

GROWTH, SAVINGS AND CAPITAL FORMATION IN A RAPIDLY CHANGING ENVIRONMENT: CHALLENGES FACING CARIBBEAN POLICY MAKERS

Ramesh Ramsaran

I. INTRODUCTION

A great deal has been written in the literature about the relationship between the financial sector and economic development, about the relationship between growth and savings, and more recently about the relationship between financial liberalization and the growth process.¹ While there are differing views on these relationships, it is generally acknowledged that financial institutions and financial policies have a key role to play in transforming the real sector of the economy, and in increasing income and employment. Indeed, structural adjustment programs (SAPs) since the early 1980s, aimed at improving resource allocation and increasing competitiveness, tend to pay as much attention to financial sector reforms as they do to factors affecting real production.

The major premise is that more efficient financial intermediation will not only enhance the savings rate, but will also improve resource allocation, both of which are seen as crucial to the development process. Following the outbreak of the most recent debt crisis in the early 1980s and the placing of market principles and the private sector at the center of the 'new' development paradigm, greater emphasis is being given to the need to increase public and private savings. Not all countries enjoy access to international capital markets, and where debt servicing is already burdensome, there are limits on the extent to which development financing can depend on further borrowing. While the liberalized model envisages a more friendly environment for foreign investment, the thrust of financial sector reforms leans towards the view that domestic savings need to finance a greater share of domestic investment, not only because of the vicissitudes associated with foreign capital inflows, but because it constitutes a major principle of the self-sustaining philosophy now underlying economic policy recommendations.

Commonwealth Caribbean countries find themselves in a peculiar position. Despite a small market, a limited resource base and a narrow

range of production activities, they have managed to generate a level of per capita income that places them in the middle income range of countries. Per capita GNP in 1995 varied from US\$ 600 for Guyana to US\$ 12 000 for the Bahamas with saving and investment ratios averaging around 20-25% in recent years (see Tables 1 and 2). Further progress is under threat as a result of the failure of domestic policies, and the changes taking place in the international environment. While traditional export sectors are declining, the import substitution strategy has not met expectations with respect to job creation, diversification or export earnings. In the context of the international drive for free trade, the region is losing its preferential markets. Aid flows to the region are falling as a result of competition not only from the transition economies of Eastern Europe and the former Soviet Union, but also from countries with lower incomes and worse social conditions. Commonwealth Caribbean countries, with the exception of perhaps Guyana, find it increasingly difficult to qualify for concessional loans. With the barriers to the movement of private foreign capital being reduced, resources are moving to countries experiencing growth, and now enjoy greater flexibility in the context of the increased competition and liberal policy framework.

In this emerging scenario there are also, of course, opportunities. Caribbean countries are being forced to rethink development strategies adopted in the 1960s and 1970s, and which no longer seem relevant in the present circumstances. The economic decline of the 1980s forced a number of countries to undertake reforms both in the real and financial sectors. Some have done so with the help of the regional and international aid agencies, others on their own. Despite the experience of some growth in the 1990s, clear and unequivocal policies, particularly at the micro-level, are incomplete or not yet in place. The abandonment of large scale protection and control has to be accompanied by new forms of incentives and governmental interventions consistent with a competitive setting, with the structural characteristics of the economy and with long-term economic objectives.

This paper is limited in scope. It does not deal with the whole range of financial sector policies. It concerns itself with a discussion of some of the issues relating to saving and accumulation in the Commonwealth Caribbean in a context where some countries have resumed growing. For the most part, it focuses on Barbados, Guyana, Jamaica and Trinidad and Tobago, though at times it is found instructive to draw inferences from the experience of the wider Caribbean. The term 'Commonwealth Caribbean'

Table 1 - SELECTED DATA ON COMMONWEALTH CARIBBEAN COUNTRIES

Countries	GNP Per Capita (current US\$)		Per Capita GNP Average Annual Real Growth Rate (%)		Average Annual Inflation Rate	Population Growth Rates			
	1980	1995	1973-85	1985-95	1985-95	1960-70	1970-80	1980-90	1985-95
Bahamas	3,450	11,940	1.9	-1.0	3.2	4.1	2.2	1.9	1.7
Barbados	3,270	6,560	1.5	-0.2	2.5	1.1	0.5	0.3	0.5
Belize	980	2,630	-0.1	4.4	3.5	2.8	1.9	2.8	2.6
Guyana	690	590	-2.3	0.8	51.1	2.8	1.1	0.5	0.6
Jamaica	1,090	1,510	-3.5	3.7	28.3	1.6	1.5	1.2	0.9
Trinidad & Tobago	5,010	3,770	2.0	-1.6	6.8	2.1	1.3	1.7	0.9
<u>OECS</u>									
Antigua	1,380	7,702 ^a	2.9	2.7	4.4	1.5	1.3	0.5	0.5
Dominica	640	2,990	28	4.0	4.4	2.2	0.5	1.2	-0.1
Grenada	780	2,980	...	...	5.3	1.5	1.6	0.7	...
Montserrat	1,440	5,846 ^a	...	...	2.8 ^b	...	...	...	...
St. Kitts/Nevis	960	5,170	3.3	4.6	5.5	2.0	0.6	-1.2	-0.4
St. Lucia	890	3,370	2.9	3.9	3.2	2.7	1.8	2.0	1.4
St. Vincent	540	2,280	2.3	3.9	3.6	1.9	2.2	1.0	0.8

... not available; a. per capita GDP, 1994.

Source: World Bank *Atlas*, Various Issues; CDB, *Annual Report*, Various Issues.

or Caribbean is used synonymously with Caribbean Community (CARICOM) countries. The paper is organized as follows. The first part presents an outline of perspectives on the role of savings and capital accumulation in growth and development. The second describes recent growth performance in the Caribbean. This is followed by a discussion on the level of savings and investment achieved in the Caribbean. In the final parts of the paper we examine the trends in savings and investment policies in the context of a liberalizing environment, and indicate some directions in which they can go to achieve a higher rate of capital accumulation.

II. PERSPECTIVES ON THE ROLE OF SAVINGS AND CAPITAL ACCUMULATION IN GROWTH AND DEVELOPMENT

It has long been recognized that 'growth' and 'development' are not the same phenomenon, even though they are often difficult to separate. In the developed countries where the basic economic structural transformation has already taken place, the concern among researchers for most of the post-war period has been with identifying the sources of growth and the contribution of the various factors. The emergence of the production function technique enabled researchers to put under stronger scrutiny the Harrod-Domar capital output growth model which attributed almost all growth to capital accumulation. Two landmark pieces of research in the 1950s (Abramovitz, 1956; Solow, 1957) concluded that between 80 or 90% of the growth of output per head in the U.S. economy over the century could not be accounted for by increases in capital per head (Thirlwell, 1978:57). 'Technical progress' was the major contributor. Since then, much of the theorizing and model building in the area of growth economics has been concerned with trying to explain this phenomenon, and showing how difficult it is to move steadily along a continuous path of growth.

In emerging states, we "cannot assume that capital plays the same part at the outset of industrialisation as it does once industry is well established or in countries that are already fully industrialised" (Cairncross, 1955). In the developing countries, the problem is not simply one of growth, but expanding production capacity and transforming the production structure. In the early post war years, capital was seen as the dynamic ingredient in this process, and justification was sought in neo-classical theory using the concept of diminishing marginal returns. As "physical and human capital are accumulated, their incremental contribution to output diminishes. If this is correct, poor economies, those with smaller endowments of physical and human capital per worker will grow faster than rich economies for the

same level of investment in physical and human assets" (World Bank, 1993:49).

Since the early post-war years, however, varying views on the role of capital in economic development have emerged. One extreme position, no doubt drawing on the capital-output model, holds that economic growth and development was a unique function of capital formation: "There is an unstated assumption that growth hinges on capital accumulation and that additional capital would either provoke or facilitate a more rapid rate of economic development in circumstances which no one would describe as involving a shortage of capital" (Cairncross, 1955). A more neutral view argues that capital formation is a concomitant phenomenon of the process of economic growth and not a causal factor: "Capital resources which are often thought to be crucial are usually less important. Moreover, their supply and productivity depend on personal faculties, motivation and social and political arrangements. These resources are thus primarily an effect, a result, a dependent variable in the process of economic development rather than a cause or an independent variable" (Bauer, 1976:75).

A more widely shared position is that accumulation is one of the most powerful influences determining the process of economic development, but it needs to be complemented by other factors and policies. A recent cross country statistical analysis by the World Bank covering 113 developing countries revealed that investment in both human and physical capital contribute significantly to economic growth. An increase of 10 percentage points of GDP in the rate of investment would raise the growth rate of GDP per capita by 0.5%. An increase of 10 percentage points in primary or secondary school enrolment would raise per capita income growth by 0.3% (World Bank, 1993:48).

The ongoing effort to find solutions to poverty, and the wide ranging theories of development which have emerged over time, reflect the fact that the factors which influence economic development not only cover a wide field, but are very complex. The role of saving and investment, however, has always occupied a very prominent role in the literature. Writing in the mid 1950s, Lewis observed that; "communities in which national income per head is not increasing invest 4 or 5% of their national incomes per annum or less, while progressive economies invest 12% per annum or more. The central problem in the theory of economic growth is to understand the process by which a community is converted from being a 5% to a 12% saver – with all the changes in attitudes, in institutions and in techniques which accompany this conversion" (Lewis, 1963:225-26). The critical importance of saving rates for capital accumulation and output

growth was again underlined by a recent IMF study. While acknowledging the controversial question of causality between income growth and the saving rate, the study nevertheless noted that high-saving countries grow faster than low saving countries: "Fourteen of the world's fastest growing economies over the past ten years had a saving rate over 25%, and none had a saving rate under 18%. Meanwhile, 8 of the world's lowest growing economies over the same period had a saving rate below 10% and 14 were below 15%" (IMF, 1995:59-70). The study acknowledged that the linkage from saving to growth is not ironclad. There are some countries which have experienced low economic growth with high saving rates, while in some others healthy economic growth has taken place with a low saving rate.

In practice, development policy has assumed that a high level of investment is essential to growth and development, and in the absence of adequate domestic savings, foreign resources could help in breaking the low income/low saving/low income circle, if indeed there was one. On the question of the domestic savings effort and the role of foreign capital in economic development, the post-war experience is very revealing. In many countries little was done to raise the prevailing domestic savings ratio to the potential level. Macroeconomic policies, consciously or unconsciously, not only discouraged thrift but encouraged capital flight. In some countries the policy environment was not only unfriendly to domestic investment, but was also not conducive to foreign private capital inflows. In a number of cases government borrowing from foreign sources was dissipated in consumption or on projects with little impact on productive capacity. Not surprisingly, servicing of the public foreign debt subsequently became an enormous problem for many countries, with the effect being felt on growth, employment and welfare. There is a view that inflows of foreign capital may have undermined the domestic savings effort, thus perpetuating the dependence on foreign capital. In other words, there is an inverse relationship between domestic savings and foreign capital inflows (Griffin, 1970).

In the context of structural adjustment programs, developing countries are adopting more open policies with respect to both trade and capital movements. A high level of investment is seen as a key factor in achieving growth, and to this end policies to encourage public and private savings and to encourage investment are an integral part of the conditionalities stipulated by the aid agencies. In trying to achieve savings/investment targets three critical and related questions often arise: (1) Are economic policies (the policy framework) designed to produce maximum savings from the growth in income?; (2) how large a proportion

of the savings being generated is at the disposal of the local economy?; and (3) are savings being optimally used?. Despite their importance these are not questions that receive careful and systematic attention, since the shortage of development finance is often taken for granted, and attempts are made to fill both the savings and foreign exchange gaps from foreign resources. The imprecise nature of aggregate savings data does not help, while the pressures to maintain high levels of current spending overwhelms savings policies. The ambiguous impact of certain policies on saving has also contributed to the uncertainties in the policy-framework of some countries.

In the context of the developed countries with a production base already in place, it is often argued that in a situation of falling consumption levels (increasing saving) investment can fall. In developing countries, however, where capital formation is a major policy goal, there is need to place greater emphasis on saving than on consumption. Increasing consumption too, the argument runs, can use up scarce foreign exchange needed to pay for capital goods which the local economy is not producing. Imports also put pressure on the exchange rate and can increase domestic instability, creating an environment unfavorable to economic activity.

III. RECENT ECONOMIC PERFORMANCE

The boom and bust cycle is a salient feature of Caribbean economies which are known to quickly lose gains made in economic upswings. The ability to sustain growth over long periods on the basis of internal structural changes is a goal still to be achieved. A boom in commodity prices, capital inflows, the growth of resource-based industries like tourism are among the leading factors which lie behind high-growth phases in recent years. Foreign exchange is the fuel that drives these economies, and by expanding import capacity, foreign earnings make possible a higher level of spending, and can lead to a temporary increase in welfare. Because of the high propensity to import, a high level of foreign earnings does not necessarily translate into a higher level of domestic capital formation.

The pre-independence Caribbean economy revolved around a few basic sectors, viz., export oriented agriculture, mining, tourism and simple manufacturing. While available data for the 1950s indicate a growth in per capita income in most countries of the region, in some economic expansion was impressive. In Jamaica, for example, total real production increased by 77% between 1953 and 1960 at an average rate of 11% per year. In Trinidad and Tobago, real GDP growth averaged over 13% over the same period. In both these countries, the mining sector was a significant contributor to this performance. The data also indicate

reasonably high investment rates in the period. While in Jamaica, the Gross National Savings ratio averaged around 16% in the late 1950s, the investment ratio averaged around 23%. In Trinidad and Tobago gross domestic investment averaged over 25% in the 1950s, while the gross savings rate was around 21%. In Guyana and Barbados, too, gross capital formation was averaging between 20 and 25% of total production, with domestic savings financing around 75-80% of investment on average.

With the achievement of political independence from the early 1960s, Caribbean governments began to assume a greater responsibility for social and economic development and to put in place a variety of controls, regulations and incentives to guide the process. The state saw its role as not only building and maintaining the social infrastructure, but for one reason or another became increasingly involved in direct production in certain cases. The creation of an industrial sector was embraced as the main goal of development policy, and the domestic production of consumer goods previously imported (import substitution) was to be the basic strategy with tariffs and quantitative restrictions providing a protected environment. The theoretical underpinning to this strategy was that the expansion of the manufacturing sector through new investment and the re-investment of profit, would absorb 'surplus' labor, and generally raise the marginal productivity of labor in the economy. In the small economies of the Caribbean producing manufactures for foreign markets was seen to be an integral part of the strategy, but this did not become an explicit part of the policies adopted (Lewis, 1950; 1954).

In the absence of a long-term sequencing strategy, the manufacturing sector in the Caribbean has proceeded little beyond the assembling and packaging of simple consumer products for the local and regional markets. The emergence of the highly capital intensive gas-based industries in Trinidad and Tobago's production landscape has to be seen as a distinct operation not related to the broader import substitution process associated with low value-added activities. Employment and foreign exchange goals have remained elusive, while the region has become increasingly dependent on imported food, as agriculture has declined. Unintentionally, perhaps, the incentives provided favored capital intensive techniques of production and carried an anti-export bias. Final consumer goods imports may have fallen, but imports of raw materials, intermediate inputs and capital goods would have increased, resulting in little net foreign exchange saving. Some import substitution activities (e.g. motor car assembly in Trinidad and Tobago) not only involved a considerable wastage of capital, but their inefficiency led to severe exploitation of the domestic consumer. "Import substitution and small market size encouraged the formation of

high cost units of sub-optimal size, creating inefficiencies, since import substitution favored the exchange of high cost (small scale) local production for (low cost) more efficiently produced imports. Import substitution also enabled foreign firms to build up oligopolistic positions in certain industry sectors, since there was no specific monopoly legislation to prevent this" (Dunning and Narula, 1996:179).

In defining the development framework in a period of high nationalism, political and economic objectives became closely intertwined, as the state attempted to straddle its several functions as promoter, investor, facilitator and distributor. Some policies lost their time horizons and some had no clear thrust. Tax policies, for example, gave confusing signals, while the policy toward foreign capital was ambiguous and uncertain. The foundation for much of the later difficulties were laid in the 1960s and 1970s.

The 1960s, however, promised much as the euphoria of independence and economic planning overwhelmed the concerns about size and limited resources. In this decade, Caribbean economies grew by about 4 to 5% per year in real terms. A favorable international environment, stable or increasing commodity prices, aid inflows, high levels of government spending and available opportunities in import substitution activities were the main factors behind the growth in the 1960s, and provided the basis for a great deal of the optimism in the period. Low inflation rates and low energy cost (petroleum was averaging between 2 and 3 US dollars a barrel) contributed to the favorable environment. The growth of GDP generally exceeded the population growth rate, so the growth rate of per capita GDP was positive, in some cases exceeding 2.5% per year.

The 1970's was a more difficult decade for the region. While per capita real GNP grew by over 3% per year in Barbados, Belize and Trinidad, in Jamaica it declined by an average rate of 2.8% per year between 1970 and 1980. In the OECS the performance was mixed with per capita income declining in Dominica, Grenada, and St. Vincent. The dramatic increases in the price of oil benefited Trinidad and Tobago as an oil exporter but had a disastrous effect on the balance of payments and economic performance of the oil-importing countries of the region. Sharp increases in the import bill resulted in major declines in foreign reserves of some countries (e.g. Jamaica and Guyana), and in an effort to maintain a high level of public spending domestic and foreign borrowing assumed significant proportions.

Table 2 - COMMONWEALTH CARIBBEAN COUNTRIES: GROWTH OF GDP AT CONSTANT 1990 PRICES, 1980-95

Year	Bahamas	Barbados	Belize	Guyana	Jamaica	Trinidad & Tobago
1980	--	4.5	5.7	1.6	-5.7	10.4
1981	18.9	-1.9	1.3	-0.3	2.6	4.6
1982	0.8	-4.9	-0.3	-10.4	1.2	4.0
1983	-7.5	0.4	-2.2	-9.3	2.3	-9.2
1984	3.0	3.7	2.0	2.1	-0.9	-6.2
1985	13.5	1.1	1.0	1.0	-4.6	-4.1
1986	2.5	5.1	4.6	0.2	1.6	-3.3
1987	3.8	2.6	11.2	-3.1	7.8	-4.6
1988	2.3	3.5	9.2	-2.6	2.9	-3.9
1989	2.0	3.6	13.1	-3.3	6.8	-0.8
1990	1.0	-3.1	11.0	-4.7	5.5	1.5
1991	-4.0	-4.2	2.7	6.0	0.7	2.7 ^a
1992	-2.0	-5.7	7.7	7.8	1.5	-1.7
1993	1.9	1.0	4.2	8.2	1.0	-1.1
1994	0.6	3.8	2.2	8.5	0.8	4.6 ^a
1995 ^p	0.8	2.7	3.7	5.1	0.5	3.5 ^a
<u>Average growth Rate of GDP</u>						
1970-80	2.8	2.1	--	0.9	-0.9	5.6
1980-90	2.8	1.5	5.0	-3.5	2.3	-3.0
1990-95	-0.5	0.1	4.1	9.9	1.1	1.6
<u>Average Growth Rate of per capita GDP</u>						
1970-80	0.6	1.7	--	0.2	-2.2	4.4
1980-90	0.9	1.2	2.3	-3.9	1.0	-4.3
1990-95	-2.1	-0.2	1.3	8.9	0.0	0.5

Source: IMF, International Financial Statistics, Various Issues; IDB, Economic and Social Progress in Latin America, Various Issues, Official Publications

-- not available

p. provisional

a. at 1985 prices the estimated growth rate for 1994, 1995 and 1996 respectively were 3.6%, 2.4 and 3.1%.

The effects of some of the trends that emerged in the 1970s became more evident in the 1980s, and while the drop in oil prices had some mitigating influence, the decline in production (and in some cases prices) of major exports worsened domestic, social and economic conditions. The manufacturing sector nurtured for the local market behind high tariff walls could not pick up the slack. In fact, the shrinking import capacity took a toll on this sector itself, underlining the need for policy reform and re-orientation. Some of the gains made in the 1960s and 1970s were lost in the 1980s (see Table 2). In Guyana and Trinidad and Tobago, per capita GDP declined by an average rate of 3.7% and 4.2% per year respectively

in the 1980s. In The Bahamas and Barbados per capita income grew by about one per cent per year in the same period. It is interesting to note that the OECS, notwithstanding their smaller size and limited resources, fared better than their larger CARICOM counterparts in the 1980s (see Appendix 1). Tourism and private capital inflows impacted significantly on economic performance in these countries. Per capita GNP growth rates averaged over 4% per year in the 1980s.

In the 1980s a conjuncture of events forced Caribbean governments to rethink some development policies and change direction in a number of areas. The decline of traditional exports and the erosion of preferential markets have underlined the need to develop more competitive manufacturing and agricultural sectors. The failure of the state as an engine of growth and development have forced governments to become facilitators of development and to place greater reliance on private enterprise and capital. The debt problem and the attendant servicing difficulties pointed to the need for policies to generate a higher level of public and private savings to finance development. Though there have been some resumption of growth in the 1990s, in many of the areas, policies are still being developed. In the following section we examine the role of savings and capital formation in development and the experience of Caribbean countries in recent years.

IV. AGGREGATE SAVING PERFORMANCE

The savings ratio (i.e. Gross Domestic Savings as a proportion of Gross Domestic Product) not only varies widely across the region, but for individual countries also fluctuate from year to year. Certain points stand out in Table 3. The non-OECS countries (viz., The Bahamas, Barbados, Belize, Guyana, Jamaica and Trinidad and Tobago) generally have higher saving ratios than the countries in the OECS group. In the early 1990s, the ratio for the former group was averaging over 20% as compared to less than 15% for most of the OECS. For both the larger territories and the OECS, the saving performance in the 1970s has improved over that of the 1980s which was a difficult period for the region. As indicated earlier, while the causal linkage between the growth of income and the saving rate has not been established, the data seem to indicate that growth in the 1990s has been accompanied by an increase in the savings ratio. The decline in the Trinidad and Tobago ratio from an average of around 40% during most of the 1970s, to an average of 23% between 1981 and 1991 correspond with the significant drop in income in this period as a result of the fall in oil prices.

Table 3 - SAVINGS AND INVESTMENT RATIOS IN COMMONWEALTH CARIBBEAN COUNTRIES, 1973-95

Countries	Savings Ratio ¹				Investment Ratio ²			
	1973-80	1981-91	1992-94	1995	1973-80	1981-91	1992-94	1995
Bahamas	25.7 ^a	25.0 ^b	--	--	13.7 ^a	18.6 ^b	20.8	--
Barbados	12.1	17.2	17.3	17.9 ^a	22.8	18.9	12.3	13.8
Belize	--	18.7	20.6	--	27.2	24.4	29.1	26.0
Guyana	20.0	18.0	37.6	--	29.7	31.5	50.3	19.0
Jamaica	16.0	18.4	25.5	--	22.8	23.8	31.8	17.0
Trinidad-Tobago	39.3	23.1	24.6	31.1	27.0	21.7	12.8	14.0
OECS								
Antigua	--	21.5	20.9	--	--	33.8 ^c	21.8	22.0
Dominica	--	7.4 ^a	1.7	--	--	33.8 ^c	21.8	22.0
Grenada	--	8.1	15.3	--	--	38.0	30.5	32.0
Montserrat	--	-2.4	5.9	--	--	43.3 ^c	37.5	--
St. Kitts & Nevis	14.1 ^a	12.8	23.2	--	34.3 ^a	39.5	38.8	39.0
St. Lucia	7.1 ^f	11.2	10.2	--	34.3 ^f	24.5	15.9	25.0
St. Vincent	--	12.0	13.0	--	34.6 ^a	26.5	26.8	--

Source: World Bank, *World Tables, 1995*; CDB, *Annual Report*, Various Issues; Official Publications; CDB, *Social and Economic Indicators*, Various Issues.

1 Gross Domestic Savings as a per cent of GDP at current market prices

2 Gross Domestic Investment as a per cent of GDP at current market prices.

-- not available

a. 1977-80 b. 1981-87 c. Gross National Savings. 1984-90

e. 1983-91 f. 1980

Table 4 - TRINIDAD AND TOBAGO: CONCEPTS OF AGGREGATE SAVINGS, 1987-95 (% OF GDP)

Year	Gross Domestic Savings	Gross National Savings	Consumption of Fixed Capital	Net National Savings	Foreign Savings
1987	21.4	14.8	10.9	3.9	5.2
1988	22.0	14.6	11.3	3.3	2.6
1989	27.4	17.8	11.1	6.7	1.6
1990	34.3	25.7	10.0	14.7	-8.7
1991	24.6	15.9	10.9	5.0	0.4
1992	24.7	16.0	11.3	4.7	(2.3)
1993	22.7	15.0	11.4	3.6	(1.4)
1994	28.0	18.9	11.0	7.9	(4.5)
1995	31.1	22.5	--	--	(3.7)

Source: Official Publications.

-- not available

The concept of 'gross domestic savings' (GDS) can be quite misleading as an indicator of the national savings effort in countries where foreign capital has a heavy presence. Another concept commonly used is 'gross national savings' (GNS) which takes account of net factor income payments and net transfers abroad. In the case of Trinidad and Tobago, for example, the GDS ratio, averaged 25% in the period 1985-95 as compared to 17% for the GNS ratio. In Jamaica over the period 1982-92, the GDS ratio averaged 20% as compared to 16% for the GNS ratio. In Guyana the GNS ratio was negative in seven years between 1981 and 1992. It is worth noting too, that the consumption of fixed capital forms a not insignificant part of domestic savings. So that if we deduct net factor income paid abroad and depreciation from gross domestic savings, net national savings can be fairly small (see Table 4). Another point worth noting is that 'gross domestic savings' is a more appropriate indication of the savings capacity of the country. The practice in national accounting exercises is to treat the undistributed profits of foreign corporations as a capital inflow, even though they have been generated locally.

The breakdown of aggregate savings into its three major components (government, corporate and personal) gives an indication of the significance of the contribution by these three sectors to national savings. Since a large part of governments' investment programs is financed by borrowing or grants, public sector savings do not give an indication of governments' contribution to capital accumulation. Private savings are far more important in Caribbean economies than government savings which tend to fluctuate wildly from year to year. In Trinidad and Tobago, for example, after averaging 2.7% of GDP in the 1950s, current budgetary savings fell in the 1960s and early 1970s. As a result of the oil boom, government current savings averaged almost 19% of GDP between 1974 and 1981. By 1986, however, the surplus had disappeared. In Jamaica, positive current account balances in the 1950s and 1960s turned negative in the 1970s and 1980s. In 1983 the Jamaican deficit amounted to 9% of GDP, but started to improve in the rest of the decade. In Guyana, the government ran a persistent current budget deficit from the mid-1970s right through the 1980s. In 1984 the deficit reached over 30% of GDP. Except in unusual circumstances, a surplus of 5% or more is a rare occurrence in the Caribbean. There has been some improvement in the saving effort in recent years, however (see Table 5).

As can be seen in Table 5, government savings tend to be small, but is improving in some cases as a result of fiscal restraints and tax reforms. In recent years it has averaged less than 2% of GDP in The Bahamas and less

Table 5 – CENTRAL GOVERNMENT: CURRENT SAVINGS OR DEFICIT (-) AS A % OF GDP

Year	Bahamas	Barbados	Belize	Guyana	Jamaica	Trinidad-Tobago
1986	1.4	1.6	2.0	-5.0	5.1	-0.8
1987	1.5	1.2	3.8	-27.2	3.6	1.3
1988	-0.2	4.5	7.3	-10.3	2.3	-2.3
1989	-0.6	4.5	8.6	-4.9	4.1	-2.0
1990	0.2	0.2	9.3	-26.0	4.9	-0.1
1991	-1.1	2.7	7.3	-16.2	6.1	3.0
1992	0.7	2.3	5.7	-5.6	7.3	-1.0
1993	1.5	2.8	2.9	2.9	6.7	1.4
1994	2.0	2.0	2.6	0.2	5.2	1.4
1995 ^p	1.6	3.2	1.7	2.9	5.3	2.2

Source: IDB, Economic and Social Progress in Latin America, 1996 Report; Official Publications

p. provisional

than 3% in Barbados. In Belize the ratio has fallen significantly since the late 1980s. In Guyana, the position has improved since the 1980s, but the ratio is still below 3%. In Jamaica and Trinidad, the ratio in the 1990s reflects an improved performance over the 1980s. It is worth noting, however, that the improved fiscal performance in Guyana, Jamaica and Trinidad and Tobago corresponds with a marked increase in poverty and social problems.

V. SAVINGS AND INVESTMENT POLICIES IN THE PUBLIC SECTOR

The stabilization, distribution and allocation functions associated with government activities often force governments to assume positions which appear to be in conflict with each other. On the one hand, a government must have resources to satisfy certain social needs; and on the other it has to maintain a climate that is conducive to the growth of income. A good tax system in a market economy is not only intended to raise revenue as income grows, but to provide incentives and influence the allocation of resources. If the economy is not growing, revenue is not likely to increase. When governments find themselves in this position, the temptation is to borrow both internally and externally to satisfy populist demands. There are of course limits to which they can do this without destabilizing the economy, or affecting their own creditworthiness. External debt servicing is not only already high for some countries, but the need to encourage the growth of the private sector also places a limit on domestic borrowing (see Appendix 2). Another option which some governments have not hesitated to use is to borrow from the central bank (print money), but this can impact on the inflation and exchange rates, creating an uncertain investment

climate. Not without good reason, there are often calls for Central Banks to be more independent of Ministers of Finance.

In a democratic setting the pressure to maintain high levels of current spending is difficult to resist, and very often it is the level of capital spending that is reduced, with repercussions on the social and economic infrastructure. When the quality of the workforce and of economic infrastructure falls, not only will new investment be discouraged, but capital flight may occur. Generating a surplus on the current budget account has come to be seen as an essential element in the financing of the public sector investment program. How have governments been trying to do this? The options are not many and center on the following areas:

1. reduction in the level of current spending;
2. reduction in the rate of growth of current spending to below that of current revenue;
3. increasing the level of current revenue and reducing tax evasion.

In practice fiscal polices have embraced measures on both the revenue and expenditure side. With wages and salaries accounting for between 40 and 50% of recurrent revenue, and current transfer and subsidies for another 20 or 30%, it is not surprising that these are the areas first to receive attention in the rationalization efforts. The need to maintain creditworthiness makes it difficult for a government not to meet debt service obligations. In public sector reform programs, reduction in employment, cuts in or curbs on wages and salaries, privatization and reorganization of unprofitable state enterprise, combined with reduced social spending have featured prominently. Generally the lower level of public spending has not been the result of any radical change in governments' philosophical position, but the reflection of lower levels of revenue and grants, or a diminished ability to borrow. In real terms capital spending has also fallen, leading as indicated before, to a deterioration in the social and economic infrastructure and to a reduction in production capacity. The multiplier also works in reverse. In the large CARICOM countries poverty has increased since the early 1980s as a result of the failure of certain policies and the decline of certain activities and their impact on government revenue. In Trinidad and Tobago, for example, real per capita private consumption fell by some 50% between 1982 and 1994.

The tax structure adopted in the 1960s was complicated in the 1970s and early 1980s by a range of taxes, levies and surcharges introduced primarily to raise revenues without any great regard to their impact on effort and enterprise, or sometimes even their yields. Tax revenue as a proportion of GDP and current expenditure as a proportion of GDP have

increased since the 1960s. The tax ratio now ranges between 20 and 30% in the Caribbean. Trinidad and Tobago is at the lower end, while Guyana is at the upper (see Table 6).

Table 6 – TAX REVENUE AS A % OF GDP

	<u>Trinidad & Tobago</u>			<u>Barbados</u>			<u>Guyana</u>		
	1985	1990	1995	1985	1990	1995	1985	1990	1995
Tax Revenue	30	23	23	25	26	29	36	32	30
(Non-oil Sector)	22	16	19						
(Non-oil Coys)	2	2	2	2	3	4	9	9	6
(Individuals)	8	3	5	6	4	6	5	2	5
(Indirect Taxes)	7	9	9	17	19	19	18	14	16

Source: Official Publications

Note: In Jamaica the tax revenue/GDP ratio has averaged around 27% in recent years

The aim of tax reforms in the Caribbean is avowedly to simplify the tax system, increase incentives and equity, and to improve efficiency in order to take account of the increasingly competitive environment, while strengthening governments' fiscal position. The process include the elimination of ad hoc taxes, certain credits and a range of allowances. The tendency is to reduce corporate taxes and the marginal rate of the personal income tax. The tax structure is also being shifted in favor of spending taxes, the argument for which is that it brings within the tax net those who are able to escape paying income taxes. Trade liberalization has also led to less reliance on quantitative restrictions and more on tariffs which have also been simplified and reduced. Tax holidays and exemptions from import duties are still being used to attract capital. A range of indirect taxes is being replaced by a consumption type value-added tax. In Trinidad and Tobago, this tax, which has been set at 15% is now yielding more than twice the revenues from import duties and is contributing close to 20% of tax revenues. Barbados has also introduced a value-added tax, while in Grenada a new set of income and indirect taxes have replaced the VAT introduced in 1986.

It is yet too early to fully assess the impact of these incremental and incomplete reforms on savings, investment, government revenue and growth. And that is not the intention of this paper. What needs to be noted is that government actions must have credibility if they are to have the desired impact. In the past, incentives given in one period encouraging the undertaking of long-term commitments have been withdrawn in another or offset by other measures, as public revenue comes under pressure or as spending increases. Some taxes also appear to be contradictory to the stated objectives. A case in point is the 10% tax imposed by the Trinidad

and Tobago government on interest income. Clearly, this is a disincentive to saving, particularly if interest being taxed is arising from income already taxed. This classic example of fiscal imprudence is compounded by the recent extension of this tax to interest income generated by foreign currency accounts held by residents in local banks. This measure may not only discourage further repatriation, but could encourage the flight of capital from these accounts. A more reasonable approach might have been to abolish the tax on local dollar accounts, if it was felt that it was encouraging the movement of funds from local savings accounts to foreign currency accounts.

There are areas where further tax reforms are needed, but these should be accompanied by efforts to attain greater efficiency in government spending. Governments also need to establish a climate which allows it to accumulate, without this accumulation being seen as a potential base to increase current spending. A target saving rate of 5 to 10% of GDP ought to become an unquestioned norm not to be threatened by populist policies. Perhaps most fundamental is for governments to decide how and where it is going to intervene in economies which have to be reformed to survive in a liberalized environment.

With respect to aggregate private savings, data are not readily available for all countries but one can get some indication of their importance by deducting government savings from the overall figure which itself is a residual. In Trinidad and Tobago, for example, private savings (including depreciation) have accounted for 95% (on average) of Gross National Savings in the early 1990s. Precise and up to date data on the contribution of personal and corporate savings are also not easily available. In Trinidad and Tobago the contribution of personal savings to total domestic savings amounted (on average) to more than three times the contribution of corporate savings in the 1950s. A study using more recent data appears to confirm that in this country the propensity to save out of personal income is higher than that associated with corporate profits (Martin, 1995). In Jamaica, however, figures available for the 1950s and 1960s indicate that corporate savings make a larger contribution to Gross National Savings than personal savings.²

It is difficult to separate saving from consumption, and not surprisingly in the literature, most of the theories formulated to explain savings behavior center around personal savings or more directly on consumption. In these theories the most common determinants are aggregate disposable or per capita income (in various forms), inflation, the distribution of income, interest rates, age structure of the population and so on. The effects of these variables on savings can vary from country to

country, but generally income has been shown to be one of the strongest determinants of savings.³

With respect to foreign savings, their contribution varies from year to year, and from country to country. Domestic savings have financed the bulk of domestic investment. Foreign savings seem to have contributed around 20-30% (on average) to gross domestic capital formation. In some countries of the region the trends in localization in the 1960s and 1970s created a very uncertain climate for private foreign investment, leading to a decline in private inflows and capital flight. This development was not unrelated to the increase in the public sector borrowing as governments increased their role in the economy to offset declines triggered by changes affecting the main sectors of the economy. Subsequently, the large share of foreign exchange earnings taken by foreign debt service underlined the limits of ad hoc borrowing.

VI. DOMESTIC CAPITAL FORMATION

In the Caribbean, gross domestic investment (gross capital formation, or gross domestic capital formation) as a per cent of GDP tends to be higher than the savings ratio (see Table 2). This is particularly so in the OECS where the investment ratio of over 20% in some cases is more than twice the savings ratio. Among the larger CARICOM countries, the investment performance seemed to have declined significantly from the 1970s (over 20%) in Barbados and Trinidad and Tobago, and improved in Jamaica and Guyana where the investment ratio crossed 30% in the early 1990s. Generally, foreign savings (in the form of grants, private investment and loans) have made possible a higher level of investment than would have been warranted by the domestic savings effort.

Data on real investment are not available for all countries, but in the cases of Guyana and Jamaica, they give an indication of a significant decline since the 1970s. In Trinidad and Tobago, real investment increased by an annual rate of 12.7% per year between 1973 and 1982, but since then it has declined at an annual rate of 9.5% per year. In Jamaica, real investment in the early 1990s was below the level of the 1970s. Guyana, too, also experienced a steady decline until the early 1990s (see Table 7).

While recent data are not available on the contribution of the public and private sector to capital formation, it is clear that the share of the public sector, particularly if the state enterprises are included, may be significant in some countries of the region. While private investment tends to concentrate on directly productive activities, infra-structural development are essential to economic growth, and governments have a high responsibility in this area. The deterioration of the utilities and

transport, communication and social infrastructure in some Caribbean countries during the 1980s as a result of financial problems, would have discouraged private investment and no doubt contributed significantly to economic decline in this period. Poor macroeconomic management would also have helped to achieve this end. Rebuilding and modernizing the social and economic infrastructure is an essential prerequisite for economic growth and development.

Table 7 - GROWTH OF REAL DOMESTIC INVESTMENT

Year	Trinidad & Tobago		Jamaica		Guyana	
	TT\$ mn'	% change	J\$mn'	% change	G\$mn'	% change
1975	3,167	21.2	10,321	10.8	4,583	72.0
1976	3,624	14.4	7,300	-29.3	3,928	-14.3
1977	3,742	3.3	4,921	-32.6	2,764	-30.9
1978	4,790	28.0	5,543	12.6	1,311	-30.9
1979	4,943	3.2	5,300	-4.4	2,625	100.0
1980	6,061	22.6	4,075	-23.1	2,600	-1.0
1981	4,907		4,938	21.2	2,360	-9.3
1982	5,036	2.6	5,382	9.0	1,547	-34.5
1983	4,887	-3.0	5,382	9.0	1,547	-19.2
1984	4,336	-11.3	4,937	-10.0	1,056	-15.5
1985	3,391	-21.8	4,883	-1.1	1,081	2.4
1986	2,969	-12.5	4,208	-13.8	1,071	-1.0
1987	2,364	-20.4	3,705	-12.0	1,081	0.9
1988	1,558	-34.1	4,387	18.4	1,053	-2.6
1989	1,845	18.4	5,314	21.1	1,018	-3.3
1990	1,990	-3.0	5,129	-3.5	993	-2.5
1991	1,862	4.0	4,408	-15.1	1,052	5.9
1992	1,400	-24.9	5,488	24.5	1,134	7.8
1993	1,397	-0.3	--	--	--	--
1994	1,704	22.0	--	--	--	--

Source: IDB, *Economic and Social Progress in Latin America, 1996 Report*; Official Publications; World Bank, *World Tables 1995*.

-- not available

1. 1975-80 in 1987 dollars; 1981-94 in 1985 dollars
2. 1987 dollars throughout

Given the common perceptions about the role of private investment in the development process, a great deal of attention is given both by academics and policy makers to identifying the critical determinants in the context of constructing a friendly environment. Among those featuring in these exercises are natural resources, the size of the local market, the rate of growth of per capita income, the macroeconomic environment, tax incentives, exchange controls, interest rates, the quality of the workforce, the state of the physical infrastructure, etc. A recent econometric study

done on the Caribbean produced some very interesting results. The share of investment in GDP was found to be positively correlated with GDP growth and even more strongly with export growth. The effect of government domestic borrowing on local investment (the 'crowding out') effect was uncertain. The commonly accepted view that investment is negatively related to the lending rate was not supported. The interest rate variable came out with a positive sign. The study also showed the interest rate spread to be positively correlated with investment and growth. In the 'financial repression' debate it is often argued that a real interest rate policy will encourage savings and investment and growth. The deposit rate variable was found to be negatively correlated with these variables (Harris, 1995).

It is well known that the results of statistical analysis are often strongly influenced by the variables chosen, the quality of the data and even the time period studied. It is often difficult to quantify some of the most critical influences, such as the effects of external economies, the perception of government economic management, the investment climate, the effects of bureaucracy on decision-making, and so on. Not surprisingly, investment policy reforms tend to rely on what seems to be obvious relationships and areas where specific action can be taken such as tax rates, investment laws and regulations, bilateral treaties, institutional factors and so on. These all carry different weights in different countries, and therefore a common investment function applicable to all countries will be hard to find.

VII. ACCUMULATION POLICIES IN A LIBERALIZING ENVIRONMENT

There are many factors which impact on growth. Among them are technological innovation, a boom in exports, capital inflows, discovery and exploitation of some major natural resource and so on. Most countries, however, have found it difficult to sustain high growth rates over a long period of time. The ability of a few countries in South East Asia to do this has been associated with a significant increase in savings and investment rates. Savings rates in these countries were lower than in Latin America in 1965, but by 1990 they exceeded Latin America's by almost 20 percentage points. At the same time while investment levels were about equal in Latin America and East Asia in 1965, by 1990 East Asia's investment rates were nearly double the average for Latin America (World Bank, 1993:41). As can be seen in Table 8 the growth in per capita GNP of over 5% per year are associated with a savings and investment rates of over 30%.

Current savings and investment rates in most Caribbean countries

Table 8 - SAVING AND INVESTMENT RATES IN SELECTED COUNTRIES. AVERAGE, 1993-95
(per cent of GDP)

Countries Grouped by Savings Rates	(1) CAB	(2) GDS	(3) GDI	(4) GNP Per capita Real Growth Rate (%)
Less than 10%				
Bangladesh	-2.6	8.3	15.4	2.1
Bolivia	-7.8	6.8	15.2	1.7
El Salvador	-0.9	4.7	18.9	2.9
Ghana	-6.6	4.5	16.4	1.5
Senegal	-2.8	7.5	14.2	-1.2
10-20%				
Argentina	-2.7	19.5	18.8	1.9
Canada	-3.0	19.7	18.8	0.4
Denmark	2.1	21.0	14.9	1.5
Israel	-4.5	13.9	23.2	2.5
Mexico	-4.8	18.6	20.9	0.1
21-30%				
Brazil	-0.9	21.9	21.0	-0.7
Chile	-1.8	28.0	27.6	6.1
France	0.8	22.5	14.9	1.5
Germany	-0.9	22.5	21.8	--
India	-1.2	21.3	23.0	3.1
Mauritius	-3.4	23.4	29.5	5.7
Over 30%				
China	-0.4	41.5	41.2	8.0
Hong Kong	--	33.6	31.5	4.8
Japan	2.7	31.1	29.1	2.9
Malaysia	-4.7	36.7	38.1	5.7
South Korea	-0.8	35.6	36.1	7.6
Singapore	13.9	--	34.9	6.2
Thailand	-6.3	36.2	41.6	8.4

Source: World Bank, World Development Indicators 1997; World Bank Atlas 1997.

-- not available

CAB - Current Account of the Balance of Payments

GDS - Gross Domestic Savings (difference between GDP and total consumption)

GDI - Gross Domestic Investment (sum of all outlays on additions to capital assets, plus changes in inventories)

compare favorably with those in developed countries such as Canada, France, Germany and the United States. In the industrialized countries as a group the saving rate has been averaging around 22% per year in the 1990s as compared to 21% for domestic investment. An observation made with respect to the performance of fast growing developing countries, however, is worth noting: "We often fail to appreciate just how spectacular the rate of accumulation has been in the Third World compared to past historical

standards. It took America more than six decades to do what the Third World has done in two or three: that is the investment ratios in the successful developing countries to-day are what they were in America in 1900 after 60 years or more of industrialization. In the absence of government intervention, the rate of accumulation in England during the first Industrial Revolution was about a third of that in contemporary LDCs and the saving rate was less than half" (comments by Williamson, 1998:29).

A relevant question here is why are some countries with reasonably high saving and investment rates not growing at the desired rate or not narrowing the gap with the developed countries?. Part of the answer may lie not only in the level of investment taking place, but where is the investment taking place and is it raising capital formation in strategic sectors of the economy. Is it raising productivity, and is it developing the human capital resources needed for growth?. Is the appropriate mix between public and private investment being achieved?. While recognizing these issues, there is a view that even at current income levels the Caribbean is capable of saving and investing a much higher proportion of national income. This, it is often argued, would reduce dependency on foreign savings and minimize the problems associated with foreign indebtedness.

What should be the target? One observer has suggested that if population growth can be controlled at 1% per year and GDP can grow at 6% per year, per capita income can double every fourteen years. To achieve this level of growth performance the region requires "increased and more productive investments. Gross investment of at least 35% of GDP at an incremental capital output ratio(ICOR) below 3 would help the Region to achieve its per capita income target" (St.Rose, 1996). As indicated before, capital accumulation is a necessary though not sufficient condition for growth.

Not surprisingly, measures designed to increase savings and investment feature prominently in structural adjustment programs designed to rekindle the growth momentum in developing countries experiencing economic difficulties. The general approach taken in both real and financial sectors is that prices should be guided by market forces, and government intervention should be restricted to certain areas. Despite the attention being paid to financial liberalization many issues remain unsettled. It has been found that policies that work in one country may not work in another, and one therefore has to be very circumspect in making prescriptions.

In the process of structural adjustment, Caribbean countries are moving increasingly from a controlled and protected framework to a more market oriented one. Competition is playing a greater role both in the real and financial sector. The exchange rate is still pegged in some countries, while in others, market forces exert a greater influence. Interest rates are generally market-determined, with a few countries operating a minimum rate with respect to deposits. With respect to the banks, governments often exert a range of controls over these institutions because of their importance in the financial system and in the payments mechanism. First, there are the so-called prudential requirements designed to ensure the soundness of the system. These include minimum capital requirements, limitations on the types of assets a bank can hold and liabilities it can issue, deposit insurance requirements, who can set up or own a bank, and so on. Besides these, there are other types of control instruments such as entry requirements into the banking system, deposits with the central bank, credit ceilings, liquid assets requirements exchange controls and so on. The variety of controls affecting the banking system arise from different concerns and from what are seen as imperfections in the market place. These concerns include the need to ensure a sound banking system, to protect depositors, to discourage corruption and to influence liquidity, inflation and exchange rates.

The effect of some of these regulations and policies has been to reduce the flexibility of the banks, discourage savings and distort the allocation of resources. "The hallmark of financial repression is the predominance of direct and non-price indirect credit controls over indirect controls through the price mechanism wherever it is feasible" (Hossain and Chowdhury, 1996:133). The degree of repression varies from system to system. The case for financial liberalization rests on the view that a competitive and efficient financial system will result in greater savings and capital accumulation and reduce the need for external resources. Since investors are not necessarily the people who save, by pooling and lending savings, intermediation reduces transaction costs.

VIII. THE FINANCIAL SECTOR, FINANCIAL SECTOR POLICIES AND ECONOMIC DEVELOPMENT IN THE 1990S AND BEYOND

It is generally acknowledged that many of the fundamental reforms contemplated for the development of the real sector will be difficult to achieve without support from the financial sector. Economic transformation requires a range of policies over a very broad front. Trade liberalization by itself, for example, will hardly lead to greater production and export in the absence of increased productivity and investment.

Investment, on the other hand responds to a variety of incentives and depends critically on the availability of local and foreign savings. Both savings and investment are influenced by macroeconomic conditions over which government fiscal and monetary policies exert considerable sway.

Governments have a range of policies and instruments available to them, and what package they choose depends on the extent of the disequilibrium and the existing political, economic and social conditions, including the level of development of market structures. It is often argued that policies that work in one situation, will not necessarily work in another, at least not within the same time frame. There is a great deal of experimentation taking place. It has been found, for example, that some policies can restore internal and external imbalance, or even growth, but at the expense of greater poverty in the short-term, and the question is often asked growth for whom, or for what? Even if increased poverty can be tolerated in the short-term, what conditions will guarantee continuing growth and a more equitable division of the benefits. If growth is to be sustained, the gains must be shared, and this requires a conscious set of policies.

As far as the Caribbean is concerned, there is much work to be done in terms of formulating a policy-framework for transforming the real sector and for increasing the level of savings and investment. In the past, even with ad hoc saving and investment policies operating with an incentive system with no clear thrust, the region was able to achieve a moderate growth rate. Foreign savings and the performance of the petroleum, bauxite, banana, sugar and tourism sectors were key contributors to this performance. With dwindling foreign assistance and the problems facing traditional sectors, the Caribbean has to look for new sources of growth, and a great deal more attention has to be paid to the financial sector and its role in improving the physical and human capital base and in helping to enhance productivity in the economy. With the increasingly global shifts towards knowledge-intensive production, investment in production has to be more strongly related to production goals and the dictates of the international economy. In the following section we examine some more specific issues in the context of financial sector reforms.

The financial sector in the Caribbean is comprised of a fairly wide range of institutions offering an increasing variety of products. Commercial banks, however, are the largest component of the sector. In Trinidad and Tobago, for example, bank assets account for over 40% of total financial assets. Bank assets are also growing at a faster rate than GDP. As intermediaries, banks not only collect savings and allocate resources, but they are also part of the payments system and constitute the

fulcrum for the implementation of monetary policy. They occupy a central place in the economy. It is not surprising, therefore, that they attract a great deal of attention.

The role of commercial banks in the development process is an old and very controversial one. Over 90% of bank resources are derived from deposits, and because of the short-term nature of their liabilities, there is a constraint on the type of lending they can undertake. Factors such as legal reserve requirements, exchange controls and the stage of development of local capital markets also influence investment decisions. An insight into the composition of bank assets can be quite instructive. In Barbados, loans and advances amounted to half of total bank assets as compared to 22% for government securities at the end of 1995. In Jamaica, the share was 38% for loans and advances and 10.3% for government securities. In Guyana, claims on the Central Government amounted to 26% as compared to 36% for loans to the private sectors. Legal reserve requirements vary from country to country, but a range of 20 to 30% of total deposits is not uncommon.

In the context of development and financial liberalization three questions frequently arise: (1) are the banks' policies, particularly with respect to interest rates, designed to encourage saving?; and (2) do the lending rates truly reflect the supply and demand forces in a competitive situation? Is the cost of credit related to the cost of deposits, or is it fixed by competing banks at a level designed to yield some acceptable rate of return. The third question is, are the banks lending to those areas where they make the most profit, and if so, do they have a responsibility to assist those sectors which have developmental significance, but where the risk is higher and the returns lower? After all, a common argument runs, banks benefit from growth.

To the last question, the banks' tend to seek an answer in the short-term nature of their liabilities, while at the same time pointing to the practice of using affiliated institutions to pursue development oriented lending. With respect to the level of deposit and lending rates the market protagonists argue in favor of competition. The greater the competition the narrower the spread is likely to be, and profits become a function of efficiency rather than market power. Too much competition, too, can lead banks into difficulties. With respect to deposit rates, a great debate has raged over the effectiveness of real deposit rates, i.e. interest rates adjusted to take account of anticipated inflation.

IX. INTEREST RATE LIBERALIZATION AND REAL INTEREST RATE POLICY

Interest rate controls relate both to floors or ceilings on deposits, as well as lending rates, and tend to be used in situations where there is limited competition among banks. When they are used with respect to one set of institutions (e.g. banks), however, they are likely to put other financial institutions at an advantage. Controls run against the grain of the market and have an effect on the allocation of resources and can encourage disintermediation. In the Caribbean, interest rate controls have not been widespread and more emphasis has been placed on indirect instruments such as reserve requirements and the Central Bank re-discount rates. The extent to which the banks compete on interest rates, however, is an open question.

Advocates of liberalization also advocate a positive real rate of interest, i.e. a nominal rate higher than the inflation rate as a way of boosting savings. The evidence that savings have a high interest elasticity is not overwhelming (Hossain and Chwodhury, 1996:56-57). Some countries with negative real deposit rates have a higher private savings rate than some countries with high real deposit rates. On this issue it is difficult to generalize. If countries with high inflation rates pursue a real interest rate policy, then lending rates will correspondingly be high and this will affect investment and competitiveness.

In the Caribbean, inflation rates have not been historically high, particularly in relation to Latin American standards. In the 1980s, inflation rates in Guyana and Jamaica exceeded the normal trends as a result of deficit financing and the depreciation of the exchange rates. On average, in recent years, there is not a great difference between the weighted deposit rates and the inflation rate (see Tables 9 and 10). The latter has been slightly higher in Trinidad, but smaller in Barbados.

Are savings sensitive to the interest rate in the Caribbean?⁴ The results of the econometric work done on region point to an uncertain relationship between savings and interest rate (nominal or real) (Nelson, 1995). What this suggests is that an increase in the interest rate will not necessarily produce a higher level of savings. But does it also suggest that rates could also be lowered without reducing the level of savings? Do the banks have complete freedom to determine the interest rate spread? To the conscious saver it would be difficult to rule out sensitivity to differential returns associated with competing financial instruments, and in this context banks tend to operate a floor rate. Some Central Banks also tend to stipulate minimum deposit rates.⁵

Table 9 - SELECTED INTEREST RATES IN COMMONWEALTH CARIBBEAN COUNTRIES, 1980-96
(WEIGHTED AVERAGE RATE ON DEPOSITS AND WEIGHTED AVERAGE RATE ON LOANS)
(per cent)

End of Period	<u>Barbados</u>		<u>Guyana</u>		<u>Jamaica</u>		<u>Trinidad & Tobago</u>	
	Deposits	Loans	Deposits	Loans	Deposits	Loans	Deposits	Loans
1980	5.6	11.0	11.5	13.88	8.75	15.86	6.06	11.70
1985	4.8	10.9	12.5	12.00	18.57	25.46	6.26	13.41
1986	3.5	10.2	12.00	15.00 ^a	14.95	25.40	6.03	13.47
1987	3.7	10.3	12.00	15.00 ^a	14.95	25.40	6.03	13.47
1988	4.5	11.1	12.00	15.00	14.30	24.94	5.83	12.05
1989	6.3	12.7	32.25	37.60	20.20	28.15	5.90	12.04
1990	6.1	12.1	28.10	32.44	24.50	31.59	5.53	11.73
1991	7.4	15.0	29.20	35.22	27.50	34.03	5.50	11.77
1992	5.0	12.6	18.17	29.76	23.00	46.04	6.34	12.76
1993	4.8	11.3	10.86	18.24	39.80	46.60	6.53	13.08
1994	5.0	11.8	12.81	20.39	26.22	48.56	5.68	12.91
1995	5.2	11.8	12.81	20.39	26.22	48.56	5.68	12.91
1996 ^p	5.2	11.9	10.54	19.43	26.04 ^b	44.23 ^b	5.38 ^b	13.5 ^b

Source: Official Publications.

p. provisional

a. prime rate

b. end of June

Table 10 - COMMONWEALTH CARIBBEAN: INFLATION RATES, 1970-1995 (per cent)

Year	Bahamas	Barbados	Belize	Guyana	Jamaica	Trinidad & Tobago
1970	6.2	7.3	--	3.3	14.7	7.6
1980	12.1	14.1	--	14.1	27.3	7.7
1985	4.6	3.9	4.2	15.0	25.7	10.8
1986	5.4	1.3	0.8	7.9	15.1	7.8
1987	5.8	3.3	2.0	18.7	6.7	11.4
1988	4.4	4.9	5.3	39.9	8.3	11.1
1989	5.4	6.2	0.0	4.0	14.3	3.8
1990	4.7	3.1	3.0	3.7	22.0	6.6
1991	7.1	6.3	2.3	2.3	51.1	3.8
1992	5.8	6.1	2.3	2.6	77.3	6.6
1993	2.7	1.0	1.4	--	22.1	10.3
1994	1.3	0.5	2.6	--	35.1	8.8
1995	2.0	2.8	2.9	--	19.9	5.3
Average						
1985-95	4.5	3.6	2.4	13.0	27.0	7.9

Source: IMF *International Financial Statistics*, Various Issues; Official Publications.

-- not available

One of the arguments the banks use to justify what sometimes appear to be the high cost of credit, or the relatively high proportion of funds diverted to high yielding personal consumption loans,⁶ is that a large share of their deposits have to be placed with the Central Bank or invested in low yielding government securities to meet legal reserve or liquidity requirements. These legal ratios are changed from time to time to sterilize excess liquidity. There is an argument that these requirements introduce a distortion, insofar as unremunerated reserve requirements are equivalent to a tax on financial intermediation. Required reserves can encourage financial disintermediation if they are above the level banks normally would hold voluntarily (and are not remunerated at the market rate). Besides questions about the effectiveness of changes in the reserve ratio to mop up liquidity, it is also argued that changes in the requirement tend to be disruptive and costly for banks (Alexander et al., 1995:8).

A sound banking system is essential in developing and maintaining the confidence of savers and in encouraging financial savings. In this area governments role is crucial since macroeconomic management and the supervisory and prudential requirements have a fundamental bearing on the banking system. Banks have failed both in developed and developing countries for a variety of reasons, and the new competitive and open environment emerging will put greater pressure on the authorities for a regulatory framework that is not only relevant and effective, but also does not stifle or stunt the growth and operation of the banks. Deregulation and liberalization do not amount to *laissez-faire*, but the creation of an environment which permits policies that encourage savings and an improved allocation of resources while protecting the saver. The provision of deposit insurance, even in a limited form, involves a cost, and should not be seen as a substitute for high quality supervision and prudential requirements. Experience has shown that the failure of even one bank can have systemic consequences that can destabilize the entire financial system.

In the post-independence period governments in the Caribbean have allowed only limited competition in the banking sector. In Trinidad and Tobago, for example, there are only 6 banks and in Jamaica, 11. Traditionally commercial banking has been dominated by British, Canadian and to a lesser extent American banks, and these are generally still here, though the organizational forms have changed in certain cases permitting varying degrees of local participation in ownership in response to domestic political requirements. In a few countries, governments themselves became directly involved in the ownership of banks, though the trend now is to divest, and leave banking entirely to private enterprise. The

failure of even one bank, as noted earlier, can have wider repercussions, particularly in a setting without exchange controls.

Table 11 - BANK DENSITY IN SELECTED COUNTRIES, 1995

Country	No. of Banks	No. of Branches	Persons per Branch
Belize	4	22	9 545
Guyana	7	27	30 370
Jamaica	11	197	12 840
Trinidad & Tobago	6	117	10 770

Should governments allow a greater measure of competition by allowing new banks to enter the domestic system is a question currently being faced by some. On what grounds (excluding political considerations) should a government prevent a reputable bank from becoming part of the financial structure. In this connection the concept of 'over-banking' is frequently used. But what constitutes over-banking. Greater competition, some argue, will put pressure on the earnings of existing banks and the banking industry as a whole may not earn "profits at a rate that allows it to continue to properly service the growth prospects of the country" (comments by July, 1997). How does one determine this level of profits is an open question, and is it simply to be based on the bankers' view? The level of profit is a function of several variables including the interest rate spread, the volume of business and efficiency (i.e. how well is the bank using the resources at it's disposal). If a group of banks collude on the spread, it is possible to generate high levels of profit with an inefficient operation. The level of profit is neither a guide to efficiency, nor to how well a bank is discharging its 'social' functions. In the context of the number of banks currently operating in the region, and given the need for innovation and greater resource mobilization the question of allowing a few more banks to enter should not be pre-judged. Banks that are convinced of their competence and efficiency should have little to fear. They have the additional advantage of being familiar with the local environment.

There is a tendency in the Caribbean, both in the real and financial sectors, for people to take positions based on the constraints arising from the small size of the domestic markets. The opening up of national markets have to be seen against the opportunities provided by regional and global trends. The perspective has to change, and consumers should not be deprived of the benefits of the scale factor. Already with the removal of exchange controls, they enjoy more investment options. National banks, like other financial institutions, have to expand their territorial operations

and increase the range of their services. In some Caribbean countries, banks have been allowed to accept foreign currency deposits from residents. There is no reason why they should not be allowed to compete for foreign-currency denominated deposits from non-residents as well. Some proportion of these funds could be put at the disposal of local investors. On the question of the foreign currency deposits facility offered to residents, a point need to be made in the context of the need to increase development funds. Savers convert local deposits into foreign currency for a number of reasons. Returns constitute only one factor. Perhaps more important in a development context is the possible loss of capital value resulting from macro-economic management and changes in the exchange rate. The exit of resources from the local currency income stream to foreign currency deposits amounts to drain on domestic savings, if the foreign currency deposits in the banks are not used in the interest of domestic economy. If they are simply deposited elsewhere, or lent to foreigners, this is a cost to the economy.

It is difficult to conceive of reforms in the banking sector as being separate from reforms affecting the entire financial system, including the Central Bank. There is an increasing trend to level the 'playing field.' Some governments have introduced new financial institutions legislations, but many questions (e.g. the control of banks by non-bank organizations) remain far from settled. Some Central banks, too, seem unsure of their mission, and the relationship with their owners is under constant scrutiny. Central Banks have a responsibility in not only ensuring a sound macro-economic environment, but in exercising leadership in the development of the financial sector. The failure to have in place more dynamic functioning financial sectors and capital markets in the Caribbean must be seen as one of the most significant failures of the post-independence development experience, and has no doubt contributed to the unsatisfactory pace of development. The failure is more damning at the regional level given the commitments to regional integration.

The criticisms leveled at the lending policies of the commercial banks perhaps would not arise if savers had access to a wider range of instruments and institutions more suited to longer term and riskier lending. The setting up of venture capital funds is a move in this direction. A more deliberate effort to educate the population on things financial and removing some of the 'mysteries' associated with the workings of financial institutions also needs to become part of public policy. Small savers and investors are as important to development as large savers and investors.

X. CONCLUDING OBSERVATIONS

Caribbean countries are late-comers in the field of industrialization and export development. Some policy options available three or four decades ago, are now more difficult to exercise in the present world environment, and Caribbean states have literally to go into a fast-forward mode, perhaps skipping some stages experienced by the fast growing developing countries in order to catch up with states over whom they had a head start in the early 1960s.

Despite some moves to liberalize Caribbean economies and introduce more open trade and investment policies, distortions and disincentives are still to be found in many areas. In economies vulnerable to external shocks, the question of government intervention is not an issue, but where and how, and this applies both to the real and financial sectors. Selected intervention and mild repression (in the financial sector) may be preferable choices to conditions conducive to extreme fluctuations and volatility.

Internal and external imbalances have improved and some growth has returned, but fundamental challenges remain, including an undiversified, un-competitive production structure and high levels of unemployment. The framework for shifting from traditional modes of production to skill-intensive goods has not yet been properly thought out, and this is reflected in the transformation lag of the education system which is still producing large numbers of drop outs and graduates who cannot find jobs. One recent report has noted that; "Latin American and Caribbean countries spend heavily on education without achieving what might be expected in terms of coverage and quality" (IDB, 1996:276). Development of the human capital base and the intelligent use of technology are critical complements to capital accumulation in the growth process. Yet one does not discern any urgency to remove existing constraints in these areas.

Financial resources remain a key factor in economic development. The servicing of the government external debt has put a severe strain on the revenues and foreign earnings of certain countries, forcing them to put greater emphasis on private investment as the engine of growth. Regional states, however, have to compete with the high growth areas of the world. Of the estimated US\$ 244 billion of net private capital flows to developing countries in 1996, US\$ 109 billion (45%) went to East Asia and the Pacific. While almost all countries are trying to attract foreign capital, there is a widespread recognition that domestic savings have a critical role to play in economic progress. Few countries, however, make a systematic effort to encourage saving, always assuming there is a shortage, and the existing levels represent the natural limits. Tax systems need to be further refined with a view to providing effective incentives to encourage effort

and enterprise. In stagnant or declining economies, revenues available for distribution fall, and expressions of concern over increasing poverty do little to reverse the trends. The policy framework must be one that encourages growth with equity. Many existing structural adjustment programs now include poverty reducing measures only as after-thoughts intended to deal with the consequences of quick fix policies introduced to correct internal and external imbalances within very short time frames.

On the spending side, in many instances there seems to be little correlation between money spent and the quantum and quality of services provided. Waste and corruption bedevil governments' operations. The macroeconomic environment has improved since the 1980s, but the vulnerability of Caribbean economies to external shocks will always pose a question on governments' ability to manage the domestic economy in the absence of a more diversified economic base to deal with the terms of trade issue. The removal of exchange controls and the adoption of flexible exchange rate systems in some countries are likely to make this task even more difficult. In the Caribbean, the development of the capital market has been slow and has failed to reflect the importance of financial mobilization often expressed in official statements and those of international aid agencies. The absence of a wider range of instruments has no doubt affected both mobilization and allocation. Stock market activity has been disappointing, and not many companies use this medium for raising funds. At the regional level, the removal of barriers to capital movement can be an important step in opening up new opportunities and improving resource allocation.

Appendix 1 - OECS: GROWTH OF GDP (FACTOR COST) AT CONSTANT PRICES, 1983-94

Year	Antigua	Dominica	Grenada	Montserrat	St. Kitts	St. Lucia	St. Vincent
1983	6.9	2.1	1.2	-4.3	-1.1	4.3	5.1
1984	7.5	5.4	5.6	1.8	9.0	6.7	9.7
1985	8.8	1.7	4.9	6.0	5.6	9.0	4.5
1986	9.7	6.8	6.0	5.3	7.4	1.7	6.3
1987	8.8	6.8	6.0	5.3	7.4	1.7	6.3
1988	7.7	7.4	5.3	9.4	9.8	12.0	8.6
1989	6.3	-1.1	5.7	11.5	6.7	9.1	7.2
1990	3.5	6.3	5.3	14.1	3.0	4.4	7.1
1991	4.4	2.3	3.6	-23.4	3.9	2.3	3.1
1992	1.3	2.9	1.1	1.3	3.5	7.1	6.5
1993	3.3	2.6	-1.3	1.9	5.0	2.3	1.1
1994 ^p	5.3	1.8	2.3	-0.8	4.1	2.2	0.4

Source: CDB, *Social and Economic Indicators*, Various Issues; Official Publications.

p. provisional

**Appendix 2 - DISBURSED EXTERNAL PUBLIC DEBT OUTSTANDING AND ACTUAL DEBT SERVICE
RATIO %¹, 1982-95**

End of period	Bahamas		Barbados		Belize		Guyana		Jamaica		Trinidad- Tobago	
	US\$ (mn.)	%	US\$ mn	%	US\$ mn	%	US\$ mn	%	US\$ mn	%	US\$ mn	%
1982	228	3.3 ^a	236	5.1	--	--	956	18.7	2 846	29.0	1 203	5.8
1986	216	6.7	580	10.9	121	11.5	1 634	30.2	4 221	47.9	1 898	18.8
1987	193	2.6	577	15.1	137	9.7	1 738	25.5	4 724	45.9	2 082	24.8
1988	171	3.4	703	12.0	139	8.5	1 866	25.2	4 553	41.5	2 396	19.3
1989	221	2.2	644	11.5	144	8.4	1 633	35.1	4 560	32.0	2 401	13.3
1990	266	1.7	683	16.8	152	7.9	2 010	56.7	4 671	28.9	2 521	19.5
1991	412	3.5	652	16.8	169	7.6	1 925	34.6	4 410	32.0	2 438	19.1
1992	440	3.8	610	12.4	172	6.8	1 997	22.4	4 264	31.0	2 215	26.3
1993	453	3.9	569	12.8	184	7.3	2 033	18.5	4 112	24.8	2 063	31.2
1994	411	4.2	575	9.0	177	10.0	2 054	18.6	4 318	22.8	2 063	31.2
1995 ^p	392	4.6	562	--	183	11.4	2 058	18.4	4 229	17.9	1 905	--

Source: IDB, *Economic and Social Progress in Latin America*, Various Issues; Official Publications.

p. provisional

-- not available

1. debt serve to exports of goods and services

a. 1983

Appendix 3 - BALANCE OF PAYMENTS: CURRENT ACCOUNT (US\$ mn)

Year	Bahamas	Barbados	Belize	Guyana	Jamaica	Trinidad & Tobago
1986	21	8	12	-141	-16	-412
1987	-58	-23	9	-110	-125	-225
1988	-61	42	-3	-94	48	-89
1989	-92	24	-19	-113	-282	-39
1990	-96	-16	15	-150	-312	459
1991	-99	-25	-26	-119	-240	-5
1992	-39	144	-29	-143	29	139
1993	12	65	-49	-138	-184	113
1994	-113	123	-31	-101	48	218
1995 ^p	-309	43	-30	-95	-210	174

Source: IDB, *Economic and Social Progress in Latin America*, Various Issues.

p. provisional

Appendix 4 - CARIBBEAN: NET PRIVATE FOREIGN CAPITAL MOVEMENTS (US\$ mn)

Year	Bahamas		Belize		Barbados		Guyana		Jamaica		Trinidad-Tobago	
	Direct Invest	Other pvt. long-term	Direct Invest	Other pvt. long-term	Direct Invest	Other Pvt. long-term	Direct Invest	Other pvt. long-term	Direct Invest	Other Pvt. long-term	Direct Invest	Other Pvt. long-term
1980												
1981	34	79	--	--	7	22	-2	4	-12	11	258	164
1982	3	21	--	--	4	-7	4	-4	-16	-12.4	204	218
1983	-6	-3	--	--	2	-9	5	-19	-19	-26	114	110
1984	-5	-3	--	--	-2	-25	5	0	12	-41	110	-178
1985	-29	2	--	--	-5	-22	2	-1	-9	-21	-7	-37
1986	-13	2	5	0	5	-2	0	22	-5	-37	-22	28
1987	11	-17	7	0	5	2	4	9	53	-4	35	-57
1988	37	5	14	0	11	-16	6	-11	-12	-6	63	-181
1989	25	20	19	0	5	-29	9	14	57	-6	63	-181
1990	-17	29	17	4	10	10	7	-68	138	61	109	-282
1991	0	159	14	2	6	28	24	23	133	30	169	-184
1992	7	47	16	3	14	12	152	-18	142	9	178	-234
1993	27	-3	9	10	7	-7	25	-22	78	1	379	-215
1994	27	46	9	12	12	29	17	-20	117	17	516	-361
1995 ^p	171	135	3	9	--	10	15	--	200	0	286	-273

Source: IDB, *Economic and Social Progress in Latin America*, Various Issues.

-- not available

p. provisional

Appendix 5 - COMMONWEALTH CARIBBEAN: NOMINAL EXCHANGE RATES, 1970-96
(DOMESTIC CURRENCY PER US DOLLAR)

US\$m.

End of Period	Bahamas	Barbados	Belize	EC	Guyana	Jamaica	Trinidad & Tobago
1970	1.00	2.01	1.67	2.00	2.00	0.84	2.00
1980	1.00	2.01	2.00	2.70	2.60	1.78	2.40
1985	1.00	2.01	2.00	2.70	4.20	5.48	3.60
1986	1.00	2.01	2.00	2.70	4.40	5.48	3.60
1987	1.00	2.01	2.00	2.70	10.00	5.50	3.60
1988	1.00	2.01	2.00	2.70	10.00	5.48	4.25
1989	1.00	2.01	2.00	2.70	33.00	6.48	4.25
1990	1.00	2.01	2.00	2.70	45.00	8.04	4.25
1991	1.00	2.01	2.00	2.70	122.00	21.49	4.25
1992	1.00	2.01	2.00	2.70	126.00	22.19	4.25
1993	1.00	2.01	2.00	2.70	130.00	32.47	5.81
1994	1.00	2.01	2.00	2.70	142.50	33.20	5.93
1995	1.00	2.01	2.00	2.70	140.50	39.62	6.00
1996	1.00	2.01	2.00	2.70	141.3	34.86	6.19

Source: IMF, *International Financial Statistics*, Various Issues.

Notes

- 1 For a discussion of the most significant ideas in these areas, see Fry (1995).
- 2 For an analysis of saving propensities in these countries, see Bourne (1986).
- 3 For a review of the empirical work done on the Caribbean, see Nelson (1995).
- 4 One study done on Trinidad and Tobago point to a positive relationship between deposit rates, savings rates, and economic growth. The concept of savings used, however, included both government and private savings and covered the oil boom years in which there was significant public sector savings. See Watson (1992).
- 5 Barbados, for example, has been operating a 5% minimum deposit rate since December 1994.
- 6 The proportion of personal loans in total loans and advances outstanding ranges between 20 and 30% in the Caribbean.

References

- Abramovitz, M. (1957), 'Resource and Output Trends in the United States since 1870'. *American Economic Review*. Papers and proceedings (May 1956).
- Alexander, W.E. *et al.* (1995), *The Adoption of Indirect Investments of Monetary Policy*. IMF Occasional Paper # 126. Washington, D.C.: IMF.
- Bauer, P.T. (1976), *Dissent on Development*. London: Weidenfeld and Nicolson.

- Bourne, Compton (1986), 'The Propensities to Consume Labour and Property Incomes in the Commonwealth Caribbean'. *The Journal of Development Studies*. (April).
- Cairncross, A.K. (1955), 'The Place of Capital Control in Economic Progress'. In Dupriez, L.H. (ed.), *Economic Progress*. Papers and Proceedings of a Round Table held by the International Economic Association, Lovain.
- _____ (1972), *Factors in Economic Development*. London: George Allen & Unwin Ltd.
- Dunning, J.H. and Narula, R.; eds. (1996), *Foreign Direct Investments and Governments: Catalysts for Economic Restructuring*. London: Routledge.
- Fry, M. J. (1995), *Money, Interest and Banking in Economic Development* (2nd ed.). Baltimore: The Johns Hopkins University Press.
- Griffin, Keith (1970), 'Foreign Capital, Domestic Savings and Economic Development'. *Bulletin of the Oxford University Institute of Economic and Statistics*. (May).
- Harris, Donald (1995), 'Finance, Investment and Growth: Economic Policy for Caribbean Economies in the next (Quarter) Century'. Paper presented at the Seminar on the occasion of the 25th Annual Meeting of the CDB Board of Governors. Kingston: Jamaica.
- Hossain, A. and Chowdhury, A. (1996), *Monetary and Financial Policies in Developing Countries*. London: Routledge
- IDB (1996), *Economic and Social Progress in Latin America (1996 Report)*. Washington, D.C.: The Johns Hopkins University Press.
- IMF (1995), *World Economic Outlook*. (May).
- July, Peter (1997), 'Comments'. CEO and managing Director of Royal Bank. Quoted in the *Sunday Guardian* (May 11).
- Lewis, Arthur, W. (1950), 'Industrialisation of the British West Indies'. *Caribbean Economic Review*, Vol, II, No. 1. (May).
- _____ (1954), 'Economic Development with Unlimited Supplies of Labour'. *The Manchester School* (May).
- _____ (1963), *The Theory of Economic Growth*, (6th impression). London: George Allen and Unwin Ltd.
- Martin, John (1995), 'Savings and the Distribution of Income between Capitalists and Workers in Trinidad and Tobago: An Econometric Approach'. In Ramsaran R. (ed.), *The Savings/Investment Environment in the Caribbean*. St. Augustine: Caribbean Centre for Monetary Studies, U.W.I.
- Nelson A. (1995), 'Savings and Investment in the Commonwealth Caribbean: Empirical Evidence and Policy'. In Ramsaran R. (ed.) *The Savings/Investment Environment in the Caribbean*. St. Augustine: Caribbean Centre for Monetary Studies, U.W.I.
- Solow, R. (1957), 'Technical Change and the Aggregate Production Function'. *Review of Economic Statistics*. (August).
- St. Rose, Marius (1996), 'Savings and Investment: The Imperatives of Capital Market Development in the Caribbean'. An address delivered by the Vice-President (Operations) to participants at the 14th Annual Caribbean Conference of Accountants. Saint Lucia. (June 27-29).
- Thirlwell A.P. (1978), *Growth and Development with Special Reference to Developing*

Countries. London: The Macmillan Press Ltd.

Watson, P.K. (1992), 'Savings, the Rate of Interest and Growth in a Small Open Economy: The Trinidad and Tobago Experience'. *Social and Economic Studies*. (December).

Williamson, J.G. (1988), 'Reflections on Development'. In Ranis, G. and Schultz T.P., *The State of Development Economics*. London: Basil Blackwell.

World Bank (1993), *The East Asian Miracle*. London: Oxford University Press.

_____ (1995), *Trinidad and Tobago: Poverty and Un-employment in an Oil Based Economy*. Washington, D.C.: World Bank.