

Dr. Emsley Tromp:

Increasing the tax and premium burden will lead to more unemployment

PHILIPSBURG/WILLEMSTAD – Sustainable economic growth can reduce poverty, contributing to broad-based prosperity in our communities. Sustainable economic growth and poverty reduction constitute two sides of a coin. On the one side, sustainable economic growth will increase employment, resulting in income improvement and higher domestic demand. On the other side, failure to address poverty effectively will negatively affect a country's ability to achieve higher economic growth.

The President of the Central Bank of Curaçao and Sint Maarten (CBCS) states in the Report of the President of the Bank's annual report of 2011 that poverty reduction and economic growth both depend on an attractive investment climate. A more attractive investment climate will promote more private sector investment, which is ultimately the driver of sustainable economic growth.

In this context, it is very important for the government to improve transparency and reduce red tape. Moreover, the education system should provide graduates with skills currently needed in the labor market. The recent decision by the Curaçao government to make education more accessible to everyone is commendable. However, it is worrisome that no attention seems to be given to the quality of education. The rigidities in the labor market also need to be addressed to boost job creation. The government's recent decision to promulgate the so-called 80/20 rule, prescribing a minimum share of 80% local workers for companies established in Curaçao, is not conducive to addressing those rigidities. An unfettered implementation of this rule may make our labor market less flexible and hence erode our competitive position.

Poverty reduction can be achieved through passive income support, such as government subsidies. However, if the government chooses to provide subsidies or direct income support, it should have money in the budget to do so. In Curaçao for example, the budget clearly has no room to fully subsidize the education system in the short to medium term without cutting government expenditures in other areas or increasing the income base of the government. Increasing government income in a time of weak economic growth would imply reducing the purchasing power of consumers, which will stifle economic recovery. Therefore, the government should be aware that actions directed at increasing the tax and premium burden to attain its policy objectives may reduce the purchasing power and lead to lower economic growth and higher unemployment.

The experiences in other countries in recent decades show that active social policies help achieve lasting reductions in poverty. Such policies help people overcome obstacles to obtaining a job instead of making them fully dependent on income support from the

government. Active social policies include education, training, provision of childcare, and public transportation. In the case of Curacao and Sint Maarten as well, these areas need to be addressed to reduce poverty in a lasting way.

=====