

**ADDRESS BY SEN. THE HON. LARRY HOWAI,
MINISTER OF FINANCE AND THE ECONOMY
AT THE CONFERENCE ON DEVELOPING A
NATIONAL DIVERSIFICATION STRATEGY FOR
TRINIDAD AND TOBAGO**

**Widespread Ownership as an Investment Strategy-
Transferring Ownership, Multiplying Wealth**

July 20 2012 at the HYATT Regency, Trinidad



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Mr. Chairman, I greatly welcome this opportunity to share with this distinguished audience, some thoughts on Widespread Ownership as an Investment Strategy- Transferring Ownership, Multiplying Wealth. Indeed, with these initial thoughts, I am beginning a programme of reflection and discussion aimed at building a consensus on the value of widespread ownership of our national assets as a foundation for building a competitive economy. The theme of my presentation fits aptly therefore into your well-advised and timely agenda which is focusing on

developing a national diversification strategy for Trinidad and Tobago.

This public policy objective has been particularly elusive for policy makers for many decades and therefore I look forward to your conclusions and recommendations since they are of great concern to me as I prepare to deliver shortly my first budget speech.

Mr. Chairman, there is little dispute among academics and policy makers that in the sphere of economic policy, wealth creation and the growth of real incomes is among the prime public policy objectives. It is the only means for obtaining on a sustainable basis rising living standards and improved welfare conditions with associated reductions in poverty levels. The major toolkit for policy makers ever since the industrial revolution has been a micro- and macro-economic analytical

framework designed in several variant forms; and despite their shortcomings, these economic models have provided policy makers with a range of public policy tools including fiscal and monetary policies to expand output and incomes in the context of equilibrium interest rates, prices and inflation. Confidence and economic certainty have been central to the effectiveness of policy-making with these models.

Mr. Chairman, the standard economic model in its market-based variant has been instrumental in advancing growth and development for many decades in both developed and developing countries. The period since **1950** has been quite unique in terms of economic growth and wealth creation for many developing countries. Japan and South Korea were the growth champions during the **three (3)** sub-periods **1950-1973**,

1973-1990 and **1990-2005** respectively. The per-capita growth rates ranged between **6-8 percent**. They were historically unprecedented and greatly exceeded those experienced by the growth champions of earlier periods. China, while preserving its socialist philosophy has been implementing market-driven policies and reforms and have achieved similar growth rates as those of South Korea and Japan.

Mr. Chairman, transformation in these three (3) countries Japan, South Korea and China and other emerging market countries was anchored on some important common elements. Firstly, sound fundamentals have played key roles: stable financial conditions with low interest rates and stable inflation and exchange rates and fiscal and debt sustainability positions. Secondly, explicit industrial policies in support

of new economic activities accelerated the movement of resources towards modern industrial activities creating export-driven growth and buoyant external sectors; and thirdly central to the standard economic market-based model was the requirement to facilitate real capital formation and wealth creation for strengthening competitiveness and expanding growth through exports.

Mr. Chairman, a central tenet in our economic policy-making has been efforts to build our financial sector and to ensure continuing financial stability to allow that sector to perform its traditional role of wealth creation. It does so through mobilizing savings and pooling and directing those resources to their most productive uses. Our financial sector including our money and capital markets have proven to be a

substantial source of investment for producing goods, services and income in our country. Capital in the hands of various units of our country has been increasing whether it is held by households, business firms or Government in the form of either goods or tangible assets or claims or intangible financial assets. The challenge for the Government is to facilitate the channeling of these resources into growth-enhancing activities generating in the process, incomes and wealth with an associated reduction in poverty levels. This represents a virtuous cycle of resource aggregation and use.

Mr. Chairman, investment in shares of public companies on the Trinidad and Tobago Stock Exchange has grown exponentially. Indeed, in 1997 when the Securities and Exchange Commission was established,

the capital market was small with a capitalization of \$6.35 billion or 16% of GDP and 77 market participants including brokers, reporting issuers, underwriters, dealers, traders, securities companies, self-regulatory organizations and investment advisors. Since that time and as at December 2011 market capitalization has expanded to \$94.38 billion or 65.2% of GDP. Furthermore, debt securities rose to \$67.94 billion or 47.0% of GDP, mutual funds rose to \$41.96 billion or 29.0% of GDP and securities instruments rose to \$50.55 billion or 35% of GDP. Accordingly, total market capitalization, at \$254.83 billion, is now covering GDP by 175.0% and that brought with it an increase in market actors, now at 208. With current economic analyses pointing to larger than expected output shocks emanating from financial crises our public

policy agenda is now focusing on ensuring that capital market structures become sufficiently efficient so as to be able to allocate resources optimally for long-term sustainable economic growth, wealth creation and development. We are putting in place robust securities market regulation and oversight which are critical to the building of a sound capital market. I expect to have legislation on new Securities legislation in place by **November 30 2012** to allow the Securities and Exchange Commission to become a signatory of the International Organization of Securities Commissions, Multilateral Memorandum of Understanding (IOSCO MMoU) - a condition which would allow the SEC to share information with other regulators in pursuit of an investigation or an inquiry with strict conditions governing confidentiality.

Mr. Chairman, the liabilities of the financial sector have also been expanding and this is a testimony to the robustness of our financial system and where our citizens hold substantial wealth-creating assets and which sector is now dominating the financial business in the Caribbean thereby moving Trinidad and Tobago towards becoming the financial capital of the Caribbean which we are now expanding into an International Financial Sector.

Mr. Chairman, the standard market-based economic principles have also served this country well. Since our exit from the programmes of the International Monetary Fund in **1992**, we have had almost two (2) decades of uninterrupted positive growth ending with three (3) years of negative or negligible growth; but I dare say that on the basis of a wide

range of studies, both in Europe and the United States, the view is held that from an equity perspective the operation of the model has been less than satisfactory. In fact, since the late **1970's** and despite stellar growth rates, *income inequality* has grown significantly after several decades of stability. In the United States, between **1978** and **2007**, the top earning **1.0 percent** of US citizens have seen their after tax and benefit incomes grow by an average of **275.0 percent** compared with annual averages of **40.0 – 60.0 percent** for the residual **99.0 percent**. In **2007**, the top **1.0 percent** of the US population owned **34.6 percent** of the wealth of the country with the next **19.0 percent** owning **50.5 percent**. Accordingly, **20.0 percent** of the earning population owned **85.0 percent** of the total wealth. Subsequent to the **2007-2009** global crisis the top **20.0 percent**

now own **87.0 percent**. Policy makers must be appropriately concerned with the consequences of the operation of the model: the high incidents of income equality including poverty levels.

Mr. Chairman, while pursuing the principles underlining this economic model and there is no compelling reason for changing those principles, we need to be careful of its undesirable consequences. I am appropriately conscious of the need for putting in place re-distribution mechanisms to alleviate the undesirable consequences. In Trinidad and Tobago, social programmes are already absorbing **20.0 percent** of our expenditure in the context of **16.7 percent** of the population being deemed to be poor and living below the poverty line with a further **9.0 percent** being deemed to be vulnerable. The Ministry of Planning has

already put in place a public policy agenda aimed at reducing the poverty rate to **2.0 percent** by **2015** and I commend the Minister of Planning, Sen. the Hon. Bhoendradath Tewarie and his economic team for compiling the ambitious programme. Additional to the social programmes, expenditures in education, health and public housing will be increased. We are bringing this segment of our population, long-disadvantaged into the mainstream of economic and business activities where they would be able to participate in the virtuous economic cycle.

Mr. Chairman, in keeping with our intention to restore economic growth and maintain it on a path with inclusiveness and social equity, I am now taking steps through a social dialogue with major stakeholders to improve the efficiency, quality and effectiveness of the channels

through which public services are delivered to the citizens of Trinidad and Tobago. The public offerings programme is a key element of the transformation agenda and it would seek to revitalize our capital market by increasing stock market capitalization and providing opportunities for business to raise capital. Importantly, we would assure that workers receive ownership stakes in the companies in which they work. We would encourage widespread equity ownership among the nationals of Trinidad and Tobago.

Mr. Chairman, as I have indicated, the country has had a long record of seeking investment resources for capital formation whether through the stock market or through strategic investors. We have seen several local companies incorporate locally and issue equity on the

Trinidad and Tobago Stock Exchange with substantial stakes by our citizens in particular, workers in the individual companies. We have also seen private domestic businesses not taking advantage of emerging business opportunities and in many cases, international corporations have stepped in to fill the gaps. The presence of the international private sector at the Point Lisas Industrial Estate is a case in point as Government disengagement from the petrochemical sector was replaced by the international private sector. The capital raising model must fit the special circumstances of each case; but the Government would ensure that at all times, the public interest is protected through appropriate safeguards developed through consultative mechanisms with the major stakeholders.

Mr. Chairman, we are ensuring that our transformation agenda will become a joint responsibility of the public and private sector. The delivery of infrastructure, assets and services to our citizens cannot be delayed. From an economic perspective, we need to identify additional investment resources to finance infrastructure, assets and services, given our fiscal restraints. We are harnessing the investment resources and the operational efficiencies of the private sector to ensure that the moderate recovery in **2012** becomes secure, stable and sustainable and in this regard we envisaged over the medium term, that our growth rates would be positive, steady and consistent generating good quality jobs for our increasingly enlightened workforce. We are doing so through public-private –partnerships which would bring on stream over the medium

term, highways, hospitals, medical centres, ferry services, ports, wastewater facilities etc. This process is being managed by a Ministerial Committee which would guide the implementation of the policy, review candidate projects and select those which would be developed as PPPs. The programme would move forward quickly and the procedures for delivering the necessary services and goods to our citizens would be as transparent as it would be efficient.

Mr. Chairman, this approach represents a shift in our economic and developmental model. Greater emphasis is now being placed on the private sector which would create investment opportunities and build a productive and entrepreneurial economy through which wealth creation would be consistently multiplied.

Thank You Very Much!