.

Steve Jobs along with his partner, started off as dreamers and over the past 25 years have transformed the technology industry. He has also revolutionised the film industry with Pixar, and is the prime mover in the transformation of the music industry. He stated, “We started out to get a computer in the hands of everyday people, and we succeeded beyond our wildest dreams.”

I started out with the dream of being self-employed but that dream quickly developed into a determination to own a chain of mobile stores throughout the islands. I said to myself – if Dennis O’Brien (Chairman/Owner of Digicel) can do it, why can’t I? If Bill Gates can do it, why can’t I?

Parents, schools and society at large should not force young thinkers into traditional job opportunities; instead help them become the best they can be in whatever field they choose like Steve Jobs. This is a new day, a new time where technology and a global market have created more opportunities in business than ever. In your quest to find that unique idea, give yourself the freedom to think for yourselves, the freedom to analyze, evaluate and come to your own conclusions and the freedom to create! Have the courage to follow your hearts and intuition.

After two years as a civil servant I was searching for change. I knew of my passions and talents but was not sure of how to respond to it and exploit it as an opportunity until I laid my hands on a few books – Think and Grow Rich – Napolean Hill, Rich Dad, Poor Dad – Robert Kiyosaki and the Autobiography of Richard Branson. Branson said, “I don’t go into ventures to make a fortune. I do it because I am not satisfied with the way others are doing business. I take risks.” He is the man behind one of the most recognisable brands in history - The

October is Financial Information Month: “Make Your Dreams a Reality - Save and Invest Wisely”
Virgin Empire. His brand includes everything from hotels, filmmaking, and of course we have his airline. With the success of his Virgin name, Branson has embarked on an approach he calls ‘branded venture capitol,’ where he has hands on 250 companies.

Branson is a prime example of an outstanding entrepreneurial spirit; this same entrepreneurial spirit should be encouraged by the education curriculum; It should develop personal qualities and attitudes as well as formal knowledge and skills that increase the probability that a person will see opportunities and act upon them. Such qualities and attitudes will also be useful in any work situation and in society in general. Schools must teach students to take ownership of their time, property and their future. It is this trend of thought that encourages an independent mind. Schools must also teach students about money, about making money work for you and not working for money.

So much is currently being done for entrepreneurs to thrive in the environment in which we do business in Saint Lucia. There are a wide range of organisations promoting entrepreneurship; for example, the Office of Private Sector Relations (OPSR), the Saint Lucia Development Bank (SLDB) and the Chamber of Commerce. Financial institutions are being created and existing ones are being restructured to allow flexibility for persons to obtain start-up capital; small business associations have improved on providing the right information and guidance for young entrepreneurs to succeed. You are a generation of persons whose fate in business is not written for you but rather one who can write its own. **Create your destiny. Think different. Be different. Choose your own path. We are in an era of change.**

An entrepreneur never accepts goodness…a person should seek greatness. **Good to Great** by Jim Collins, states “goodness is the enemy of greatness.” The greatest entrepreneurs are self-made; they started with nothing and created incredible enterprises over time. They were business builders who took their ideas, made them tangible and created commercial success. They made an undeniable difference in our society. You can still feel their legacy today. They either revolutionised industries or invented industries. They’ve had whole life success. They were more than just business builders, they did something and gave back.

You have the power to create your own future. And, I contend, the future is now. So, with imagination, ingenuity and audacity, explore, discover, and make a difference by owning your own successful business. Believe in yourself. I am testimony that it can be done and you’re never too young!

The foregoing speech was presented at an ECCB organised videoconference with ECCU youth groups on 8 July 2010.

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I have been asked to address you this evening on the topic, “Dreams can become Reality”. I looked at this topic and paused. This pause took me back to my very early childhood at around five years of age. I recall my first day attending primary school. I was the first boy in my household with four older sisters. I wanted to go to school dressed just like my sisters, dressed up in a pleated jumper and a blouse.

Another significant event that punctuated my life was when I found my first brief/underwear I wore in my life at the beach in The Forest. Graduands, relatives of the graduands, this is where the journey to be an entrepreneur for me started. I was determined to be somebody, I resolved from way back then to pursue financial independence.

I was asked to speak to you on the journey on the rocky road to achieving a measure of success. I believe that success is an attitude, success in not a destination, success is aspirational. Success also has to do with giving back honestly, with having high integrity and delivering benefits to society.

This address is not about me and I don’t like talking too much about me. However, in order to communicate a message to you that you can walk away with, that might impact your life, unfortunately you are going to hear a lot of “I”.

The journey to start on the path to financial success, started in my household where my father was an auto mechanic. From a tender age of around 8 – 9 years of age I started assisting with the repair of automobiles. By the age of 11 years I was able to repair most vehicles that came to our mechanic shop. My ability to do this repair work was imperative as my father was caught up in the politics of the island at the time. Working to keep food on the table at home was now absolutely important. This skill would pay dividends for me later in life. This is a teachable moment; acquire as many skills and techniques especially when you are young; be a generalist, the time when you need to specialise will come.

The period of my life in high school was quite boring as throughout the day at school I was looking forward to going home to repair cars. The idea of sitting in a class reading about Macbeth and the Tempest was not what I wanted to do at that stage in my life; I would, however, grow to appreciate both Macbeth and the Tempest. Despite this, I still managed to pass a few GCE O’level subjects.

Upon leaving high school in 1975, I was approached by a company called “Island Press” to work as an apprentice printer. I was approached by the company because they knew that I was mechanically inclined and I had a few O’levels. This is where I acquired the skill of printing under the capable guidance of an Irish gentleman from Belfast by the name of Ian McIntosh. My training took me to Barbados in 1976 to be trained in more advance printing techniques and printing management. This training was financed by the Caribbean Conference of Churches (CCC).

Upon my return, I became the supervisor/manager/printer etc. basically the chief cook and bottle washer. This is another teachable moment. Having broad exposure in a field or fields of interest will be helpful in your entrepreneurial quest.

In late 1977 the printing equipment
Dreams Can Become Reality Cont’d

I returned to California, where I now needed to raise the money to finance the printery. I stopped going to school and started working two jobs. I had now changed professions I was now working as a computer operator/computer programmer trainee. One job started at 5:30am in the morning and ended at 2:30pm. The other job started at 3:30pm and ended at 11:30pm. This was hard, this was draining. I did this for about 6 months and was able to raise enough money to purchase most of the equipment that was needed and to have the equipment shipped to Anguilla. A Teachable moment; **minimise financial risk of bankruptcy by using most of my own capital.**

This also focused my mind as some of my own money was on the line exposed. The time to use Other People’s Money(OPM) will come.

From here on I had to be real disciplined. The year was 1981, I called the Government of Anguilla and told them that I would have the printery operational by May of 1982. I had set some real challenging goals for my life to be achieved in 1982. From about January of 1981, I placed the goals that I wanted to achieve in 18 months on my mirror in my bathroom where I could read

While working in New York, I resolved once again that I would return to Anguilla to set up my own printing business. A teachable moment, **stay focussed, keep the vision and dream alive, work and strategise towards your goals.** So I got as much experience in all areas of printing as was possible. I then migrated to Los Angeles California where again I worked in the field of printing. I also started college, taking some courses in management and entrepreneurship. By 1980, I was ready to make my move. I returned to Anguilla on vacation and met with the Government of Anguilla, with Mr. Jerimiah Gumbs specifically who was an adviser to the Government. Mr. Gumbs was so excited about the idea of having a printery established in Anguilla that he immediately had me meet with Mr. Franklin Connor the Financial Secretary to the Government to see how Government could assist. The Government guaranteed a loan of E.C. $15k to assist in getting the printery going. The journey was now about to start. I was psyched. A teachable moment here; **get support and commitment from key stakeholders to ensure that some potential challenges and hurdles are overcome.**

I went home and told my mother, she was very happy even though none of us knew what it would really mean. A teachable moment; **get support from people you love and trust, especially your own family, as no man is an island unto himself.**

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Off to a good start, the business is up and running in Anguilla. I came down set it up. I encouraged one of my brothers back to Anguilla to assist with the running of the business. I hired an experienced printer from St. Kitts to work in the business. After setting up the business, it was important to ensure that the support needs of the business were met i.e. ready supplies, additional machinery etc. This took me back to California where I was positioned to send these supplies and equipment to Anguilla as needed. A teachable moment; when a business starts you need working capital. Quite some time could pass without realising a profit as equipment is needed and the marketplace has to become aware of your existence and gains confidence in the product. Aggressive marketing is very important at this stage as well. After starting the business it was important to evolve the business to meet the demands of customers. As more customers started using the service, profits began to be realised and money was then available to expand and diversify. A teachable moment; do not expand your business rapidly without understanding the needs of the market as you can still run into financial difficulty.

In a small market like Anguilla, you sometimes have to diversify into other businesses in order to realise expansion of your business. It is good however, to look for opportunities that complement your core business before venturing into areas where you might not be too familiar. There are times when forward or backward integration is also a way to expand your business or make it more profitable. By having other siblings, especially my brothers, with other entrepreneurial ideas, we were able to expand into a wide array of businesses by using the Anguilla Printers as the spring board.

As the various businesses are introduced, there is/was a need to focus on good customer service, manage cost, engage in continuous quality improvements to ensure that you are meeting the ever changing expectations of customers. A teachable moment; the customer is king, deliver to the needs of customers, manage costs, engage in continuous improvement.

Finally, after all the aforementioned, I must say that owning and expanding your own business is not the only way to make money and to be successful, by carefully investing and saving from as early as you can, can also help you to achieve your financial goals. Dreams can become reality.
In an economic downturn consumers can no longer be key drivers of economic activity - They can’t spend and they can’t borrow because they are just holding on to keep their heads above water… hoping that they are not next in line to losing their jobs. At least those who still have jobs. Those who are out of jobs have no choice but to stop spending save for those things which are necessities. When consumers stop spending, it means less demand for goods and services and hence businesses either downsize or close down putting further pressures on the economy.

1. Is there a superhero to jump in and save the day or rather the economy?

2. If the private sector is the engine of growth and the private sector is constrained by the economic downturn then is our only fate economic slow down or stagnation or is it the responsibility of the government to step in and save the day by stimulating economic activity? That is what governments like the US have had to do with stimulus packages designed to put workers back to work. But what is the case in our small island states? Are these options open to us? Can our governments adopt the role of spenders of last resort?

3. Is it the role of the government to lift the economy out of a hole via deficit spending in order to boost investments and put persons back to work?

4. In a distressed economy who keeps the economy from worsening? Or better yet, who gets the wheels of the economy turning again?

5. Are our debt profiles obstacles to a stimulus package?

6. If our governments have to become the spenders of last resort this means widening already wide deficits and ultimately increasing taxes which will ultimately slow down long term economic growth.

In his article “We Need A Bigger Budget Deficit” published in 1993, Nobel laureate William Vickrey, one of America’s most respected economists who received the Nobel Prize for economics in 1996 touted the benefits of deficit spending during an economic depression by stating:

“We are not going to get out of the economic doldrums as long as we continue to be obsessed with the unreasoned ideological goal of reducing the so-called deficit.

The "deficit" is not an economic sin but an economic necessity. Its most important function is to be the means whereby purchasing power not spent on consumption, nor recycled into income by the private creation of net capital, is recycled into purchasing power by government borrowing and spending. Purchasing power not so recycled becomes non-purchase, non-sales, non-production and unemployment… Alexander Hamilton once wrote "A national debt, if it be not excessive, would be for us a national treasure.”

The key phrase however is “if it be not excessive” Keep in mind that the Debt to GDP ratio for the ECCU as at 2009 was 98% compared to the international standard of 60%. The ECCU debt therefore can already be characterised as excessive.

To get clarity on the issues and to answer the numerous questions circulating in the public domain, Your Financial News sat down with John Venner, who is an economist by training and an Adviser in the Financial and Enterprise Development Department of the Eastern Caribbean Central Bank.

YFN: What differences exist between the United States (US) economy and the Eastern Caribbean Currency Union
(ECCU) economy that allows the US government to be able to stimulate its economy during an economic depression by taking a greater role in spending and job creation?

**John:** The first issue I would want to highlight is the difference in the structure of the two economies. When the United States government does a stimulus package, most of the money circulates within the United States because most of the production is done within the United States.

In the ECCU we are import-intensive. Hence, if ECCU governments initiate a stimulus package, because of the leakages in the economy, most of the stimulus money would literally leak out, so that strong multiplier effect would not occur. In other words, if the US government gave someone an extra $1,000 that money would go to buy either a new car, equipment or spend on services produced within the US. In our case, if that person bought a new car that action would not necessarily stimulate the OECS economy since most of the money would exit the economy given that the car purchased is an imported item. Hence, a stimulus package in our region may not be as meaningful or long-term in its impact as the United States.

Secondly, the ECCU’s ability to run a stimulus is significantly constrained by its financial position. The US government even though it is running a deficit still has significant financial reserves (savings) which the government can draw on. This is not the case in our region. We do not have for the most part savings at the national levels. The ECCU governments have been running deficits for a long time and have high debt to GDP ratios.

A government has to have savings to be able to fund a stimulus package and that is why the ECCB has been advising governments to work on eliminating deficits and run surpluses and to focus on savings as a percentage of GDP in order to have reserves for a rainy day.

When things are good, you save and therefore accumulate reserves for that time when things are not so good. And this is not only applicable to households but also to governments. Within our region we have governments who have not had positive savings for a long time so they do not have resources to plough into a stimulus package. Our governments therefore would have to borrow and if they borrow several things could happen:

- Borrowing to fund a stimulus package could threaten the long term viability of the economy. Because our ECCU countries are already so highly indebted, any new financing obtained will probably be at exorbitantly high interest rates. So while they may be successful in borrowing to smooth out the economy in the short term, in the medium term when that debt has to be repaid, the economy would be placed in a worse situation.

- If governments decide to borrow on the domestic market to fund a stimulus package, they run the risk of crowding out the private sector in relation to credit access, i.e. governments could
  1. take away potential resources that the banks would have extended to the private sector and/or
  2. cause the interest rates to rise as a result of the increased competition for domestic credit resources.

Both scenarios would be counter productive. While the governments would be able to
Secure the funds to do the stimulus, it would be the reverse for the private sector as the private sector may be unable to take on new credit at higher interest rates given the expected rate of return on the particular private sector projects. And even if a private sector entity was not seeking to acquire new loans, the interest rate on existing loans may rise as a result of governments’ increased participation as a borrower in the domestic credit market which could drive up interest rates.

The other thing is that a stimulus package is best served if the focus is not largely on consumption but rather on infrastructure development. If money is injected in the economy for the sole purpose of consumption then this does nothing to enhance the productive capacity of the economy.

Countries that have done good stimulus packages have focused largely on infrastructure development. That puts people back to work almost right away – building roads, etc. And when that investment is finished because the infrastructure network is enhanced, the productive capacity of the economy is enhanced. For example, new roads can increase efficiency in transportation which is a positive for the economy. Roads may also open up areas that facilitate transportation of agricultural and other outputs. So, stimulus packages have to be targeted and focused on infrastructure development.

An economic stimulus has merit because if you go back to the philosophy of a government, governments are supposed to look after its people in terms of safety and employment. But in order to do a stimulus package, governments have to be in a strong financial position. And the government not only has to look at the short term in terms of putting people back to work, but also has to look at the long term impact on the economy as a result of its stimulus actions.

The purpose of a stimulus is to smooth out an economic cycle. Essentially help the economy to stabilise and rebound during an economic downturn. Governments therefore need to be in a position to do a stimulus.

In related matters, governments have to have proper designed Public Sector Investment Programmes (PSIPs). In the region, many of our countries PSIPs have deteriorated. So even if our governments were to obtain millions of dollars in project financing, the planning departments may not all have projects at the desired state of readiness and thus be in a position to take advantage of the available financing. The planning boards may have to go back to the drawing board to get those projects to the state of readiness to be implementable. This can take twelve to fifteen months. So money is not the only issue when one is looking at the implementation of a stimulus package. The state of readiness – the logistics of having a proper plan and the absorption capacity in terms of organisation, technical resources etc are also critical.

YFN: So where do we go from here in relation to stimulating our economies? Consider the drivers of an economy; i) investment, ii) consumption, iii) exports and iv) government activities - If private sector investment is down, and consumption by our major export markets is also down which means the private sector is constrained in its ability to drive the economy, that only leaves government in the economic equation. Our governments for the most part have been running deficits and have not accumulated significant reserves for the rainy day and therefore may not be in a strong position to stimulate the economy.
unless they are able to source grant funding. And, even if they were able to access grant funding, significant large infrastructure development projects may not be in a state of readiness for implementation. So where do we go from here?

John: This global economic and financial crisis has brought home the message that has been advanced by the ECCB and other institutions in terms of the need for good governance and efficiency in terms of the public service.

Notwithstanding the financial constraints, there is a need to put in place some safety net mechanisms. So a stimulus package in our region will have to take different forms. In our societies, you can’t have hundreds and thousands of people go unemployed for a significant period. Households may have some savings but can only survive on those savings for a limited period of time. If left unchecked, this then presents the risk of a total meltdown because people being unemployed for extended periods can get involved in devious behaviour which will adversely impact the tourism industry. And, then one goes into a downward spiral as one has seen experienced in other countries.

So there is a need for governments to put their houses in order starting first with good statistical data. If governments are to provide safety nets, they first have to make sure that those safety nets are going to those who are in need. The governments can’t afford to provide safety nets to wealthy people. For example, one cannot have children of wealth persons having free school books, school meals etc…Our governments just don’t have the resources to afford this. But one needs the data to conduct means testing to see who is eligible and who is not eligible and therefore be in a position to target those interventions to those needy and vulnerable groups.

Secondly, governments need to be better organised to identify where projects would be most meaningful. This involves a reorganisation of planning to have the efficiency to be able to identify where the projects are needed that will provide the enabling infrastructure for the private sector to thrive. So coordination with the private sector is important. Because there is no sense building a new road in an area where no private sector persons will be utilizing it. Having public-private sector partnerships are key to ensuring that whatever stimulus package governments are going to introduce, whatever targeted interventions are planned will have ‘the biggest bang for the buck’. The public sector cannot do it alone.

Thirdly, as they have been doing, governments must continue to utilise the diplomatic and international connections that they have to source economic assistance. Given that our countries may not be getting the flow of resources as quickly and to the extent as may be desired from the multinational organisations, governments have to seek to utilise bilateral connections to get those resources to flow into the economy. However, again getting the resources is one thing but having those strategic targeted uses of the fund is very critical. So a government has to balance the desire for quick returns against not wanting to end up with another problem in five years time. If a government obtains funds at concessional terms for a given period, the policies must be such that the country does not run up a huge debt and then have huge repayments in the future.

YFN: Couldn’t governments simply tax the private sector in
order to obtain funds for a stimulus package?

**John:** It may not be in a country’s interest for a government to tax the private sector to acquire funds for a stimulus package. It is also not in a country’s best interest for a government to continue to acquire more and more debt.

If governments continue to take on more and more debts above and beyond that which is prudent, then the private sector may decide to scale back investments because the private sector may hold the view that it will be taxed more to pay off the increasing national debt. It follows, therefore, that the private sector needs some level of certainty regarding a country’s tax regime and by extension a country’s fiscal policies in order to guide private sector investments.

**YFN:** What’s the role of citizens in all of this?

**John:** First, from an individual perspective. If a person has a job, he/she should try to be as productive as he/she can. Economic output is going to be generated by those who have jobs and are putting out their best efforts.

To those who do not have jobs, those persons need to look at innovative ways as to how they can create income for themselves. So a person may have skills in gardening, pottery, etc - a hobby that can be turned into an income generating activity. Also look for non-traditional jobs. Everybody is looking to the government or a bank etc for a job. Persons need to ask themselves, ‘Can I set up my own small business, making juices etc? Provide juices to supermarkets, restaurants, hotels etc?’

In terms of businesses, again, efficiency, investments in human resources and capital, and seeking out new markets are all critical to moving beyond an economic downturn.

We are now in an era of globalisation where there is no comfort zone, there is no big brother looking after us. We have to be competitive and fleet-footed; we have to be nimble to know what is in vogue. If, for example, people are now wearing green instead of gold we have to tell ourselves, ‘let us produce green stuff.’ We have to look for opportunities.

One of the things that governments can do in this whole globalisation issue is to re-look the role of their embassies. They need to ask ‘How can officers of the embassies identify what products and niches their countries can max out?’ When the US Secretary of Commerce for instance goes to China, he not only takes his bureaucrats in his ministry, he also takes private sector persons. We don’t see enough of the public-private sector partnerships where governments would go abroad and take six or seven representatives from the private sector. Governments have to provide that enabling environment in terms of doing business, not only for foreign investors, but also for the domestic investors and prospective domestic investors.

The financing part is also an important aspect. You can’t do anything without finance, and not everyone will have their own financial resources to start a business. The financial community has to play a greater part in encouraging households, businesses and governments to be able to utilise whatever resources and opportunities are available.

**YFN:** So what is your response to the comment that ‘in our small economies governments cannot be the spenders of last resort?’
**John:** Our governments can be, but to a limited extent. Obviously not on the scale, as the US or most of the OECD countries. But, financially they have to play a role even if they are in deficit and have high debts because there is no other game in town. But the use of those resources has to be very productive and targeted. Our governments just cannot throw money out there and wherever it falls that is the stimulus package.

**YFN:** What is the greatest lesson to be learnt coming out of this global economic crisis in terms of where our economy is now vis a vis the rest of the world’s economy?

**John:** The need to have good policies. I think we have been found wanting in terms of our policies...in terms of how we have depended on tourism and neglected other sectors. The other lesson is our disregard for timely and relevant statistical data.

**You can’t develop good policies without good data.** Even if you think you have a good policy you have to test and measure it. When you spend a dollar you have to spend it wisely and you have to be able to analyse whether it was spent on where you would have gotten the biggest bang for the buck and that is what you have to base your assessment on. That is what economics is all about, allocating scarce resources and you want the rate of return for your investment to be the best.

Even if you have a social element you have to measure the impact on the social element to see if it is positive. So if you say you want to develop a rural area, how many persons will be impacted by this policy?

**YFN:** Is it ever possible for our economies to have a surplus given our vulnerability to crisis and our being small developing states?

**John:** Yes, but it is going to be cyclical. A major problem for us is that we cannot come to an accord in our countries in relation to what governments can and cannot do. Everyone expects governments to do everything and politicians have, to a certain extent, encouraged this thinking because it is to their benefit in the short term. Again it comes back to right policies and to explain to citizens the reality of what governments can and cannot do in this day and age. Governments cannot just throw money out there without assessing the projects they have.

Ask how many of our countries have ten-to-fifteen year plans. The budgets are drafted on an annual basis and there may not be adequate assessment of what the budgets actually produce. So it comes back to governance. We have to deal with these things. Consider for example that if one of our countries were to find oil, that country most likely would have a surplus but the long term viability of the economy may not be necessarily improved just because oil was found so it is not just about money; it is about how we operate. This speaks to governance. That is the foundation on which we have to build our policies.

**YFN:** Thank you John for a stimulating discussion on our governments’ ability to stimulate our economies.●