

Introduction

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One of the major contributions of the Central Bank of Barbados to the economic landscape over the past twenty-five years has been its continuous effort to promote a better understanding of the economy and economic interrelationships. The success in this area is partly attributable to the fact that the small research staff of the Bank has distinguished itself in terms of the volume and quality of its research output. This achievement was fostered by visionary management which recognized the value of research and provided an extensive library collection, computers and access to training opportunities. Staff presented their research at domestic, regional and international seminars and conferences. The Bank created opportunities for dissemination of research through its *Economic Review* and staff were encouraged to send their research to regional and international journals.

This publication, dedicated to the pioneers of the Bank who by their vision and efforts have left an enviable legacy, is in itself a celebration of the contribution of the Bank's staff to the understanding of economic issues. For its tenth anniversary, the Bank published a popular collection of papers which provided a description of the postwar development of the Barbadian economy. The twenty-fifth anniversary of the Bank provides an opportunity for further reflection. This volume of papers has as its focus two main themes. From a macroeconomic perspective, it looks at the types of policies required for stable and sustainable growth. From the perspective of institution building, some of the papers also touched on how the Bank developed its capabilities for achieving its objectives.

Several of the papers draw lessons on policy from past experiences. In that group are Courtney Blackman's introspective examination of the Practice of Central Banking in Barbados, Monetary Policy (by DeLisle Worrell), Financial Liberalization (by Mary Zephirin), External Debt (by Daniel Boamah and

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Cleviston Haynes) and the IMF Experience (by Cleviston Haynes). Written by economists who have spent many years studying the Barbados economy and Central Bank operations it is not surprising that the articles very often come to similar conclusions. There is universal agreement, for example, on the necessity for prudent fiscal policy, the danger of unfettered access by Government to Central Bank financing, and the relative weakness of monetary policy as a policy instrument in a small open fixed exchange rate economy.

The remaining articles are of a somewhat different genre. Marion William's paper on Capital Markets and Peter Whitehall's article on Tourism are somewhat forward-looking. The other papers, which focus on how the Bank's resources facilitated the research efforts, are by Celeste Wood and Muriel Saunders, (on Data Sources) Maxine Williams (on the Library) and Roland Craigwell (on Forecasting Techniques).

Codrington provides a survey of the wide range of research undertaken by the Central Bank's staff over the past twenty-five years. He reflects on the varied approaches (theoretical, descriptive or empirical) and offers the reader a vista of themes which they may want to revisit: sectoral growth performance, exchange rates, macroeconomic policy, banking, model building, trade, wages and productivity, etc. Codrington's article is supplemented at the end of the book by a bibliography of all the published writings by the staff of the Central Bank prepared by Roland Craigwell and Aldeen Payne.

Blackman, the first Governor of the Bank, provides a unique perspective on the development and role of the Bank. The paper points out important differences in the way the author believes central banking should be practised in developing and developed societies. Blackman argues in favour of the use of moral suasion compared to market forces employed in developed economies. He contends that one of the ironies of the Barbadian model is that it was the Central Bank's unorthodoxy - a fixed exchange rate and intervention in financial markets - which led to its success during the first fifteen years.

Commenting on the Bank's own achievements, Blackman cites the initiatives towards developing a capital market and the establishment of the offshore financial sector. He provides an exposé on the events leading to the formation, and eventual dissolution, of the Caricom Multilateral Clearing Facility (CMCF). In doing so, Blackman exposes readers to some of the mechanisms that could have been used to save the CMCF and the "realpolitik" which eventually got in the way. Blackman discusses his relationships with various Ministers of Finance and the economic mistakes made during his tenure. Perhaps the most interesting and provocative part of this paper is the section on the politics of central banking. We learn that the source of his discomfort with regional central banking

arrangements is “the endemic conflict” between a Minister of Finance and a central bank Governor in the area of money creation. To remove the threat of excessive money creation, Blackman puts forward suggestions for the greater independence of central banks. Finally, he offers some lessons from his experiences and a brief assessment of the Central Bank on its 25th birthday.

DeLisle Worrell reviews monetary policy in the Caribbean and defines two distinct approaches. One is a “market-friendly” stance, adopted by the Central Banks in Barbados, in particular, and the smaller Caricom territories, which relies heavily on moral suasion and other “soft” options. This is contrasted with the “interventionist” stance adopted by the other central banks. The Central Bank of Barbados has relied heavily on its knowledge of commercial bank operations to plan strategic changes in monetary policy which have led to a high degree of confidence in the Bank. Worrell argues that too much control by central banks can become counter-productive as market players find creative ways to circumvent the regulations. This was one factor in the rapid expansion of credit union activity in Barbados.

According to Worrell, it is in the area of open market operations (OMOs) that the differences between the regional central banks are most pronounced. Describing OMOs as the least effective tool of monetary policy, he states that it has failed noticeably to achieve the stated goals of interventionist central banks. This is because “... changes in interest rates are insufficient incentives for consumers to change their behaviour and banks know this”. Worrell’s conclusion is that in Caricom-type economies, monetary policy is weak, flexible exchange rates are untenable and financial liberalization questionable. Accordingly, monetary policy can only complement not replace prudent fiscal policy and should focus on accommodating private expenditure plans by ensuring financial stability.

Mary Zephirin supports Worrell’s view that wholesale financial liberalization may be inappropriate for small developing economies. Zephirin draws on the theoretical literature that the absence of perfectly competitive markets will invalidate the propositions of the McKinnon-Shaw argument that, in the absence of regulations, banks will raise their interest rates to market clearing levels. In addition, Zephirin refutes the notion that higher interest rates increased financial savings and illustrates why the removal of regulations may not alter credit rationing by banks. Zephirin draws the conclusion that governments should work with their markets not frustrate them!

The study by Cleviston Haynes discusses the reasons why Barbados entered into loan arrangements with the IMF, how these programmes were developed and what lessons can be learnt. In comparing the two Standby arrangements, Haynes provides a chronology of the events leading up to the crises, which shows many

similarities including fiscal indiscipline and external shocks. What differentiates the programmes was the response, with the relatively early response in 1982 precluding the type of measures which proved so unpopular ten years later. Haynes restates the prerequisites for a fixed rate regime - prudent macroeconomic policies and adequate supplies of foreign reserves - and advocates minimal central bank financing for Government as a first step to avoiding future difficulties. These must be supported by competitive productive sectors.

Daniel Boamah and Cleviston Haynes identify the institutional factors which influenced the growth of public debt in the Barbadian economy. They note that while the composition of debt has changed, the terms on which it is obtained is increasingly unfavourable. Maturities are shorter and interest rates higher, a situation likely to worsen as concessional funding on external markets declines. Boamah and Haynes provide tentative estimates of the additional costs of commercial borrowings between 1982 and 1990 and this, together with trends in debt ratios, reinforces the need for prudent fiscal policies in the future. For the future, Boamah and Haynes conclude that debt management should be part of overall macroeconomic policy, particularly to achieve the appropriate mix between domestic and external borrowing.

In "Money and Capital Markets in Barbados", Marion Williams describes the impetus provided to capital market development by the Central Bank. Williams discusses the new instruments, how the Bank provided liquidity for existing instruments and the Bank's role in open market operations. She identifies the formation of the Securities Exchange as an adjunct to the existing capital markets as a major development. The challenge now is twofold. How can one create vibrant primary and secondary markets for shares and securities? How will this develop in an increasingly liberalized environment where capital control barriers are breaking down?

Like Williams, Peter Whitehall's article on tourism, is forward-looking in part. Whitehall seeks to identify whether Barbados can be classified as a mature destination according to economic criteria, tourism interaction criteria or its location on the S-curve according to the life-cycle approach. A test of Caribbean tourism data for the S-curve feature shows that Barbados is among the more mature tourism destinations. Jamaica, whose tourism industry is just as old, is somewhat less mature because age, according to Whitehall, is but one of the factors which determine maturity. Whitehall suggests that Barbados needs to face the challenge of repositioning its tourism sector. He draws on the experience of Bermuda, suggesting ways in which the industry can be repositioned. Re-education, reinvestment, beautification, promotion and better industrial relations

are all important if Barbados is to grapple with the potential threat posed by Cuban tourism which will attract mainly visitors from the US.

Roland Craigwell's description of the Bank's experience with model-building is quite pointed. He lists the technical and other difficulties which were encountered in the early attempts to construct an econometric model - high aggregation, faulty assumptions and poor databases. There was also a dearth of personnel who were specialists in the field. Forecasting attempts in the mid-1980s were hampered by the lack of data and a tendency to rely too heavily on judgement and intuition. The modern period of forecasting dates from around 1988 and features sophisticated techniques; however, Craigwell is quick to point out that there is still a place for judgement. The forecasting environment has been enhanced through documenting the theoretical underpinnings, as well as improving the database, the economic skills and the tools of the trade. One task that is still to be tackled is to reduce the forecasting error. The Appendix of this paper provides a readable account of the interrelationships in the model, using a minimum of statistical jargon.

The two papers by Maxine Williams and Muriel Saunders and Celeste Wood provide an account of the role of the Bank's Library and the Statistical department in assisting information gathering. Williams forcefully documents the place of the Library in the Bank's work. The development of the library was part of a deliberate plan to make the Research Department the best in its field. Its formation helped to centralize the storage of economic and financial information in Barbados. The Library drew heavily on the resources of older libraries at home and abroad as well as Government agencies, regional and international organizations. Apart from building up and making available its own resources, the Library ensured access to global information, starting in the 1980s with the early on-line data retrieval services and maintaining this access into the Internet era. It has now become one of the finest sources of economic and financial information in the region. Saunders and Wood describe how statistical information gathering, processing and dissemination have changed from a few manually prepared tables to several electronically produced publications. The way how technology has transformed the processing and dissemination have statistics is evidenced by planned electronic linkages with other institutions and the use of a sophisticated database to store information and a voice menu system to provide current economic information.

These studies provide a rich analysis on economic management over the past twenty-five years. The learning curve for those involved was rapid but was helped by the experiences of others. By sharing their reflections on past experiences and by looking to the challenges which we are likely to face in the

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future, the authors hope that this volume will prove useful to present and future policymakers, students and the average citizen.