

Government spending must incentivise people to save, invest in physical and human capital, innovate, and employ workers where they are most productive.



Dr. DeLisle Worrell, Governor, Central Bank of Barbados in conversation with Dr. Peter Blair Henry, the Bank's 2nd distinguished visiting fellow and Dean of New York University's Leonard N. Stern School of Business

In March, the Central Bank of Barbados was privileged to have as its second Distinguished Visiting Fellow, an international scholar and writer of great distinction, in the person of Dr. Peter Blair Henry, Dean of New York University's Leonard N. Stern School of Business, which is a global leader in the field of business studies. Dr. Henry, who was born in Jamaica, was, among other distinctions, an important member of President Obama's transition team in 2009, and in 2013 he published his influential book *Turnaround: Third World Lessons for First World Growth*. In an interview Dr. DeLisle Worrell, Governor, Central Bank of Barbados conducted with Dr. Henry, which is posted on the Central Bank of Barbados' website, www.centralbank.org.bb, Dr. Worrell began by asking what were the central lessons to be drawn from the experiences of countries like Jamaica and Barbados, to guide us in making policies for the future betterment of our societies.

In response Dr. Henry stressed the importance of a disciplined approach to policy, and clarity in the message that policy makers convey to the public at large. The combination of discipline and clarity forms a solid foundation for building trust in the economic strategy for the country. Dr. Henry defines discipline as "a sustained commitment to a pragmatic growth strategy, executed with a combination of temperance, vigilance, and flexibility that values the long-term prosperity of the entire population over the short-term enrichment of any particular group of individuals" (*Turnaround*, Page XV).

Dr. Henry reminded us that it was the clarity of the underlying message that ultimately made the Barbados economic adjustment programme of 1991/92 a successful one. Civil servants and the public were made to understand that the country's foreign exchange reserves had to be restored to adequate levels in order to protect the value of our currency in terms of the US dollar. In order to do that wages and expenditure had to be cut, and quite severely, because the foreign reserves were close to exhaustion. Out of the ensuing discussions between Government and the representatives of labour and employers came the agreement and protocols of

the Social Partnership, and supporting institutions such as the National Productivity Council and the National Initiative on Service Excellence. These institutions are now among the factors that make Barbados more competitive than its peers in attracting international investment (See the *Global Competitiveness Report 2014-15*, Page 144).

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Dr. Henry's visit and message are timely. The lessons of our recent past offer guidance for Barbados and the Caribbean today. The problems are different, but the fundamental principles we must employ in addressing them remain the same. It is still true that disciplined policies that look to the medium term are the key to successful economic adjustment and growth. In recognition of this, Government's Medium Term Growth and Adjustment Strategy aims to contain Government expenditure and reduce the fiscal deficit from the current level, which is still much too high, to one which can be sustained over the longer term. At the same time, Government spending must be made more efficient and Government must "incentivise people to save, invest in physical and human capital, innovate, and employ workers where they are most productive" (*Turnaround*, Page 63). In the end, it is our competitive tourism and international business services, our exports of rum, other beverages, food and chemicals, and the expansion of green energy production that will lead the growth of our economy. Official policy aims to support this thrust with appropriate incentives and infrastructure, within the limits which financial resources available to Government will allow.