

DeLisle Worrell: Growing the economy

Address by Dr DeLisle Worrell, Governor of the Central Bank of Barbados, at the Barbados Chamber of Commerce and Industry's Lunchtime Lecture, Bridgetown, 27 March 2013.

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Barbadians can and must grow our economy, in order to continue the improvement in the quality of life for our citizens, to provide job opportunities for our enterprising youth, and to enrich our culture and society. Growth must be sustainable, by which I mean that it must yield lasting benefit. The jobs we create should be permanent, the additional income we earn must enable us to buy more goods and services this year, and the next, and the year following. That means we must fuel the growth of our economy by increasing the amount of foreign exchange we earn each year.

The point of departure for strategising about growth is the question: how may we earn more foreign exchange from tourism, international business services and agro processing and how may we economise on the use of the foreign exchange we earn? Let us together examine what we know about these questions.

We must become more competitive, not by selling our services cheaply, but by reducing bureaucratic inefficiency, improving access to finance, and upgrading the national work ethic. The World Competitiveness index, compiled by the Global Forum, offers guidance in this regard. These three items are the issues most often cited as obstacles to doing business in Barbados. Significant gains in these areas will come with commitment to excellence, attention to detail, persistence, and intolerance of substandard service. The institutions are in place to assist us in reaching the goal: the National Initiative for Service Excellence, the Productivity Council and the Public Sector Reform Unit, among others. We must find ways to make them work effectively. Central Bank has made a commitment to ourselves and the nation to lead the way. I take this opportunity to invite everyone who uses our services to hold us to an international standard of high performance. Always ensure that we let you know, up front, when you should expect a response from us or completion of your business with us. If we are excessively or persistently tardy, I am expecting you to be in touch with me directly.

We should refine tourism marketing strategies. Central Bank is assisting this effort by researching local tourism markets within our major source countries, among other studies. This is but one element in the multifaceted strategy now underway, by government and the private sector, to renew the growth of tourism. As befits the country's leading foreign exchange earner, there is a wealth of institutional arrangements for collaboration in the sector, and government agencies and tourism providers should seek ways to make this cooperation more fruitful.

Among other strategies for tourism, we should continue to enrich the menu of choices open to the visitor. Central Bank is proud of the restoration of the Masonic Lodge, and the museum of commerce, education and freemasonry that is being commissioned will enrich the Bridgetown Heritage experience. We should invest in the uniqueness of the Bajan experience, including our other World Heritage properties.

In the International Business and Financial Services sector, the challenge is to broaden Barbados' market appeal. We have an impressive network of double taxation treaties, and we are seeking ways of using them all, to diversify the sources of international business income.

We should make a big push to bring alternative energy to the take-off, via a mix of photovoltaics, wind, waste-to-energy, and possibly ethanol production. These are all by now well established technologies, and teething problems will have been ironed out. I believe households and firms should focus especially on generating their own power using

photovoltaics. Barbados is among the sunniest countries in the Caribbean and the world. Photovoltaic systems are now eminently affordable, about half the price of the typical family car, and Government offers generous incentives for installation. There is the potential for employment generation in retailing systems, installation, servicing and maintenance. There is scope for innovation in adapting systems to optimise performance for local conditions, and developing intelligent control systems. Financial institutions are allowing what should be a profitable avenue for growing business to go abegging. I have to say to all of you in the private sector that, with a few conspicuous exceptions – and I must single out Williams Evergreen – you are not covering yourselves with glory on this one.

The rum industry is our major success in agriculture and manufacturing. Its strength has been the shift towards premium aged rums, blended, bottled, packaged and branded in Barbados for export. Economies of scale are against us, and we cannot hope to be competitive in price with any agricultural or manufacturing product from countries that do large scale production. Our agriculturalists and manufacturers need to follow the example of the rum producers: move up the value chain, produce a distinctive product, and sell it at a premium price, to a discriminating clientele.

Effective policy coordination is needed in all foreign exchange activities, between government and private sector, with respect to objectives, financing, monitoring, and feedback. We have to monitor how new initiatives are being implemented, and whether the intended goals are being reached. There must be feedback to ensure corrective action if results are not being achieved. For this purpose we may use existing institutions, such as the Barbados Chamber of Commerce and Industry and the Social Partnership, through information sharing and minor reorganisation in some cases. Barbados is rich in institutions, and it is therefore better to bend existing institutions to our purpose, than to create new ones.

Growth is not about starting with a clean slate, but rather about building on the foundations that have proved to be solid. We do have to develop new products and services, and to explore new markets, but we should use the things we know well as a point of departure. Surely we should have learned by now that if you can't make a success of business that you know better than others, chances are pretty slim that you will succeed with something that other people have been doing for years, and know far more intimately than you.

We have everything we need to revive the economy:

- We have at our disposal innovation and entrepreneurship, at home, in the diaspora, and among those who have chosen to make their homes here;
- We have examples of success in tourism, international business, agro-processing and alternative energy;
- We are in the top 1/3 of global competitiveness, as measured by the Global Forum;
- Barbados has become legendary as a tropical resort destination; and
- Government and the well established private enterprises have access to domestic and foreign funding.

We know where improvement is needed, and what we must focus on in order to improve our competitiveness:

- We must intensify efforts to identify the sources of government inefficiency, and to devise practical ways of achieving lasting gains in efficiency;
- Appropriate financing arrangements are needed for innovators. This is the one area where we need greater clarity on what may be the best way forward. Many of our previous notions clearly cannot work, and we must seek out alternative arrangements, rather than flogging the old dead horses.

- Every worker and every business owner must focus primarily on what each of us can do to give unsurpassed service and excellent value for money, in whatever it is that we do.

We should have confidence in our ability to renew economic expansion, based on how far we have come in this country. When I was born in 1945, the typical lower middle class household like my own family did not yet have electricity. We did have piped water, a single tap in the yard. When I returned to Barbados in 1973 to establish the Research Department at Central Bank, I discovered that only 30 percent of homes had a WC at that time. In the space of two generations Barbadians have transformed this country from the third world to the first world. And we have done it without the natural resource endowment of many others. This remarkable achievement should buoy our spirits and sharpen our resolve as we take on the heavyweight countries of the first division.

The quality of life in our country is more important than the growth rate. Our Caribbean and Latin American neighbours who are growing have a long way to go before achieving our standard of living. We do not have their backlog of destitution and want. We may therefore take our time to establish sound foundations for growth that will endure, and that we may sustain, whatever the future state of the world.

Sustainable growth is a marathon, not a sprint. If you rush out of the starting gate, boosting domestic consumption, you will run out of foreign exchange, with the risk of losing the gains you have made in the short run. In a race with experienced marathoners, only the hopelessly naive will rush to the front of the field. For Barbados, the proper comparison is not with the growth of countries like Guyana and the Dominican Republic whose GDP is less than a third of our own, but with The Bahamas and Bermuda where GDP is much higher. If you compare Barbados' performance since the 2008 crisis with that of The Bahamas and Bermuda, we see no great difference.

Finally, let me remind you that fiscal consolidation establishes the foundation for future growth. I refer you to my paper on maintaining our policy independence, which you may find on the Central Bank's website. The experiences of Cyprus and Greece are salutary. We in Barbados can be reassured that we are in no danger of having to accede to the impositions of the IMF or any other agency, because we have \$1.4 billion in foreign exchange reserves at the Central Bank. I believe every Barbadian would agree that that reassurance is worth the fiscal sacrifices that we have imposed on ourselves, even though this means that government continues to observe strict limits on domestically financed growth.

In conclusion

We have every reason to be confident of the economic future of our country, because our fate is entirely up to us. The adverse impact of the prolonged global recession is a reality we cannot escape, and because we depend so heavily on foreign exchange we do not have the option of bettering our lives by depending on our own resources. We must therefore seek ways of increasing foreign earnings from the activities we are renowned for, tourism, international business and rum, and of economising on oil imports by generating green energy. We know what this entails: increasing government efficiency, developing more appropriate financial strategies, and transforming work attitudes. Government and the private sector must invest in creating new high quality productive capacity, improving productivity, and maintaining and upgrading infrastructure. It is a tall order, but we are in the big leagues now, and we need to benchmark our performance on the gold standard, in order to keep moving up the ranks. We may be confident in our ability to meet the challenge, when we reflect on how far the country has come in the lifetimes of many of us, on the basis of slow, sustained and equitable growth.