

**CARIBBEAN DEVELOPMENT
ISSUES AND PROSPECTS**

The 22nd Adlith Brown Memorial Lecture

Alan Slusher

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Let me start by saying that it was really a great and unexpected honour for me to be asked to deliver this year's Adlith Brown Memorial Lecture. What you may not know is that I was probably one of her worst nightmares. She was my postgraduate supervisor, and among the few times she saw me was when I turned up for her to sign the authorisation for me to collect my living expenses from the University at Mona. Though it must have caused her great agony, she never turned me back. I must say that she was very kind to me. She was a great person, and a fine professional; she is very much missed.

Let me also say what a very great pleasure it is for me to be back in my home country, and I wish to thank the Governor of the Central Bank of Belize and his staff, and the very patient folks at the Caribbean Centre for Monetary Studies, for making it possible.

I also have to tell you that although I am a staff member of the Caribbean Development Bank, the views, comments and statements that follow are entirely my own, and do not represent in any way those of the Boards, management, or staff of the CDB.



There can be no issue with the fact that living levels of people in the Caribbean have risen enormously since slavery and the slave trade, as well as the quasi-slave system called indentureship, were ended. At the same time, a very large number of people in the region still have an extremely tough time of it, with, to them, little clear prospect of improvement in their lifetime. In some cases, deep poverty, accompanied by low levels of personal dignity and sense of self-worth, as well as by social exclusion and considerably less than full participation in the political process, exists in pockets and enclaves. I am speaking here of those countries in our region where average per capita incomes are high, and where the major issue is one of the appropriateness of the existing pattern of distribution of income and wealth. This situation should be one of concern to us and to the authorities of those countries since it speaks, at a first level, to continuing deficiencies in our social safety net arrangements, and, at a second level, to precisely what we mean when we talk about equality, human rights, and the dignity of the individual when the existence of what are essentially second-class citizens is allowed to persist. In other countries in the region, and here perhaps the situation is far more serious because of the numbers involved, poverty is much more widespread, partly because average per capita incomes are not nearly as high as in those countries that I have just referred to, partly because the countries in this situation have many more people, and partly because of substantial inequality in the distribution of the income and wealth that exist.

The regional poverty situation is not at all good. Country poverty assessments commissioned by CDB and others indicate absolute poverty levels approaching one-third of the population in some of

our countries, with very few below 10%; and indigence levels, that is people subsisting at the margin and unable to survive without support from others, including the state, of over 10% in some countries.

Make no mistake: poverty is dangerous to health. This applies to the health of the individual and his family, because of the absence of: an adequate supply of appropriate food, clothing and shelter; easy access to adequate supplies of potable water and environmentally friendly waste disposal arrangements; access to medical care of the required quality on a timely basis; access to education and training for capacity development and lifestyle improvement; and protection from harm and the threat of harm in both the natural and social environment. And it applies to the health of society as well, where poverty measured in relative terms, rather than the absolute terms that we have just mentioned, adversely affects social cohesion. History is replete with examples of the consequences of significant inequality between social groups, particularly where some of those social groups are clearly affluent, and where others are clearly poor and deprived. And the situation is worse if the inequality is growing. Where, as in parts of the Caribbean, income and wealth differences are also associated with readily identifiable personal characteristics, and the differences are increasingly being translated into differences in individual future prospects arising from differential access to quality education and differences in living arrangements, particularly with respect to what is called in some places “gated communities”, although formal barriers manned by security personnel need not exist, a potential is being generated for a kind of social exclusion that can and will lead to undesirable social outcomes; and the situation will

pose a serious threat to the attainment of the overall societal objectives.

I have started this presentation by talking about poverty partly because the leadership in all of our countries have placed what they call economic development and poverty reduction or elimination at the top of the list of their country goals, and this priority is generally shared and accepted by all the main stakeholders in our countries. I have done it as well because improvement in the material welfare of people, however it has been described, has been an important subject for philosophical enquiry, and has been an important driver both of exploration and of military adventure, as if these latter two can be separated, from time immemorial. In our time, the quest for improvement in living levels is an important contributor to the movement of people, second, perhaps, only to refuge-seeking from war within and between countries.

What is it that this economic development involves, and what can we do to achieve it in our region?

Above all else, we need to recognise that people, individuals and groups, are both the object and the subject of all enquiry. If improving the material welfare of every citizen in each of our countries is not the end objective of economic development then we have an immediate problem that needs very urgent attention, and that goes far beyond anything we can say tonight. If material improvement is much more an urgent issue for the poor than for the non-poor, since individual life is finite and relatively short, the time-frame in which we are operating then becomes an important issue; and in terms of the flow of benefits from the efforts at economic

development, significant and urgent pro-poor weighting is required of our efforts. And this leads to my first set of questions:

- (i) How likely is it that we will get really serious about poverty reduction?
- (ii) Who runs our systems, and in whose interest?
- (iii) Who are the main decision-makers, and how are they selected? What, exactly, is the selection process?
- (iv) What are the bases on which decisions affecting the public are made, and what are the real objectives of such decisions?

Let us examine this economic development business a little further. Clearly, if we are not in the situation where we think that per capita incomes in the particular countries on which we happen to be focusing are large enough, then we are also going to be concerned with economic growth, and, by extension, with the elements and processes that make growth happen. It is interesting to observe that in both sets of cases (i.e. where per capita income levels are thought to be high enough to provide an acceptable level of living for all, on average, if that income were distributed differently; and where they are thought not to be high enough for that purpose) it is less difficult, human nature being what it is, to get agreement on transferring a substantial part, even the greater part, of the proceeds of the new growth in incomes to the poor, rather than to get agreement on a reduction in the existing income flow to those who already enjoy a disproportionate share of total incomes. What I am saying is that, regardless of the poverty situation in a country, everyone wants to see

growth in their incomes every year, even those who already have high incomes; so that the prospects for continued growth in income inequality are good, and most people want, through their lifestyles, to demonstrate their capacity to live well. The question for us involves the implications of this set of attitudes for continuing social cohesion.

This trend of thought gives rise to another set of issues. What is the basis on which one section of the society can lay claim to a disproportionate share of the income and wealth produced by that society? Studying the history of any situation or set of arrangements allows us to arrive at the principles and the justifications of any existing reality. Wealth and income may be based on the ownership of land, because the country's economy may be based, currently or in the past, on agriculture or on other extractive industry. How did the present owners get to own that land? Was the process equitable? And even if it was, is there more land available for poorer people to acquire now? If not, are we locked into existing income distribution arrangements for perpetuity, based on the current pattern of land ownership, when population dynamics would have changed since the current pattern of land ownership was established? In a similar vein, are incomes based on the provision of services by individuals? If so, what are the arrangements for education and training of the general population, and why can't everyone have his or her capacity developed so that the income-earning ability of individuals falls into more or less the same ballpark, making allowances for differences in capacity and interest? The specific question here is: do we have enough places in our educational institutions for all of our people, at primary, secondary, and tertiary levels; and if we don't, first, what are we doing about it; and, second, does not this mean, in our

increasingly services-based economies in this region, that, of necessity, we can only cream off the early developers, potentially condemning the vast majority of the others, for the rest of their lives, to a lower category of living level? The same arguments apply, whatever the production structure of any economy.

I think it is important that you understand that I am not saying that hierarchical structures should not exist. They inevitably will, so long as we are willing to acknowledge and reward extraordinary performance and extraordinary effort and sacrifice, and are willing to accept that some individuals are better at some things, or at most things, than others. And that incentives do affect performance. My concern has to do with the extent of inequality in the distribution of income and wealth, particularly in poor societies. It is clearly unacceptable that the top income-earning 5% of the population in any society should be able to lay claim to 40% of the income, while the bottom 20% of the population can only lay claim to 5% of the income. And when the per capita income of that society is less than US\$8,000 (which is not a low number in the Caribbean by any means), we have a problem that needs fairly urgent attention. And it is important to bear in mind that any income distribution arrangement has at least two components embedded in it: the existing pattern, and the growth trends which are inherent in that existing pattern. Everything that you see is a snapshot, a frozen moment of a reality that is undergoing continuous change. The bankers present here will appreciate in particular the compounding effects of time.

This leads me to my second set of questions:

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- (i) What is the structure of production in Caribbean economies, how has this structure been changing over time, and what are the implications of structure and structure-change for the ability of the economies to continue to grow into the future, given what is happening in the wider world?
 - (ii) Which are the sectors and industries that are the main contributors to incomes, to employment, and to public sector revenues and public assets?
 - (iii) What are the ownership and management structures in these sectors and industries, and what are the implications of these structures for the distribution of income and wealth in the economies?
 - (iv) What is the nature and extent of poverty in Caribbean economies, and how have these been changing over time?
 - (v) What has been the influence of the public sector on economic performance at the macro-level, and, at the micro-level, on sector, industry and business firm performance, and on income and wealth distribution? In particular, how have public funds and public assets been utilised?
 - (vi) What is the level of transparency and accountability in public decision-making; what procedures are in place to ensure fairness and equity, particularly in decisions affecting the use of public funds and public

assets; with what degree of timeliness are the reports of the Auditor General on the accounts of the public sector placed in the public domain? I should note here that publishing information does not now require a lot of effort, and is not particularly expensive, what with the ready availability of internet-publishing modules for most accounting software used in the public sector, and the fact that all Caribbean governments now maintain websites.

- (vii) Since our focus is on people, since without people there is no issue of any kind, and since we maintain publicly that in the final analysis, each individual is of equal worth, where in our societies and economies are the arrangements centralised to oversee that the system does not lose sight of this main principle, and that deviations from the principle are addressed in an effective and timely manner?

Let me now turn to another aspect of this economic development business in our region, very much related to what I have just been talking about. It involves what I take to be self-evident, that economic development is not an end in itself, but a means to a larger purpose. What that larger purpose might be has been argued by a number of people far more capable than myself, and perhaps most elegantly by that argumentative Indian, Amartya Sen. Essentially, our systems should be made to generate a level of material welfare for each of our citizens so that each is freed from having to spend all or most of his time and abilities in satisfying core material needs in order that attention can be devoted to knowledge and capacity development

and use in other areas of the physical and metaphysical universe, real and surreal; the only requirement being the standard one that the exercise of freedom by one individual should not adversely affect the capacity of another to operate similarly, except with freely given, and withdrawable, consent. If the first level objective is then a more broadly defined development, that again focuses on the individual and that has all kinds of aspects including the right to participate equally and fully with all others in all societal processes, then economic development, which currently appears to be the first-level priority item, is really at some point between the second and third levels. This is because the maintenance of an acceptable level of material welfare is at the second level, and economic development is concerned, firstly, with the growth of material welfare from some lower level to that one, and, secondly, with the maintenance of the level, bearing in mind the apparent human tendency to always want more, and the fact that at any point in time our level of living is subject to adverse shocks from both man-made and natural causes, so that the actual level that we enjoy is subject to change.

If this is in fact true, then the objectives of public policy cannot be stated in purely economic terms, as tends to be the current practice, and the measurement of public performance needs to focus more broadly than is currently the case.

The issue is very important for two main reasons. Firstly, the business of public management in the region no longer has appreciable political ideological content, as perhaps might have been the case thirty years ago, and the differences between political parties in any of our jurisdictions now rest on the demonstration of the stated superior technical capacity of each to manage the affairs of the state in the

interests of the citizenry. The proof of the pudding is in the eating: we are now clearly in the business of results-based management rather than: a government judged by its performance. The second reason also has to do with the business of managing the affairs of the state. All across the region there appears to be a growing tendency, more evident in some countries than in others, for the political leadership at the ministerial level increasingly to involve itself in day-to-day operational issues, rather than concentrating on visioning and strategy. One effect of this is to reduce the contribution of technocrats and technicians, who were employed for their technical skills and technical advisory capacity, and to substitute in operations areas political skills which have their own areas for utilization. The potential for sub-optimal management performance is then increased in both areas. I am not going to get into the issue of direct ministerial participation in technical negotiations with technocrats on the other side of the table, a practice that is on the increase in the region. What is probably worse is that ministerial involvement at the day-to-day operations level means that the minister is now not available for appeal by members of the public aggrieved by technocrat-level decision-making errors, as would have been the situation if the original decision had been made by a technocrat; and the minister broadens the range of activities in respect of which his personal performance and credibility become open to review. The other result is that less time is available for the performance of the motivational, encouraging, and population-energising functions which facilitate the attainment of the broad societal objectives. The leadership is not as engaged as it needs to be, particularly in these troubled times, in setting the standards for discipline and for acceptable behaviour in the society.

While all of this has been going on, issues in the management of our economies and societies have been increasingly evident. With respect to the public finances, the Caribbean now enjoys the dubious distinction of playing host to a group of countries with the highest public sector debt/GDP ratios on the planet, and four countries have been seeking or have sought and received public debt relief or debt restructuring because they have not been able to meet their agreed debt service obligations. To be fair, Grenada was driven into a selective default situation by major hurricane damage, and the inclusion of Guyana and Haiti, both HIPC countries, in the list would bring the total to six. Part of the problem with debt, particular where revenue flows are damaged by natural disasters at the same time that there is a requirement for higher levels of public spending on rehabilitation, is that you know, based on history, that you are going to be damaged; you just don't know when or by how much. In such circumstances budgeting for natural disaster contingencies should be a no-brainer. We have already spoken about the poverty situation. The increasing incidence of violent crime and drug trafficking has the potential to destabilize the region's tourism, which is now the largest source of external income; in such a situation the difficulty in at least three countries in getting witnesses to testify against persons accused of violent crimes should be a cause for major alarm and response. Environmental degradation in natural-environment, tourism-based economies should not be taking place, unless of course alternatives to tourism have been identified and are being developed. I can say that there is clear evidence of the degradation; there is little evidence of the alternatives.

The quality of public management is important in the region not only because of the small size of countries, which makes government a relatively large and important player on the domestic scene, so that decisions by the public sector have significant impact on the rest of the society, but because (i) the global environment in which our countries are located is increasingly rules-based, so that knowledge of the rules (which incidentally are themselves subject to ongoing change and re-interpretation, mainly in response to accelerating technological change) and capacity to utilise them to country advantage become vitally important; and (ii) there is an ongoing tendency towards increasing complexity and inter-relatedness of operations and processes, requiring an increasing range and depth of skills, greater inter-firm, inter-industry and inter-sectoral linkages, and an increasing volume of international trade as countries become more dependent on each other as our civilization continues to evolve. As a result of these factors, and a consequential need to involve more people in the processes of public management at the country level if we are not to be left behind at the global level, there is a need for the sharing of information and the acquisition of knowledge, and a consequential need for formal arrangements for increasing openness and transparency in public sector operations in order to reduce the potential for the use of publicly-owned capacity acquired at public expense to be used for private gain.

There have been some interesting developments at the global level to which we need, I think, to pay some very careful attention. We are all aware of the phenomenon we call globalisation, which one might characterise, perhaps inadequately, as the ongoing processes of converting the separate economies in the world into a single global

economy, with a single set of rules, essentially driven by technological change, and, to paraphrase Baumol, by the capitalist growth machine. What we may not have been focusing on quite so closely are some characteristics that appear to be headed for institutionalisation, if they are not already there. Most of them are not new; what is of concern to me are the consequences of their simultaneity.

The first is the tendency towards consolidation at the level of the firm, and the increasing involvement of ever larger firms in transnational business. To become a global player one has to engage globally; one has to have a presence in several major markets (or in several parts of the single global market) at the same time. That has size implications. Most Caribbean firms, at present, are too small to qualify. Having said that, I need to say that there are Caribbean firms operating on a multinational basis, and there has been some consolidation, (as well as failed attempts at consolidation), particularly in the financial sector. But even the largest Caribbean firms are tiny by global standards.

The second is the link between the perceived, or expressed, global needs of national firms and the policy positions of countries engaged in international trade negotiations. The negotiations are taking place on several fronts, simultaneously. Caribbean countries are engaged in these international negotiations. There is little doubt, despite the strong capacity of the individuals who represent us, that we have our limitations in being strong everywhere all the time, and it is not a secret that the very countries with which we are negotiating are funding part of the costs of maintaining our negotiating capacity. In addition, we are engaged in negotiations for foreign direct investment with some of the very firms that are major players in the countries

with which we are engaged in the trade negotiations. With the best will in the world, our positions in such circumstances cannot be as strong as they perhaps need to be.

The third is that at the country level we are lagging in the consolidation process. We are all familiar with the small-size issues of Caribbean economies, including those of dependence, vulnerability, market restrictions, lack of production flexibility, competitiveness and so on. An important size-related constraint in most of our economies is institutional capacity in the public sector. In some smaller countries in the region this is related to the small size of the public sector in absolute terms, although the public sector may be large, relatively speaking; in others, institutional capacity limitations appear to be policy related, part of the ministerial involvement in operations management. We have explicitly recognised that economic integration among the English-speaking countries is a necessary, though perhaps not a sufficient, condition for dealing with some of these constraints to economic growth and development. But we consistently refuse to acknowledge in our policy-making the impossibility of separating social, political and psychological integration from economic integration; and the uncharitable commentator may well ask how do we expect to achieve the production competitiveness that the Revised Treaty of Chaguaramas speaks so persuasively about in the Preamble if we continue to maintain barriers to the intra-regional movement of factors of production, particularly labour. And it should be recalled that the ultimate objective of all our endeavours is not economic development, but the freedom for individual, personal achievement made possible by the ability to supply material wants with much less personal effort

than is currently the case. And that freedom includes freedom of movement. We should not forget that Caribbean integration is not a new invention. The English-speaking Caribbean countries were fully integrated under British colonial rule. With independence, the barriers were fully erected by the new indigenous leadership. This same leadership is faced with the task of removing the barriers; and we should not forget that the task has been made slightly more difficult by the inclusion in our CARICOM brotherhood, and properly so in my opinion, of a country whose successful struggle for independence was a significant contributor both to the ending of the African slave trade and to the abolition of slavery of Africans and their descendants in the rest of the Caribbean. The slight difficulty I refer to has to do with the fact that the estimated population of Haiti is 150% of the population of all of the English-speaking countries taken together.

The fourth is the increasing effort on the part of large economies to secure ongoing access to the inputs they have identified as strategic to the maintenance of their own growth and development processes. The issues with respect to access to raw materials and commodities are well known, and I am not going to enter into the debate over whether the nature of the current US presence in the Middle East and Asia, and the maintenance of trade links with Venezuela despite the public rhetoric, have anything to do with petroleum supplies. What I will say is that the developed countries continue to tout the undoubted global welfare benefits of free trade while maintaining institutional arrangements, including subsidies to their domestic producers, which tend to result in the arrogation of those welfare benefits unto themselves, while maintaining restrictions on certain

kinds of factor movements, one effect of which is the maintenance of higher levels of unemployment and underemployment of relatively unskilled labour in developing countries; and offering incentives for skilled labour in developing countries to work in developed countries, thus adversely affecting the contribution of knowledge-based skills to the development of poor countries. The proposed “Blue Card” would most likely serve in Europe the same functions as the “Green Card” in the US; and the latter country, in addition to the green card, has for a long time offered special “H” visas to skilled technicians, particularly from India. In this kind of environment, particularly with the production limitations imposed by small size, the need for top-quality public management in the Caribbean is absolutely crucial.

Improvements in efficiency and effectiveness with respect to private sector operations are equally required; but we have been somewhat slow to put into effect arrangements to encourage such improvements. Capital markets development is a case in point. We have spent a great deal of time and effort on the development of equity markets, and I am not sure that we can be satisfied with the results. On the other hand, we have spent much less on the development of markets for bonds and interest-based securities, and it seems clear that with appropriate support and incentives, not only can markets be further developed in this area, but that growth in the fixed-income market can also provide incentives for further development of the equity markets.

A great part of the difficulty with equity markets development lies in the shortage of tradeable paper, despite the large number of companies in existence. The issue is that most of the companies are private companies in respect of which owners do not wish to lose

control. Most of the companies are inadequately capitalized, relying on borrowing to fund operations, and recouping borrowing costs via higher selling prices to the public. My own suggestion is to change the existing incentives arrangements. All companies, regardless of whether they are public or private, should be required, in return for their limited liability status and the protection that status affords owners and managers, to provide publicly available detailed audited reports of their business and financial performance and status on an annual basis, together with less detailed quarterly reports. The state of business operations set out in these financial reports should be sufficient to enable a potential investor to make a reasonably informed decision on whether to purchase short-term commercial paper, if offered by one of these companies. The private companies which borrow from banks currently provide detailed financials to those banks. Those same private companies currently borrow from other business firms through the use of purchase orders without providing such information, presenting an undetermined level of business risk to the entire system. Financially strong firms and those that are well-run will find advantage in the issuance of short-term commercial paper through lower borrowing costs, while persons with short-term surplus cash balances will find advantage in higher rates of return than might be currently available from the financial system, and they will be comforted by the contents of the available financials. Quarterly statements, though unaudited, that differ significantly from annual audited results, will adversely affect the attractiveness of the paper offered by firms involved in such statement differences, and the practice would soon disappear. Financial institutions, as intermediaries, are the entities most likely to be immediately adversely affected by these developments; but they are professionals in the

money business, and are expected to respond appropriately; after all, this has happened before elsewhere. The fact of the requirement for detailed financial performance disclosure for private companies would, in my opinion, encourage the owners of the stronger ones to go public with a minority proportion of the shareholding, converting some of the wealth potential of the firms into realised personal gain without losing control; this would have the effect of spreading share ownership in the community, increasing the people-stake in the preservation of the broader polity and increasing social inclusion, revitalizing equity markets, reducing the incentive for persons with surplus balances to attempt to access US and other overseas markets, and imposing a higher level of management discipline on the now public companies. In the absence of facilitating private sector brokers and dealers, development arrangements in countries with no or only rudimentary fixed-income securities markets can be organized with the active participation of central banks trading in central government Treasury Bills, and guaranteeing liquidity and returns to funds placers involving themselves in trading for the first time. I think this is another no-brainer.

This has been a long presentation, and you have been a patient audience. I will now conclude.

The functioning of the international environment and the attitudes of the developed countries, particularly as they involve, for example, governance arrangements in the international financial institutions where developing countries have little influence even though they are the main borrowers; unkept promises of aid to developing countries, particularly following the song and dance over the Monterrey Consensus, the Paris Declaration, and the Millennium Development