The Eleventh Adlith Brown Memorial Lecture

Taking Charge of Our Future Development

Delivered by
Sir Neville Nicholls
President, Caribbean Development Bank

Caribbean Centre for Monetary Studies

Sir Neville Nicholls has rendered and continues to render outstanding service to the Caribbean region. He was in the 1960s first Parliamentary Counsel and then Chief Parliamentary Counsel in Barbados. In March 1971 he was appointed Legal Counsel to the Caribbean Development Bank. He was later promoted to Vice-President and subsequently appointed President of that institution, a position which he has held since 1988.

Sir Neville has also served with distinction in other areas. He has been a member of the Barbados Public Service Commission, a body he subsequently chaired; the Barbados Public Utilities Board; the Barbados Judicial and Legal Services Commission and was appointed to the Privy Council in 1991. He also represented Barbados at several regional conferences on the establishment of the Caribbean Free Trade Association and the Caribbean Development Bank.

In 1990 he was awarded Knight of Saint Andrew in Barbados' Independence Honours. In recognition of his service to the region, the University of the West Indies, Cave Hill, Barbados, conferred on him an Honourary Doctor of Laws in 1993. He has continued his involvement in the University of the West Indies serving as Co-Chairman of the Committee on Governance between 1993 and 1994 and, Chairman Cave Hill Campus Council since 1995.

CARIBBEAN CENTRE FOR MONETARY STUDIES
Established under the joint auspices of the
Central Banks of the Caribbean Community and
The University of the West Indies

Printed by the Multimedia Production Centre,
Faculty of Education, The University of the West Indies,
St. Augustine, Republic of Trinidad & Tobago.

Patsy V. Russell

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Delivered on November 8, 1995
at the XXVII Annual Conference of the
Caribbean Centre for Monetary Studies (previously
Regional Programme for Monetary Studies)
at The University of the West Indies,
St. Augustine, TRINIDAD AND TOBAGO

CARIBBEAN CENTRE FOR MONETARY STUDIES
THE UNIVERSITY OF THE WEST INDIES
ST. AUGUSTINE, TRINIDAD AND TOBAGO

ISBN: 976-620-067-X

The Late Dr. Adlith Brown

The Adlith Brown Memorial Lecture honours the memory of Dr. Adlith Brown, Co-ordinator of the then Regional Programme of Monetary Studies from 1980 to 1984.

Although born in Jamaica, she could truly have been described as a Caribbean woman. Her sense of regionalism was nurtured on the Mona campus of The University of the West Indies where she did her undergraduate work for the B.Sc. (Economics) offered by the University. She subsequently completed her Masters (with distinction) as well as her Doctorate degrees from McGill University.

Adlith returned to teach at the University (St. Augustine Campus) in 1969 and in 1971 was transferred to the Mona Campus where she taught Monetary Economics in 1976 and was one of the main anchors of its Research programmes. She co-ordinated first the Caribbean Public Enterprise Project and from 1980 the then Regional Programme of Monetary Studies. In this period she was also promoted to Senior Research Fellow and in 1982 to the position of Acting Deputy Director, which she held up to her death. These latter years demonstrated most her capacity for intellectual leadership and for creative management.

Adlith revelled in the realm of ideas. It is therefore understandable that she was fast developing a reputation of being an outstanding economic theorist as her writings attest. Indeed, she was an ideal person to co-ordinate the then Regional Programme of Monetary Studies, given her passion for regionalism, her intellectual standing and her *understanding of the process and problems of policy-making with which her colleagues in the central banks had to cope.*

Each year the Open Lecture at the Conference of the Annual Monetary Studies, now sponsored by the Caribbean Centre for Monetary Studies, is designated the Adlith Brown Memorial Lecture.

Taking Charge of Our Future Development

The Adlith Brown Memorial Lecture

Sir Neville Nicholls

Mr. Chairman, Honourable Timothy Harris, Acting Prime Minister, Governor Dwight Venner, Professor Compton Bourne, Dr. Laurence Clarke, other distinguished Guests, Delegates, Ladies and Gentlemen. I regard it as a signal honour to have been invited to deliver the Eleventh Adlith Brown Memorial Lecture.

This is the second occasion since the inauguration of this series, that the meeting of the Annual Conference of the Regional Programme of Monetary Studies has convened in St. Kitts-Nevis. On the previous occasion, the speaker dealt with the issue of transnational banks and small debtors. The problem of the small debtor was brilliantly articulated nearly 60 years ago by John Maynard Keynes. He said words to the effect, if you owed your bank £1,000 you had a problem. But if you owed it one million pounds it had a problem. That principle holds for both personal and sovereign loans. The difference between the way the international financial system responded to the recent Mexican financial crisis, and the way it has appeared to respond to the debt problems of some of the countries in this region, speaks strongly in support of the wisdom of Keynes' observation.

On this occasion, as well, we are concerned with issues regarding banks and their clients, for the theme of this meeting is "Capital Markets in Regional Development". It is a happy coincidence that when I was apprised of the opportunity and privilege to speak to you tonight, I thought immediately about a subject that has to do with developing our capital markets to such an extent, that they would enable us to control the financial savings required to further our development, in a more self-reliant way, than we have managed to do so far. This is essentially what I mean by the phrase "taking charge of our future development'.

I must tell you why I have chosen this topic for a meeting of regional financial experts. The Caribbean Development Bank (CDB) has just all but completed the negotiations for the third replenishment of its Unified Special Development Fund. Our Bank's special funds are intended, inter alia, to finance projects that are of high developmental priority, but which nonetheless would fail to meet the financial rate of return to justify financing from our already relatively low cost Ordinary Capital Resources (OCR).

This is of particular relevance for the countries in this OECS sub-region. When our Bank was established a quarter of a century ago, its Charter enjoined upon it the responsibility of paying special and urgent regard to that group of countries now generally called the OECS, and then called by comparison to the relatively larger Caribbean economies, the lesser developed countries. Our Bank took that mandate seriously.

Although our smaller Borrowing Member Countries (BMCs) constitute 13 percent of the total population of all our BMCs, those smaller members have over the years benefitted from 56 percent of our total approved financing. Seventy-four percent of the loans they have received have been made from special funds resources. These loans are all of relatively long maturities, with grace periods of several years, not infrequently as many as seven, and at interest rates that never exceed 4 percent and could be as low as 2 percent in eligible countries. I think there can be no doubt that the impressive accumulation of physical capital in our smaller BMCs owes much to the fact that CDB has been able to combine, over the last 25 years, with its US$552.3 million in OCR financing, as much as US$742.3 million in financing from our pool of Special Fund Resources (SFR). It is one of these funds, our Special Development Fund (SDF), for which we have just negotiated a replenishment.

I must tell you that I have been involved as well in every previous negotiation, and this was the most protracted and difficult. To my mind, it clearly signalled the end of the era in which the Caribbean region, the region that is the subject of both this Conference and our Development Bank, has been regarded as an area of high priority for those countries we have traditionally relied upon, for whichever reason, to support our developmental efforts.

Mr. Chairman, this means that even if it did not carry the positive value I am sure a programme such as this attaches to it, we would be forced by circumstances to take charge of our future development. It is, nonetheless, to that positive value, that pride in ourselves, that assertion of self-reliance, that I am appealing when I style my address as I have.

Let me tell you what I have in mind. I joined the staff of CDB under the presidency of the late Sir Arthur Lewis. I would be dishonest if I did not admit to having been strongly influenced by several of his views about this region. One, in particular, has always haunted my thoughts. Decades ago, Lewis argued that what was called the West Indies had enough financial capital at its disposal, if used appropriately, to secure this region's development. In the present circumstances we have to be careful not to mean by such an assertion that the Caribbean had no use for foreign capital. It is clear from Lewis's general writings on Caribbean development that he never intended such a narrow interpretation. He was always welcoming of capital imports.

His concern, I believe, was with the way we are able to attract foreign capital. I can tell you from personal experience that he thrilled at the prospect of CDB becoming the catalyst for all the foreign loan capital that our region might need. That was so that we could attract such financing without compromising our sovereignty and our dignity.

It is still something to which we at the Bank aspire. This is how I view the growing prestige with which CDB is regarded in the international financial market. What Lewis clearly meant was that our region had already, decades ago, reached a level of development that enabled us to amass enough savings, which if properly used, would generate enough economic activity to furnish additional domestic savings and attract enough foreign capital on competitive and commercial terms. In the 40 or 50 years since that assertion, our region has experienced a fair degree of vicissitudes, but I think it is right again at a point where that judgement is true.

I might say, nonetheless, it had better be. For as I told you, our just completed negotiating process was a particularly hard one. We are not alone as a development bank in this experience. I was recently at the World Bank-IMF meeting in Washington with quite a few of the distinguished delegates at this present Conference. There too, one detected, when there were discussions about the replenishment of the International Development Association (IDA) resources for the World Bank, an aura of what I frequently call 'aid fatigue' on the part of traditional donor nations.

Let us look briefly at what seems to be behind this new attitude to contributing developmental finance. Three decades ago, the then western world was characterised by two strong influences. One of buoyant optimism that the Keynesian revolution had all but wiped out the chronic poverty that had plagued those countries up until the end of the second world war. There was full employment in all the major industrial countries and for the most part continual growth, even though this was interrupted by bouts of monetary disequilibrium.

However, bonding to that buoyant and optimistic attitude, was the fear associated with the cold war which gave to certain areas of our globe, enormous strategic significance. Both these influences have now dissipated. In all the industrial countries, though more so in Europe and North America, a stubborn new structural unemployment has reared its head. It has brought with it an entirely new strategic threat in the form of anomie and narcotic addiction.

In the meantime, people in these countries are living longer and needing greater outlays from the state in the form of pensions. The so-called dependency ratio of the economist gets more unfavourable by the day. These countries now have to look inward at their own problems to an extent that has not been the case for half a century. And this is accompanied by the loss of strategic value for regions like the Caribbean, the horn of Africa and the Pacific. As events this week show, only the Middle East now retains its former strategic importance, along with the new countries of the former Soviet bloc. This is an inauspicious environment in which to rely on the altruism of others for our future development.

It is my impression that our future development must take on an entirely different nature from that which characterised the era of soft loans. In particular, we need to integrate our small economies much more into the global market place. We must take those steps that will enable our industries to attract a larger share of equity financing from the growing pool that is being attracted to, as yet, only a few emerging markets in the developing world.

I recommend to this Conference that it urge upon the leaders of this region that they should establish a practical oriented committee to address the sole issue of making our region more attractive to equity financing from both within and outside of our region. I do not envisage, however, that we should abandon all the other forms of raising investment capital for our development. There will still be room for prudent loan financing and I would recommend that this should be at rates not very different from those we can secure from our multilateral financial institutions, including CDB. There is still, particularly in our smallest countries, considerable scope for direct foreign investment. But whatever mix we settle for, let us assume control over our financial affairs.

Now let me tell you why I think we have the firm basis for being optimistic about our future development. In preparation for this address, I consulted the economic statistics unit at CDB to check on trends in capital accumulation in our region. I found the results very interesting. Our region does not match the high rates of domestic savings that characterise several new industrialising Asian economies where a ratio of over 30 percent is sometimes common place. But neither is our region at the lower end of the spectrum. On average our countries save 20 percent of their national income, which is quite respectable, though as I shall say in a moment, we should aim to do better.

Let us look briefly at some aggregated macroeconomic data from 13 of our 17 BMCs for which we have comparable information and which exclude the high performing Cayman Islands economy. For that group, in 1993, Gross Domestic Savings amounted to US$3,276.2 million out of a gross domestic product of US$16,583.9 million, just about the 20 percent I indicated. Gross Domestic Investment in that year amounted to US$3,829.3 million or 23 percent of GDP. These ratios have remained fairly constant for a relatively long period now.

They suggest the region needs to attract only about 3 percent of Gross Domestic Product in net capital flows to sustain our current rate of investment. This appears to be well within the range of annual growth that our region should expect. This suggests to me that this is fundamentally a viable region, so long as our capital market development keeps pace with the rate of growth in the real economy. The theme of your Conference this year is indeed very appropriate.

What steps do I think we need to take to make sure that these developments do in fact take place? First, let me say that I think we have to do a lot of things that are not merely macroeconomic in scope. Many of these can be attempted without placing any additional burdens on the already stretched fiscal resources of our governments. I mean, for instance, all those things that make people feel confident about the future so that they will willingly defer consuming some of their personal incomes. These will include caring for our physical and cultural environment, rearing children that are likely to grow up to be self-confident and responsible citizens, unattracted to criminality, and in whose company we would not mind growing old. It is certainly important to get some of these non-economic matters right. But it is entirely necessary as well, that we get our macroeconomic environment right.

I will mention only a few of the economic variables to which we need to pay further attention, if we are to develop an economic climate that both encourages domestic savings and attracts foreign savings on terms acceptable to ourselves. It is not my purpose to open up a hornet's nest, but most decidedly we must seek to maintain not only stable but viable and competitive exchange rates, so that prospective savers can have confidence in the rationality of the rest of our economic policy package. In the absence of this condition, we open up a market for costly and wasteful hedging, giving rise to the possibility of excessive speculation when what we really need is enterprising investments.

We need also to encourage policies that let people keep sizeable proportions of the incomes they earn, whilst at the same time contributing adequate amounts to the purchase of those public goods, without whose consumption their private consumption is sub-optimal. This will require regimes of low or moderate taxation and inflation rates. I think, partly as a result of the work of this programme, we know a fair deal about how to achieve these objectives in our various countries. Our governments need, however, to act more decisively in ensuring that macroeconomic problems are tackled promptly.

Most importantly, whatever our macroeconomic policy at any time, and experts will continue to differ on particular policies, it must be implemented in a manner that lends to its credibility.

I think it will be found that all these issues are inter-related and they are all connected, in some way or another, to credibility and confidence. This is at the heart of viable capital markets. People are happy to hold assets if they are confident that when they are ready to liquidate them, they will be able to do so at no loss. This is particularly vital for the development of a market for equity financing. This is most essential if our economic growth is going to be sustainable. We have just seen that we could support our investment needs with as little as the equivalent of 3 percent of our gross domestic product, in net capital inflows. Think of how congenial it would be if this were mostly in the form of equity finance. The ratios we have, guarantee that profit remittances would not be onerous and we would have begun to escape from the perennial burden of debt that has handicapped many of our countries. For this to happen we must have a regional market in equities. We have been thinking about this for very long. It is time we take it further, and I urge we do as I suggested a moment ago.

I said earlier that we save a respectable 20 percent of our Gross Domestic Product and invest about 23 percent.

These are not bad ratios, but neither are they very good. Our policies must have as their aim, not only maintaining our savings and investment ratios, but raising them to somewhere in the region of 25 percent of Gross Domestic Product. We are much closer to this objective than we were when I addressed the Regional Economic Conference in 1991. At that time many of our countries were still running unsustainable fiscal deficits and depressing their Gross Domestic Savings rate. Perhaps, somewhat in part, as a consequence of that Conference, almost all of our countries now pursue fairly orthodox macroeconomic policies, and deliberate fiscal deficits of excessive proportions are much less common, although a few of our countries are for one reason or another in current fiscal difficulties.

Nonetheless there remains the challenge of converting our savings into more and more profitable investments. For this, it is necessary that as well as nourishing the development of our capital markets, we do all we can to encourage the development of an entrepreneurial culture.

This is one of the areas we at CDB are concerned with. Right now, in collaboration with the Inter-American Development Bank, we are engaged in a project that should deepen our knowledge about entrepreneurship and assist in some fundamental ways in improving our investment climate. This is a companion project to one that involves the East Caribbean Central Bank (ECCB) which, in keeping with the theme of this Conference, is aimed at fostering the development of capital markets in our region. CDB will, within the scope of its limited resources, continue to support activities of this nature in all our BMCs.

Mr. Chairman, I have sought to argue that our region finds itself at a juncture where it is necessary that it takes charge of its future development. Even if we were not willing to do so, this is being forced upon us by circumstances emerging out of conditions in our traditional donor countries. We do well to seize this opportunity to enlarge our self-reliance and embrace the challenge to be masters of our fate. What I have learnt from researching the work and character of the late Adlith Brown, makes me feel that she would have embraced this challenge with the enthusiasm she had for intellectual work and love she possessed for this beautiful region.

I thank you for giving me the opportunity to share with you in honouring her memory.

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