The role of economic Institutions in Caribbean Economic Growth and Development: from Lewis to the present.

by

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Introduction

Developing countries the world over, including those in the Caribbean, continue to grapple with the objective of achieving faster, sustainable rates of economic growth and higher levels of economic development. Policy prescriptions to realise these objectives include the central theme of this paper, that is, the centrality of effective institutions to the process of economic growth and development.

In an effort to come to terms with underdevelopment in the British West Indies in the pre-independence, colonial period, Lewis (1950) suggested that the welfare of the region could be improved if we embarked on a process of industrialisation on the basis of foreign capital. Such industrialisation Lewis suggested should occur within the context of regional economic integration and should include a regional framework comprising three specific institutional mechanisms: the political federation, a regional customs union and the regional industrial development corporation.

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In this paper the authors contend that institutions have an important role to play in the continued efforts to achieve Caribbean Economic Development. To support our view, we begin in Section 1, with a review of the literature on the role of institutions in economic development highlighting the views of two eminent regional scholars, namely W. Arthur Lewis and George Beckford, thereafter presenting the more recent, contemporary view of the neoliberal/neo-institutionalists. Section 2 deals with the specific case of the Caribbean Single Market and Economy (CSME) and the Caribbean Court of Justice (CCJ), embodied in the Revised Treaty of Chaguaramas, as two institutions which might facilitate growth and development in the region in the new millennium. Section 3 interprets the experience of Caribbean economic integration since the Treaty of Chaguaramas. The paper ends in Section 4 with conclusions.

Section 1: Review of the literature on the role of institutions in economic growth and development

1.1 Lewis on institutions, economic growth and development

Sir Arthur Lewis, who is well established as one of the founding theorists of economic development, does not provide a specific definition of institutions but places much emphasis on their importance in the development process in his celebrated “Theory of Economic Growth”, published in 1955. He notes, that institutions “…promote or restrict growth according to the protection they accord to effort, according to the opportunities they provide for specialization, and according to the freedom of manoeuvre they permit.”(Lewis 1955:57). Lewis identified different types of institutions including “property” without which “the human race would have made no progress whatsoever”.

Lewis observes that where “favourable” institutions exist, willingness to expend effort is encouraged and grows, ultimately leading to economic growth. Lewis sums up the relationship between effort and reward by noting that, “Men will not make effort unless the fruit of that effort is assured themselves or to those whose claims they recognise.” (Lewis 1955:57) “Effort” may be interpreted to mean labour, entrepreneurship and investment. Labour has a clear role in economic growth theory. Labour productivity is a component of total factor productivity which is central to economic growth. Lewis implies that a sense of fairness in the distribution of the rewards to labour relative to other factors of production is necessary for continued effort manifested in both the growth rate of output and labour productivity. Likewise, fairness in wage differentials within industries and sectors can influence labour output and productivity at less aggregate levels, thereby influencing intra-industry and intra-sectoral performance. Therefore, in the labour market context, one may interpret these institutions as the set of rules governing factor payments as well as in the sense of organizations, e.g. trade unions, which impinge upon the market process, and which therefore have potential for affecting economic growth.

Lewis attaches special significance to the savings rate and capital accumulation. In his Economic Development With Unlimited Supplies Of Labour, he states that the central problem in economic development is how to raise the savings and investment rate from 4% or 5% (or less) to 12%-15% (or greater). “This is the central problem because the central fact of economic development is rapid capital accumulation…” (Lewis1954:155).
Lewis’ Theory of Economic Growth makes the strong statement that, “Capital formation is one of the conditions of economic growth, and the existence of the law of property is one of the conditions of capital formation”, for investors must believe that investment capital is recoverable with profit or interest. Therefore, institutions in the form of systems of laws and the rule of law, do not merely facilitate, but are essential for capital formation and economic growth. Furthermore, as Lewis recognizes, social stability is also important, “The maintenance of law and order is one of the primary conditions of economic growth…. The instinct to invest can, indeed, survive considerable civil disturbance and even revolution; but if the period of disturbance is long drawn out, dissavings will take the place of capital formation.” It follows that organizations as well as social norms, social conventions and other constraints on human behaviour have influence on capital formation. There in the Theory of Economic Growth is an insight into the role of what is now termed “social capital”.

In addition, the quality of governance could be a significant influence on economic growth for, as Lewis suggests, “Governments …can be as damaging to confidence as bandits or rioters.” (page 61). Mosley (2004) cites Lewis (1954) on how poor governance can negatively impact on the process of economic development; for example, by failing to maintain law and order, by promoting the exploitation of one class by another, by placing obstacles in the way of foreign trade and by excessive laissez-faire. These ideas have been repeated and elaborated in later work on governance and economic growth, e.g. Adelman and Morris (1967), Elster (1994), Barro (1996), Allesina et al (1996), Easterly and Levine (1997) and Temple and Johnson (1998).
It is important to note that the nature and forms of institutions change over time and these changes can either stimulate or restrict growth. An underlying element of the change process is what Lewis refers to as “the incongruities of change” where some regulation of social change may be required to manage the rate at which some institutions change as opposed to others. He suggests that “Once institutions begin to change, they change in ways which are self-reinforcing.” (Lewis 1955: 146). More recent writings refer to the self-reinforcing characteristic as “institutional path dependence”, explainable by network externalities, economies of scope and complementarities (North 1955; Bardhan 1989, 2001).

1.2 Beckford on plantation systems and economic transformation

Beckford’s specific focus was the role of the plantation system in the process of economic development (or rather under-development) of Caribbean Economies, where the plantation system referred to the ‘totality of institutional arrangements surrounding the production and marketing of plantation crops’. Beckford quotes Smith’s (1967) description of “total institutions” as “organized groups with well defined boundaries and with a marked internal hierarchical structure approaching an internal caste system…it is characteristic of total institutions that people enter them as already socially formed human beings with a culture and a set of attitudes which need to be reformed” in order to impose control.
The plantation began as a unit of authority with control over all aspects of the lives of people within [the] territory. The result was a system with the characteristics of a small state, in which people were classified into different status groups.

Beckford (1972) suggests that the plantation has more than one dimension: it is a system of agricultural production as well as a social institution. “[The plantation] was an instrument of political colonization; it brought capital, enterprise, and management to create economic structures which have remained basically the same; it brought together different races of people from various parts of the world to labour in its service and thus determined the population and social structures now existing in these places”. Beckford distinguishes plantation economies from settler economies by noting that whereas the latter evolves as “an independent economy and polity in which there is equality and widespread popular participation”, the former remains economically and politically dependent on the imperial country and is characterised by centralisation of political authority and control in the hands of planters. According to Beckford, the plantation system frustrates economic development. He points to external diseconomies arising from government services to plantations, distortions arising from the pricing of foreign exchange, problems associated with the opportunity costs of investible resources, unused and underutilised labour, and the problem of discounting for risk and uncertainty (Beckford 1972:57). He goes on to state, “The inescapable conclusion is that the plantation system, a type of economic and social organisation, creates the following social diseconomies: (1) persistent and expanding unemployment; (2) relatively low levels of national income; (3) a most unequal distribution of what little income is
produced; (4) gross underutilisation of land; and (5) extreme under-consumption generally” (Beckford 1972:177). Elements of the Beckford thesis of the economic underdevelopment tendencies of plantation economies find expression in the recent analyses of the role of institutions in economic growth and development, for instance, Acemoglu (2001, 2003). Acemoglu observes that the institutions Europeans established in colonies of extraction “neither protected the property of regular citizens nor constrained the power of elites”, when by contrast, in colonies of settlement, they “developed laws and institutions to ensure that they themselves were protected, in both their political and economic lives” (Acemoglu 2003:29).

Beckford asserts that because the plantation economy is a total economic institution, it requires radical change to make a real contribution to economic development in the region. Beckford views previous attempts at economic transformation as either “adjustments on the margin” via the introduction of legislation aimed at regulating plantation activity, or structural adjustments aimed at changing the system in its entirety.

Since neither marginal adjustments nor the introduction of regulatory legislation achieved economic development in the region, Beckford identified specific policy prescriptions for transformation of the plantation system. These included:

(i) regional economic integration aimed at, inter alia, increasing the size of the market and, more importantly, increasing the opportunities for resource combinations and export substitution.  

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3 Taken in this paper to be synonymous with trade diversion.
(ii) integration of research and knowledge in the plantation system to increase knowledge of production possibilities and to develop new uses of products and new techniques of processing. On this score Beckford notes that since, “no single plantation economy can afford the necessary investment involved in this research… the need for regional economic integration is further strengthened.”

(iii) land reform to increase the production base for the peasantry who, in Beckford’s view are the real dynamic for development. He cautions that land reform should include appropriate and effective rural economic institutions to provide credit and technical knowledge. The quality of the land made available to peasants should also be of a high quality and not infertile, second-rate land as the case in most land settlement schemes implemented in plantation economies.

(iv) Income distribution to increase incomes of the poor, facilitate domestic savings and investment.

In addition to the above, Beckford identifies the need for political and social transformation suggesting a type of “social integration” held together by a single institution that would seek to “…bind all segments of the society together”.

1.3 Neo- Institutionalists and Economic Growth

North (1993) defined institutions as “…humanly devised constraints that structure human interaction” where such constraints can either be formal as in rules, laws and constitutions or informal as in norms of behaviour, conventions, and self imposed codes of conduct. The formal and informal constraints together define the incentive structure
of societies and specifically economies. Institutions may also be seen as collections of rules ordering the ways in which individuals and groups co-operate and compete. They may be specified in the forms of statute and regulation, embodied in formal organizations ranging from government to firms or families or simply the ways of custom. Van Arkadie suggests that institutions can also be viewed as organisations defined as “an area of activity in which the market does not coordinate the activities of participants.” The internal arrangements of organisations are coordinated by non-market instruments. North would however maintain that organisations are not institutions but are instead “the players” within the rules of the game i.e. “groups of individuals bound by a common purpose to achieve objectives” and including political, economic, social and educational organisations. (North 1995:23)

The core of the neoinstitutionalist approach to economic growth is market efficiency. Neoclassical economic theory postulates that maximum output and maximization of incremental output will occur when resources (capital, labour and finance) are allocated consistent with the Pareto optimality criterion. However, achievement of Pareto optimality is impeded by imperfect information, transactions costs, production externalities and non-exclusivity of consumption (the public goods problem). Economic transactors may have imperfect information, i.e. less than identically distributed information, about prices, quantity of output or factors of production, or quality of traded goods and services. The resultant uncertainty is a cause of non-identical ratios of marginal utility for consumers, non-identical ratios of marginal value products, and non-identical rates of return on financial assets. Transaction costs may be incurred in an effort
to acquire information to reduce uncertainty. In a world of non-zero transactions costs, institutions matter, and “because a large part of national income is devoted to transacting, institutions and specifically property rights are crucial determinants of the efficiency of markets.” (North 1995:18). Neo-institutionalism applies the principle of property rights to resolve the problem of production externalities, arguing that the creation of property rights permits attribution of costs from negative externalities and benefits from positive externalities thereby eliminating the divergence between private and social costs. In relation to public goods, Bates (1995:31) characterizes neo-institutionalists as arguing that, “the dilemma created by the perverse incentives that undermine the creation of public goods promotes...a demand for the creation of non-market institutions ... [which] make it in the interests of individuals to make socially correct decisions.” Neo-institutionalism has been applied to corporate structures, agrarian structures, credit and financial markets, etc. especially treating “the emergence of institutions as substitutes for missing markets” (Bardhan 1989:181). In effect, institutions provide the framework within which markets operate, influencing efficiency and income distribution (Van Arkadie 1989).

Section 2 – Caribbean Institutions and regional economic growth

2.1 Caribbean Economic growth and the CARICOM Single Market and Economy
The CARICOM Single Market and Economy (CSME) is the current phase of an evolutionary institutional development in Caribbean integration which restarted with the formation of the Caribbean Free Trade Association (CARIFTA) in July 1965. CARIFTA, which by 1971 had increased its membership from four to twelve countries, sought to promote balanced economic development through the mechanism of intraregional tariff-free and quota-free trade in goods and services and through a regionally rationalised programme of industrial and agricultural development. The trade arrangements were complemented by the establishment of a regional development bank, the Caribbean Development Bank (CDB). Both the trade arrangements and the regional development banking arrangements made provisions for the special treatment of the region’s Less Developed Countries (LDCs) vis à vis the More Developed Countries (MDCs).

The second distinct phase was the creation of the Caribbean Community (CARICOM) by the Treaty of Chaguaramas, signed on 4 July 1973 by Barbados, Guyana, Jamaica and Trinidad and Tobago and acceded to by all other CARIFTA Members by July 1974. The Bahamas joined in 1983, Suriname in 1995 and Haiti in 2002.

The preamble to the Treaty of Chaguaramas set as its fundamental economic objective “full employment and improved standards of living” expressed consciousness that “these objectives can most rapidly be attained by optimum utilisation of available human and natural resources of the Region by accelerated, coordinated and sustained economic development, particularly through the exercise of permanent sovereignty and their
natural resources; by the efficient operation of common services and functional cooperation in the social, cultural, educational and technological fields; and by a common front in relation to the external world”, and also expressed conviction “… of the need to elaborate an effective regime by establishing and utilising institutions designed to enhance the economic, social and cultural development of their peoples.”

In the Treaty, member countries established the objectives of:

a. economic integration through establishment of a Common Market with the goals of,

   i. strengthening of coordination and regulation of economic and trade relations among member states to promote accelerated harmonium and balanced development;

   ii. the sustained expansion and continued integration of economic activities with due regard to equitable distribution of the benefits and the special circumstances of the LDCs;

   iii. the achievement of a greater measure of economic independence and effectiveness in international relations.

b. coordination of foreign policies;

c. functional cooperation, including common services.

In its provisions of an economic nature, the Treaty included the establishment of a Common External Tariff (CET), clauses prohibiting or restricting imposition of fiscal and other barriers to trade in goods of Common Market origin and recognition of the
desirability of eliminating restrictions on rights of establishment and operation of
economic enterprises by national of Member States. This set of clauses essentially aim at
integrating, expanding and protecting the regional market for goods. Other clauses in the
Treaty required less of member states in their economic relations with each other. With
respect to the provision of services (Article 36), they agreed to the non-binding provision
to extend preferential treatment to nationals of other member states “as far as
practicable”. In relation to movement of capital, Article 37 of the Treaty mandates the
Council to “examine ways and means for the introduction of a scheme for the regulated
movement of capital within the Common Market” while providing in Article 43 that
Member States undertake to permit freedom of payment on current account and capital
account necessary to further the objectives of the Common Market.

On the movement of persons, Article 38 states: “Nothing in this Treaty shall be construed
as requiring or imposing any obligations on a Member State to grant freedom of
movement into its territory whether or not such persons or nationals of other Member
States.” Articles 39-62 deal with coordination of economic policies and development
planning, including a requirement that fiscal incentives be harmonised, an agreement to
study harmonisation of corporate and personal income taxes, recognition of the
desirability of harmonisation of laws related to business and import trade in agriculture
and food products, monetary and exchange rate policy consultation and possible study of
“ways and means of harmonising monetary and exchange rate payment policies”,
promotion of industrial programming on a national and regional basis (the re-birth of
Brewster-Thomas 1967), exploration of the possibility of joint projects in natural
resources, rationalisation of regional trade in agricultural products and rationalisation of agricultural production with special regard to LDCs, and establishment of a special regime for the LDCs essentially by providing for full or partial exception to Treaty provision on trade taxes and fiscal incentives and MDCs agreeing to cooperate in the promotion of investment flows to the LDCs.

The CSME as an institutional construct is embodied in the revised Treaty of Chaguaramas, signed in July 2001. The CSME differs significantly from the original Common Market concept embodied in the 1973 Treaty of Chaguaramas. From an economics perspective, the main points of difference are the international competitiveness justification for the CSME (vs. the common internal market justification for the Common Market) and the emphasis on production and international competitive efficiency.

The Preamble to the Revised Treaty states “the commitment to deepening regional economic integration through the establishment of the CSME in order to achieve sustained economic development based on international competitiveness, coordinated economic and foreign policies, functional cooperation and enhanced trade and economic relations with third States.” What is new is “international competitiveness” as an instrumentality of sustained economic development. In CARIFTA, the instruments were regional free trade, programmed industrial and agricultural development and regional development banking. In the original Treaty of Chaguaramas, the instruments were the common market for goods and programming of industrial and agricultural development.
The Preamble to the Revised Treaty recognised “that globalisation and liberalisation have important implications for international competitiveness” and went on to declare consciousness of “the need to promote in the Community the highest level of efficiency in the production of goods and services especially with a view to maximising foreign exchange earnings on the basis of international competitiveness, attaining food security, achieving structural diversification and improving the standard of living of their peoples” and awareness that “optimal production by economic enterprises in the Community requires the structural integration of production in the region and particularly the unrestricted movement of capital, labour and technology.”

The Preamble also stated the conviction that “market-driven industrial development is essential for …economic and social development”, expresses awareness that “a fully integrated and liberalised internal market will create favourable conditions for sustained, market-led production of goods and services on an internationally competitive basis”, and espoused a determination “to effect a fundamental transformation of the agricultural sector…generally conducting agricultural production on a market-oriented, internationally competitive and environmentally sound basis.”

In sum, the Preamble to the Revised Treaty of Chaguaramas evinced a model of economic growth and development premised on globalisation and market liberalisation in which a central dynamic is market-led production and resource allocation among

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4 The CSME may be seen as the contemporary institutional response for regional integration but which sees trade creation as the vehicle for regional economic growth.
enterprises within the region, unfettered by national restrictions and capable of successfully competing internationally.

The internationally dominant paradigm of globalization and market liberalization does not have unqualified acceptance in the Caribbean, nor is there adherence to a purely market-led model of economic growth in which the role of governments is confined to making and administering rules of the game and creating and maintaining a stable and facilitatory macroeconomic environment. Caribbean governments in their negotiations on the FTAA and Economic Partnership Agreement with Europe as well as in their interventions in the WTO have vigorously argued that the current rules governing international trade in goods and services are asymmetrically disadvantageous to small, vulnerable economies, and that their structural handicaps cause chronic competitive weaknesses in globalized markets in which economies of scale and scope will in the main accrue to firms in countries with large domestic factor markets and product markets. They also argue that the financial resource requirements for meaningful adjustment are beyond their domestic savings capacity thereby necessitating international financial assistance programmes and that reasonable time be allowed for adjustment. These are seen as necessary to minimise and overcome economically and socially disruptive effects of international market liberalization already evident in industries such as manufacturing and bananas in the Caribbean.

On the issue of government’s role in the fostering of economic growth, a much larger role for private enterprise (sometimes expressed in terms of the private sector being the
engine of growth) has been espoused. However, the perception that entrepreneurship is weak in the Caribbean private sector and that businesses have traditionally been oriented towards short-term profits rather than long-term investment, and that private enterprise development has been led by foreign enterprises, could temper enthusiasm for a wholly private sector led model of economic growth. The substantial continued direct investment of the public sector as entrepreneur in production enterprises, marketing and promotion, and in fiscal support for private enterprise supports the view that Caribbean governments operate with a model of development in which the State is a direct and active participant.

Furthermore there is public sector involvement in the provision of social and physical infrastructure, macro-distribution of income and human and non-human assets, and in promoting balanced spatial development within national borders as well as within the Caribbean Community. This conception of the role of the State is not markedly different from the earlier structuralist conception but differs fundamentally from the role envisaged by neo-classicists and neo-institutionalists.

Given this description of the interventionist role of Governments in the Caribbean, what the preamble of the Revised Treaty may signify is acceptance of globalization and market liberalization as major conditioning factors on the economic policies to be fashioned by the Caribbean, but not the total renunciation of the development paradigm which evolved during the nationalist and structuralist phases of Caribbean economic and political thought, but there needs to be recognition of the inherent inconsistency of the two paradigms.
The Revised Treaty led to institutional innovation or to a new institutional framework in the sense of a system of rules and institutions intended to facilitate cross-border market transactions within the Caribbean Community. The Revised Treaty contains provisions which, if effectively and efficiently implemented, could be expected have the general effect of reducing transactions costs, information costs and uncertainty in the Community markets for goods and services, capital and labour, and which in varying degrees allow for the growth of regional factor markets where regulatory barriers prevented their full existence. Cross-border restrictions e.g. licensing and permit requirements and outright prohibition, would tend to raise transactions costs and information costs by the extensive documentary requirements, representational fees including legal fees, protracted delays and licence fees normally associated with then and through the costs associated with recourse to subterfuge channels and violations of prohibitive restrictions. Discriminatory treatment of rights of establishment of economic enterprises and of applications for movement of factors of production, would also tend to generate uncertainty thereby raising the expected costs of lowering the expected returns from cross-border investment and production.

Some provisions in the Revised Treaty tackle these kinds of problems head-on. On the rights of establishment of economic enterprises, the Revised Treaty goes farther than the Original Treaty by not only prohibiting new restrictions but by requiring the removal of existing restrictions with priority application to foreign exchange earning activities (Article 34) and with particular application to administrative practices and procedures,
restrictions on movement of managerial, technical and supervisory staff of economic enterprises, and access to land, buildings and other physical property. In principle then, under the Revised Treaty there should be no non-market barriers to enterprise decisions on location of production within any of the national jurisdictions comprising the Single Market and Economy. This is a significant addition to the absence of non-market barriers to trade enshrined in the original Treaty for the Caribbean Community and Common Market.

In respect of the movement of capital, the Revised Treaty prohibits new restrictions (including equity and portfolio investments, short-term banking transactions, interest and amortisation payments, dividends and other investment income, and proceeds from sales of assets) on capital and current payments and transfers (Article 39), provides for a programme for removal of restrictions (Article 40) and signals the intention to adopt harmonised macroeconomic, monetary and fiscal policies as well as to establish an integrated capital market facilitating regional capital flows. Again, these provisions could have the effect of reducing transactions costs and complemented by policy harmonisation and integrated capital market development also reduce uncertainty costs and information costs.

On the movement of labour (persons), the Revised Treaty also improves on the Original Treaty. Unlike the latter, the Revised Treaty commits member States, “to the goal of free movement of their nationals within the Community” (Article 45). However, the Revised Treaty does not seek to give full practical recognition to this principle, limiting itself
instead to the agreement that as a “first step” Member States would accord specified categories of skilled Community nationals “the right to seek employment in their jurisdictions” (Article 46). It should be noted, that the Revised Treaty also deals with the issue of cross border labour market information costs by providing for common standards and measures for accreditation and for recognition of education and training qualifications. To the extent that common standards are maintained and an effective system for mutual recognition is in place, market signals to employers would be clearer and information costs correspondingly reduced.

2.2 The Caribbean Court of Justice

In the words of Duke E Pollard “the Caribbean Court of Justice in its original jurisdiction must be seen as the institutional centrepiece of the Caricom Single Market and Economy (Pollard 2004:27). That it is a centrepiece in a functional sense is a point to be clarified later. It may also be considered an institutional innovation because it provides an organizational component not present in the original Treaty of Chaguaramas. Disputes, sometimes based on differences in interpretations of treaty provisions, arise naturally between participants in economic integration schemes. If there is no effective dispute settlement or adjudication mechanism in law and in practice, there is likelihood of publicly antagonistic stances by national opinion makers, including governments, and resulting doubt in the fairness and viability of the integration arrangements. There is also

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5 Once a court has been established, its efficiency is defined in terms of the speed, cost, and fairness with which judicial decisions are made and the access that aggrieved citizens have to the court (World Bank, 2002).
the likelihood of uncertainty among economic transactors about the de jure and de facto “rules of the game” governing cross-border transactions.

The Treaty of Chaguaramas (1973) vested dispute settlement authority in the Common Market Council which could also, at its own discretion, establish tribunals for the purpose of settling specific disputes between Member States with respect to Treaty provisions. However as Pollard points out, this dispute settlement system was limited, “determinations of arbitration tribunals are legally binding on the parties to the proceedings only and not on third parties.” (Pollard 2004:40). The provisions in the Treaty of Chaguaramas cannot result in “determinations legally binding on all participants in the regime in order to create uniformity and certainty in the applicable norms.” The Revised Treaty of Chaguaramas (2001) attempts to put in place credible and effective mechanisms for dispute settlement and adjudication through the establishment of the Caribbean Court of Justice as a court of original jurisdiction, giving the Court compulsory and exclusive jurisdiction to adjudicate disputes concerning the interpretation and the application of Treaty provisions (Article 211). Article 217 specifies that the Court shall apply international law. Article 221 contains the doctrine of stare decisis by which precedents are legally binding. In the opinion of Pollard, the intention behind the stare decisis stipulation was to “ensure certainty in the applicable norms, stability of expectations on the part of economic actors in the Community, and predictability of outcomes for investment decisions by investors.” (page 97) But at the same time, it was envisaged that “the doctrine of stare decisis would be applied flexibly” so as to “promote
dynamic stability in the applicable law and not espouse petrification of relevant norms.” (Pollard 2004:97).

Essentially, then, the Caribbean Court of Justice is intended to achieve legal certainty with respect to the international law governing transactions in the Caricom Single Market and Economy. Moreover, through the operations of the Court, Member States as well as private transactors would know that there is rule of law, i.e. there is effective legal machinery for enforcing property rights. The combined existence of a stable yet dynamic system of laws and a judicial machinery for enforcing them should contribute to the reduction of uncertainty and non-market risks and to the reduction of transaction costs associated with non-market risk minimization strategies thereby facilitating cross-border trade in goods and services, economically rational decisions about location of enterprises, factor mobility, and investment, all of which within the CSME paradigm are expected to have positive influence on economic growth.

3.0 The Experience of Caribbean Economic Integration

In the context of the earlier description of the intended role of the CSME and the CCJ, it is useful to review the experience of Caribbean Economic Integration since 1973 with a view to informing conclusions about the sufficiency of the new institutions. In this review therefore, we focus on movements of trade, capital and labour in the region since the earlier Treaty of Chaguaramas.
Intraregional Trade in Goods

Intraregional trade has grown absolutely and in proportion to total trade. The Caribbean Trade and Investment Report of 2000 shows average growth of 5.6% per annum for intraregional imports and 8.5% per annum for intraregional exports between 1990 and 1998. The share of intraregional imports in total imports remained constant an average of 9.5% over the period but the share of intraregional exports in total exports increased from 12.4% to 22.9%. Intraregional trade is highly concentrated in terms of commodity share with petroleum and petroleum products dominating with at least 1/3 of intraregional exports. There is also concentration in terms of exporting countries with Trinidad and Tobago being the dominant exporter with a 52% share in 1990 and a 75% share in 1998. Barbados ranked second in terms of intraregional exports, with a share of 13% in 1990 and 11% in 1998. Jamaica suffered a dramatic fall in its share from 14% in 1990 to 4.4% in 1998.

Although the Original and Revised Treaties provide for the removal of barriers to intraregional trade the evidence suggests that intraregional trade performance is constrained by various barriers in Member Countries. One can identify five (5) restrictions to free movement of trade which continue to be violated by one or more member country. These restrictive elements are:

1. Removal of unauthorised import (or equivalent) duties on goods of Community Origin, (2 countries);
2. Removal of export duties on goods of Community Origin, (one country);
3. Removal of discriminatory Internal Taxes and Other Fiscal Charges, (ten countries);
4. Removal of unauthorised import licenses on goods of Community origin, (three (countries); and
5. Removal of Quantitative restrictions, (one country).

Without evidence of the extent to which the abovementioned restrictions puts limits on the value of intra regional trade, one cannot be definitive about the empirical significance of these data.

Capital Movements

The CARICOM Trade and Investment Report of 2000 analysed CARICOM investments in the context of the expansion of intraregional trade and the need for the removal of trade barriers and other NTBs restricting the flow of investments across national boundaries. The Report notes that policy makers attempted since 1972, to establish a CARICOM Enterprise Regime thorough which firms would be encouraged to expand and locate their operations across the Region on the basis of available resources. This objective of integrated production was not achieved. However, there has been a growth of cross border private sector activity throughout the region. “It was evident that ownership lines, not only in the financial services sector but in most other sectors, are becoming increasingly blurred as a result of inter-industry linkages that have emerged...And yet, at the same time, these conglomerates are probably a necessary mode for accelerating movement of capital across the region...” (Trade and Investment Report 2000:237).
As at 2000, thirty-nine (39) companies were engaging in cross-border operations mainly in manufacturing, distribution and financial services. Thirty-three (33) of these companies having their head-offices in the more developed Caribbean Countries\(^6\).

On the basis of available data, it can be argued that only the larger companies have been successful in penetrating regional markets. The provisions in the Revised Treaty for the liberalisation of capital markets could facilitate cross border operations by other companies.

With respect to portfolio capital there is not much cross-listing on the national stock exchanges and securities exchanges which indicate that little capital market integration has been achieved. In the banking and finance field, there have been much cross-border mergers and acquisitions, which are indicative of the greater ease of cross-border capital transactions within the CSME but against that, must be set the observation by industry specialists that the operations of the merged or acquired enterprises have not been integrated but instead remain geographically compartmentalised.

**Free Movement of Persons**

There has not been much progress with respect to labour market integration. While the provisions for the integration of skills is a first step toward integrated labour markets, not all countries have put into effect even those limited provisions. The following is the status with respect to individual provisions:

\(^6\) The countries of origin were: Trinidad and Tobago, Barbados, Jamaica, Guyana, Antigua and Barbuda, St. Vincent and the Grenadines and St. Lucia.
1. Implementation of Skills legislation (Free Movement of University Graduates), (two countries in non-compliance);

2. Regulatory and Administrative arrangements for free movement of graduates (two countries in non compliance);

3. Implementation of legislation for free movement of Artistes, Media Workers, Musicians, sports persons (three countries in non compliance);

4. Regulatory and Administrative arrangements for free movement of Artistes, Media Workers, Musicians, Sports Persons (three countries in non compliance); and

5. Legislative and Administrative arrangements for Free Movement of self employed service providers, entrepreneurs, technical, managerial and supervisory staff, spouses and immediate dependent family members, persons consuming services abroad (All countries in non compliance);

Furthermore, many categories of skilled persons are excluded and most evidently the provisions in Article 46 do not apply to the majority of Caribbean Community workers. In this critical respect therefore, the Revised Treaty provisions do not wholly accord with the goal of fostering optimal production by economic enterprises through the unrestricted movement of labour, inter alia. Rather paradoxically, however, with the tacit approval of the governments of several Member States, there is a growing integration of labour markets for some artisan skills, especially construction, through quasi-legal migrant workers.
4.0 Conclusions

We have reviewed several paradigms which ascribe major roles for institutions in the process of economic growth and analysed the creation of the CSME as a specific institutional response to the problem and the global situational context of Caribbean economic growth and development. Our conclusion is that institutions can matter, but there can be no intrinsic dynamic for institutional innovation. Lewis is reported to have said in 1962 that “… the love of money is a powerful institutional solvent. Many countries indeed have attitudes and institutions which inhibit growth, but they will rid themselves of these attitudes and institutions once their people discover that they stand in the way of economic opportunity…” A curiously ahistorical conclusion which ignores at least two barriers to collective action i.e. difficulty in sharing the costs of institutional change and problems in arriving at an agreement on sharing of potential benefits (Bardhan 1989:183).

The conclusion that institutions matter should not be interpreted as saying that institutions are all that matter, that is, that institutional development is a panacea for the problems of economic growth and development. In some historical contexts, re-distribution of income and wealth can have greater effect. Institutions sometimes become dysfunctional (even if they did not start that way) but nonetheless persist because path dependence due to network externalities, economies of scope and complementarities and because of social sanctions against change.
The literature on building effective institutions for markets\(^7\) suggests that for an institution to be an effective vehicle for achieving economic growth it should satisfy a number of conditions including:

a. A requirement that policymakers take cognisance of (a) the informational needs that the proposed institution will satisfy i.e. how does the institutional framework address information symmetries;
b. Does the proposed institution adequately address the protection of property rights and definition as well as the enforcement of contracts;
c. Will the new competitive environment created by the institution facilitate an optimally competitive environment to achieve the desired economic objective(s)?

In addition, the literature notes an important role for political forces since these can either accelerate or retard the development of new institutions. Further, distributional effects may be distorted with the establishment of some institutions.

In the specific context of the implementation of the CSME we therefore advance the following conclusions:

1. To give effect to the objectives of the regional institutional framework embodied in the CSME there would need to be complementary, appropriate national institutions. To be specific, it does appear that the functioning of the CSME is

handicapped by the absence of appropriate legislative measures to give effect to the Treaty Provisions.

2. There appears to be insufficient articulation between national and government institutions and the regional agencies.

3. Widespread public acceptance to sustain support for the CSME. If not there could be political tensions that could weaken it and even, reverse the integration process.

4. Distributional problems arising from unequal trade shares and geographical concentration of capital could impede the realisation of the objectives. This possibility explains the Treaty provisions dealing with special arrangements for disadvantaged countries such as the Regional Development Fund. These provisions have not been put in place.
REFERENCES


