



Feature Address

by

Professor Compton Bourne, PhD., O.E.

President

Caribbean Development Bank

at the

Conference on the Economy

University of the West Indies

St. Augustine

October 7, 2010

I. INTRODUCTION

It is a privilege and a pleasure to be part of this Conference on the Economy. Originated by the late Professor Denis Pantin, the conference has evolved into a valuable forum for analysis and discussion on the Trinidad and Tobago economy and the wider Caribbean economy. This year the conference honors Dr. Roy Thomas. Roy Darrow Thomas was a foundation member of the Department of Economics at St. Augustine along with Alister McIntyre, Carlton Bruce and Eric St Cyr. I want to fully endorse the statements of recognition of his immense contribution over the years. Although his professional work dealt with many areas of economics, Dr. Thomas specialised in labour economics, introducing the field to the UWI curriculum and through research and public engagement deepened our understanding of labour and labour market issues in the Caribbean. One of his major published works is "The Development of Labour Law in Trinidad and Tobago" which covered the 1937 to 1972 period and remains a valuable reference. His most recent publication to my knowledge would be his essay entitled "The Labour Market and Human Resource Development In Caribbean Countries" in a book on growth and development strategies to be published by the Caribbean Development Bank in December 2010. Roy Thomas is evidently evergreen. I will have occasion to refer to some of the points he made in the latter essay during the course of my address.

The theme of this conference is "Economic Policy Formation and Program Implementation in the Context of the Caribbean Reality." This is a very ambitious undertaking, given that each component, i.e. economic policy formation, program

implementation and Caribbean reality could be the subject of a conference. Grant me the liberty, therefore, of an eclectic approach in my address to you this morning.

II. CARIBBEAN REALITY

I suppose I can safely assume that the reality of Caribbean economies is so well known to an audience such as this one that I can eschew statistical validation and confine myself to statements of stylised facts. The first set of facts pertains to economic growth. Economic growth is singled out for attention because it is what makes economic development possible. Sustained improvements in human wellbeing hinge upon sustained improvements in incomes per capita. Economies in economic regress or with unstable growth cannot generate levels of household incomes and government fiscal revenues to finance for instance, adequate access to social services such as education and health care, and safety and security. With brief episodic spurts of high growth, the record of Caribbean economies is one of slow to moderate economic growth rates. Furthermore, with few exceptions, economic growth rates have been on a downward trend since 1990 in comparison with the 1980s decade when economic growth rates increased.

Difficulties associated with weak economic growth are compounded by growth volatility, especially when there is limited scope for insuring against the contingency of downturns in national incomes, corporate incomes and personal incomes.

In such situations, growth reversals can mean cutbacks in fiscal expenditures, typically capital expenditures at first but later followed by discretionary social expenditures, contraction of household expenditures, typically on health care and debt service. They also entail job loss.

Economic growth volatility is a historical feature of Caribbean economies (see for example my brief chronicle of the 1900- 2004 record in an essay entitled Caribbean Economic Recessions In Historical Perspective). Recessions have been deep, protracted and painful. Economic growth volatility has emanated from external trade and financial shocks, of which the loss of trade preferences for bananas and sugar, the global trends in energy prices in the 1970s and 1980s, foreign debt explosion in the 1970s and collapse in the 1980s, and the current global economic and financial crisis are contemporary examples.

Volatility has also been the consequence of natural hazard events, notably hurricanes and less intense windstorms, but also earthquakes and volcanic eruptions, all of which in small islands tend to be nationwide in their impact. Estimates of the economic effects of natural hazard events in the Caribbean can be found in several works including the recent writings of Dr. Marlene Attz of the St. Augustine Department of Economics.

Economic policy errors are also a source of economic volatility, less in terms of surges in growth rates than in terms of contraction of economic growth. A few countries have paid dearly for errors in political judgement about the domestic and foreign relations scope for some economic policy initiatives.

III. UNEMPLOYMENT AND PRODUCTIVITY

Roy Thomas in his most recent publication drew attention to the enduring problem of high unemployment rates in the Caribbean, noting that even in those countries with higher per capita incomes or stronger recent economic growth, unemployment rates "have been consistently high, even comparable with very poor

countries." Thomas is of the opinion that "a central goal of Caribbean regional development has to be full employment of the human resources of the Region." He notes the concentration of unemployment among youths and females and also comments on the importance of ensuring that "the fully employed labour supply is internationally competitive in its productivity characteristics."

It is clear that at current economic growth rates and with existing production technologies, full employment is not within the reach of the countries despite fairly sizeable continuous emigration of both highly educated persons and those with less education and training. In the design of policies for full employment, the economic authorities should realistically acknowledge the labour-saving bias in advanced technologies and place emphasis on the growth in employment that might be induced through their positive effects on economic growth. This point is particularly important because while labour intensive technologies might suffice for non-tradeable goods and services, they will not suffice for tradeable goods and services which are a major dynamic in Caribbean economies.

Low productivity is a widespread problem in the Caribbean. The World Bank in "A Time to Choose" shows sharp declines in productivity between 1980 and 1990, while the work of Downes and Blavy shows that downward trends persist into the following decade. Explanations for its persistence vary but include organisation and management, human resource quality, labour market inflexibility, low worker motivation, inadequate payments incentives, absenteeism and frequent labour supply disruption through strikes and sick-outs. There is no doubt some validity to each explanation even though empirical evidence is scant. They are elements of the

problematic of productivity gains which decision makers among governments, the corporate sector and unionised labour have to address if the Caribbean problem of low productivity is to be solved.

There is a closely related problem which also impinges upon aggregate employment. It is the adoption of wages policies which index wages in sectors or industries with lower productivity or stagnant productivity to wages in sectors or industries with higher productivity or rising productivity. Such indexation policies may squeeze profits in the former sectors and industries and ultimately lead to labour displacement. Where profits are protected by increases in product prices, inflation becomes an unintended consequence which then generates economy-wide pressures for wage increases unrelated to productivity and depresses real incomes of fixed income recipients.

The impetus to indexation policies is egalitarianism: the notion that labour earnings and associated levels of living should not be greatly dissimilar within a country. Even if one accepts the equality in living standards principle, the policy question which should precede the adoption of indexation policies is whether that objective is not more sustainably addressed by other means, including fiscal tax-expenditure policies.

IV. TRADE COMPETITION

Trade competition is part of the new reality. The rules for open competition gradually introduced by the World Trade Organisation have been followed by provisions for greater trade reciprocity in bilateral trade agreements and economic partnership agreements. The likely consequence is that Caribbean markets are more open to imports and that its exports face competition in foreign markets. Rising to the

competitiveness challenge will require substantial adjustments on many fronts: in economic and social infrastructure; in the quality of public administration and judicial services; in product quality, pricing and supply reliability; in the sizes of economic enterprises; in factor productivity; in human resource quality and supply; and in the operations of domestic labour markets, to name a few.

In this regard, the issue of economic integration has renewed salience. A question which will not go away is "Can individual Caribbean economies be internationally competitive when enterprise consolidation has become such an important part of global competitive strategy?" For small countries, regional economic integration is a critical component of a successful strategy for trade competitiveness because it provides a basis for more efficient resource use and for economies of scale and scope in production, organisation and distribution. Because of stronger competition in domestic and traditional foreign markets, Caribbean countries need to pay attention to the development of new products and new geographical markets. This imperative will require much greater enterprising behaviour by the private sector. It will also require the orientation of Caribbean foreign policy towards a stronger focus on national economic objectives. Furthermore it will take appropriate adjustments in education and training strategies and policies to produce a labour force with an innovative mind set, with greater awareness of an economic world outside of historical trading partners, and with language and other competencies to effectively interact with that larger world.

V. FINANCE

Somewhat worrisome aspects of the new Caribbean reality exposed by the global economic and financial crisis are the fragility of some financial institutions in several countries and the regional integration of financial risks. To some extent, the fragility stems from ex post excessive risk-taking by financial institutions in then euphoric circumstances. To some extent, it resulted from the adverse effects of the global crisis on commodity demand and market prices and on employment and incomes in the Caribbean. The stability of the financial system is essential for sustainable economic growth. The first call on public policy in this crisis period must be to shore up those institutions whose capital position has been adversely affected by the economic recession and to put in place improved regulations and surveillance systems for more effective control and management of solvency risks. In this regard, one must be mindful of the closer regional and global integration of private financial markets in this era than previously. Regional and international sharing of information and other forms of collaboration have become necessary parts of the policy environment rather than options to be considered and possibly not pursued.

Caribbean countries whose international financial standing has been compromised by acute fiscal difficulties and debt unsustainability will have to re-establish their access to international capital markets. Many of them may also beneficially engage bilateral foreign aid providers who have been historically active in the region as well as new entrants to the international aid sector. Engagement with multilateral, regional and sub-regional development banks is likely to be another important part of the policy framework.

VI. CLIMATE CHANGE AND THE ENVIRONMENT

Caribbean economies are highly unlikely to have sustainable long term growth if the physical environment and climate change are not fully factored into the complex of economic policies. There are presently and in the near term significant risks of coastal resource depletion, loss of expensive essential infrastructure, loss of habitable and arable land, contamination of water sources and other instances of environmental degradation which could reduce production capacity and lower the quality of life. Furthermore, environmental standards are being incorporated in the import policies of the Caribbean's major trading partners, making environmental considerations an important element in trade competitiveness.

The Caribbean policy approach to the environment and climate change should be comprehensive, including behaviour modification by communities, enterprises and governments; investments in environmental protection and climate change adaptation; reductions in the share of fossil fuels in energy production and use; and identification of sustainable alternative livelihoods for economically disadvantaged communities whose survival activities might otherwise be a cause of environmental degradation and climate change.

VII. MATERIAL ASPIRATIONS AND TIME PREFERENCE

The final aspects of Caribbean economic reality on which I touch are material aspirations and time preference. We live in a globalised age in which members of Caribbean society have very high material aspirations, frequently at variance with earned income capacity. Furthermore, time preferences are short; there is impatience of wants. These two features which are not unique to the Caribbean present a serious

challenge for policy makers who might be inclined to operate with medium term and long term economic horizons but are ever conscious of short electoral cycles. They also weaken the growth impulse by depressing the rate of savings and capital accumulation. The negative effect on household savings is exaggerated in the case of poor households who are close to the margin of existential subsistence. As Irving Fisher put it in *The Theory of Interest*, "Poverty bears down heavily on all portions of a man's expected life. But it increases the want for immediate income even more than it increases the want for future income." Unless aspirations and consumption expenditures on durables and non-durable goods are carefully managed to minimize stark social class differences in levels of living, there is risk of social disorder.

VIII. POLICY FORMATION AND PROGRAM IMPLEMENTATION

I have dealt with aspects of Caribbean reality sufficiently I hope to illustrate some of the policy issues which arise in the quest for economic growth in this era of open international competition and rising material aspirations. The formation of policies to address these issues is itself a challenge.

First of all, there is the difficulty of identifying and diagnosing problems correctly when there are multiple signals which sometimes conflict and poor quality information.

Secondly, there is the far from easy task of balancing distributional considerations across social classes or economic groups or across industries or across economic sectors.

Third is the time preference problem to which reference was made a short while ago. **Fourth**, policy formation may have to include regional and extra-regional factors

and not be confined to purely domestic considerations. Neglect of these factors can show up as design failures. A different set of constraints must be considered in program implementation. Perhaps the most critical is operational planning capacity. Many programs in the public sector are significantly delayed and fail to achieve their objectives because of inadequate operational planning. A further weakness is lack of implementation capacity. The capacity to implement what has been planned depends on human resource availability in requisite quantities and quality as well as on the adequacy of financial provisions. The most common experience is that human resource availability is the more critical of the two resource constraints.

IX. FINAL REMARKS

Roy Thomas is a practical man. In my address, I have stressed the dimensions of economic policy formation which loom large in practice. I am sure that the presentations which follow these broad introductory observations will bring the academic's customary theoretical rigour and empirical analysis to a more disaggregated discourse on the conference theme. I look forward to learning about your findings and insights.