

Sir K Dwight Venner: The economics of nationhood – the political economy of economic union in the Eastern Caribbean

Text of the 8th Patrick Emmanuel Memorial Lecture by Sir K Dwight Venner, Governor of the Eastern Caribbean Central Bank, St Kitts, 21 November 2013.

* * *

I feel very fortunate to be invited to give this memorial lecture in honour of a friend and colleague and patriot in the struggle for our national independence and regional unity. As I reflected on Patrick's contribution to the creation of a viable polity and its associated economy in the region, and particularly in the OECS, it struck me quite forcibly that I should be asked to deliver this lecture at this time and in this place, and at a time when my colleagues and I at the Eastern Caribbean Central Bank are grappling with the survival and progress of our beloved islands.

Patrick's work on the political evolution of the region is outstanding. However, being an economist as opposed to a political scientist, my admiration for him soared with his monumental work in editing and compiling the work of Sir Arthur Lewis in the three-volume publication, *Sir Arthur Lewis Collected Papers 1941–1988*. It was quite unfortunate that he left us at that time because one can only imagine the kind of insights he would have been able to give us from such an effort. Certainly the approach to the political economy of the region would have benefitted. I make this point deliberately, as clearly, the combination of these two social science disciplines, politics and economics, is critical to our policy making efforts and approaches in the region.

Sir Arthur Lewis was, by inclination and philosophy a political economist as he saw applied economics as one of the tools for promoting economic development. He operated during his career, both in the field of academia and in the practical world of developing a regional university, to address the socioeconomic needs of the region. He also established a regional development bank to address the financial and developmental needs of the region, and in particular, those of the OECS countries – the so called LDCs – the lesser developed countries of the region. These countries have not been able to escape the word “lesser” as they are also described geographically as the “Lesser Antilles” and colloquially by the bigger islands as “small islands”. Lewis by his academic work and his practical experience laid significant claim to being a political economist. It is against this background that I speak on the general topic, “The OECS in the present Caribbean moment: Challenges, Lessons, and Future Prospects”. I have however tweaked it somewhat to become, “The Economics of Nationhood: The Political Economy of Economic Union in the Eastern Caribbean”.

The islands of the OECS now find themselves at the crossroads of their economic history and at an existential moment in time. In deciding on the way forward, our countries' recent history, future scenarios which can be simulated, and the possible outcomes which could result from the political and economic choices we make, need to be contemplated and debated. The way forward, as we well know, is fraught with danger as forces outside and within the region contemplate our future as viable entities, or predict our possible demise. For instance, the rating agency Moody's seems to take every opportunity, supported by regional elements outside of the OECS, to herald the demise of our currency and currency union, proposing that we devalue or dollarize and dismantle the currency union, which has been largely responsible for our stability since the attainment of our independence.

The evidence, on the contrary, seems to suggest that the stability of the currency and the safety of deposits in the banking system have been the anchors on which the stability of our economies and financial system have been built over the last three decades, in the face of monumental challenges up to and including the current global crisis. This crisis and these challenges give us a once in a lifetime opportunity to restructure our economies and polities and to put forward our best efforts and determination to effect the socioeconomic

transformation of our countries beyond doubt. This would not only be to the benefit of our citizens but would also send a salutary message to our detractors, both without and within the region.

The title of the presentation then becomes self-explanatory. During the last days of the West Indies Federation a pamphlet was produced in Trinidad and Tobago making the case for that country's emergence as a separate nation state outside of the federation. In my view this is the moment for the OECS countries to consolidate their independence, sovereignty, and nationhood and to establish a more perfect union among themselves – a State Nation, if you will. This can be defined as “a grouping of separate sovereign states who pool their sovereignty and resources and coordinate their policies as an instrument for collective decision making and collective action to achieve the goals of socioeconomic development”. This would give them the political, technical and administrative capacity to collectively address the threats to their sovereignty and future prospects. It is time for the establishment of the Union of Eastern Caribbean States.

The presentation will proceed in three segments as follows:

- i. A brief historical overview from adult suffrage to the present time;
- ii. An analysis of the integration process as the foremost instrument for achieving our goals; and
- iii. The model and means for achieving socioeconomic transformation.

To put the story in context we must formulate a conception of the challenges and possibilities facing the OECS countries as they have presented themselves from adult suffrage to the current period and going forward. This can be distilled from assessing:

- a) three stages of the countries' economic history, two retrospective and one prospective;
- b) three possible scenarios; and
- c) four possible outcomes based on the political and economic choices we make at this time.

The three economic stages can be identified as:

- 1) The period from universal adult suffrage to independence;
- 2) The period from independence to the current global crisis;
- 3) The post global crisis, that is, where are we are heading.

The three scenarios which we contemplate as we seek to make the appropriate choices in moving forward are that:

- 1) The global economy remains in its low growth, high unemployment mode, particularly in our main trading partners, while the OECS countries continue with their current policies.
- 2) The global economy does not return to its pre-crisis levels while the OECS makes significant policy adjustments.
- 3) The global economy goes through substantial restructuring and rebalancing while the OECS undergoes substantial socioeconomic transformation.

Four outcomes are possible for the OECS countries depending on their policy choices. These are:

- 1) Failed or failing states;
- 2) Barebones Survival;

- 3) Moderate progress; or
- 4) Socioeconomic Transformation

The first historical period marks a seminal moment in our political history, that is, the attainment of universal adult suffrage. This gave the people of the region for the first time the right to elect their own representatives to the legislature. This inevitably led to the formation of political parties and the ability to channel the demand for constitutional advancement and self-government through organized political bodies. These changes were all a direct result of the revolts in the 1930s which incidentally started on the Buckleys Estate in St Kitts and is considered to be the event which heralded the birth of the modern West Indian democratic state.

Since this is only a brief overview I will only cite a few critical events which are germane to the theme of this presentation. Adult suffrage was granted to the OECS countries in 1952. This created the environment for the advancement of the demand for dominion status which revolved around the establishment of the West Indian Federation, as the islands were considered too small to attain such status on an individual island basis. The islands were in fact governed at this time as two federations, namely, the Leeward and Windward Island Federations. These were dismantled and each island entered the federal arrangements as separate entities. This, in fact, was the first act of disintegration in the federal saga.

The federation failed, one can say, for many reasons but three are important for this narrative:

- i. Jamaica's determination to protect its nascent industrial development;
- ii. Trinidad and Tobago's resistance to freedom of movement of people; and
- iii. The perception by both countries that the smaller islands would be a major impediment to their economic progress.

Following the demise of the federation another attempt was made to link Barbados and the smaller islands together in an arrangement referred to as the "little eight". This too failed as Barbados would not proceed without assurances from the British on the financing of the new entity. Barbados went on to its own independence in 1966 and the islands were virtually left in constitutional limbo. They then began searching for a way out of the situation with discussions on the nature of the relationships with the British and with each other.

In 1967, the West Indies Associate States was established with countries sharing some common services which were meant to lower the cost of government and to foster closer working relationships amongst themselves in preparation for independence. The British posed two options to the islands, they could jointly declare their independence and write their own constitutions, or they could negotiate bilaterally with Britain for single state independence. They chose the latter and between 1974 and 1983 the islands achieved their independence. In 1981 the Organisation of Eastern Caribbean States was established with the signing of the Treaty of Basseterre and in 1983 the Eastern Caribbean Central Bank was established by Agreement among the countries.

This led to the next stage of our history which presented tremendous challenges to the newly independent states. The period was characterized by the continuing impact of the oil crises of 1973 and 1979 as well as several disastrous hurricanes, recessions in our main trading partners, the gradual removal of trade preferences by the British and the Europeans, and the graduation of the countries from concessional borrowing from the International Development Association (IDA).

The 1980s was the period of highest economic growth, averaging 6 per cent. However the following decades were characterized by a secular decline in growth for a number of reasons including a decline in factor productivity.

The global crisis exposed and exacerbated the structural deficiencies of our economies, namely, extremely small size, extreme openness, and severe vulnerability. We are now at the crossroads as we assess the impact of the global crisis on our economies, politics and societies and reflect on the way forward and the outcomes which are possible depending on our policy choices. These were outlined earlier as failing states, barebones survival, moderate progress and socioeconomic development. The last is the obvious desired outcome but getting there will not be easy and will require substantial changes in our political and economic policies and cultures.

The necessary but not sufficient condition for socioeconomic transformation in the OECS has always been integration. This has been very evident from the beginning because of the countries extremely small size and status as micro states in the international community.

After the demise of the federation it was the OECS countries which found it the most difficult to achieve constitutional independence. The larger states always had a sense of manifest destiny based on the assumption that they could achieve their socioeconomic goals on their own. History has proven otherwise to date, but suffice it to say, this has never been the case in the OECS. Even though they opted for independence as single states, the OECS countries have deliberately established a network of vital institutions such as the regional court and the currency and central banking arrangements, which even preceded similar institutions in the European Union, the oldest and most advanced integration arrangement in the international system.

The Treaty of Basseterre, in which these institutions and others have been embedded, provides the overarching framework for the functioning of the OECS arrangements. The concept of shared sovereignty, as envisaged by the treaty, has proven to be a successful formula for the stability and development of these countries in the past and, with the new challenges, will be even more vital in the future. Indeed, this has prompted a significant advancement of the treaty to provide for the establishment of an economic union in response to the current crisis.

It would be useful to pause here in order to examine the various forms of integration which are available to us. These could be considered to be formal or informal, functional or dysfunctional depending on the position in which a country finds itself as the various choices present themselves. As I noted earlier, there are a number of choices which the OECS countries are now confronted with and which could result in one of the four outcomes: failing states, barebones survival, moderate progress, and socioeconomic transformation.

Leaving aside for the moment the orthodox stages of integration which ascend from a free trade area to a full blown political union, other forms of integration may present themselves if our backs are to the wall. For example, a failing state or barebones survival scenario could precipitate a particular form of integration. Small states could have close ties to a wealthy individual, who by virtue of access to resources and the government's lack of fiscal space, could assert some level of influence or dominance over critical areas of the economy or financial system and, by extension, on the political system. Similarly, private sector companies which have a dominant place in vital sectors of the economy, for instance, mining, agriculture, tourism, and finance could extract substantial rents from incentive legislation and other tax concessions.

Another choice could be absorption into neighboring countries which have substantial resources and could fund our development if we were a part of their polity. Countries which come to mind are Trinidad and Tobago, Venezuela, Canada and the United States of America.

There is in fact some de facto integration into the Eastern Seaboard of North America, which is our main trading partner, through the inflow of direct foreign investment, tourist arrivals, migration and remittances, as well as the peg to the US dollar. These choices, and in the case of the Eastern Seaboard, circumstances, do not seem to be compatible with our notion of sovereignty and the goal of attaining socioeconomic transformation on our own terms.

The story of the Caribbean since independence some fifty years ago is that we have made remarkable progress in the delivery of liberal democracy, the rule of law, the rights and freedoms expected of a civilized society and meeting the United Nations Human Development Indices. In addition, we have excelled in the sporting arena, in scholarship and the arts and sciences, and in music and literature. However, in the economic sphere, we have not reached anywhere close to our real potential. The orthodox approach to integration has been the chosen path in the region as a whole and has been so recognized in our treaties, domestic laws and institutions. The question then becomes why has it not delivered on the economic front?

Integration is a necessary though not a sufficient condition for attaining our socioeconomic objectives and the current integration model and process, as well as its implementation, must in some way be flawed. In the region we have two integration arrangements operating side by side with common membership. The CARICOM arrangement encompasses all countries while the OECS is a subset of the wider arrangement. The OECS is however a much deeper arrangement which has been upgraded in the new treaty to be an economic union.

The success of the OECS, in my opinion, is a necessary though not a sufficient condition for the success of CARICOM on two counts. Firstly, if the OECS with its much closer and deeper arrangements, which include a common currency, cannot succeed, then the chances for CARICOM doing so are that much less. Secondly, a much more closely coordinated and economically advanced OECS with substantially increased per capita incomes, removes the stigma of being, so to speak, “poor relations” and provides more economic opportunities for firms and citizens from the MDCs. Already, firms in Barbados and Trinidad and Tobago benefit significantly from doing business in the Currency Union and this will enhance their prospects. The progress of the OECS should usher in more reciprocal and beneficial commercial relationships between the two polar elements of CARICOM.

How would the OECS achieve this new status? By implementing, as a matter of urgency, the Treaty which was ratified on 21st January 2011. This treaty provides the political, economic and administrative framework and architecture for executing the substantial adjustment required to achieve the socioeconomic development of the economies of the member states. The treaty explicitly sets out the framework of a state by identifying the essential elements of such an entity, that is, an Executive, a Legislature and a Judiciary.

The real game changer is the Legislature, which is selected from the elected members of the National Assemblies and, which in the first instance, acts as a filter for legislation in restricted areas to be passed by the Executive. This institution secures the participation of two critical actors in the integration process, namely opposition parties and the public. In short, integration will now become an open subject at the national and regional levels and should therefore gain more support.

The new arrangements will also establish in effect a dual system of government and governance. At the regional level, there will be supranational and functional cooperation structures while at the national level there will be the national government and local or community arrangements. The key to these arrangements would be the creation of more representative, but efficient and effective processes, which would lower the cost and increase the productivity of the state.

One of the objectives of the economic union arrangements is to establish a state structure across an entire geographic area which would become, as set out in the treaty and its protocol, a single financial and economic space. An important achievement in this regard would be to arrive at a balanced allocation of time spent on regional and national matters, as this has been one of the main impediments to the advancement and success of integration in the region. This will involve time management and agenda setting at both the national and regional levels. One of the critical factors in creating the governance arrangements is that there is effective political responsibility for regional matters and that there are political incentives to ensure that the authorities are fully engaged.

Having established a single space, the combined goals of the space must be ascertained by public discussion and consensus, hence the importance of the regional legislature. Within the treaty, the goals of growth, competitiveness and socio economic transformation have been outlined, which then allows for the application of policies across the space to achieve these goals. At present monetary policy is a regional matter and the executing agency is the central bank. This has been a major instrument in securing the stability of the financial sector and has been defined in the new treaty as an “institution” of the OECS.

Fiscal policy has been a national policy tool but, at a special meeting of the Monetary Council in Grenada this year, it was agreed that there should be effective coordination of this instrument. Trade policy and international relations policy would be appropriately coordinated at the national and regional levels. This process has to be vigorously driven by three fundamental programmes, namely

- public sector modernization at the national and regional levels
- private sector development, and
- financial sector development

The integration model, as characterized by the original Treaty of Basseterre, has worked for the OECS region but it is also fair to say that it has not been fully exploited. The new treaty, which is at a higher level of the integration process, has great potential to deliver, but the political economy of the OECS has to be carefully examined and understood to ensure its successful implementation.

The economic union provides the political space and the economic environment to treat with one of the fundamental structural issues that has dogged the OECS countries throughout their economic history and marred their relations with the other countries of the region, that is, critical mass. This has manifested itself in the high cost of government and the extremely small size of domestic markets. These binding constraints on both the public and private sectors have seriously affected the growth potential of each country. The contrast in possible outcomes can be seen in two arrangements in both sectors. The banana industry in the Windward Islands was established on the basis of the production capacity in all four islands which made the shipping and marketing more cost effective. Also the sharing of central banking arrangements has produced an effective instrument of monetary policy.

The economic union also gives the OECS considerably more leverage within CARICOM and with external parties, particularly the International Financial Institutions and development partners. It provides a basic platform for the successful integration into regional and international markets. The questions which now confront us are: What are the political trade-offs which must be made to arrive at the form of integration implied by the new treaty and which could lead to the successful socioeconomic development of the member countries?, and What can the political traffic bear either now or in the not too distant future?

The current nationalism is built on a very narrow economic base and it is fairly clear, given the structural features of these economies, that it will be a major struggle to achieve our targets on our own. In fact, not even in the larger countries have these been achieved. The issue which has to be put to the citizens of the OECS, and the wider Caribbean for that matter is: Where would we be realistically on the scale of outcomes if we were on our own? To repeat, failed or failing states, barebones survival, moderate progress, or socioeconomic development. As we ponder this decision, the level of unemployment especially among the youth increases and the outmigration of skilled workers proceeds apace. Someone in the political firmament must step up to the plate and provide a political framework for taking us through these very challenging times.

Since this is a lecture to honour an outstanding political scientist one can ask: How can politics and political scientists make a contribution to this effort? In doing so it is enlightening to take note of the contrasting views of the important questions that political scientists,

economists and political economists put forward in their concern with a choice involving fundamental change. The economist is said to advance a strategy or policy to achieve a desirable economic end, such as the maximum growth of national product and poses the question: "What political arrangement is most conducive to achieving this objective?" or "How can the political impediments to achieving this objective be removed or neutralized?"

The political scientist projects some desirable political end, such as the complete independence from other nations and asks the question: "what level of economic productivity or what type of ownership of the means of production will best achieve this objective?" or "How can the economic impediments to achieving this objective be removed or neutralized?"

The political economist instead of trying to neutralize the politics or asking the standard question in political science, reframes the questions to ask in the first instance. "Given the resources at the disposal of the regime, now or potentially, what opportunities exist for increasing the production of goods and services in the country?" And in the second instance "Given the resources of the regime, now or potentially, what political choices are possible and what might be their cumulative effects?" These arguments can be found in a delightful book by Warren Ilchman and Norman Uphoff entitled "The Political Economy of Change" which examines the efficacy of politics and political science in developing countries and incorporates economic method into political science methodology in order to find solutions for statesmen. The arguments also raise again the age old question: "What should be the relationship of men of knowledge to men of power?"

One would posit as an observer that our efforts at integration have excluded politics almost in a deliberate way as if this sanitization, so to speak, would facilitate success. Integration however is not an apolitical subject and the further up the integration rung it gets, the more the need for an appropriate political framework to guide the way and take vital decisions. Administrative and technical personnel cannot take the lead in pushing forward integration. It lies solely in the hands of the political elite.

The political elite in the OECS must now set its aim steadfastly on the goal of socioeconomic development and craft the political and administrative institutions to facilitate the process. Shaping a new state nation in the region will require dealing with the political and economic impediments and addressing with urgency the modernization process in the OECS. An effective, efficient and entrepreneurial state is a critical element in this process to be complemented by an innovative and internationally competitive private sector.

Strategically there are four agencies which have very specific roles to play under the guiding political inputs of the OECS Heads of Government and their ministerial colleagues:

- i. The Ministries of Finance and Planning
- ii. The Public Service Unions
- iii. The private sector represented by an all-embracing, dynamic, innovative, and regionalist-oriented Business Council; and
- iv. A resilient, well capitalized and innovative national banking sector.

The socioeconomic transformation will require a rate of growth of between 5 and 7 percent over a period of at least ten years to double per capita incomes in the OECS. This rate of growth will be able to address the unemployment and poverty levels and maintain and improve the human development indices.

Given the integration arrangements as well as the political choices and political management of the process, the strategy involves a reduction in the cost and an increase in the efficiency of government, allied with a significant increase in private sector output for export. There must be a balance between consumption and production which would involve a pact between the state, the private sector and the trade unions to maintain the balance and trade – offs between wages, prices, employment and productivity. This pact has been successful in Barbados and should be replicated throughout the region.

Another critical area to be tackled is the resources – expectation gap. This results from the demonstration effect of being in this hemisphere, in close proximity to the land of mass consumption, the United States, coupled with the impact of multi-party, competitive, elective politics which escalates the demand for public services. Political parties must play a critical role in the management of these expectations.

The consumption orientation of the economic system has however been underpinned by a very sophisticated import machinery evident in both the real sector and the financial sector. Structural changes to both sectors will be required. The banking system will have to be a major target for restructuring, especially since it controls over 75 percent of the loanable funds in the economy. A strong national banking system would be a prerequisite for influencing the process, coupled with a deliberate effort, as is now taking place, to strengthen money and capital market institutions.

The private sector will also have to reinvent itself to change its structure from being one-third formal, two-thirds informal and 90 percent concentrated on wholesale, retail, real estate and construction activities. The new balance should see a reversal of the formal/informal ratio and at least a 60/40 arrangement of non-tradeables to tradeables.

In the government sector a cadre of technically and administratively competent professionals should spearhead the restructuring of the state machinery to create a highly competent and developmental state. The role of public sector unions is of critical importance, as it is necessary that they buy into the creation of such a state. In short the modernization of the state has to be one of the highest priorities of the political authorities.

The modernization of the state and the development of the real and financial sectors will be the complement of a three-prong strategy and programme which can be outlined as follows:

- i. An externally financed stimulus package synchronized with four critical safety net programmes to address the structural vulnerabilities of the countries. These safety nets would be:
 - A financial sector safety net
 - A fiscal safety net
 - An environmental safety net
 - A social safety net.
- ii. An industrial policy that targets a lead transformational sector in which the region has a comparative advantage that can be turned into a competitive advantage.
- iii. A number of overarching and interlocking national and regional projects which will facilitate the modernization process. Dubbed the great modernization projects, we have identified seven of them, namely, transportation, energy, environment, ICT, education and skills training, research and development and governance.

In conclusion one can only affirm that these are very challenging times. The international economy can be characterized as being fraught with danger as there continues to be great uncertainty and volatility. On the other hand these circumstances have presented us with a once in a life time opportunity to restructure our economies, polities, and societies.

I end with a quotation which sums up my feelings on these matters “We believe it is a necessity of our times to translate our beliefs, our hopes and ideals into concrete action”.

Thank You