The purpose of my presentation is to explain the economic thinking that underpinned the Barbadian experiment with a productivity-based “Social Compact”, and the political circumstances in which it evolved. I acknowledge a considerable debt to Tayo Fashoyin, author of “Fostering Economic Development through Social Partnership in Barbados”, a publication of the International Labour Organization.

Intellectual Origins of Social Compact

A fundamental proposition of John Maynard Keynes’ path-breaking work in 1936, The General Theory of Employment, Interest and Money, was the downward stickiness of wages, i.e. the determined resistance on the part of workers to a cut in their wages. To reduce their wage bill firms have no option but to lay off some workers; they do not re-hire until they have returned to profitability. The laid-off workers, in turn, reduce their spending on goods and services, leading to a further reduction in national output, sending the economy into a downward spiral toward recession.

The Keynesian solution was for Government to increase public expenditures, through deficits if necessary, to put workers back to work, so that renewed
spending from their restored incomes might jump-start the economy and restore full employment.

Keynesianism worked well until the 1970s when it failed to provide a solution to the simultaneous presence of inflation and high unemployment in a stagnant economy. The term used to describe this condition was “stagflation”. Stagflation was eventually cured by the high interest rate policies (approaching 20 percent per annum) of Federal Reserve Chairman Paul Volcker in the USA and Margaret Thatcher in the UK, but at the price of a deep recession and high unemployment.

Post-Keynesian economists, like Professors Alfred Eichner and Paul Davidson in the USA and Lord Kahn in the UK, prescribed an “incomes policy”, that is, the regulation of wages by Government in cooperation with Business and Labour. Indeed, an incomes policy was briefly attempted by President Nixon in the USA, and for a more extended period by Labour Governments in the UK - without success in either case. Neither the pervasive American free market ideology nor the bitter class conflict between Labour and Business in Britain could accommodate the cooperative approach required by an incomes policy.

However, smaller countries of Europe, like The Netherlands, Switzerland and the Scandanavian nations, especially Sweden, with their relatively homogenous societies and strong social democratic traditions, have been able to operate effective incomes policies. Government, Business and Labour (Business and Labour only in Sweden) cooperated in restraining wage increases not warranted by productivity gains as the price of maintaining high levels of employment.
In the 1960s, Sir Arthur Lewis did recommend an incomes policy for Jamaica. However, in an environment of tribal politics and of competitive trade unionism (between the Bustamante Trade Union and the National Workers Union), the cooperation and trust required for the operation of an incomes policy was simply not in the works.

**Evolution of a Productivity-based Social Compact in Barbados**

I claim a share of the paternity of the highly promising productivity-based “Social Compact” in Barbados. Mine was the first and only voice in the wilderness crying out for “wage restraint” as early as 1973. I was concerned then that trade union demands for wage increases of 30% and higher, unmatched by productivity gains, would drive consumption, and inevitably imports, to levels unsustainable by the island’s fragile balance of payments - not to speak of inflation, which reached 40 percent per annum in 1974, and unemployment, which exceeded 20 percent in the same year. I was harshly attacked by trade union leaders, one of whom described my calls for wage restraint as “untimely, unwarranted and malicious”. But I never let up throughout my tenure as Central Bank Governor, which ended in 1987. In 1979, I published a lecture which had been presented at the Cave Hill Campus entitled, “The Balance of Payments Crisis in the Caribbean: Which Way Out?” In it I recommended an incomes policy based on the experience of the small European states mentioned above. In 1989 I further developed my case for an incomes policy in a paper entitled “Wage Price Guidelines for Increasing International Competitiveness in the Caribbean”, that was later published by the Economic Development Institute of the World Bank.
To be fair to the Barbados Labour movement, it gradually came around to a recognition of the critical relationship between the level of wages and the balance of payments in a highly open economy like Barbados – or for that matter The Bahamas. In addition, trade unions had to pay more and attention to public opinion, which was increasingly being shaped by the economic and social ravages of deep currency devaluations in Guyana and Jamaica. Barbadians would become obsessively committed to the maintenance of the currency peg at the rate of US$1.00 = BDS$2.00.

**Political Developments Leading to Social Compact**

It is a long-standing tradition in Barbadian politics, during the run-up to general elections, for the government in office to incur huge fiscal deficits and for the Opposition Party to make exorbitant promises of lower taxes. Mr. Barrow’s Democratic Labour Party (DLP) failed to run a large pre-election deficit and lost in the 1976 polls. Prime Minister Tom Adams (BLP) ran a huge deficit in 1980/81 and won re-election in the 1981 elections. Prime Minister St. John (BLP) refused to “empty the treasury” before the elections of 1986, as one of his colleagues advised, and lost, whereas the DLP promised huge tax-cuts which quickly precipitated severe balance of payments problems on their return to office. Prime Minister Sandiford (DLP) ran a record budget deficit in 1991/2 that guaranteed his re-election, but when the DLP was forced into a general election in 1994 before a substantial deficit could be organized, they too lost in the polls. It was the severe crisis following the re-election of Mr. Sandiford that provided the catalyst for the evolution of the Social Compact.
The US$125 million of deficit financing for overgenerous Public Sector wage increases in 1990 was followed by the 1991/92 world recession, during which Barbados’ foreign exchange reserves were virtually exhausted, falling to a historic low of less than US$7 million in September 1991. By comparison, the island’s foreign exchange reserves in the 1980s had fluctuated between US$125 million and US$300 million. The ensuing foreign exchange crisis drove Government to seek a structural adjustment programme (SAP) with the International Monetary Fund (IMF).

The main opening IMF demands on the table were:

1. Devaluation of the Barbados dollar;
2. An 8% cut of Civil Service salaries;
3. The lay-off of 8,000 civil servants, or nearly one-third of the Civil Establishment.

The news of these draconian conditionalities sparked unprecedented public protests from all sectors of the society. The Administration, which had previously merely informed, rather than consulted with, the people, was forced to sit down with the other “Social Partners”, namely the Coalition of Trade Unions and Staff Associations of Barbados (CTUSAB) and the Barbados Private Sector Agency (BPSA), at talks mediated by Church leaders. Strengthened in its resolve by the consultations, the Sandiford Administration was able to negotiate an SAP that reduced the number of lay-offs to 3,000, maintained the value of the currency, but included the eight per cent cut in the salaries of all Public Sector institutions.

Tayo Fashoyin sums up the consensus between Government and the Social Partners following the SAP ordeal as follows:
The Government and social partners agreed that the single most important challenge which the country would continue to have to address over the short and long term was a national commitment to maintain the existing rate of the Barbados dollar against the US dollar in order to contain inflation and provide a stable environment for business decisions. To achieve this goal, the partners needed to take joint measures to promote and enhance the country’s international competitiveness and development.

The Protocols

The success in dealing with the SAP crisis led the Social Partners, with encouragement from Civil Society, to formalize the consultative process. They unanimously approved and signed a protocol which would revolutionize the national approach towards economic policy making.


In the first protocol, the tripartite partners agreed to the broad principles of an incomes policy “as a part of an overall strategy for sustained economic development of the country.” The primary objectives of the incomes policy were:

1. A commitment to maintain the US$1.00 = BDS$2.00 exchange rate peg;
2. Expansion of the economy through increased competitiveness;
3. The promotion of access to employment;
4. A reduction in the incidence of social dislocation caused by high unemployment.

The parties agreed to a wage freeze in both public and private sectors, and that any increase in wages would be achieved through productivity gains. The Barbados National Productivity Council (BNPC), with your lecturer Professor Downes as its first President, was established to assist in the implementation of the Protocol.
Business undertook not to raise prices except when an increase became inevitable as a result of imported inflation; Government committed itself to filling over 450 outstanding vacancies in the Public Service and to outstanding promotions of more than 450 workers. It was generally agreed that wherever retrenchment was unavoidable, care should be taken to ensure that at least one member of an affected family would be kept in a job.


The obvious success of the First Protocol encouraged the signing of the Second. Whereas GDP growth in 1990, 1992 and 1992 had been –3.3%, -3.9% and -5.7% respectively, the economy had grown by 0.8% in 1993, 3.9% in 1994 and 2.5% in 1995. The thrust of the Second Protocol was to “take advantage of improvements in the global economy and facilitate sustained economic expansion.” It moved from a policy of “wage freeze” to one of wage restraint, placing a strong emphasis on productivity. The Protocol confirmed the important role of the BNPC.


The Third Protocol added three new objectives:

1. The maintenance of a stable industrial relations climate;
2. The reduction of social disparities through increased employment;
3. The consolidation of social dialogue through tripartite consultation.
The cooperative exercise was renamed a “Social Compact”.

The major achievement of the Third Protocol was the institutionalization of the tripartite arrangements (Social Compact). In particular, the Third Protocol elaborated on the functions of the Sub-Committee to “provide a forum whereby through consultation and exchange of information there can be a betterment of the industrial climate.”

**The Fourth Protocol (2001-2004): To Create a Modern Economy with Social Inclusiveness**

The Fourth Protocol reiterated the goals of the earlier three Protocols, with an emphasis on social inclusiveness and modernization of the economy.

The concerns for social equity included greater attention to the rights of persons with disabilities, control of the HIV/AIDS pandemic, the integrity of pension schemes and the suppression of crime.

To promote modernization of the economy it sought to stimulate entrepreneurial activity through the development of small business, and to strengthen the Cooperative and Credit Union movements.

But the most strategic concern was for the reform and modernization of the Public Sector, an undertaking so far marked more by rhetoric than decisive action. The Social Partners obviously recognized that the increased productivity of the Public Sector would have powerful ripple effects throughout the economy.

By any measure, the Social Compact has yielded excellent results. The economic decline of the late 1980s and early 1990s was reversed, and the economy
returned to a steady growth of 3-4% until the events of September 11th, 2001 threw it into a mercifully short and mild recession. Unemployment has fallen from almost 22% in 1994 to the 10% region, and inflation has hovered around the 3 percent rate. Meanwhile, real industrial wages have risen steadily since 1996 as a result of productivity gains. Most important, there has been a sharp reduction in the number and scale of industrial disputes as indicated by the fall in the number of work days lost – from 36,472 in 1992 to a mere 428 in 1997.

**Why Did the Social Compact Succeed in Barbados?**

The underlying reason for the success of the Social Compact in Barbados is the high degree of social cohesiveness that is possible in a small and homogeneous society which was determined to preserve the fixed value of its currency against the US dollar.

Secondly, the high level of education enabled the general public to recognize the seriousness of the situation, and to accept that tough and unconventional measures were required.

Third, the two dominant political parties in Barbados, the BLP and the DLP, are cut from the same social democratic cloth, the DLP being a splinter of the BLP. (In fact, politicians have no difficulty in moving from one party to another.) This means that sharp departures in policy do not follow changes of Administration. For example, the First Protocol was written under the DLP, and the Social Compact strengthened under the BLP.
Fourth, the trade union movement in Barbados can lay strong claim to being the most sophisticated in the developing world, and is highly respected in all sectors of society. The first and most influential trade union is the Barbados Workers Union. Its first President, Sir Grantley Adams, and its first Secretary General, Sir Hugh Springer, were both graduates of Oxford University. Sir Hugh’s two successors, Sir Frank Walcott, who held office for over 30 years, and the incumbent, Sir Roy Trotman, were also knighted. In addition, Sir Grantley, Sir Hugh and Sir Frank have been declared National Heroes. It is not surprising that the thuggery that has marked trade unionism in so many countries, both developed and developing, has never raised its ugly head in Barbados. The cooperation among the Barbados Workers Union, The National Union of Public Workers and other smaller unions, under the umbrella of the Coalition of Trade Unions and Staff Associations, was also very important.

Finally, the Barbadian tradition of what Fashoyin calls “voluntarism” was a critical factor in the success of the Social Compact. Industrial relations in Barbados are based more on conventions, evolved by Management and trade unions over the years, than on legislation. The moral force of the Church and other elements of Civil Society also proved indispensable.

**Does the Bajan Social Compact Have Legs?**

Undoubtedly, the ethnic conflicts of Guyana and Trinidad & Tobago, and the tribal politics of Jamaica, make them unlikely candidates for the adoption of a Social Compact. That probably explains why all three countries have opted against a fixed peg against the US! Even though the OECS has successfully maintained a peg against the
US dollar, geographic, political and economic diversity would make it difficult for member states to put in place other critical elements of a Social Compact. The Bahamas, and perhaps Belize, are the only likely CARICOM candidates for a Barbadian-style Social Compact – at least to the extent of adopting a productivity-based payments scheme!