LECTURE

DELIVERED TO

THE YOUNG ECONOMIST ASSOCIATION OF
THE UNIVERSITY OF THE WEST INDIES

"TRANSFORMING THE BARBADOS ECONOMY IN THE AGE OF LIBERALISATION"

GIVEN BY

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AT THE

ERROL BARROW CENTRE FOR CREATIVE IMAGINATION

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I suppose that one of the requirements to be a former Prime Minister is that you should be seldom seen, and seldom heard.

I fully intend to meet those requirements.

Sometimes, however, there will be developments in our public affairs about which it will be difficult to speak, but impossible to remain silent.

One such development has been the characterisation, by the Minister of Finance, of the economic and financial crisis which has engulfed the nation as the worst in living memory.

That is now beyond dispute.

It is however equally beyond dispute that the nation's response to the crisis has not been proportionate to the circumstances surrounding the crisis in respect of its causes, extent and effects, and hence possible solutions.

This is inherent, for example, in the official tendency, at one and the same time, to acknowledge the extent of the crisis, while denying its severity, as evidenced in the assertion that Government does not have a major cash flow problem, or that the rating downgrade by Standard and Poors is of limited consequence.

It is evident also in the dramatisation of the fiscal aspects of the crisis, and the citing of the need for immediate and urgent fiscal solutions, without corresponding attention to the fact that the private, productive sectors and the households of Barbados are also facing the spectre of catastrophic failure.

Above all, a dangerous kind of serendipidity seems to be on the point of entrenching itself – the belief that once the international recession lifts, the crisis in our economic affairs will somehow vanish, and the buoyancy to which we have grown accustomed will be resumed.

It is this latter consideration that has inspired the theme of this address: "Transforming the Barbados Economy in the Age of Liberalisation."

For it is my judgement that the forces which have bombarded the Barbados economy, and have necessitated policy response of the most far reaching kind in the last decade, been those which have emanated from changes in international trade laws and relations.

Those forces have not abated. If anything, over the next five years and beyond, the consequences of new trade pacts and relations, which have nothing to do with global recession per se, will, in the absence of proactive policy adjustments, bear heavily and adversely on the structure and performance of the economy.

This must be of great concern because over the course of the past two years, the focus of official policy has not been directed towards the need to implement policies that can enable Barbados to reposition its economic enterprises and its sectors to accommodate changes in international trade law and relations.

In addition, no new policies seem to be in the offing in this sphere of public affairs.

This lecture has therefore been designed to deal with two basic issues.

First, the Government has put out a Medium Term Fiscal Strategy.

This sets out the measures the Government proposes to implement between 2010 and 2014 to address the fiscal problems it faces.

It is common knowledge that an economic policy can have multiple effects. The policy intended to correct a fiscal problem can lead to deeper recession and rising unemployment.

It is however possible to accompany policies which are intended to deal with fiscal problems with others that, at little cost to the Treasury, can have positive, transformational effects on the real economy.

The tradeoffs that can ensue from the introduction of drastic, new policies have therefore to be carefully measured and calibrated to ensure that they can balance and lead to the harmonious resolution of competing ends.

The question is, will the policies contained in the new Medium Term Fiscal Strategy which are intended to massively reduce Government's contribution to effective demand also, at the same time, create the conditions for economic growth? Have they been sufficiently well balanced to accomplish competing ends?

My judgement, based on the policies contained in the Strategy document, which will attempt to suppress domestic activity without any serious attempt at positive transformation, is that they will lead Barbados into a growth trap – domestic recession caused by international recession, is likely to be followed by domestic recession caused by inappropriate fiscal policies.

At the same time, there are three international trade and relations matters that will take effect between now and 2015 which require proactive policy adjustments now to prevent them from heavily damaging the Barbados economy.

The first concerns the likely future fall of the Barbados market share for the exports of goods to the regional economy as, first the EPA and thereafter other new trade pacts, beginning with Canada, are put into effect.

The second concerns the great potential for a substantial loss of Canadian investment in our international business and financial sectors, as Canada extends to others, the special benefits that have over the past thirty years seen Barbados emerge as the location for the third highest concentration of Canadian investment globally.

Third, the incentives Barbados has used to promote its manufacturing and international business have been judged to be incompatible with Article 27.4 of the WTO's Agreement on Subsidies and Countervailing Measures. We have received a waiver on their dismantling to the end of December 2015. Great change will follow from their dismantlement.

There is no evidence of a considered response to these three forces in either the Medium Term Fiscal Strategy or the Medium Term Development Strategy documents which are to be considered next week by the Social Partners.

Left to themselves, these three forces together with the emerging growth trap, will act like the economic equivalence of four trains, converging from four different points to collide at the same point, at the same time, with potentially great damage to our economy.

It is therefore quite possible that Barbados, in the absence of creative policies now, will emerge from the present recession as a more vulnerable economy, more dependent than ever on its tourism sector, and shorn of much of its promise to be a major centre for the conduct of international business.

At this juncture, our policies should be intended not only to compress activity and output. Resources and elbow room must be allowed to support creative and transformational new programmes to deal with the challenges which lie just over the horizon, even as we deal with the fiscal problems which must be addressed immediately.

Some say that we cannot afford such countercyclical policies. I say that we need a countercyclical attitude. I can discern no evidence of it.

In the absence of such a positive outlook meaningful economic recovery may lie outside our grasp.

THE GROWTH TRAP

While the economic problems of Barbados exist as separate phenomenon – e.g., the size of the fiscal deficit, the loss of reserves, the rate of growth of output and employment – any realistic attempt to resolve them must be based upon the implementation of economic management and development strategies which recognise the inter-connection between the economic forces and relationships which are put in play.

At the core of the network of economic relationships is the size of the fiscal deficit and the need to reduce it to sustainable proportions.

In controlling the fiscal deficit, Government's contribution to total domestic demand, and hence its capacity to help generate growth in the economy will fall.

If Governments' contribution to domestic demand is designed to fall, then growth in the economy can only be generated if the fall in Government's contribution to domestic activity is compensated for by more than a corresponding increase in output and investment by the private sector. If such increase in private sector output and investment cannot be generated by stimuli arising in the local economy, then they must come from an expansion of the ratio of both exports and private capital inflows to GDP.

Since management of the fiscal deficit is at the centre of the relationships, if the Government's fiscal planning is significantly off the mark, and its policies to suppress activity are too severe, then the relationships that hold the economy together will go haywire, and the crisis and the spiral downward will intensify.

Our evaluation of the statistics and targets set out in the Medium Term Strategy document leads to the inference that this is the likely scenario that now confronts Barbados.

First, the Government is proposing to undertake an unnecessarily large contraction in its own activities, which will increase the extent of the activities that the private sector and the households will have to generate to compensate for the decline in the public sector demand.

Secondly, both the private sector and the households are themselves facing major stresses and pressures before the implementation of Government's contractionary measures. The nature of the measures contained in the Medium Term Fiscal Strategy will further aggravate the already distressed conditions of both the private sector and the households.

It means, therefore, that if Barbados is to be put back on a sustainable growth path, the there has to be a surge in both exports and private capital inflows, beyond historically recorded levels, to make up the likely shortfalls in domestic public and private economic activity. Changes in our international trade relations however are likely to make this difficult.

By any test of reasonableness, the programme of measures contained in the Medium Term Fiscal Strategy suggests that none of this will be achieved.

FISCAL DIMENSIONS

I deal first with the proposed response to the Fiscal problems which face the Government.

The conditions for sustainable development in Barbados have been based, in part in the policy that Government should incur only manageable fiscal deficits, in the order of no more than 2.5% of GDP.

To read significance into this index, membership of the European Union, and support for its common currency, is based on the realisation by its members of deficits of no more than 3% of GDP.

Barbados' fiscal stance has therefore been based on an index which reflects international best standards.

More to the point, in the sixteen years since 1991, the annual fiscal deficit has averaged 2.1% of GDP. It has exceeded the 2.5 % marginally on a few occasions, and significantly in 2002 in the aftermath of the September 11 debacle when a countercyclical fiscal policy was called upon to help stabilise the economy. Significantly, it was brought back down from 5.4% in 2002/2003 to 2.4%, 2.6%, 1.5% and 2.1% for the years 2003 to 2006. At December 2007, it was on course to be 1.7% for that fiscal year.

The most recent Report of the Central Bank indicates that the fiscal deficit for this fiscal year is now estimated to be in the excess of 8% of GPD; more than three times the acceptable standard.

They are those who would wish to ascribe this either to the effect of global recession or to the legacy of the last administration.

The facts, however, are that much of this fiscal mess is due, not to imposition, but to choice by the Government.

It was warned, at the start of this fiscal year, that it was asking Parliament to approve a spending programme that could not be paid for by either taxes or identified loans. It none the less pressed on with an ill conceived expenditure programme.

It chose to believe that it could take in significant yields from the VAT, although it was clear that the base of that tax would be significantly reduced by the fall in retained imports arising from the recession.

As far back as 2006, the policy position was taken that, given our debt profile Barbados, could not afford any new social entitlement programmes, unless they could be paid for from a sizeable surplus in Government's Current Account.

Over the past two years, despite the existence of a significantly high current account deficit, Government has introduced new social entitlement programmes such as free bus fares, expanded summer camps, and Constituency Councils, for which it has had to borrow.

In addition, the Central Bank has also reported that the public payroll has increased by 14% for the first nine months of 2009 over 2008. This obviously, was not due to an increase in the wage rate, but to a significant expansion of

Government "make work programme," the worst aspect of which is to be found in the Ministry of Housing and the Ministry of the Environment.

Remarkably, also at a time when the Country is clearly facing severe fiscal and cash flow problems, the Government has chosen to open three new embassies in China, Cuba and Brazil.

Barbados' stability and relative prosperity has been made possible in large measure, by its sustained investment over an extended period, in the creation of social capital which has generated the human and institutional assets and resources to spur its development.

We must however draw a distinction between investing in the creation of social capital, and funding entitlement programmes to give out benefits.

An increasing proportion of Government's recent expenditure has been devoted to funding social entitlements rather than creating social capital. A lot of it has been motivated by political considerations rather than by purposes related to the economic and social development of the nation.

It is clear that with a deficit of over 8% of GDP, the range of social entitlements in Barbados is too heavy for the economy to carry.

An adjustment has to be made the public expenditure. This should be done, recognizing that different functions have different strategic values to our national development. Hence, across the board approaches should be avoided. Above all, any cuts should be made in a manner not to erode the growth of social capital which is still needed for our development.

This brings me to an evaluation of the menu of measures that are set out in the Medium Term Fiscal Strategy.

These measures have at their core the proposition that the Government should by March 2015 convert the present deficit of 8% to an overall surplus of 0.7% of GDP. The notion of continuing to have a prudent fiscal policy centred on the realisation of small, manageable deficits has been ruled out. Both current and capital expenditures are to be met from current revenue.

The concept that since physical assets are to be created, those who in the future benefit from their creation should help to pay for them, has been thrown out of the window. Above all, Government has left itself no elbow room to do anything creative or transformational to restore recovery to the Barbados economy.

This lurch from an excessively high fiscal deficit to a commitment to the policy that an overall fiscal surplus must be recorded by 2015, is analogous to the case of a vegetarian who becomes a meat-eater and feels that, in doing so, he must go all the way back to cannibalism.

It is an unnecessary large and drastic adjustment, which cannot be justified on any good grounds of precept or practice.

It has been derived entirely from Government's acceptance of IMF prescriptions, especially about the size of the primary and overall surplus Barbados has to generate, and its determination to heed that advice, no matter what the cost may be.

An adjustment of this order of magnitude means that the Government proposes to make an adjustment of over half a billion dollars in its tax increases and expenditure reduction programmes effectively over three years, and to do so in an economy in which both the households and private enterprises are still groggy from the effect of recent recession.

The menu of the proposed measures, the main aspects of which are now listed, indicates that Government proposes to deal only in austerity as its only tool of management.

Some of the measures include:

- Containment of the cost of public sector personnel emoluments by allowing the total growth to be equivalent to the sum normally paid as increment, over the period 2010 – 2015.

  Effectively there is to be no increase in negotiated wage rates for the period.

- 100% cuts in the transfer to the NHC and BWA.

- Incremental, but unspecified cuts in the transfer to the QEH, Transport Board, UWI and BADMC.

- The reduction in Government's procurement of goods and Services by 50%.

- The financing of 50% of Government's projects through the Public Sector Partnerships.

- On the revenue side, broadening the VAT base including restructuring the fiscal incentives.

- Increasing the excise taxes to capture any loss in revenue due to the EPA.

- Over the planning period, licenses and fees are to be increased in line with inflation and costs.

These measures are all draconian and are driven by the IMF policy imperative that a primary surplus of 5.4% and an overall fixed surplus of 0.7% of GDP must be recorded by 2015.

Not only will it be virtually impossible to achieve, but the effort to do so will obviously undermine the capacity of both the productive sectors and the households to make contributions to the stimulation of the economic activity to create conditions for the economy to grow at the rate of 3% – which the plan also calls for.

For, the question that arises is whether the private sector of Barbados finds itself in an economic and financial condition to pick up the slack that will result from a net fall of over $500 million in Government's contributions to domestic demand, while having to cope with new impositions on its activity.

In some sections of the private sector, notably manufacturing, output fell by over 50% in the last reporting period. In construction it fell by 36%. By these standards, the 10% fall in tourism value added, which would generally be seen as catastrophic, can be held to be modest.

Private sector activity has also been negatively affected by the drastic fall off in private capital inflows. The Barbadian economy attracted $1.5 billion in private capital inflows in 2007, and an average of $637.5 million per year over the past three years. It attracted only $29.4 million in the first nine months of 2009.

The crisis of financial viability that private enterprises of Barbados is facing is borne out also in the fact that deposits held by business firms in the Banking System have fallen from $1.272 billion in 2007 to $1.1 billion at the most recent count.

This indicates that the enterprises in Barbados are already making a tremendous financial sacrifice just to hold a line on employment levels.

More to the point, the financial measure Government sought to put at the business community's disposal to stabilize it – deferment of NIS contributions and their conversion to loans – has not been taken up for lack of serious worth.

In such a context, a severe cut in domestic spending, together with the withdrawal of VAT concessions from private investments would put paid to any serious possibility of private sector led growth of the magnitude required.

The notion that at least half of Government's new capital projects should take the form of public-private sector partnerships is laudable, and would help significantly.

But, as recent experience has shown, the execution of public-private sector partnerships can be difficult to achieve because of lack of certainty regarding the procurement and accounting rules and standards that should apply to this kind of activity. The assumption therefore seems to be heroic.

Indeed Government's Guarantee of the Four Seasons' debt, as part of a Private-Public Sector Partnership is exactly the kind of action the Government would have to avoid it if is to achieve the kind of debt profile it has set for itself.

A similar grim outlook obtains in respect of the extent to which activity by the household sector could be expected to contribute to growth in the face of the policies proposed.

Over the course of the past 15 years, a significant part of the expansion of employment in Barbados has come from the expansion of existing enterprises and the creation of new firms to provide quality-of-life services and IT related services all across Barbados. Most of these are small or micro enterprises. A lot of this activity is less import intensive than the traditional export activity. The significant increase in the cost of utilities and fees that have already taken place, and those that are proposed as part of the Medium Term Fiscal Strategy will so affect personal purchasing power as to cause most households to restrain their consumption to the purchase of basic needs. Quality-of-life services that do not constitute part of the ordinary person's basic needs basket are likely to suffer.

A significant shake out of the small business sector that provides services beyond those classed as basic needs will, in all probability, be the consequence.

A SECOND GENERATION OF COMPETITIVE POLICIES

The measures proposed to restore balance to Barbados' economic affairs, through the large scale compression of local demand, lead to the inference that Barbados can only be put back on a growth path if new policies are instituted to significantly raise the ratio of both private foreign capital and exports to GDP.

But this can only be achieved if we confront and conquer the three threats to export and foreign capital expansion that lie just beyond the horizon. These are the potential loss of market share in the regional market, the loss of Canadian business in the international business and financial sector, and the threat of the dismantling of the incentives used for the past thirty years to support manufacturing and international business development.

Let me set the matter in its appropriate context.

1998 marked a watershed in Barbados' economic development. Prior to that date, and consistent with prevailing international trade law, domestic enterprise in Barbados, especially in the manufacturing and agricultural sector, were created behind and in response to high, protectionist trade barriers, featuring the use of licences, quota and other non-tariff barriers.

The application of Barbados' commitments to the WTO, as agreed under the Uruguay round in April 1994, required that those non-tariff barriers be replaced within ten years.

That process began in 1998, requiring that, for the first time, Barbadian enterprises in these vulnerable sectors had to face international competition not just abroad, but in the domestic market.

The result was a fall in output and a loss in market share in Barbados by the sectors affected, and a surge in imports.

At the same time, Barbados started in earnest to make the adjustment to accommodate the CSME regimes, and especially the adjustment to the CET.

As a result of the removal of non-tariff barriers, some industries migrated to Trinidad.

At the very same time, the OECD Harmful Taxation Initiative that struck at the operation of the international businesses and financial sector came fully into effect, again with adverse consequences.

Soon after, CARICOM started the process of entering Free Trade Agreements with neighbouring states. The Dominican Republic – CARICOM FTA led immediately to the closure of Colgate Palmolive.

Later came the threat from the economic effects of increasing oil prices.

This combination of rapid trade liberalisation and changes in the international conditions for doing business inspired a programme of measures to reposition our economy to function successfully in the new environment. These measures saw the bringing together of new policies in relation to taxation, capacity building, institutional reform and new strategic investments to build enterprises and sectors that could more effectively compete at home and abroad.

These included:

- The VAT, to reduce our dependence or discriminatory and non-WTO compatible taxes on trade that existed before 1997;

- The acceleration of the programme of telecommunication reform to significantly affect the cost of a major input used by entities doing international business in Barbados;

- The EDUTECH Programme to transform our educational system to function in the Information Age;

- New Tourism Development Legislation to support a more competitive and broad based hospitality sector;

- The Tourism Product Improvement Project in St. Lawrence Gap, Bridgetown, Speightstown and elsewhere to refresh and modernize our tourism product to enable it to compete with newer products in other destinations;

- The creation of the Fair Trading Commission to generalise competitive forces, in a small economy, where monopolies have tended to dominate;

- The creation and full public support for the Coalition of Service Providers to be Barbados' institutional spearhead in penetrating new services markets in the region and globally;

- Related to this a New Small Business Development Act, to create enterprises that are better financed and better organized, and that can function more effectively at home and that can engage in cross-border activities;

- State funding for an annual Technical Assistance Programme to reengineer industries to meet international standards. The last to benefit was Mount Gay Rum;

- The creation of five specialized funding institutions to provide concessional financing to support the activities which enterprises undertake had to restructure to meet the demands of a more competitive regional and global market environment;

- The modernization of our laws pertaining to insolvency to facilitate the kinds of corporate restructuring made necessary by the forces of liberalisation;

- To make Barbados a preferred location for doing business in a Caribbean economy with a Double Taxation Treaty that made provision for taxation at source, we reformed the personal and corporate tax rates to make them among the most competitive in the region;

- Established a regime for the pricing of energy products to ensure that our productive sectors are not overwhelmed by differentials in energy prices in having to operate in the same single market as their Trinidadian counterparts;

- Introduced a wide range of WTO compatible subsidies and incentives to spur the growth of agricultural activity that possessed competitive potential;

- Modernised the infrastructures at the Port and Airport to support a more competitive economy;

- Reformed our international business and financial industries legislation to fend off challenges such as that ensuing from the OECD;

- Instituted a 100% Bajan Programme to provide domestic industry with a base in the home market from which to compete;

- Encouraged the export of capital to the regional economy;

- Liberalised our exchange control regimes;

- Reformed the taxation of property to encourage the development of foreign exchange earning capacities in the Tourism villa market;

- Instituted a Community Technology Programme to rapidly diffuse familiarity with the use of IT at the grass roots;

- Introduced electronic portals in the public sector to support the drive to use IT change as a catalyst for economic transformation;

- Introduced the programme, the National Initiative for Service Excellence, to ensure that all the attributes required to develop Barbados into a major exporter of high quality services were and are diffused through the society; and

- Finally, created specialized to promote and market Barbados exports and international business.

Some of these measures will be of continuing value way into the future. However, the threats that Barbados now faces in the international arena require that a second generation of measures be brought to bear to deal with the challenges of the future, which will be in many ways different from those with which we contended in the past.

We need first to understand the nature of the new threats.

First, Barbados faces the threat of a major loss of trade in the market for goods within the region, with a consequent significant negative impact on our export earnings.

Among the MDC's of CARICOM, Barbados is the economy that exhibits the highest degree of dependence on the regional market for the exports of goods. In our case, the CSME accounts for over 50% of our trade in goods, as compared to Jamaica 2% – 3%, and Trinidad and Tobago 12%. Our sales to CARICOM are not from the output of transnational companies, but from a large number of small and medium sized indigenous companies.

Our market position is at present protected in the region by the CET of 20% on extra-regional industrial imports and as high as 45% on agricultural imports.

The EPA with the European Union, will, after a three year grace period, start to come into effect next year. This will begin the process of peeling away the CET as a device protecting our exports to the region. European goods will not only enter duty free, but will be less expensive than in the past. The likely effect will be a switch from Barbadian goods to cheaper European imports.

Remarkably, nothing has been done by Barbados in the last two years to draw down on the development finance cooperation arrangements in the EPA to prepare our enterprises to stave off this threat.

CARICOM has also started the process of negotiating a new WTO Compatible Trade Arrangement with Canada. To meet WTO standards, the region and Canada will have to agree to liberalise at least 90% of their total trade. In our EPA with Europe, that 90% threshold was attained by Europe's agreement to liberalise immediately all of its imports from the Region and from the fact that the Dominican Republic agreed to expose more of their market to European competition than the rest of CARICOM.

The Dominican Republic is not part of the negotiations with Canada, and Canada does not liberalise 100% of its imports in trade deals. It protects some of its agricultural activities.

The point is that the Caribbean will have to expose more of its sensitive industries to international competition at home in arriving at a WTO compatible Trade Agreement with Canada than it did under the EPA with Europe.

It is also pertinent to point out that the USA's domestic legislation validating the grant of trade preferences to the Caribbean (under the CBI) expires this year 2010.

We have had great difficulty in the past getting WTO waivers for the continuation of this trade preference. After much effort, a WTO waiver was obtained, to expire in 2015.

It will take a supreme effort in Development Diplomacy to perpetuate our existing trade preferences in USA domestic legislation, and in the form of WTO waivers.

Barbados will therefore face increased pressures to hold on to its market share in the region because of these trade developments which are already in train, and those which will follow as more countries enter new Trade Agreements with our region.

The effect will probably be significant because our small indigenous exporters cannot switch markets as easily as transnational companies, and these small indigenous exporters account for the bulk of our exports to CARICOM.

The second threat comes from the changes in Canada's taxation policies in respect of its international business and financial sector. Barbados has emerged as the third largest location for Canadian investment globally, because of the tax advantage that the exempt surplus provisions of our Double Taxation Treaty with Canada conferred on us relative to our neighbours. Under this arrangement, firms undertaking active business in Barbados could remit dividends to Canada free of tax in Canada, subject to the payment of the low tax in Barbados. Other Caribbean jurisdictions, without a Tax Treaty or an Agreement for the Exchange of Tax Information with Canada enjoyed no such benefit.

By this arrangement, almost $40 billion of Canadian investment came to be located in Barbados.

Following the report of the Advisory Panel on Canada's System on International Taxation in December 2008, Canada has begun the process of entering into a number of new Double Taxation Treaties, including with some our competitors in the region.

This development holds dire consequences for Barbados' ability to expand its international business sector, given the role that Canadian investment has played in this sector, which is now the second largest in our economy.

Third, Barbados has over the past 40 years put in place a number of incentive programmes targeted solely or partly at promoting our exports.

The five programmes which have been notified by Barbados to WTO are:

1. The Fiscal incentive Programme;
2. The Export Allowance in the Income Tax Act;
3. The Research and Development Allowance;

4. The International Business Incentives;

5. Incentives for Societies with Restricted Liability;

These incentives have been judged to be incompatible with Article 27.4 of the WTO's Agreement on Subsidies and Counteracting Duties.

Barbados had sought to have continued use of these programmes until the year 2018. In July 2007, the WTO General Council decided to extend the date for the dismantling of the export subsidies to the end of 2015. This will bring to an end one of the main means by which export industries in Barbados have been created over the past 40 years.

The long and short of all of this is that over the immediate horizon, Barbados will have to dismantle the incentive used to encourage the development of some of our most important industries, lose the competitive advantage we have historically enjoyed in attracting Canadian investments, and lose significant market share for our exports to CARICOM.

A large proportion of business activity in Barbados has been generated by these special but discriminatory tax breaks and export incentives. If we lose them we will have to introduce a second generation of competitive policies, based not on incentives or subsidies, but on the exploitation of competitive advantages that are not subject to challenge in the global arena.

In such a context, our policies to assure our competitiveness must immediately be given the highest priority, and must be centred on programmes to make the most of opportunities arising from cost advantages or opportunities emanating from the value of the assets associated with the Barbados Brand.

There are only a very few areas in which our ability to compete can be made to rest on cost advantages.

Hence, a premium must be placed on optimising the benefits that can be gained from deploying the special economic attributes that make up Barbados Brand. We need those special measures to be deployed now, even as we face the challenge of stabilizing Barbados in the face of the current recession.

In so doing we must resolutely determine to make the best and fullest economic use of our most abundant as well as our most scare resources – our people and our land.

There is still great scope for investment – driven development in Barbados because of the international attractiveness of the Barbados Brand. However, to realise this potential we must make the most creative use of our land. But, it is simply inconceivable that we will succeed in basing our development on the exports of services by having our land use policies determined largely by agrarian considerations.

Secondly, to move the production to higher value added services, as we simply must, the principal human resource constraint standing in its way must be removed.

For, despite our commendable advances in education, Barbados still have a significant tertiary level output deficit in absolute terms, and by comparison with other emerging economies which have a lower human development index.

We still especially lack the range and cluster of skills needed to go to the next level in the production of services to meet the demand in the global economy that is becoming more and more a knowledge-based economy.

If anything, the target of one graduate per household by 2020 is too low and is conservative.

But it should at least be met. It however cannot be realized by putting investment in tertiary education on the same strategic plane as transfers to the Transport Board, and subjecting it to cuts meant as blunt, across-the-board instruments to solve fiscal disorder.

Finally any programme to enhance competitiveness must have at its core a genuine incomes policy that is intended to tap into Barbados' rich social capital vein that is reflected in the resourcefulness of its people.

The people of Barbados are imbued with an extraordinary spirit of economic nationalism.

They want their nation to be successful, and can easily be incentivised to create the conditions for that success.

That special attribute must now be captured in an incomes policy that is not a freeze, but one that sets new benchmarks for rewarding effort, and in so doing create the enabling environment for higher productivity in both the public and private sectors.

I took great pains to outline the measures that were used to mobilize a national response to the challenges thrown up by liberalization in the first decade of the 21st Century.

All of the measures were of indigenous origin in respect to their conception, and none was financed by the IMF, World Bank or IADB. They were a 100% Bajan solution to the challenges of liberalisation at the start of this Century. More importantly, they created the conditions for the most aggressive assault on unemployment and the greatest boost to our foreign reserves in our history.

We have it in us to record similar great successes in the future.

At this moment of great peril, we therefore need to cause the people of Barbados to rise up in their own economic self-defence by creating an enabling environment that stimulates personal and corporate initiative, and suitably rewards our people for their ingenuity in transforming the Nation.

THE BARBADOS MODEL

It is therefore important, at this critical juncture, that our economic and financial affairs are not ordered only to satisfy an accountant's delights – providing fascination with accounting concepts such as primary balances or fiddling with ratios and indices.

Nor should our affairs be directed only towards the use of austerity as a policy, invoking what Errol Barrow in 1974 referred to as the "confraternity of pain and deprivation."

There is a Barbadian way of doing things that has worked for us.

I refer to it as the Barbados Model. It is reflected in the certain vital relationships and ideals whose practice has accounted for our growth, stability and development over the years.

These relationships and practices which make up the Barbados model centre on the following five features:

1. Sustain investment in the development of our <u>social capital</u> to create the skills, human capital and institutional capabilities that constitute the critical resources that have been most depended upon to spur our national development.

2. The pursuit of sound and carefully balanced macro-economic policies. At the core of these is our commitment to a fixed exchange rate, and the fiscal and monetary discipline which are required to maintain it.

Also, vital to this process are policies to keep energy prices, interest rates and the rate of inflation as low as possible.

3. The pursuit of strategies to create a dynamic enterprise culture. It is a culture that facilitates the creation of new enterprises and the expansion of existing ones through the use of incentives and other supports that stimulate creativity and provides entities, both private and corporate, with reasonable returns on their efforts and investment.

4. The Barbados Model depends on the existence and functioning of an Entrepreneurial State. For Barbados to succeed, the Government must function like an entrepreneur. It must take reasonable risks in search of higher returns in the form of sustained national development. It must engage in policy innovation, often in ways that contradicts orthodox

precepts. It must, as circumstances warrant, make direct investments in the economy to lead the way for the private sector to follow.

5. The Barbados Model requires that we rely on **open** rather than closed systems in ordering our economic and social affairs.

Our social system should never be closed, but should be so sufficiently dynamic that persons can enjoy social mobility to move from one class to the other. Our economic system should feature similar dynamics. We cannot afford the consolidation of ownership of income and wealth.

We must also have the confidence in being open in our relations with the rest of the world, in relation to the movement of capital, the movement of ideas, and the movement of people.

An open system also entails the building of a political process that is inclusive, and where the doors of opportunity are not closed to any of our citizens for partisan, ethnic nor other debasing reasons. In our case, we have taken inclusiveness to the stage of creating a Social Partnership to embed total involvement by all in crucial national decision making.

For it is as true in economic affairs as it is in the realm of Thermodynamics, that any system that is closed or deprived of the energy of openness, will always tend towards atrophy.

The workings of the five core relationships in a harmonious way, have driven out development.

In recent times, some of these relations appear to be going haywire.

There is talk about not continuing to invest in the development of our social capital in the form of tertiary education.

That is dangerous doctrine. I would be happily prepared to contribute to our higher education legacy by paying a tertiary education levy to ensure that today's generation of Barbadians are afforded the same opportunity I enjoyed to become the best I could be through university training.

Our macro policies are no longer sound nor in balance. Soundness that also balance must be restored.

The thrust of official attention has in recent times drifted away from the creation of enterprise towards the expansion of entitlements and a freeness mentality.

We now appear to want to close our economic and social system; to extend an unwelcoming mat to our neighbours, and a hostile environment to foreign investors.

The state appears too to be on the point of losing its entrepreneurial spirit; and seems intent on resorting to orthodox remedies of a kind that a Study by the Centre for Economic Policy has shown have not worked in most of the 41 Countries in which IMF supported macro-economic policies have been recently applied.

The IMF, the IADB and the World Bank are among us once again. We should welcome them, as Errol Barrow stated in 1974, not as supplicants to their gates, but as members of a cooperative anxious to do business, and with bankable assurances.

The business at hand is to put the Barbados Model back to work in the interest of the harmonious development of the Barbadians society.

It was the Barbados Model that was called upon in 1991 when others said to devalue, but the Government chose to depend upon a stable currency and the disciplines that goes with it as the solution to our problems.

It was the Barbados Model that was chosen as the way forward in late 1994 when the Government I led had to choose between following the prescriptions in an IMF Enhanced Surveillance Programme, containing some of the very measures set out in the Medium Term Fiscal Strategy, or devising our own indigenous solutions. We choose the latter.

It was the Barbados Model, focusing on home grown measures beginning in 1998 to respond to the threats of globalization and trade liberalisation that we called upon to deal with the challenges arising from the first phase of Trade liberalisation in the first decade of the 21st Century.

I believe in happy endings. I therefore believe that if our nation reposes its confidence in the Barbadian way of doing things, our conquest of the crisis that is before us will be yet another success story in our journey upwards and onwards.

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