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The Barbadian Economy since Independence: a Look ahead

Back in 1973 I had the privilege of visiting with the legendary Masai warriors in a remote part of Tanzania. I recall the deep sympathy evoked from one tribesman when he learned through an interpreter that I possessed but one wife and no cows at all. In years gone by, a male adolescent Masai achieved manhood, not merely by living through some predetermined years of majority, but through the demonstration of prowess in the slaying of a lion.

By analogy, the Barbadian economy can claim maturity, not merely because our nation has survived for twenty-one years, but through the resilience it has demonstrated during one of the most turbulent periods in modern economic history. Not long after we achieved independence, the Bretton-Woods Agreement collapsed. It had given us exchange rate stability for 25 years. That was in 1971. 1973 saw an explosive rise in inflation; 1974 brought us the first oil shock when the price of oil quadrupled, leading to the recession of 1975. In 1979 the price of oil quadrupled once again, bringing on the 1981-82 world recession, the most severe since the Great Depression of the 1930’s. The recent stock market collapse may be considered to be the icing on the cake.

These vicissitudes have overwhelmed many nations much larger and better endowed than Barbados. African and Latin American countries, with hardly any exceptions, have been devastated by

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rapid inflation, frequent currency devaluations and a horrendous
debt burden, which has forced most of them to seek rescheduling
of their foreign liabilities and driven others into default. Mean-
while Barbadians, admittedly at the cost of higher unemployment
and a greatly increased foreign debt, have enjoyed a virtually
uninterrupted improvement in their living standards and have
met all their financial obligations overseas on schedule.

I propose to use the 21st anniversary of our nation's independ-
ence as an occasion for sober reflection on the state of our
economy. This will involve, first of all, a review of our economic
performance since independence and a critique of our economic
management to date. This will enable us to get a fix on our
current economic situation. Finally, we will then look into the
future to see what challenges await us and what opportunity
beckons. This will make possible the formulation of effective
strategies and policies for the years ahead.

ECONOMIC PERFORMANCE SINCE INDEPENDENCE

The three conventional measures of the performance of an eco-
nomy are (1) the per capita growth in Gross Domestic Product,
(2) price stability and (3) the level of unemployment. As a
measure of economic development, rather than simple economic
growth, I shall add a fourth criterion of performance — struc-
tural change.

Since independence, the Barbadian economy according to the
World Bank has grown at an average annual rate of about 2 ½ %. This figure in my view is understated but compares favourably
with the performance of the industrial market economies. The
corresponding rate for the USA was about 2 percent, for the UK
1 ½ percent and for Japan about 5 percent. Over the entire
period most upper middle income countries, into which category
the World Bank places Barbados recorded slightly higher growth,
but in recent years most of them have suffered sharp declines
in economic growth. However, with a per capita income of
$4 630.00 (1985 US dollars) Barbados ranked 34 of the 142 coun-
tries reporting to the World Bank in 1987. In respect of per
capita GDP growth I would rate our performance as solid.

Barbados scores high points for price stability. The average
annual rate of price increases since 1966 was slightly over 10 %.
By comparison, the USA came in at about 6 %, the UK at about
10 %, Japan about 7 % and West Germany under 5 %. Over the
past few years we have enjoyed remarkable price stability with
inflation falling below 2 % in 1986. When you consider that the
openness of our economy forces us to import inflation from our
major trading partners, our performance in respect of price
stability since 1966 has been most respectable. It looks even
better when compared with that of those developing countries
which have suffered from numerous devaluations. Chile held the
record for the period 1965-1980 with an average annual rate of
129%; Bolivia achieved an astounding average annual rate of inflation of 569% from 1980-1985.

Our performance in the area of unemployment must be deemed unsatisfactory. Unemployment statistics are most unreliable before 1976, but it does seem that between 1966 and 1973 the unemployment rate was usually around 12% — apparently an acceptable rate in the Barbadian social context. 1975 was an exceptionally bad year, with over 20% of the labour force out of work. From 1978 through 1981 unemployment levels hovered around the 12% level. Since 1982 the unemployment rate has seldom fallen below 15% and has averaged 18% since 1985. It is cold comfort that unemployment has proven almost as intractable a problem in developed economies, with rates in the UK, France and West Germany rising above 10%, and that rates of 30% and more are quite common in Third World Countries.

On the credit side, our economy was able to provide jobs of higher productivity in tourism and manufacturing to replace the more than ten thousand lost in agriculture.

The Barbadian economy has undergone welcome structural change since 1966, when it was essentially a monoculture with sugar as King. Sugar accounted for 25% of GDP in 1966 and 80% of our exports, employed 25% of the work force and earned about 40% of our foreign exchange. By 1986, both tourism and manufacturing had overtaken sugar in all the above departments. Manufacturing improved its contribution to GDP from 4% in 1966 to 12% in 1986, and increased its exports from $50 million in 1966 to $368 million in 1986. Tourism raised its share of GDP from 3% in 1966 to 12% in 1986 and its foreign exchange earnings from less than $30 million to over $600 million. Also encouraging was the growth in non-sugar production whose contribution to GDP now rivals that of sugar. In recent years we have seen the beginning of a promising off-shore business sector. This broadened production base explain much of the resilience demonstrated by the Barbadian economy in the recent years of economic turmoil.

ECONOMIC MANAGEMENT

To assess the quality of our economic policy making, we will have to examine the data more closely. The last 21 years divide logically into four periods which coincide more or less with the international business cycle. The first period, 1966-70, saw the economy expand at an average rate of 4% per annum. During the second period, 1971-1975, which included the first oil shock and the recession of 1975, the economy contracted at an annual rate of negative ½ percent. In the third period, 1976-1980, we enjoyed our greatest prosperity, with the economy expanding by more than five percent per annum. During the most recent period, 1981-1987, the economy has been generally flat. Because economic policy during this period has had the most serious
implications for our current situation, I shall deal with it separately in the next section.

Generally speaking, Barbadian economic policy makers score high marks in the first three periods, i.e. from 1966-1980. Essentially, they redistributed buoyant earnings from sugar and, later, tourism and manufacturing towards social overhead capital, either directly on the construction of harbour, airport and other facilities, or by guaranteeing foreign loans for the upgrading of private owned public utilities. Their attractive investment incentive programme and vigorous overseas promotion led to rapid expansion of our manufacturing and tourism industries. The national policy makers also developed our human capital resources through generous expenditures on education, health and social welfare services. Our modern infrastructure and highly educated workforce have contributed to sharp increases in national productivity and have provided the basis of a new and promising industry — off-shore business.

Most commendably, successive administrations imparted a distinctly populist bias to their economic policies. Highly progressive tax rates ensured that the lion’s share of our national income gains went to the more disadvantaged classes. This has made Barbados one of the most egalitarian societies in the world. Moreover, the level of our social indicators — households with electricity, telephones, running water and motor cars, infant mortality rates and life expectancy — gives us the profile of a highly-developed country. This has transformed Barbados into an essentially middle class society with considerable social cohesiveness — our most important economic asset. In fact, the policy of progressive taxation went on for too long so that the management and professional classes were unable to accumulate enough liquid funds to make sundry employment generating investments. The Alternative Budget represented an abortive attempt to correct this situation in one fell swoop. Unfortunately, the April 1987 Budget had to take back some of the earlier gains.

Above all, our economic policy makers must be complimented for avoiding the traps that lured so many developing countries, including some of our Caribbean friends, into economic disaster. They eschewed nationalization as a policy and limited their excursions into state enterprise. They rejected the fashionable path of "self-reliance" and adopted the export-oriented policies to which developing countries are now turning in droves. They stuck to a regime of stable exchange rates and refused to experiment with devaluation as a policy tool. They pursued liberal exchange control polices, thus promoting public confidence in the currency. Finally, by keeping import restrictions to a minimum, they avoided bureaucratic waste and stimulated industrial efficiency.

There are two areas where the national policy makers get failing marks. The first is in agriculture. Here they failed to override a deeply ingrained social bias against sugar. Punitive taxation, especially in 1975, and crushing wage demands deprived the
industry of the resources which it needed for research and reorganization. Support institutions, like the Marketing Corporation and the Agricultural Development Corporation and the Agricultural Division of the Barbados National Bank have never been made to carry out their strategic roles. A comprehensive strategy for agriculture must be developed before it is too late. This will involve the establishment of a separate and well capitalised Agricultural Credit Bank. The subsidies which we have given to agriculture in recent years are puny in comparison with those enjoyed by farmers in the industrial countries.

The second failing grade is in the operation of statutory corporations. Here, successive administrations have simply refused to separate business operations from political considerations. With few exceptions, statutory corporations lack the financial incentives and the freedom from political intervention needed to attract, develop and retain high-class executive talent. Indeed, many top managerial positions are more frequently vacant than filled. The weakness of key statutory corporations over the years has imposed an intolerable burden on the public purse and has blunted the effectiveness of well formulated government initiatives.

**CURRENT ECONOMIC SITUATION**

With the possible exception of 1982, the Barbadian economy is weaker now than at any time since 1966. All three of our major foreign exchange earners are under severe pressure. Sugar prices have improved, but output is down; manufacturing exports are one-half what they were a year or so ago, and tourism buys its increased numbers with sharp price discounts. Unemployment remains at socially dangerous levels. Meanwhile, the foreign debt, required debt service payments of almost US$ 50 million in 1986.

Our economic difficulties derive largely from the turmoil prevailing in the world economy. As indicated earlier, most developing countries are on the verge of bankruptcy and a few, like Haiti, which was just over US$80 million in 1980, has quadrupled and Guyana, Zaire and Bolivia, are in a state of complete economic collapse. Indeed, there are very few countries which are not experiencing some form of economic malaise. However, some of our economic wounds here in Barbados have been self-inflicted, as our policy makers departed from the path of fiscal prudence in their excessively populist zeal to sustain rising living standards. The fact of the matter is that, unless output is rising, living standards can rise for only as long as foreign exchange reserves and national creditworthiness hold out.

The Central Bank's 1980 Annual Report in its "Prospects for 1981" spoke of "the combination of far-reaching income tax concessions and wage increases well in excess of the rate of inflation" which had occurred in 1980. These were the beginnings of our current troubles. The Report also cautioned that "because of
recessionary conditions in North America and slow economic growth in Europe, no significant increase in tourist arrivals is expected." It also warned of reduced sugar receipts for 1981. Nevertheless, Government's current expenditure increased by almost one-quarter and its capital expenditure by over 75%, leading in calendar 1981 to a record overall deficit of $181 million, three times as large as the deficit of the previous year and twice that of the previous record (1977).

To make matters worse, the world recession of 1981-1982 turned out to be far more severe than expected, dragging us down into negative GDP growth. Our tourism and sugar earnings failed badly and heavy foreign borrowing was necessary in 1981 to sustain our foreign exchange reserves. In October 1982 we entered into an 18 month IMF Standby Arrangement. The IMF Stand-by Agreement imposed a much needed discipline. The fiscal deficit was reduced by half during 1982 and declined even further in 1983. Unfortunately, the recovery from world recession did not pull the Barbadian economy up as we would have expected. Sugar prices, for one, remained in the basement and our Trinidad export market collapsed.

The economy was flat in 1983 and raised its head briefly in 1984 when it grew by 4%. It laid down again in 1985 and it was only under the artificial stimulus of the Alternative Budget that real GDP rose again by 5% in 1986. GDP growth is feeble again in 1987. The consequent weakness in our balance of payments position warranted further deficit reductions but, with the IMF gone, the policy makers resumed an aggressive fiscal policy and the deficits began to widen once again. The supply-side Alternative Budget of July 1986 pushed the 1986 deficit to $164 million, the second highest on record, and we are heading for another deficit over $170 million in 1987. This succession of fiscal deficits has required repeated foreign borrowing to deal with their balance of payments consequences.

The failure to institute an effective incomes policy during the period after 1980 has been our most unfortunate national policy failure. Throughout this period of economic stagnation, both private and public sectors yielded meekly to trade union pressures for wage increases that bore no relationship to productivity gains. In 1981, looking forward to a gloomy winter season, the hoteliers gave a wage increase of 35%; they have never recovered. Real GDP, i.e. after we allow for inflation, was virtually the same in 1986 as in 1980; yet in that period the overall index of wages rose by 45% in the Government sector and by 56% overall.

The sharp increase in wages rates, unaccompanied by productivity gains, has had a deleterious effect on employment and the international competitiveness of our goods and services. Local enterprises had to cut back in labour-intensive sectors. Two of our three department stores ceased operations, foreign investors were deterred from investing in Barbados and some of our most important guest companies took their leave. As our recent Task
Force on Employment demonstrated, it is much easier to eliminate jobs than to create them.

THE FUTURE

Addressing students on the Mona campus of the University of the West Indies in March 1984, I said, among other unpalatable things:

If you thought the 'seventies were rough, wait until you see the eighties! The world will be changing at an even faster rate and we can expect phenomena even more unexpected and bizarre than the Ayatollah.

Speaking in Jamaica once again in September 1984, I followed up,

In fact, the eighties so far have been worse than I anticipated ... Things will almost certainly get worse before they get better.

By then I had come to realize that the turbulence of our times stemmed from the fact that, in the words of John Naisbitt, we were experiencing "a megashift from an Industrial to an Information Society". The unprecedented acceleration in the rate of social and economic change was producing what Alvin Toffler describes as "Future Shock" and was throwing the affairs of mankind into disarray.

Recently, the international economy has become even more volatile and unpredictable, climaxing on October 19, 1987 with the fantastic collapse of the US stock market, sending its shock waves through the world's financial markets. Traditionally, economists have thought in terms of tendencies towards equilibrium or regular cycles of behaviour. However, some scholars now perceive current economic phenomena as increasingly erratic rather than orderly, and are looking to the theory of "Chaos" for new insights and approaches. It appears that the virtually instantaneous transmission of information across the world is producing patterns of social, economic and political behaviour never experienced before. Neither our common sense nor available analytical tools seem capable of apprehending them. The Science of Chaos is a fast growing interdisciplinary exploration of complex systems and offers innovative techniques for unravelling disorder. I am suggesting that our future economic environment will not merely be complicated and volatile; it could be chaotic as well.

Peter Drucker believes that our future will be shaped by what he calls discontinuities, that is, decisive breaks with previous trends. He sees major discontinuities in four areas:

First, revolutionary technologies will create major new industries and render major existing industries obsolete. A task force set up by the Rockefeller Foundation to study these technologies
described their implications for developing countries as "not a welcome view of the future". I quote further from a commentary on that report:

It is even possible that as a result of advances taking place in the research laboratories of the richer countries, the poorer countries could lose the few comparative advantages in the world economy that they now enjoy. Automation could reduce the need for cheap labour; the new materials science could produce substitutes for natural resources found in developing countries; genetic engineering could significantly alter markets for the products of tropical farms and plantations.

Second, from being an international economy, we are becoming a world economy with a global factory and a global market, as multinationals obtain their supplies from the cheapest sources, manufacture their goods in the cheapest production centres and sell them in the most lucrative markets, without reference to national boundaries. Similarly, fantastic volumes of capital funds now move with electronic swiftness from one international financial centre to another in search of the highest rate of return. Years ago Marshall McLuhan prophesied the coming of the global village. Later Ernest Dichter would speak of the global market. In the 1960's Peter Drucker invented the expression "production-sharing" and spoke of the global shopping centre. Today, Robert Grunnwald is talking about the global factory.

Third, knowledge has become the most important form of capital, and knowledge workers our most crucial resource. The technologies which underpinned the major industries of the late nineteenth and the first half of the 20th centuries were the work of what one author describes as "gifted tinkerers" — Edison and Farraday in electricity, Marconi in wireless, Bell in telephony. The new technologies — computers, fibre optics in telecommunications, materials science in space engineering and biotechnology in agriculture, animal husbandry and pharmacology are grounded in abstract scientific theory and evolved in the elaborate laboratories of universities and multinationals. What is worse, the tasks of non-knowledge workers are increasingly carried out by computers. At a recent conference where I met him for the first time, my guru Peter Drucker observed that computers are now capable of carrying out 50 percent of the tasks that people can do. By the year 2000, they will be able to carry out 75%. The remaining 25% will have to wait for the 21st century.

Fourth, the wide diffusion of educational information is undermining centralized authority. Societies are becoming more and more pluralistic with interest groups of all varieties — homosexuals, youth groups, women — springing in the most unlikely societies. Furthermore, the disastrous experiments in state ownership in the West, and here in the Caribbean, have convinced intelligent government of the necessity for decentralization. In the USA and the UK the watchword is privatization and deregulation — though frequently for unintelligible reasons. It is the
recognition of the growing ineffectiveness of centralized authority which is driving Mr. Gorbachev to "Glasnost" and Mr. Deng Xiao Peng to a more free-market system.

Governments which refuse to take these new trends into account are soon rendered irrelevant by their people. We have an excellent case in point right here in the Caribbean. Guyana has the most highly centralized form of government in the Caribbean, controlling almost 80% of the official economy. However, Professor Clive Thomas, Guyana's most distinguished economist, estimates that the unofficial economy, also known as the black market, is at least as large as the official economy. Its participants carry on their import, export and foreign exchange operations as if the Government did not exist. They have their own rules of commercial business conduct but, of course, pay no taxes.

**POLICY AND STRATEGY FOR THE FUTURE**

I warned on leaving the Central Bank eight months ago, that the immediate economic problems facing were quite formidable. My judgement was confirmed with a vengeance by the US Stock-market crash of October 19, 1987. I doubt very much that this crash will precipitate a world depression as the Crash of 1929 did, but I think we should brace ourselves for a recession in 1989. In these circumstances, I commend the advice given by the Prophet Mohammed to the Camel Driver who, on the approach of the sand storm asked the holy man whether he should pray to Allah or tether his camel. The Prophet replied, "Pray to Allah and tether your camel!"

The most pressing item on our agenda is to correct the current fiscal and external imbalances in our economy. This will involve a sharp reduction in the fiscal deficit. Incidentally, monetary policy is quite ineffectual in the face of loose fiscal policy! In particular, we must put the axe to rising government expenditure as we have been promising to do for some time now. (A study of recent fiscal developments in the USA would be most instructive.) It may even be necessary to take back some of the "give-backs" of the Alternative Budget. The reduction in the deficit would reduce the need for foreign borrowing. Such measures will reassure the international financial community and enhance our chances of raising the US$50 million or so, which we will need to borrow annually for the next three years.

Having lost hundreds of billions of dollars in loans to the Third World, the international financial institutions are most diligent students of our economy. But they will go a long way with countries whose economic policies make sense. I cannot stress too strongly the need to maintain control over our balance of payments situation. To lose it would be to surrender the management of our economy to the IMF — I can think of few worse fates. This requires that we restore our foreign exchange reserves
to levels which provide for a wide margin of safety. My definition of hell is when you have run out of foreign exchange reserves.

But the long run economic future of Barbados will depend largely on the quality of the response of our national policy makers to the discontinuities in our world environment, which Peter Drucker has identified. First, the new technologies. We must be aware of new technological developments in our environment, and be ready to adapt them to our own needs whenever advantage is to be gained. We must especially keep our public utilities in a state-of-the-art condition. Obvious candidates for technological update are the Royal Barbados Police Force and the Law Courts. Their facilities need to be as modern as those of the Central Bank.

In particular, we must master computer and telecommunications technology. Indeed, Professor John Kemeny, the Third Sir Winston Scott lecturer, argues that the computer has restored developing countries to the same starting line as the developed. Taiwan and South Korea may have proved him right. I was most concerned sometime ago at the Government’s declared policy to halt proliferation of the computer. In fact, we should be doing the opposite, not least of all because computers are now so inexpensive. Thirteen million Americans now use the computer in their daily work! New jobs are generated, not so much in the manufacture of computers, but in the new services and industries which they make possible. We, Barbadians have no chance of solving our unemployment problems except through the use of the computer.

The second discontinuity is the globalization of production and marketing. Here, we have no choice but to integrate our own economy into the global production and marketing systems. Such a policy involves cooperation with multinational and other foreign corporations. We should push our businessmen in that direction. They should stop wringing their hands over the loss of the Trinidad market, and reconcile themselves to the fact that the local market is far too small to support a viable manufacturing industry.

We should also exploit any opportunities provided by membership in CARICOM, especially through the combination regional resources for the penetration of extra-regional markets. In this respect, it is important that we maintain the competitiveness of our exports. For years I warned about wage restraint; Barbadian labour costs are now so far out of line with those of our competitors, e.g. Jamaica and Mexico, that it may well be time to consider wage freezes and wage cuts, as the USA and Curacao have done.

The third discontinuity is the emergence of knowledge as the most important capital resource. Our national instincts in this area should serve us well. However, we will have to pay increased attention to the quality of our tertiary institutions, especially the University, since they are our most important producers of knowledge. I would particularly like to see a faculty of philosophy
added to the University curriculum, for it is thought philosophy that we gain new knowledge. Recently I chided Sir Hugh Springer and Sir Philip Sherlock, lovingly of course, for failing to establish a faculty of philosophy from the inception of the University of the West Indies. I was more severe on Sir Hugh, since he is one of the most knowledgeable West Indians in this field. They were both appropriately penitent.

I appreciate that the Government budget is already strained to provide adequate funding for higher education. Free university education was instituted when the per capita income of Barbadians was a quarter of what it is today; isn’t it time that students whose parents can afford it should make some contribution? Others might make some contribution to their education through loans repayable after graduation, as is the case in the United States! Isn’t it also time that private enterprise channel some of their profits to the endowment of the University? Wouldn’t it be nice if by our 50th Anniversary the University is obtaining the major portion of its funding from its own endowments? He pays the piper call the tune. Our university will never be fully mature as long as Governments pay the piper.

The fourth discontinuity, the erosion of centralized authority, presents the most difficult challenge for a small society. It is easy for politicians in small societies to delude themselves into believing that they can control every minute detail of economic activity — and, of course, politicians do not readily give up power. In the early stages of our economic development, massive infrastructural projects, require highly centralized planning, legislative and administrative processes. This in turn calls for a strong central government capable of imposing the heavy taxation needed to execute major projects. As development proceeds, there is need for Government to disengage from microeconomic activities and allow for the proliferation of decision-centres in the society. This permits economic advance on a broad front. Drucker is saying even more. He contends that modern governments have no choice in the new information age but to disengage.

The decentralization of our governmental apparatus will require the re-education of our electorate. We need to escape from the notion that the Government is there to do things for us. This attitude must be replaced by the proposition that Government is there to help us do better the things of which we are capable. Politicians would then no longer feel constrained to promise, for example, that they will provide jobs for everyone overnight. As a matter of fact, job creation occurs primarily in the private centre and involves the commitment of retained profits to marketing and investment activities. Even the considerable capital expenditures by Government in 1981 and 1986 made hardly a dent in the unemployment level.

Decentralization will involve pushing decisions now made by ministers further down in the Civil Service and statutory boards. This will free ministers to carry out the tasks which they alone
can do — make policy. Such a strategy would involve a much
greater emphasis on training in the Civil Service than now exists
so, as to promote the highest standards of professionalism and
political impartiality. I have already spoken of the need to
separate politics from operations in the management of statutory
corporations. The era is over when all roads led to the Prime
Minister. The nation has come of age and its citizens are mature
enough to share in the management of our society.