

THE EAST CARIBBEAN CENTRAL BANK  
AND  
ITS IMPACT ON THE ECONOMIES OF THE OECS

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"THE EAST CARIBBEAN CENTRAL BANK AND ITS IMPACT  
ON THE ECONOMIES OF THE ORGANIZATION OF  
EASTERN CARIBBEAN STATES."

On October 1, 1983, the East Caribbean Currency Authority (ECCA) graduated to the status of a central bank, the East Caribbean Central Bank (ECCB). For many Monetary practitioners and monetary scholars this may be viewed as the last hurdle in the effective implementation of a sound monetary policy in the Commonwealth Caribbean. Finally, monetary policies could be implemented in the CARICOM region through full Central Banks. Amidst this understandable euphoria, there is some disphoria. In this paper we will raise some questions with regards to the East Caribbean Central Bank (ECCB) and its impact on the economies of the Organization of the Eastern Caribbean States (OECS).

According to the ECCA Annual Report (1982:25): "The Principal Activity of the East Caribbean Currency Authority is to issue and Manage the East Caribbean Currency, safeguard its international value and promote monetary stability and a sound financial structure in the territories of the participating Governments."

The initial work which questioned the existence of the ECCA, and stipulated the need for a Central Bank in the Eastern Caribbean was McClean (1975). McClean (1975:9) claimed that ECCA "... functioned almost exclusively as a money changer." Furthermore, he argued, "...

the orthodox central banking powers with which ECCA has been invested are not operational in the financial environment of the East Caribbean Currency Area." Peltier (1977:10) in assessing "exchange management and monetary dependence in the East Caribbean Currency Area" concluded that ECCA was nothing more than a "paper tiger - (;) ... far from promoting 'a sound financial structure in the territories of the participating Governments,' the ECCA's limitations can be found within the terms of its legal structures - ... it cannot in fact influence monetary policy."

Over the years several other works have been developed on various aspects of monetary development in the ECCA area. Mitchell (1978) made "A Case for the Establishment of a Central Bank for the Eastern Caribbean Common Market Countries;" Bourne (1979) reviewed the "Commercial Bank Costs and Earnings in the East Caribbean Currency Area;" Guishard (1979) analyzed the "Commercial Banks' Liabilities in ECCA territories, 1968-1978;" Liburd (1979) evaluated the "Commercial Bank Asset Behavior in ECCA Area Countries" and recently Allen (1982) tackled the "Problems of an Emerging Central Bank;" his focus was on the transition of ECCA to ECCB.

In all of the works outside of McClean and Peltier, the implicit and explicit view was that ECCA was working even though some of the authors thought that ECCA needed more powers vis-a-vis the control of

commercial banks.

However, it was generally agreed among the directorate and staff of ECCA that the Authority was "... limited in its capacity to control and regulate the Banking system or to influence monetary policy."

(ECCA 1982:20). Furthermore, it was acknowledged that:

the ... New Central Bank (ECCB) will be entrusted with new functions and equipped with monetary instruments to regulate the availability of money and credit in a manner consistent with the balanced growth and development of the economies of the participating territories, and to promote a sound financial system.

By assuming these responsibilities, the Central Bank will become a vital link between the Governments, translating Government policies into practical monetary measures and representing the views of the financial community to Governments.  
(ECCA, 1982:20. Emphasis added).

If the new ECCB has what the 1982 Annual Report stated, then this may be a quest for an optimal monetary policy and balanced economic growth similar to the many works in the literature, for example, Drabicki and Takayama (1983:53-74). Pragmatically, the functions of the New Central Bank are nothing more than traditional central banking functions.

In the traditional perspective, central banks are sequestered to chart the financial policies of the national economies in which they operate. The charting must be in concert with national economic goals

and objectives. Technically, the Central banks should promote price stability, economic growth and full employment. The manner in which these goals and objectives are pursued by the Central bank will differ from bank to bank and from economy to economy.

It has become an elementary point, in the monetarist tradition, to view Central banks as quasi-governmental agencies which are monarchs of all they survey from the throne of the financial system. It is anticipated that they will regulate the financial market, maintain a sound banking and credit system, and create an environment conducive to trust, confidence and goodwill in the financial arena. Fundamentally, these assumptions presuppose that a full-fledged capitalist model is in vogue with all the paraphernalia that such a system represents. Consequently, (a) a large laissez-faire private sector is assumed; (b) this private sector will be preeminent in the financial system; (c) the Central banks will be the facilitator of good financial tidings from the public to the private sector and vice versa.

If these assumptions underpinning the operations of Central banks are objectively assessed, it would be seen that the New "Central Bank," the ECCB, has exactly the same guidelines, and it can be safely inferred, it will pursue similar policies to traditional Central banks everywhere.

Many authors have questioned the wisdom of such ideas as the bed-rock of operations of Central banks in the Caribbean. C. Y. Thomas in a variety of works has consistently questioned the nature of Central banks in the region. Recently, in Transition, he noted that "the establishment of Central Banks therefore, can only be one very small step in the direction of liberation and increasing the sovereignty of the peoples of the region (Caribbean). Without a restructuring of the global system of domination there is no hope for the exercise of real sovereignty in the field of finance." (Thomas, 1983:77).

McClellan (1975:10) in a scathing attack on the ECCA notes that:

irrespective of the desires of the officers of the ECCA, if it is equipped with traditional instruments only, it will certainly remain ineffectual. The orthodox techniques of monetary control were fashioned to meet the requirements of a particular type of economic environment. We in the Caribbean must seek to develop techniques which are suited to the social, economic and political realities of our situation. Indeed we must apply our minds to the basic problems of defining in specific terms, the role of a Central Bank in a dependent economy.

This, as we know, was the crucial point developed by Thomas (1965) in his seminal work Money and Financial Arrangements in a Dependent Monetary Economy. Housty (1978: 3-4) argues that Central banks in the Caribbean are limited in their effectiveness. Furthermore, given their "... prevailing structural limitation in the less developed countries, central banks need to play a more active role in the economy. These

banks should conceive of their role as assisting in the transformation of the economies from a state of dependency to one of self-sustained growth in which the needs of the people for a decent standard of living is achieved."

Blackman (1982:65) contends, inter alia, that the "Central banker is the nation's accountant. It is his task to keep constantly before the public the true state of the nation's finances and give timely warning of undesirable trends and developments ..."

All of these ideas and many more seem to suggest that the majority of the theoreticians believe that the Central banks in the Caribbean are tradition-bound and hence they will not work properly. On the other hand, the majority practitioners of Central banking believe that they can use the traditional tools to regulate the money supply, maintain price stability, and promote economic growth. My concern, too, is with the efficacy of Central banking procedures in the Caribbean. I am specifically concerned, however, with the impact of the ECCB on the economies of the OECS. My focus will be on the problems and prospects of the ECCB as it attempts to have more than a traditional impact on the economies of the OECS - a fact which must be the case if, in the words of Fay Housty, a central bank in our part of the world has to transform these economies from a state of dependency to one of self-sustained growth.

In this paper three main issues, out of many, will be covered. These are (1): structural and institutional problem; (2) a theoretical problem; and (3) monetary innovational and obstructive problems.

#### Structural and Institutional Problems:

From the Caribbean Development Bank Annual Report (1982: 29-42) we get a mixed picture about the overall sectoral performance of the economies of the OECS. First, the economic performance of the region was described as reflecting "the adverse economic developments in the industrialised countries." On the basis of the key economic indicators in the member states between 1981 and 1982, we note the following:

Antigua-Barbuda: inflation fell from 11.5% in 1981 to 4.5% in 1982. Unemployment held steady at 20% both years. The public debt increased by \$4 million over 1981 to \$54.4 million. The Recurrent deficit was \$2.7 million. Overall, "there was a deterioration in Antigua's fiscal performance during 1982." Furthermore, a "feature of the public sector operations during 1982 (was) the heavy reliance on the commercial banks to finance its recurrent activities." (CDB, October) 1982: 31-32).

Dominica: The inflation rate declined from 13.9% to 4.4%; current deficit declined from \$4.9 million to \$1.9 million. "Despite ... major pledges in 1982, the financing gap on the capital account stood at \$22.8 million." By and large, "... the Dominican economy showed some

signs of recovery and improvement in 1982.. (even) though production in the economic sector declined." (CDB, 1982:36).

Grenada: "For the first quarter of 1982, domestic exports declined by 16.0% from \$5.4 million to in the comparable period of 1981 to \$4.5 million ... banana earnings fell ... earnings from cocoa declined by 31.0% ... and nutmeg (earnings) fell by 30. % ..." "Visitor arrivals were 12.0% below the 43,328 tourists ... for the first half of 1981, ...; expenditure by stay-over visitors fell by 28.0%. On the other hand, construction was growing, due to the building of the airport at Point Saline." Construction accounted for 70.0% of the Government's \$36.0 million capital investment expenditure during 1982, with over \$22.0 million being the airport project." All in all, the "year 1982 was ... a difficult one for the economy because of the adverse conditions facing the major producing sectors." (CDB: 37).

Montserrat: Exports fell marginally from \$1.3 million to \$1.1 million. Imports increased from \$17.0 million to \$18.1 million. The rate of inflation increased to 9.9% versus 7.1%. From the commercial banks, demand for credit exceeded the growth in deposits. The key sectors of the economy grew moderately. GDP decreased to 2.0% from 4.6% in 1981.

St. Kitts Nevis: The rate of inflation fell from 10.4% to 5.9%.

Construction was up significantly. Tourists arrivals declined by 2.7% from 35,360 to 34,394. Sugar production was up 11% over 1981. But the "adverse cost/price relationship in the (sugar) industry, resulting from continuous rising cost of production ... and the prevailing depressed international prices ... further aggravated the precarious financial position of the statutory corporations responsible for the production of sugar." (CDB, 1982:40).

In fact, in St. Kitts gross domestic savings was negative in 1982, and the National Agricultural Corporation (NACO) had an overdraft with the St. Kitts-Nevis-Anguilla National Bank (60% government owned) of over EC\$40 million. By and large, the economy of St. Kitts-Nevis was marginally better in 1982, even though the mid year preliminary data indicated a favorable economic performance.

St. Lucia: Bananas declined from 44,400 tonnes in 1981 to 42,700 in 1982. Tourist arrivals were up but in terms of fiscal performance, the difficulties faced by the government and its agencies continued from 1981 to 1982. Unemployment rate was estimated at 27%; balance of payments deficit at \$9.8 million up to March 31, but there was a projected recurrent account surplus of \$2.5 million. Inflation fell from 15.1% to 4.6%. "Economic growth during 1982 in St. Lucia (was) estimated at 2.0% compared with 3.2% in 1981. Contributing to this

decline was political uncertainty with reduced private sector confidence (and hence, activity), the international economic recession and depressed prices for St. Lucia's major export commodities." (CDB, 1982:41).

St. Vincent and the Grenadines: "Bananas exports declined by 11.0% from 29,100 tonnes to 26,750 tonnes at a value of \$9.5 million and \$9.0 million respectively." There was a drastic fall in arrowroot production from a value of \$487,000 to \$97,000. Tourist arrivals decreased by 2.5% from 43,921 to 42,808. By the fiscal year ending June 1982, the external public debt and guaranteed debt went from \$16.4 million to \$17.0 million; external debt service was 2.0% of exports of goods and non-factor services. Consumer prices increased by 2.9% the first six months of 1982 for an annual 5.8% compared with 10% during 1981. GDP growth was down to 3.0% in 1982 compared with 9.0% in 1981.

The preceding details were necessary to show that, ceteris paribus, THE OVERALL OECS was not performing at an optimum level or on a balanced economic growth trajectory in 1982. Compounding this issue there were liquidity problems in the region. ECCA was around and, no doubt, it pursued policies to assist the economies from a monetary point of view. Now as ECCB, the question is, could it pursue policies that would aid the countries in complementary fiscal policies. In other words, now that the ECCB is a reality, now that it is equipped with the monetary

instruments to regulate availability of money and credit, could it do so in a manner consistent with balanced growth and development and promote a sound financial system of the economies in question?

Fundamentally, I believe that the ECCB will face some serious structural and institutional problems. In the first place, ECCB will now have to play a more expansive role in the affairs of state of the OECS. Specifically, the ECCB will have to develop a new philosophy of integrating monetary and fiscal policy. This new philosophy will have to be one wherein monetary stability in the OECS will be implemented from ECCB in St. Kitts with no effective on sight enforcer of policies such that stability could work in conjunction with sound, stable economic and fiscal policies of the individual countries.

There is a implication that these programmes which are designed to establish and assure a robust, healthy, stable East Caribbean dollar, say, will have to be based on strong economic performance of the OECS and the ECCB. This may mean the monetary policies, of the traditional ilk, may be of second order of importance over some time frame. What we are suggesting is a radical departure from what the ECCA did and what ECCB seems predisposed to do.

Over the years the OECS economies have been performing inadequately. They have not approached anything near balanced economic growth, conventionally, defined. In light of this view, the ECCB will have to

intervene in the member economies to offset the disequilibrating tendencies and perturbations with which they seem to be afflicted. Such an interventionist policy may evoke problems of territoriality and jurisdictional domain. The ECCB may not be permitted to intervene (interfere) in the individual economies because the Ministries of Finance did not permit such intervention in the past and may be reluctant to do so now. The critical question is what can this multi-country central bank do to mitigate the structural and institutional problems that may be barriers to the economic adjustment process in the microstates of the Eastern Caribbean? We suggest that ECCB will first have to further institutionalize its monetary policies into the fiscal policies framework of the OECS.

A second issue relates to a point raised by Demas. In discussing the issue of a single currency in the Caribbean, Demas (1974:54) said that:

... a single independent currency entails a single set of economic, monetary, financial and fiscal policies designed to influence the balance of payments. Such a single set of economic, monetary, financial and fiscal policies is possible only with a high degree of economic union tantamount to a political union."

This, therefore, has to be one of the critical modes of operation that has to be considered as the ECCB seeks to integrate its monetary policies into the fiscal policies of the OECS economies. The East Caribbean dol-

lar is the single currency for the OECS. Now ECCB has to work in conjunction with the OECS governments to institutionalize the goals and objectives of strong economic, fiscal, monetary and exchange rate policies.

#### An Empirical Problem:

The structural and institutional problem that ECCB will face is only one of the set of problems. Another problem is that resulting from changes in the money supply and specifically the impact of domestic credit in the economies. This is an empirical problem. In the ECCA Annual Report (1982:16), there is a seemingly curious statement:

while activity in the banking system in the financial year ending 31st March 1982 was in general less buoyant than in the previous year, a reflection of the comparatively weak performance of the tourist industry and the major export commodities, the area's money supply grew at a higher rate than the year before.

Hence, even though the economies were not a peak performance, the money supply still grew. Some people contend that this is when the money policy should be tight. Others contend that this is when the monetary policy should be easy. The money supply growth in 1982 came about as a result of a fall in the gross foreign reserves, an expansion in domestic credit, a fall in balances of the commercial banks with the ECCA and an increase in quasi-money (time and savings deposits). (ECCA, 1982:16).

According to the ECCA Annual Report (1982:16):

The money supply in the ECCA Area ... (M1) is primarily influenced by movements in the foreign exchange reserves of the Authority, changes in domestic credit, quasi money (time and savings deposits) and commercial bank balances held with the Authority. The first two factors are associated positively with the money supply, while the latter two are associated negatively ...

Putting this in a mathematical form we have:

$$M = f(\Delta FX, \Delta DC, QM, BB) \quad (1.0)$$

where M = the narrow definition of money, M1  
 $\Delta FX$  = changes in the foreign exchange reserves at the ECCB

$\Delta DC$  = changes in domestic credit

QM = quasi-money

BB = commercial bank balances at the ECCB

The behavioral conditions for (1.0) are:

$$f_{FX} > 0, \quad f_{DC} > 0, \quad f_{QM} < 0, \quad f_{BB} < 0 \quad (1.1)$$

where  $f_{FX} = \frac{\partial f}{\partial \Delta FX}$ , etc. denote the partial derivatives.

Each variable in equation one is also a function of some other variables. Some of the inclusive variables are well established in the literature. Using ideas from ECCA (1982:18:19) we first have:

$$\Delta FX = g(X, T, i) \quad (2.0)$$

where X = exports earnings.

T = tourism earnings

i = domestic interest rate

and where  $g_X > 0; g_T > 0; g_i > 0 \quad (2.1)$

Second, we have:

$$\Delta DC = h(\dot{y}, i, R^*) \quad (3.0)$$

where  $\dot{y}$  = the rate of growth of GNP

$i^*$  = domestic interest rate

$R^*$  = Revenue - Expenditure gap

and where  $h\dot{y} > 0; h_i > 0; hR^* < 0 \quad (3.1)$

Third, we have:

$$QM^1 = (i, r, \dot{y}, \dot{p}) \quad (4.0)$$

Where i = as defined before

r = domestic interest minus the foreign interest

$\dot{y}$  = as defined before

$\dot{p}$  = rate of inflation

and where  $m_i > 0; m_r < 0; m\dot{y} > 0; m\dot{p} < 0 \quad (4.1)$

and finally we have:

$$BB = v(i, r^*, b) \quad (5.0)$$

where i and r = as defined before

b = minimum borrowing/lending rate

and where  $v_i > 0; v_r < 0; v_b < 0 \quad (5.1)$

It is clear that the ECCB directorate understand the parametric shifts that could take place when these variables interact. But policies of increases in the money supply and the impact on economic growth are not as simple as it may seem. Combining equations one through five on the assumption that they are all differentiable we have:

$$M = [(g(x, T, i), h(\dot{y}, i, R^*), m(i, r^*, \dot{y}, \dot{p}), b(i, r, b))] \quad (6.0)$$

The ECCB will now have to pursue policies which will impact on the economy as they are viewed through monetary lenses. When the Authority was ECCA it was sufficient to view the economy through strict monetary

lenses but, as ECCB, with its expanded role and given that it will have to overcome some of the structural and institutional problems mentioned above, the new pursuits must be such that the question of estimating the money supply will be only one option among the many open to it. The impact of the money supply on interest rates, inflation and economic growth will now assume greater importance.

In essence, ECCB will now have to pay closer attention to the state of the economy in terms of credit availability to the various sectors of the economy, the growth of GNP and inflation as opposed to merely cataloguing the directional impact of the supply of money identifiable through equation one. Equation one is still important from an aggregate point of view, but the real work, however, has to be done on equation six the "reduced form."

Totally differentiating equation six, we obtain equation seven:

$$dM = f_g^+ g_x dx + f_g^+ g_T dT + f_g^+ g_i di + f_h^+ h_y dy + f_h^- h_i di + f_h^- h_{R^*} dR^* + f_m^+ m_i di + f_m^- m_r dr \quad (7.0)$$

$$+ f_m^+ m_y dy + f_m^- m_p dp + f_v^+ v_i di + f_v^- v_b db$$

where  $f_g = \frac{\partial f}{\partial g}$ ;  $g_x = \frac{\partial g}{\partial x}$  etc., and

where the minus and plus signs indicate the behavioral conditions.

Rewriting equation seven in a neater form we have equation eight:

$$dM = a_{11}^+ dx + a_{12}^+ dT + a_{13}^+ di + a_{21}^+ dy + a_{22}^+ di + a_{23}^- dR^* + a_{31}^- di + a_{32}^+ dr + a_{33}^- dy + a_{34}^+ dp + a_{41}^- di + a_{42}^+ dr + a_{43}^+ db \quad (8.0)$$

where  $a_{11} = f_g^+ g_x$ ;  $a_{12} = f_g^+ g_T$ ;  $a_{13} = f_g^+ g_i$  etc. Combining like terms in equation eight we have equation nine.

$$dM = a_{11}^+ dx + a_{12}^+ dT + (a_{13}^+ + a_{22}^+ + a_{31}^- + a_{41}^-) di + (a_{21}^+ + a_{33}^-) dy + a_{23}^- dR^* + (a_{32}^+ + a_{42}^+) dr + a_{34}^+ dp + a_{43}^+ db \quad (9.0)$$

Rewriting equation nine, we get equation ten:

$$dM = z_{11}^+ dx + z_{12}^+ dT + z_{13}^+ di + z_{14}^+ dy + z_{15}^- dR^* + z_{16}^+ dr + z_{17}^+ dp + z_{18}^+ db \quad (10.0)$$

where  $z_{13} = (a_{13} + a_{22} + a_{31} + a_{41})$   
 $z_{14} = (a_{21} + a_{33})$ ;  $z_{15} = a_{23}$ ;  $z_{16} = (a_{32} + a_{42})$   
 $z_{17} = a_{34}$ ;  $z_{18} = a_{43}$ ;  $z_{19} = a_{41}$ ;  $z_{12} = a_{12}$

All of the "multipliers" are positive except:

$$\frac{dM}{dy} = ? \text{ and } \frac{dM}{dR} < 0.$$

Now if we focus on interest rates, inflation and economic growth, we note some contradictions. Let us first assume that we have correctly interpreted the behavioral conditions of the equations as they are stated in the ECCA (1982:18-19). In the case of the interest rate,  $\bar{z}$  13, it has the correct signs according to the monetarist view. The Neo-Keynesians believe that an increase in the money supply will lower the rate of interest, which in turn lowers velocity.

The second point relates to  $\bar{z}$  14, the change in the money supply relative to economic growth. Here we are unable to give a sign to the "multiplier." Traditionally we will equate the money supply equal the money demand in equilibrium and then assume a form such as:

$$\frac{M}{P} = L(y, r), L_1 > 0; L_2 < 0$$

In this well known LM curve we know that given P we can determine the combinations of (y, r) which will keep the money market in equilibrium.

We can differentiate the LM curve with respect to y and get:

$$\left(\frac{dr}{dy}\right)_{LM} = -\frac{L_1}{L_2} > 0$$

which is the upward sloping LM curve. Here an increase in the interest rate leads to a fall in speculative demand for money as people move

to holding interest bearing assets.

In our case, the relationship between  $\frac{dM}{dy}$  is unambiguous in this model. Taking both the interest rate situation and the rate of growth question, it seems that the ECCB is operating along strict monetarist lines but that fiscalist measures may be necessary. In fact given that the ECCA increased the money supply during a period when the economies were doing poorly it seems that the ECCB may have a wider degree of discretionary policy in terms of what it does from a money supply point of view and or economic growth point of view, all things being equal.

The argument which was advanced for the interest rate, also is operational in the case of the rate of inflation. This is nothing more than the general monetary transmission mechanism, namely:

- (a) an increase in the supply of money;
- (b) a decline in the interest rate;
- (c) a rise in the rate of investment;
- (d) a rise in aggregate demand and employment; and
- (e) a rise in the general level of prices.

The monetarists generally believe that the route is A, D, E. The Keynesians believe that the route is A, B, C, D, E. The ECCB will have to reconcile both of these theoretical pursuits in its operations

if it is to have an impact from its monetary system on the fiscal systems of the OECS economies.

#### Monetary Innovational and Obstructional Problems:

According to ECCA (1981:31) the National Commercial Bank of St. Lucia offers a "petit checking account." It permits customers to draw checks while earning interest like a savings account. This is a Negotiable Order of Withdrawal (NOW) account that exists in the USA. If this type of system is permitted to spread through the ECCB area, what effect will it have on the supply of money and, in train, interest rates and economic growth?

From evidence in the USA, these NOW and NOW-like accounts are forcing analysts to question the once sacred relationship between M-1 and the level of economic activity. As consumers get additional liquidity market rate yielding alternatives to transactions balances, they seem to respond more to money holdings. This means there are also some questions about the traditional role of the interest rate vis-a-vis money supply changes. If these NOW-like accounts begin to spread in the region, then ECCB will have to reorient its operational thrust to tackle this problem given the likely theoretical and empirical change that the New accounts may bring about.

Linked to this monetary innovation is the kind of impact that may come from the Caribbean Basin Initiative (CBI) and other fiscal thrusts of this nature. If money comes to the region from a CBI or CBI-like developments, will the ECCB be able to control the monetary base in these highly open economies? It has been argued that "financial markets respond more quickly to New developments than do goods market." (Canzoneri, 1983:79). New developments are likely to impact on the OECS now that ECCB is in operation. Some people suggest that given the monetary base "closeness and stability of its relationship to aggregate demand," that it may be used as a long term target since the movement in the base is only significant to the extent that it is "related to the fundamental objectives (of an economy) through its influence on aggregate demand." (Davis, 1979-80:3). If this perspective is acceptable then the ECCB will, again, have to review its traditional perspective to the monetary base and its interaction with the economy.

From the point of view of obstructional problems, the commercial banks in the Eastern Caribbean have not done much to orientate their portfolio balances to things Eastern Caribbean. They have also been obstructionist in some respects. Bourne (1979:19) notes that there is an "atypicality of the coincidence of the very high margins and low risks (among the Commercial Banks) in the ECCA area and that it raises

sufficiently fundamental issues of social inefficiency in banking to warrant close scrutiny by both researchers and policy-makers." A similar point is made by Odle (1981:56) about the perverse attitude of banks and risk taking in the Caribbean.

Liburd (1979:29-31) notes that Commercial "banks operate in an environment that is largely free of regulation in respect to their asset portfolio decisions." He notes that some governments have imposed deposit restrictions from one-half of one percent in Montserrat to 10% in Grenada. This is only one step, however, in terms of what ECCB will have to do to control the Commercial banks. Guishard (1979) was essentially in agreement with the lack of regulation of the banks in her empirical study which focused on a knowledge and performance of the liability portfolio of the commercial banks in the ECCA area.

Conclusion:

When we take the three issues raised in this paper, we are forced to draw the following conclusions:

- (1.0) The ECCB will have to be prepared to function more actively in the economies of the OECS. The ECCB will have to shift its directional axis away from the traditional banking approach to one which encompasses active participatory planning and monitoring of the economies of the OECS.

- (2.0) The ECCB may have to pay great attention to the levels of credit, imports, exports, and foreign exchange budgets. These have been tried before in some Caribbean economies. Some have worked. Some have not. However, the ECCB will now have to play a stronger role than when it was ECCA.

In the OECS, the public sectors dominate the economies. The ECCB powers vis-a-vis the Ministries of Finance must be made clear, if conflicts are to be reduced. Some participating governments which have imposed reserve control have been reluctant to surrender those controls to the ECCA. The ECCB must insist that these powers be its powers and not the powers of the individual countries.

With regards to the Commercial banks, this may be the thorniest problem. However, if the OECS is to achieve the kind of economic transformation that is requisite for a decent standard of living for its people, then the OECS, ECCB and the participating governments have to control all of the sectors which operate in the economies. There can be no hesitation.

Finally, the officials of ECCB have to note that "... monetary policy is macro-policy and cannot be made island-specific. Experience with divergent approaches in member states to fiscal matters suggests that a common monetary policy may prove problematic at times, and can

be the basis on which financial and real resources can transfer from one island state to another where such transfer was not intended by policy initiatives." (Ince-Jones-Hendrickson-St.Cyr, 1980:51). The ECCB may wish to consider, in the final analysis, branches in each member state to enforce, monitor, implement its policies in conjunction with the local governments. So whether it is an institutional change, a theoretical shift or monetary development review, the ECCB will have to clearly articulate its goals and objectives within the framework of the goals and objectives of the OECS. But it has to be an active role. It cannot be passive in the traditional Central Banking manner.

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The variable in QM are based on some composite views as found in the traditional literature. For example, Duesbury (1949); Friedman (1989); Fisher (1980). However, Guishard (1978 :46) contends that she "failed to establish any statistically significant relationship between interest rates on commercial bank deposits and the demand for these deposits. Price inflation was not found to be an important determinant of changes in commercial bank deposits. The results obtained should be treated with caution," she warned. I did so.

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