



GOVERNMENT OF BARBADOS

ADDRESS BY
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PRIME MINISTER

ON THE OCCASION OF

THE THIRTIETH ANNIVERSARY
OF THE FOUNDING OF THE

CENTRAL BANK OF BARBADOS

SHERBOURNE CONFERENCE CENTRE
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Five years ago, in the closing days of a millennium, I joined you on an occasion such as this to celebrate the accomplishments of the Central Bank of Barbados in its rightful capacity as the Barbadian institution of the 20th century.

I join you again to acknowledge the attachment of yet another milestone in the life of this institution, but on this occasion burdened with a sense of history, that at the start of a new century, what we say here may come to be regarded less for how we celebrate the past, and more for how we project the future.

My thoughts this evening are therefore more focused on how we will traverse the next thirty years than on what we have attained in the first three decades of this Bank's existence.

But this is to anticipate.

John Maynard Keynes once remarked that the avoidance of taxes is the only intellectual pursuit that carries any reward.

I am reluctant to contradict such a distinguished economist, especially given the extent of the tax arrears owed to the Government of Barbados. But I am compelled by the evidence to state that the Central Bank of Barbados has been deservedly rewarded in international prestige for its extraordinary contribution to the intellectual life of Barbados and indeed to the Caribbean.

We now take this for granted as simply a routine part of the tradition of excellence that this Bank has established from the outset.

It is in such a context that I pay homage to the past Governors and the members of the Board of the Central Bank, past and present, who are in attendance this evening. And I must associate with this tradition of excellence the former members of staff who have retired after long and distinguished service. I also wish to offer early congratulations to those persons who will be receiving special awards this evening.

Last, but by no means least, I extend our very best wishes to the current members of staff, who have come into a goodly heritage, and have built on it to maintain the reputation of our Central Bank as the outstanding institution it has always been. The thoughts I share with you this evening are inspired by an appreciation of the remarkable contrast between domestic and international environment within which our national development was taking place 30 years ago when the Bank was established, and that which confronts us today and will likely obtain over the next 30 years.

Perhaps the only constant factor in the environment of yesterday and that of today has been the fierce controversies over wage increases in Barbados, as expressed in very strong language then, as very strong language today.

Indeed, in preparing for this address, I went back to the Budget Speech of 1972 to try to discern what were the other issues on Mr. Barrow's mind when he made the decision to establish this Central Bank.

It was instructive that Mr. Barrow dealt succinctly in one paragraph in that speech with the establishment of the Central Bank and then went on to deal with the matter of salaries revision in terms that were so muscular and strident that it would be inconceivable for similar words to issue from the lips of a Prime Minister today.

He said on that occasion:

“There is a kind of superstition that the public service is automatically entitled to a three year upward revision of salaries. This is the main preoccupation of the Civil Service Association, which has now dispensed with the term civil and changed their sobriquet to the National Union of Public Workers..... The militant and churlish opposition leadership of the Secondary Teachers Union has staked its own claim on the earnings of the tax payers, still entrenched in the belief that they can go further than holding the nation's children to ransom but that they can blackmail the whole community and even overthrow the Government.

I wish to make it clear that what I decide as Minister of Finance is not predicated by exhibitions of bad manners and ill will of the detractors, but by a

concern for the overall good of the country rather than the wide ambitions of any narrow interests.

I will therefore look at the emoluments of those less well off members of the public service and postpone consideration of the demands of those higher up until the country can afford the luxury of three or four motor cars in each family compound.

Negotiations may take place provided a sensible rather than the present insolent and truculent approach is adopted. The appropriate time for increases will be the time when the country can afford them”.

The message in all of this - that public sector wage increases must bear a relationship to what the country can afford - has helped to establish Mr. Barrow's reputation as a National Hero of Barbados, and has become the mantra of all Governors of our Central Bank, linking them in a very special way, with our National Heroes.

If I may come to the point, however, it is truly remarkable how different was the economic environment thirty years ago, when the Central Bank was created, from that which exists today.

It was a simpler place and simpler time. The cycles in our economic performance were still largely dominated by activity in the sugar industry. We were still very much an island economy, linked only very tenuously to the rest of the Caribbean by a limited form of integration

that predated Caricom, and of course the Caribbean Single Market and Economy.

The emphases of economic policy were on promoting domestic self reliance and protecting infant industries, with hardly a thought for concepts such as international competitiveness. And there was in vogue, and enjoying widespread and unchallenged validity, policy instruments such as price controls, import licences, a comprehensive set of monetary policy instruments including selective credit controls, exchange controls, reserve requirements and the setting of interest rates and liquidity requirements at commercial banks - all in support of the paradigm that national economic welfare could not be left to the benign serendipity of the workings of market forces.

It was an era when a form of enlightened paternalism still pervaded the relationship between developed and developing countries, facilitating generous access to development assistance and concessional financing, and making possible the creation of preferential trade regimes, as came after 1972 to be reflected in all of the LOME Agreements between Europe and the ACP, the CBI and the Caribbean.

In the early 1970's when I worked as a Research Assistant to a UWI Professor seeking to estimate supply functions for Jamaican coffee, the University's only computer on which the models were tested occupied the ground floor of a very large building, and reservations had to be made weeks in advance for its use.

The Computer was then literally in the realm of rocket science. Neither Tom Adams nor Errol Barrow ever heard of the concept of E Commerce; and they scarcely could have divined how such a thing would come to be a shaping influence on the business environment just 15 years after their deaths.

The Central Bank of Barbados was conceived 30 years ago to operate in the economic environment which I have just described; an environment whose essential nature and parameters are of interest and importance now only as an aspect of our history but hardly as a guide to our future.

We were once able to conceive of our economic policies to be applied in Barbados only as an island economy. In today's world we must design policies seeing ourselves as part of a regional economy (the Caribbean Single Market and Economy); and after 2004 as part of a Hemispheric Economy (the FTAA), and day by day, as a result of the transforming effects of new rules of trade and the effects of new informational and communication technologies, as part of a global economy.

This paradigm shift has already required of us fiscal reform in the nature of a value added tax to reduce our dependence on taxes on trade in an era of trade liberalisation. It has caused us already to redefine the relative significance of respective economic sectors in the composition of our national output, and to settle on the strategic

objective of transforming Barbados into becoming an exporter of high quality, high-valued services as the basis of our livelihood.

It will also require far reaching changes in how we do business in both the public and private sector.

In addition, thirty years after the formation of a Central Bank we must look to raise capital to finance our development not from concessional sources, but increasingly on the international capital market where we have to compete for that capital with giant transnational corporations.

In much the same way, and for the same reasons that Standard and Poors and Moody's issue ratings on the debt of such Corporations, they will each year issue a rating on the debt of the Government of Barbados. This rating will resonate in the market in which we borrow and help to determine the terms on which we can raise capital if at all. They will also impose on us a strenuous new discipline that we must observe in the manner we order our economic affairs.

And as we honour our obligations, as contained in regional, hemispheric and global trade, economic and financial arrangements and treaties, many of the tools of economic management such as import licences and exchange controls, price controls, the reservation of certain economic sectors as exclusive spheres only for our nationals, and the preferential treatment of national enterprise and

factors of production relative to foreign enterprise will all become obsolete in our country.

Indeed that process has already begun. Nowhere has it taken deeper root than in the Central Bank itself where the instruments of monetary policy by which the Central Bank formerly contributed to national economic management have now been overtaken by those more appropriate to an environment characterised by financial liberalisation. In my Economic and Financial presentation to Parliament in 1998, I heralded a new policy initiative to be sustained over the next few years to ensure that our economy is successfully repositioned to face any challenges that may arise regionally, in our hemisphere, and globally, especially after 2005 when the bulk of the changes will occur.

My Cabinet has accepted that its first responsibility is to create a new legislative environment and new institutional and policy arrangements by which a new, modern, competitive Barbadian economy, capable of surviving and prospering in today's and tomorrow's world can be evolved and sustained.

In pursuit of this on Tuesday, we will lay in Parliament a Bill to provide for and promote the sustained and sustainable development of the entire Tourism and Hospitality industry, repealing the Hotel Aids Act which has since the mid 1950's been the main instrument available to the sector, addressing, in that capacity, only the needs of those who invest in hotel construction.

Recently, we replaced the old Offshore Banking Act with a new International Financial Services Act, to better serve our needs in this crucial sector. We have also recently introduced legislation to make electronic commerce flourish in Barbados. Legislation has also been passed to establish a Fair Trading Commission to oversee the transformation of Barbados into a market driven economy. We have also comprehensively reformed our international business and financial services legislation to broaden the range of such services that Barbados can offer and to enhance the integrity of our jurisdiction in the face of any test coming from the OECD or any other source.

We have reformed our laws regarding intellectual property, to bring them to the best international standards. We have introduced legislation to modernise our insurance industry.

The liberalisation of our telecommunications sector has already been the subject of a recent Act of Parliament, as has been the creation of a new Securities Commission to better allow us to attend to matters pertaining to the development of the Barbados Capital Market.

There is a new Small Business Development Act, and the environment in which companies will function in this country has been enhanced by the enactment of the new Insolvency Act to replace the old Bankruptcy Act which belonged to a Victorian World.

Legislation has also been recently put on the books to deal with Money Laundering in a coherent and proactive way.

I take a special pleasure in also indicating that there is also now in Barbados' legislation to stimulate development in special areas that can bring to life new kinds of economic activity which bear a relationship to the kind of economy which we wish to evolve rather than the one which is vanishing. Relying upon this new legislation Speightstown is being transformed into a Centre for heritage tourism and the St. Lawrence area as the centre of leisure tourism. And the centre of Bridgetown is being revitalised before our very eyes, with old sugar bonds, reflecting the old economy, being reconfigured into new economic assets from which high quality services will be performed - all due to the Special Development Act.

We have also put in place a Value Added Tax to prepare us to meet our fiscal responsibilities in an era where trade liberalisation will erode our revenue from taxes on trade.

There is before Parliament, as well, legislation pertaining to employment rights, and we will soon be in a position to bring a new Pensions Bill to radically reform this sphere of our national economic affairs.

For good measure, Government has used some of the proceeds from privatisation and the revenue derived from bound rates on extra regional imports to create an Agricultural Development Trust, a Tourism Investment Fund, an Industrial Investment and Employment Fund, an Innovation Fund, A Small Hotels Loan Fund, Fund Access

and the Enterprise Growth Fund; all intended to meet the financial requirements that will ensue as we restructure and recapitalise existing enterprises to make them more competitive as we seek to create new ones to face tomorrow's challenges.

A new Fair Trading Commission is in place, as well as a Commission for Competitiveness, under my chairmanship, which will oversee the implementation of all of the economic reforms required of us as we honour our new regional, hemispheric and global trade and economic obligations.

Some welcome and some fear these changes. It is all a matter of perspective. Indeed, a famous definition asserts that the optimist believes we live in the best of worlds; the pessimist fears that it is true.

What I am sure about is that Harold Wilson was absolutely correct in his observation that –

“In a world rocking with change, new questions must be asked and new answers sought to old questions. It might be better to know some of the questions than all of the answers”.

With this in mind, recent economic events in Barbados require that we honestly and resolutely pose all of the relevant questions.

I am not one of those who would ascribe our recent economic turbulence to the effects of September 11th, 2001. The source of our recent turbulence predated September 11th, and had more to do with an inappropriate response in some sectors to trade liberalisation and the desire on the part of too many to hang on to old forms of protection and to perpetuate old ways of doing business that are incompatible with the realities of today's world.

We cannot develop the economy of the 21st century by relying on the tools of management and the modes of operation that were relevant to the mid twentieth century.

This reality must be accepted by all, and must become the shared perspective that informs the national consensus that makes possible the successful implementation of the programme to reposition the Barbadian economy.

Let me, at the risk of incurring the wrath of many interest groups, address some of the essential matters on which we simply must generate a shared national perspective and consensus in order to go forward successfully.

The first is that the tools of protection used in the 1970's to support agriculture and light manufacturing will, if widely used in the 21st century, destroy the viability of our tourism and international business and financial sectors, where most of our prospects for strong growth and development reside.

Indeed, it is ironic that our recent experience has shown that reliance on these old tools has in the end not helped manufacturing and agriculture, but has only served to undermine the viability of tourism enterprises.

We have to agree to find new and effective means to support our traditional industries, but which do not cripple those sectors which hold the potential of generating our prosperity.

Secondly, we cannot confine ourselves to the concept of a new modern Barbadian economy as one whose functioning is constrained by the limitations of our small geographical size. Rather we must conceive of the expansion of our economy as also entailing the creation of Barbadian enterprise which can operate in the new regional, hemispheric and global environment, based on the export of Barbadian capital and skills.

Thirdly, you can never cross a chasm by a number of small jumps. For this reason we have to find the resources immediately to bring our national economy fully into the Information Age. We can do so by accelerating the implementation of Edutech, by bringing the computer and the internet to every nook and cranny as we are seeking to do through our Community Technology Programme, and by bringing forward the timetable for the creation of a University College of Barbados, such that a country which must rely on the quality of its human and social capital ceases to tolerate the abomination whereby

thousands of Barbadians each year cannot receive training because our existing facilities do not allow it.

Fourthly, a few old practices to which we have clung with all of the fervour of religious faith must come to an end. I illustrate by reference to one of truly strategic significance. We proclaim that Barbados must become a major centre for the carrying on of international business and financial activity as well as a high quality service economy. These sectors must pay our bills.

To carry on such international business we require telecommunication capacity, provided at rates which allow such businesses to be created and to be sustained.

We, however, have ingrained a cultural trait where our international rates are high and uncompetitive. Each year \$50 million collected from such international rates are passed over to the provider of the local telephone service to subsidise local telephone calls. The bottom line is every time you make an overseas call which is metered part of the price that you pay is to meet the cost of local calls which are un-metered.

Barbadians can chose, as is their right, to maintain the present status quo but the price that we will pay will be to undermine the growth prospects of all of our service sectors including, and especially, tourism and international business.

Fifthly, a small economy, as Singapore has shown, can fully develop if it agrees that its most scarce resource - its land - must always be used in its most economic occupation.

Few will deny that Sandy Lane has already contributed more in its present occupation as a resort than were it kept as a sugar estate.

However, there are those who seek to validate much of the argument about land use in this country on the grounds that we have to hold on to traditional patterns in the interest of the poor.

In so doing, we romanticise the poor - but the last thing that the poor needs is the idealisation of their poverty.

To perpetuate traditional patterns of land use in modern Barbados will be to write the future of this nation's economy as an elegy in a country churchyard.

Sixthly, the development of the modern Barbadian economy requires not just a social contract between the Government, the Labour Movement and the private sector, but the building of strategic alliances among our main private sector enterprises, not so much in pursuit of private gain, but in pursuit of the greater public good.

A few months ago I sat in meetings with the leadership of two of our domestic insurance companies - Life of Barbados and Barbados Mutual - and helped them to put in place a strategic alliance by which they were able to acquire the assets of an insurance company in Jamaica.

You must believe me when I tell you that it is for me a matter of the greatest agony and anguish to observe what appears to be a dog-eat-dog approach by these very companies in their relations in Barbados, when the value of strategic alliance has already been established in their affairs abroad.

And what is the price we could pay?

The likely price of inappropriate corporate responses could be the creation of a class of newly displaced, and newly poor, but very highly trained Barbadian professionals, whose empowerment through education has been the main purpose of governance in Independent Barbados.

My Government will simply not allow inappropriate corporate responses by local or foreign enterprise to undermine the social capital which has underwritten our stability and our development to date.

Abba Ebban, Foreign Minister of Israel once observed:

“History teaches that men and nations behave wisely only after they have exhausted all other alternatives”

We have not yet exhausted all of our alternatives because we have yet to face them as a nation, honestly and with resolution.

I can only hope that thirty years hence, persons reviewing our conduct, will have to say that we had the courage to face our alternatives as free men, in a free state, and that we did not allow ourselves to have to do the inevitable only after circumstances had forced the need for the inevitable upon us.

I thank you for such an auspicious occasion to deliver myself of such simple thought.