



30TH ANNUAL CONFERENCE

# Caribbean Economics

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Friday, December 4th, 2020  
1:00 pm EST/2:00 pm AST

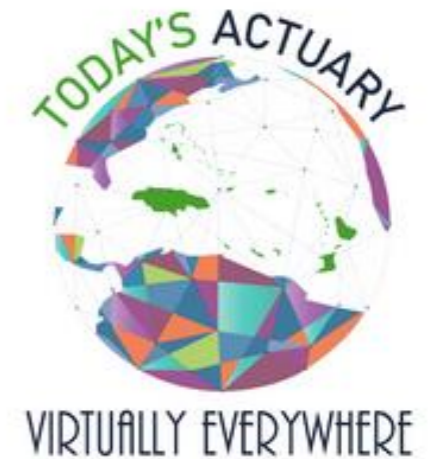




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- **Caribbean DNA**
- **Where are we now?**
- **Why are we here?**
- **Where do we wish to be?**
- **Is it possible?**
- **Summary**





## Caribbean DNA

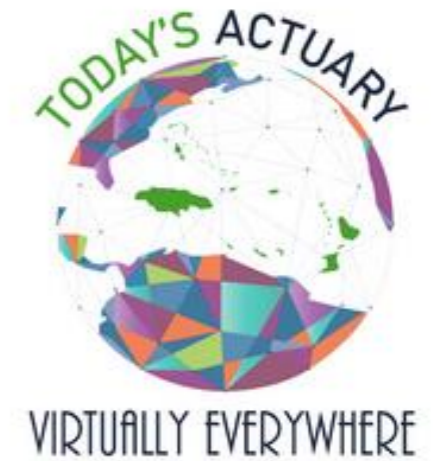
- Small Island Developing States, SIDS, 38/196 countries
  - ✓ Caribbean (14), Pacific (15), Atlantic (3), Indian Ocean (5), South China Sea (1)
  - ✓ Small size of either population or land mass
  - ✓ Diseconomies of scale in private and public production structures
  - ✓ Open economies with narrow export base but wide import base



## Caribbean DNA, Cont'd

- ✓ Growth & Stability sensitive to external shocks
  - ✓ Location both a positive (near USA & LATAM) and negative (natural disasters)
  - ✓ Price takers of goods and capital in global markets
  - ✓ State is the largest actor by GDP or employment
- 
- CARICOM benefited from the tailwinds of liberalism from WWII but now face the headwinds of nationalism
  - FX earnings is our economic lifeblood





## Where are we now?

- Limited fiscal space
- 20 credit events since 2000
- Limited balance of payments space
- Weak economic growth
- Weak social cohesion
- Covid-19 has exacerbated the above



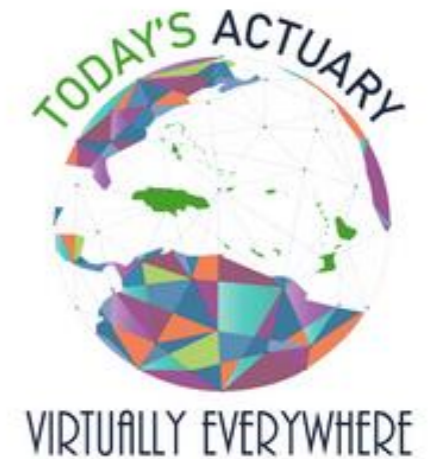


## Credit Events

CARICOM states since 2000 have had 20 credit events

- 12 debt restructurings, Antigua & Barbuda (2010), Barbados (2018), Dominica (2004), Grenada (2006, 2010, 2015), Jamaica (2010, 2013), Belize (2007, 2013), St Kitts & Nevis (2013), Surinam (2020)
- 4 debt write offs, Guyana, Jamaica (2004), Antigua & Barbuda, St Vincent & Grenadines (2007)
- 2 debt swaps, Belize (2016, 2020?)
- 2 debt buybacks, Antigua (2005), Jamaica (2015)





## Why Are We Here?

- Weak Leadership
- Public sector failure
  - ✓ Social/economic returns were insufficient to meet cost of debt
  - ✓ State involved in too many activities
  - ✓ Cost overruns for large scale projects
  - ✓ Losses of state enterprises
  - ✓ Assumption of losses of failed private sector institutions



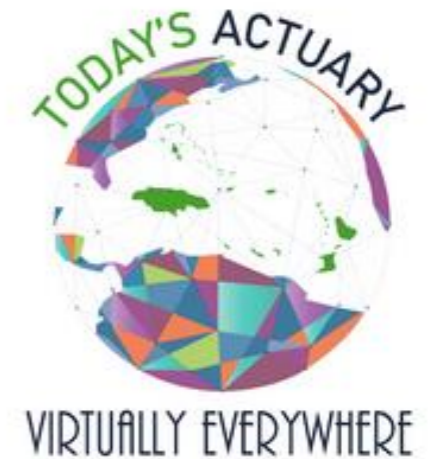


## Why Are We Here?

- Private Sector failure
  - ✓ Financial sector failures and bailouts
  - ✓ Private sector funded by FX from extractive industries
  - ✓ Weak innovation
  - ✓ Weak private sector business model of “import, mark up and sell” so leakage of FX



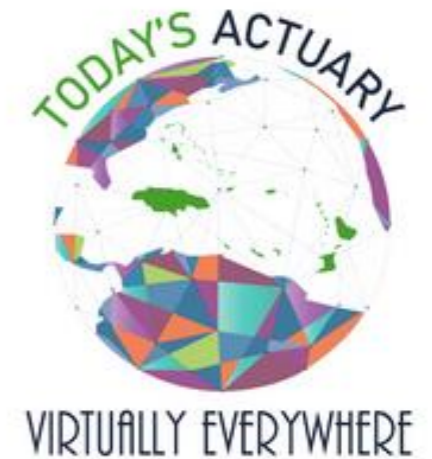




## Why Are We Here?

- Civil Society Failure
  - ✓ Reluctance to speak truth to power or engage in protest for fear of victimisation
- Public policy pursuit of outdated economic model
  - ✓ Reliance on extractive industries
  - ✓ Reliance on trade preferences
  - ✓ Reliance on aid
  - ✓ Reliance on external debt
- Natural Disasters
- Covid-19 was the tipping point



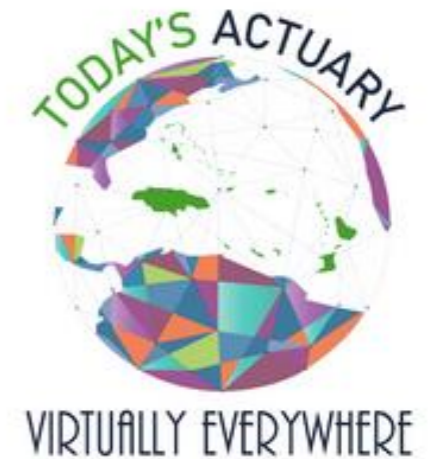


## Where Do We Wish To Be?

### New Social Contract:

- ✓ Covid-19 binds us because a person can infect another irrespective of our biases on race, religion, ethnicity, sexual orientation etc.
- ✓ Relationship between the State, Private Sector and Civil Society has to be reset into a new social contract
- ✓ Resets occurred at the end of slavery, indentureship and colonialism

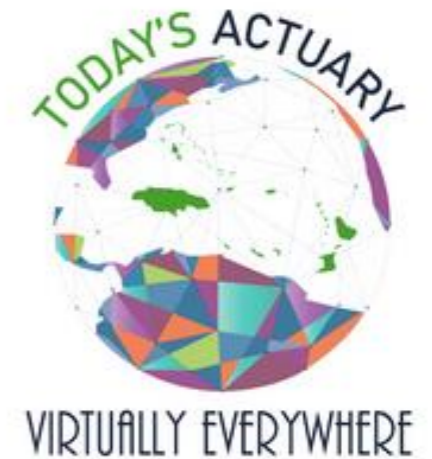




## Where Do We Wish To Be?

- ✓ Misguided view that things will return to normal after a vaccine
- ✓ Our societies are divided, angry and scared
- ✓ Covid-19 has increased prior unacceptable levels of inequality by wealth, income and opportunity
- ✓ Covid-19 has accentuated the moral weaknesses of a market system because our frontline workers excluding doctors are valued the least by our society and struggle to live

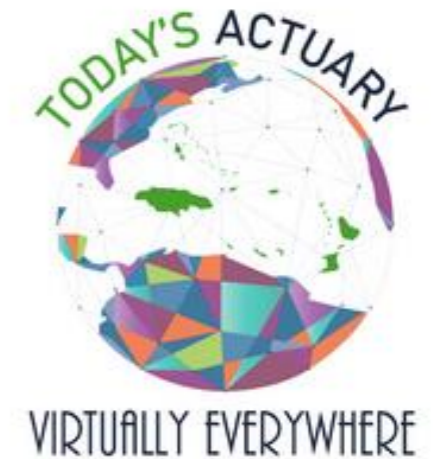




## Where Do We Wish To Be?

- Economic policies are shaped by power, politics and process of change
- Our economic policies are key to the society we wish to live and bequeath:
  - ✓ Inclusive prosperity
  - ✓ Smaller and focused role for the State
  - ✓ Entrepreneurial private sector
  - ✓ Efficient justice system
  - ✓ Shared governance with civil society to assist in the process of change





## Where Do We Wish To Be?

### Benchmarks For Success

- Reduction in inequality measured by Gini coefficients
- Lower external debt & less vulnerability to aggregate risks
- Generation or saving of FX
- Faster ultimate judicial decisions and restorative justice
- Shared governance to build trust



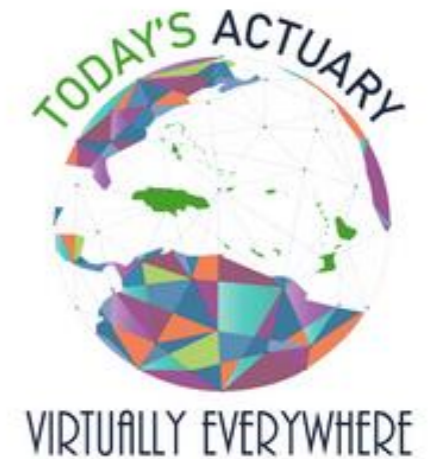


## Is It Possible?

### Small Advanced Economies:

- ✓ Austria, Belgium, Denmark, Finland, Ireland, Israel, Mauritius, Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland
- ✓ Innovation, Corruption, Democracy and Inequality are key issues
- ✓ Low corruption: New Zealand, Denmark, Finland, Singapore, Sweden & Switzerland (Source: Transparency International Corruption Perception Index)



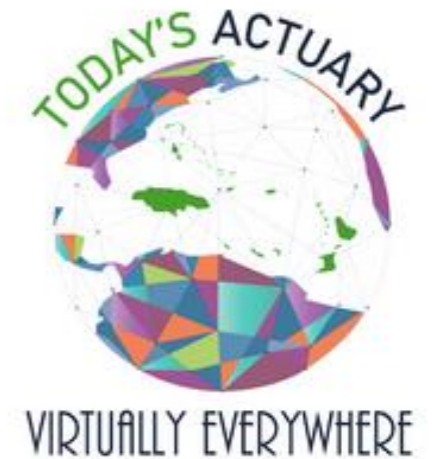


## Is It Possible?

### Small Advanced Economies, Cont'd:

- ✓ Highly democratic: New Zealand, Ireland, Switzerland, the Nordics (Source: EIU Democracy Index)
- ✓ Most innovative: Singapore, Switzerland, Sweden, Israel, Denmark & Finland (Source: Bloomberg Innovation Index)
- ✓ Socially mobile (Source: WEF Global Social Mobility Index)





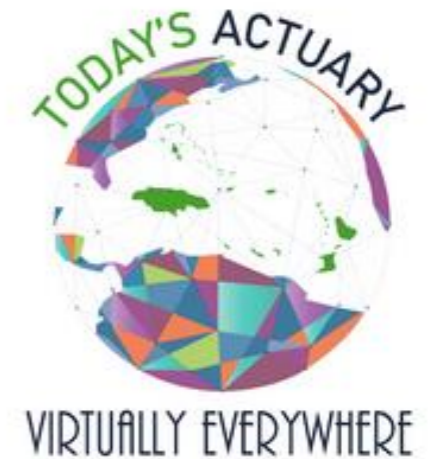
## Smaller and Focused State

### Fiscal Behaviour:

- ✓ Use fiscal policy to discourage demand for non-essential goods
- ✓ Legislated fiscal rules with stringent rules around exceptions
- ✓ Fiscal council with shared governance
- ✓ Any breach results in automatic tax hikes, spending cuts or divestments
- ✓ Eliminate negative tax expenditures, say relief on interest, private health, pension lump sums
- ✓ Special parliamentary majority for additional external debt
- ✓ State must be funded by a sustainable tax policy





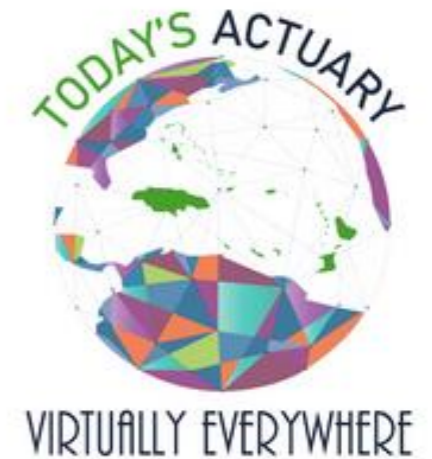


## Smaller and Focused State, cont'd

### Activities:

- ✓ State can regulate, fund or provide directly but should only do all three where there is market failure
- ✓ Divest assets where there is no market failure
- ✓ Deepen activities where there is market failure, say, health, unemployment, pensions, law & order, climate change adaptation
- ✓ Key activity is a tax funded universal health care system because social deprivation leads to unhealthy outcomes
- ✓ Shut down loss making state enterprises

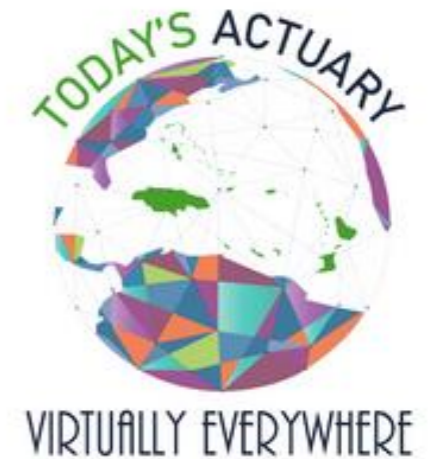




## Entrepreneurial Private Sector

- ✓ Our largest entities are closely owned, financial entities rather than entities in the productive sector
- ✓ The greatest democratization of money and hence financial inclusion in our society is in pension funds and credit unions
- ✓ Encourage pension funds and credit unions to invest in the productive sector
- ✓ Shift from shareholder capitalism to stakeholder capitalism

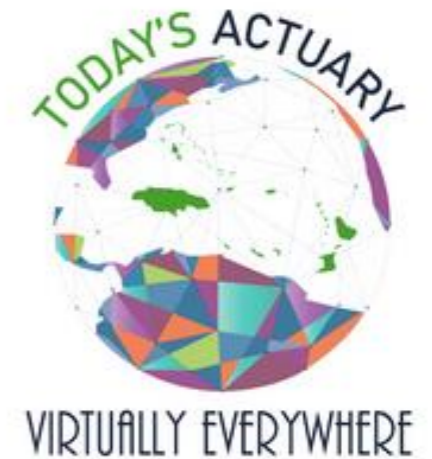




## Entrepreneurial Private Sector, cont'd

- ✓ We must identify, produce and market a narrow range of value-added goods & services that world wants and is willing to pay a premium
- ✓ Fiscal incentives for activities that generate or save FX
- ✓ Fiscal disincentives for activities that consume FX
- ✓ Embrace work from home to improve quality of life by less commute time and monitor deliverables/productivity rather than time spent

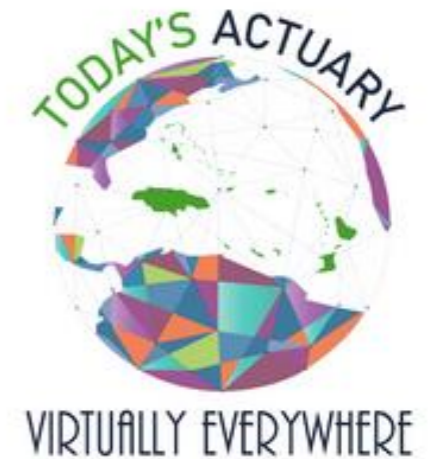




## Engaged Civil Society

- Civil society has a role as advocate, watchdog and trusted party
- Civil society provided essential services when there were gaps left by the State and the private sector through the provision of food, PPE, information, cash and emotional support to at risk and excluded groups like migrants, women locked indoors at risk of violence, inner city communities
- Civil society can assist in the oversight of the use public resources and encouraged to be on boards of private sector entities to promote stakeholder capitalism
- Civil society can be the bridge of trust between the public and private sector
- Faith based groups are a critical part of our civil society, many involved in successful pre tertiary education
- Allow faith based organisations to run all pre tertiary education





## Summary

- Sounds extreme but so are quarantines, travel bans, social distancing, extreme fiscal & monetary stimuli like printing of money, income support, low interest rates etc
- Small states, in theory, should be more agile than large states
- Should not take a pandemic for us to act quickly
- We must cultivate an experimental rather than an ideological mindset to build the society we wish, measuring results and rejecting quickly what doesn't work

