

Address
to the
183rd Annual General Meeting
of the
Barbados Chamber of Commerce and
Industry
by
Winston Cox
Executive Director of the Inter-American
Development Bank

Lloyd Erskine Sandiford Centre
Two Mile Hill, St. Michael
Thursday 25th June 2009

Madame President
Distinguished Members of the Board of the BCCI
Distinguished Guests,
Ladies and Gentlemen,

Thank you for the invitation to address you on the occasion of your 183rd Annual General Meeting. This AGM takes place at a time of severe stress and anxiety in the local and global economy and I see from recent news reports that my prognosis on the way forward will be eagerly awaited! That fills me with trepidation.

But before we think of taking advantage of the opportunities that will be available as we emerge from the current crisis we must first be prepared to take advantage of the crisis. Even the non-Chinese speakers in the audience will know that the Chinese character for crisis also means opportunity.

Last year I was asked by the Prime Minister to chair a Working Group on the Economy and in presenting our report we began by noting that this was a crisis Barbados could not afford to waste. We argued that managing the crisis and surviving the threat it poses to social stability and the continued advance of the Barbadian economy will be much more about communication, consultation and changes in our way of doing things than it will be about economics. I believe that we now have an opportunity to reform public and business administration, to raise standards and to achieve the efficient and cost-effective delivery of goods and services to consumers both in Barbados and beyond our shores. Such actions are necessary if the country is to weather the current economic crisis and emerge as a competitive player in the world economy when it recovers. If we decide instead that it will be business as usual we run the risk of adding to the problem and missing emerging opportunities.

So let us examine three ways we can use the current situation to our advantage and be ready for opportunities when they are available.

The first I will address to the private sector. You have to abandon the model of maximizing shareholder value. This is a model that has led to the pursuit of short term gains at the expense of long term sustainability and that has resulted in some of the most egregious corporate behaviour, especially by managers who are themselves compensated by generous stock options. I suggest that the model to follow should be maximizing stakeholder value. Shareholders are but a subset of the stakeholders, an important subset, but a subset, nevertheless. Other stakeholders include employees, customers from whom you buy or to whom you sell, and the community. You need these stakeholders even more than you need shareholders – just ask Republic Bank or Barbados Light and Power, companies that have experienced the unplanned loss of a major shareholder. It is on the loyalty and survival of these other stakeholders that you must depend for your own survival during the crisis, and it is on them that you must depend to provide the post-crisis opportunities for your growth. No enterprise will be well placed to survive the downturn or to prosper in the up turn if in periods of difficulty it sheds experienced and highly trained employees. Yet, too often this is the first place

where managers look to achieve cost savings in times like these. Devotion to maximizing shareholder value also leads to behaviour that makes your customers feel that you are extracting your profits from their distressed circumstances; you run the risk of alienating them. Nor should you abandon those communities of culture, sports and charity that you support and that are vital to the cohesion of the fabric of your society. Your loyalty to them is the price of their loyalty to you.

I know that from the private sector there is a constant call for public sector reform, and I will come to that, but I have to tell you that there should also be a constant call for private sector reform as well. There should be a national effort to establish standards for all groups that provide goods and services in our economy. These standards should not only be designed to satisfy local needs but they should also be designed to meet and maximize export potential under the Economic Partnership Agreement (EPA) and other trade agreements. One of the perennial complaints from the private sector and the general public is the inordinate delays and high cost of legal services, a complaint that also extends to a wide range of other service providers. The Barbados National Standards Institute (BNSI), the National Institute of Service Excellence (NISE), professional associations and industry groups, should now join in a national effort to promote and observe standards for the supply of goods and services which conform to international norms and which are vital to creating a better environment for doing business in Barbados.

The second I will address to the public sector. Here the example of Sweden is instructive. In the 1990s the Swedish economy suffered its worst downturn since the Great Depression. This, unlike what is happening to us today, was a self inflicted problem: in three years the public debt doubled, unemployment tripled, the real estate boom collapsed, and the budget deficit as a percentage of GDP increased tenfold. It was then that Göran Persson the Prime Minister, who previously in his career had served as Minister of Finance, led a dramatic reform of the Swedish public sector, cut the budget deficit and in four years brought it into balance, reduced the national debt, and restored the country's credit rating and confidence in the kroner. He knew that as the foundation for his strategy the electorate had to understand that drastic measures were required, that a crisis programme hurts, and that you will need a mandate from the voters if you are to succeed. Today government leaders around the world face a daunting dual challenge: they must control and, in the long term, slash major budget deficits fueled by the economic crisis and at the same time improve the performance of the public sector so that it can meet its complex and ever-increasing obligations, and Barbados is no exception.

That is why the Working Group on the Economy identified public sector reform as **“a necessary condition for successfully managing the unfolding economic crisis and for maintaining and improving the country's reputation as a competitive business location.”** Too often the perception of public sector reform is ‘slash and burn’, shrink government, cut manpower and payroll, and out-source more functions to the private sector. That is not what we had in mind. We were thinking of reform with public sector wide service standards at the core and officials empowered with the

responsibility and authority for achieving those standards. We were thinking too of reforms that would break down silos and promote the notion of teams that will be responsible within and across ministries and departments for implementing public policy; that would create an environment that values and rewards initiative and innovation; and place Barbados on the path to fully-fledged e-government as greater use is made of information and communications technology.

Such an approach to public sector reform requires a champion and the Swedish experience provides us with a clear idea who should be that champion. It also provides us with lessons that we should take to heart. First, it is extremely important to make clear who is responsible for the process. Second, the programme must be designed so that burdens are shared fairly. Public expenditure cuts will hurt the most vulnerable people in society, so those who are better off need to contribute — for example, by paying higher taxes. Public support for tough policies would quickly evaporate if the policies were not perceived to be fair. Third, the programme has to be designed as a comprehensive package; an *ad hoc* hodgepodge of measures will only have a limited chance of success. Moreover, by presenting the measures together, it will be clear to all interest groups that they are not the only ones asked to make sacrifices. It also has to be a front-loaded programme, starting with the most difficult measures, to demonstrate resolve and increase the chances of achieving those early results that are so important for getting the continued support critical for sustaining the effort. Transparency is the fourth lesson. You must never play down the effects of the programme's measures. On the contrary, remind the public again and again that this will hurt and be completely honest when communicating with financial markets.

My third will be addressed to the combined public and private sector and it relates to the public availability of information. If you want to manage well and make informed decisions in the public or private sector you must have access to up to date and reliable information. Fortunately for us the Central Bank has emerged as the principal source of publicly available information, and comment, on the economy and, most commendable, the May issue of its *Economic and Financial Statistics* is available on its website¹. But that is only one part of the story, the good part.

The second part of the story is the timeliness of the data in the publication. Information on the financial sector, including the international reserves, collected monthly by the Central Bank itself, is available to March. Incidentally, from the data you will notice that the international reserves have fallen by a quarter, \$668.6 million, from the peak in March a year ago and this at a time when the trade deficit is almost \$700 million less than in the first quarter of 2008. Data on Government revenue and expenditure and therefore on the fiscal deficit, provided by the Accountant General, is available to March 2007, clearly indicating a breakdown somewhere in the system; information on the national debt is available up to the end of 2008. Here is the record of the Barbados Statistical Service in providing data to the public and I present it to you without

1 Central Bank of Barbados
([http://www.centralbank.org.bb/WEBCBB.nsf/vwPublications/E76E150E5471C172042575D300727B08/\\$FILE/EFS_MAY_2009.pdf](http://www.centralbank.org.bb/WEBCBB.nsf/vwPublications/E76E150E5471C172042575D300727B08/$FILE/EFS_MAY_2009.pdf))

comment: monthly trade data is up to March 2009; nothing is available for tourism beyond 2008 and the 2008 data is all provisional; monthly data on retail prices and industrial production is available to March and February, respectively, while employment data, collected quarterly, is available to December 2008. I think you will agree that there are vital gaps in public information on the economy and that they need to be filled if we are to have an informed debate and make informed decisions.

The third part of the story is the user friendliness of the data. We can make better use of more recent information and communication technology (ICT) to present data in a more user friendly way. The US Bureau of Labor Statistics² does not have a monopoly on user friendly ICT nor on presentation of information! Of all the Agencies and Ministries of the Government of Barbados the best for information that I have seen is the Ministry of Agriculture's Agricast³ and that has many shortcomings. If you can find the website of the Barbados Statistical Service⁴ when you get there you will find some census information but I am not sure for which year! The Government is moving in the right direction with the creation of BIG, the Barbados Integrated Government Portal but there is a long way to go to make it more intuitive, user friendly, more like a web portal and less like a telephone directory.

Madam President, the Chamber⁵ does not fare much better I am afraid! I was excited to see on your website "An Import Price Index for Barbados" but I was quickly brought up short when I realised that you were referring to a research effort to determine the influence of import prices on inflation in Barbados. Very worthwhile research, but that is not an import price index and, since none exists there is nothing to stop you from constructing and publishing one! On your website I was able to find many interesting studies and links but I could not find any statistics or links to statistics that would be of interest to the business person or to the analyst. As an organisation with the respect and confidence of the business sector you can fill some of the gaps in public information and provide a service to your members and to the wider community. You can become part of the institutional framework for data dissemination.

When the Working Group prepared its report last year we thought then that the trajectory of the unfolding crisis could not be clearly discerned, but we knew that in the past Barbados had demonstrated a remarkable capacity ride out and recover from economic downturns. We felt that it could well be the end of 2011 before real growth resumes, an expectation that is not out of line with our previous experience of recession and a view I still hold despite talk about the "green shoots of recovery". If my fear turns out to be true, I foresee a period of austerity for us all because economies like ours are among the first to suffer from a negative shock and the last to benefit from positive developments in the global economy.

2 US Bureau of Labor Statistics (<http://www.bls.gov/>)

3 Ministry of Agriculture's Agricast

(http://agricast.org/agricast/users_web/general/general_reports/general_reports.asp)

4 Barbados Statistical Service website

(http://www.gov.bb/portal/page/portal/BIG_Barbados_Statistical_Service)

5 Barbados Chamber of Commerce and Industry (<http://www.bdscham.com/>)

Even if they are “green shoots” the recovery when it comes will be fragile and will be accompanied by a changed environment characterised by a more cautious and discerning consumer, a more discriminating investor, a more stringent regulatory regime for the financial sector and greater cooperation in the exchange of tax information between countries. Unless we are ready to cater to these demands all the green shoots will be gone by the time we realize that times have changed for the better. Prolonged austerity, aggravated by our own failure to act correctly, will threaten our socio-economic and political stability, a most precious asset, perhaps the most asset, in our promotional and competitive armory.

We have averted such a threat before and can learn from the past how to use effectively the economic instruments at our disposal. Since I cannot tell you what will be appropriate for your individual enterprise or particular industry going forward, let me tell you what I think will be appropriate for the country as a whole. Fortunately, this is territory where there is a high level of consensus and where choices are rather limited.

We are all agreed that the exchange rate is sacrosanct. You may expect from Barbadians forgiveness for the loss of a job, but not for the loss of the value of the dollar! Our options are basically to rely on fiscal policy and wages and incomes policy to do the heavy lifting and keep the economy on an even keel. The Working Group on the Economy recommended a fiscal stimulus of between \$80 to \$120 million, 1.0% to 1.5% of GDP, as an amount that could be accommodated without threatening the balance of payments and the country’s credit rating especially if part of the package were used to market and promote foreign exchange earning or saving activities such as tourism, the development of new opportunities in international business services, export manufacturing and domestic food production. But the Group also recommended that both the debt and the deficit as percentages of GDP should be brought back in line by fiscal 2011-12 or earlier if possible. Personally, I would like to see the fiscal deficit trending around zero percent of GDP over the next 10 to 15 years and we should start planning for that now.

We also made recommendations on wages and incomes policy because the current economic conditions had brought this back into sharp focus. Increases in wages and incomes we felt should be based on gains in productivity – in my view that should always be the case in our economy – and on ability to pay. The same should also apply to dividends and profit sharing schemes. I hope that the message is getting across to Barbadians that wages and incomes cannot keep up with inflation that is in excess of productivity gains, without adverse consequences for employment, the balance of payments and the future growth and competitiveness of the economy. Unfortunately, in the present circumstances, even with appropriate wages and incomes policy, we may still have to accept and meet the social and economic cost of rising levels of unemployment as real output contracts.

My final thoughts are for you in the private sector. First, you should plan to grow responsibly and sustainably in the boom period so that you reduce the risk of having to

sell off underused assets at distressed prices or shed labour in the downturn. In a small society being made redundant can be a dehumanizing experience even when there is a social safety net. I began by challenging the model of maximizing shareholder value. I want to end with a call to institutionalise good corporate governance and to recognize the value of corporate social responsibility as you go forward. We used to hold up Enron as the example of the failure of corporate governance but I think we will now use examples from much nearer home!

Madam President, tough times are ahead of us for a while yet and we will face a period of austerity before we can expect the return to prosperity. But we must use this time to prepare for a return to growth. If we do not take the correct actions we run the risk that the return to prosperity will pass us by. Thank you.