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TOWARD A COMPARATIVE ANALYSIS
OF SMALL, OPEN ECONOMIES IN THE CARIBBEAN

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ABSTRACT

Toward a Comparative Analysis
of Small, Open Economies in the Caribbean

A great deal has been written about Caribbean economic problems and policy issues, but no effort has been made thus far to develop a typology of Caribbean economies based on a careful qualitative and quantitative appraisal of the critical differences and similarities among the various economies of the region. This paper represents a tentative step in this direction. The focus is both on structural features of Caribbean economies as well as on levels of performance and advancement, which together facilitate a framework for developing comparisons. The objective is to reach beyond typology construction and to establish a basis for evaluating economic policy progress comparatively by identifying the limits inherent in these structural features and the critical variables or forces associated with economic advancement in the postwar period.

The conclusion drawn is that an emphasis on export orientation is unavoidable in the region, but that this has to be combined with strategic import substitution in basic-goods production, strategies for diversification of asset ownership, and forms of management to ensure a maximum spread of benefits to the majority classes. In short, Caribbean economies must walk on "two legs" to develop beyond their present levels.

TOWARD A COMPARATIVE ANALYSIS OF SMALL, OPEN ECONOMIES IN THE CARIBBEAN

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Introduction

As a region of small economies dependent on trade, capital inflows, and technology from western industrial nations, the Caribbean has been profoundly affected by the cyclical upturns and recessions of the world economy--cycles which mirror the fluctuating momentum of economic activity in the world's still-dominant industrial-capitalist economic systems. Any examination of the development choices open to Caribbean economies must therefore begin with an understanding of how these external forces have shaped the varied patterns and levels of economic growth and development in the region.

The writings of Caribbean economists and the policy prescriptions articulated by the principal external and domestic centers of decision-making in the region tend to analyse Caribbean economies within a framework of generic models of political economy or common structural features which attempt to grapple with historical legacies, common problems, and common constraints. While this approach has its merits, generating interesting theoretical and policy issues, it tends to ignore the variations and differences in both levels of economic advancement and strategies of economic management in the region. As a result, little attention has been devoted to comparative economic analysis of the Caribbean.

Most of the earlier writings on Caribbean political economy fell within the dependency school and sought to expose the limitations and constraints perpetuating economies heavily dependent on foreign investment, trade in primary commodities, imported technologies, external aid, and monocrop production. Essentially, it was argued that even where growth occurred various structural weaknesses denied the possibility of achieving genuine development. The main structural weaknesses were seen as the absence of backward and forward linkages in the economy, low value added, the outflow of savings through exported profits and royalty payments, oligarchic ownership patterns and high concentrations of income inequality, high unemployment, and extreme vulnerability to adverse changes and trends in the economies of the western capitalist-industrial centres. This analysis represents what can be defined as the "plantation school" of Caribbean political economy.[1]

As a result of this heavy emphasis on structural features, little attempt was made to examine comparatively the relative success and failure of the economies of the region in raising living standards and productive capability in the postwar period. Unfortunately, however, this body of critique on Caribbean economic structures failed to formulate in a coherent way alternate economic structures and development models that could widen the real options available for economic advancement in the region. Diagnoses of structural limitations were detailed, but no clear prescriptions followed, except for advocacy of greater local ownership, reduced dependence on foreign capital, more state initiative in economic management, more egalitarian income distribution, and greater emphasis on economic nationalism and self-reliance. None of these prescriptions, however, was developed within a framework which advanced an alternative to the open economy and avoided the structural weaknesses highlighted in the critique. The idea of closely-knit and carefully-planned regional integration--increasing market size and opening up prospects for planned and rational resource allocation--came closest to filling this void.[2] But it fell short because it did not specify how such changes would redefine the nature of relationships between the Caribbean and the region's external markets for capital, technology, and trade. More importantly, the integration solution failed to deal with the reality of the limited size of even the most highly integrated aggregate of Caribbean mini-economies or the question of how far the open-economy model could be abandoned without great cost.

With the downturn in the world economy triggered by the escalating price of oil, the sharpening of north-south conflicts over the distribution of benefits from the world economy and the distribution of power over economic resources, and the increasing influence of socialist ideology in the region, the agenda of discussion on Caribbean political economy has shifted. The dominant capitalist framework of economic thought in the region has been challenged by socialist and anti-capitalist ideological tendencies which portray the open Caribbean economies as instruments of imperialist-capitalist manipulation and exploitation.[3] The political influence of the Cuban revolution, the growing appeal of socialist modes of thought and economic management in the Third World, the emergence of pockets of radical leftist intelligentsia in party politics in the region, and efforts by political directorates in Guyana, Jamaica, and Grenada to inject a variety of socialist, non-capitalist, statist, and anti-imperialist policy objectives into economic management have all given added momentum to these trends.

The existence of alternate philosophies of economic management in the region, and sharp differences in both foreign economic policies and domestic economic management objectives with respect to the role of the state, the role of foreign capital, the role of the private sectors, attempts at cooperative ownership, fiscal and financial policies, and strategies of promoting self-reliance in the Caribbean region--all bring sharply into focus the need for comparative analysis of systems of economic management in the region and an assessment of their relative success and failure in raising living standards and increasing productive capability. Unless this debate is to degenerate into polemical exchanges about the vices and virtues of capitalist or socialist forms of economic management, it must be informed by an assessment of the relative progress achieved by the variety of types of economic management systems in the region. Further, a casual survey of the varied economic systems in the region suggests that such ideological and political categories may well obscure more important structural features which characterise the critical differences among Caribbean economies.

To be sure, the exploration of options for economic development in the region must focus on the comparative progress achieved by Caribbean economies in the economic boom years of the postwar period to assess more precisely the limitations and possibilities of the open-economy model and to evaluate what degrees of freedom exist to develop alternatives. That analysis must take place against the background of an understanding of the nature of the world economy and how it shapes the horizons of alternatives available to small economies desirous of increasing living standards in all areas of consumption, developing human resources, and improving the quality of life.

Influenced by the post-industrial society's downgrading of materialism, consumer excesses, and acquisitiveness within the metropolitan middle-class intelligentsia, Caribbean economists and social scientists are often at odds with the values and aspirations of the Caribbean working class, peasantry, and petty commodity producers. These latter class groupings measure social progress not only in terms of better health, nutrition, educational opportunities, and social amenities, but also (and perhaps more so) in terms of the acquisition of the modern consumer goods produced by capitalist technology. The use of consumption levels of these goods as indices of material progress in the region is flatly rejected by mainstream Caribbean political economists on the grounds that it represents manipulation by international capitalism to induce over-consumption for profiteering and an effort to transform the region into a captive market for industrial goods. Measurement of economic progress deteriorates into arbitrariness or an assertion of the dogmatic value biases of middle-class intellectuals when that measurement fails to take into account improvements in the quality of life to which the people of the region attach great subjective value. To date, none of the analyses of economic progress in the Caribbean has attempted to assess qualitative and quantitative changes in consumption levels among the various Caribbean economies.

Perhaps the most path-breaking and important work on Caribbean political economy was William Demas' attempt to come to grips with the limits posed by size in Caribbean economic development.[4] In his early work on the subject, Demas saw the need to develop a strong export sector as a prerequisite for development in the Caribbean. Small size, he argued, meant that the region's economies could not satisfy their need for a diverse range of consumer and producer goods by local production. A strong export sector was therefore necessary. But Demas blunted the force of his argument by conceding the plantation political-economy critique regarding the absence of backward and forward linkages in Caribbean economies. To fully develop the case for the open economy, Demas would have had to question whether this was a feasible structural feature for small economies seeking to produce a wide range of goods either for export or for the local market.

Indeed, the full logic of Demas' argument should have led him to challenge entirely the plantation school of political economy on the grounds that many of the structural features it saw as indices of retarded development were in fact unavoidable characteristics of small economies seeking to live above subsistence level by trying to maximise foreign-exchange earnings and thereby increase the consumption of imported goods as well as the capacity to purchase imported factor inputs into production to widen the range of goods produced. That was not to be, however. The strength of the emotional argument of the plantation school, anchored as it was in a nationalistic attack on the historical legacy of dependent economies operating as satellites of the powerful centers of western industrial economies, prevailed as an unchallenged consensus among the Caribbean intelligentsia. By linking analysis of the structural weaknesses of Caribbean economies with an attack on the legacy of slavery, imperialism, and capitalist mercantilism, and by joining it to nationalist antagonism toward dependency, the plantation school stood unchallenged until Marxist and socialist ideological influences coopted its structural criticisms of plantation economies within a new framework of Marxist-Leninist, anti-capitalist polemics.[5]

The real issue--the extent to which the alternate development model implicitly being advanced was more appropriate for large economies with large markets and a wide range of resources--was never raised. Nor was Demas' point about the implications of size for development options in the region taken seriously, beyond the argument for regional integration. The fact that the size problem would continue, and that its constraints would remain undiminished despite success with regional integration, was ignored.

Regional integration and import substitution were seen as the two major structural and policy changes needed to remove some of the inherent weaknesses of the open plantation economy. Import substitution, it was argued, would develop local industrial-production capability in order to end Caribbean dependence on the advanced industrial economies for the supply of industrial products and modern consumer goods. This development, in turn, would break the vicious cycle of exportation of agricultural and primary goods and importation of finished goods which was a limiting feature of the periphery-metropole relationship retarding real development.

After the gains from import substitution were quickly exhausted because of the region's small and limited markets, it was inevitable that economic integration would be put forward as the next structural adjustment required to deal with the limitation of size. Now that the benefits of regional integration have been fully or near fully reaped,[6] the region lacks any clear sense of what structural adjustments and changes can keep the momentum of economic progress moving ahead, especially in the face of worldwide economic recession and the economic dislocations caused by oil-price increases, declining export earnings, mounting indebtedness, and foreign-exchange shortages, as well as shortages of capital in the region.

The absence of any clear sense of what the next steps should be has allowed ideology to confuse the discussion of economic options. Ideological contention between Cuba and other anti-imperialist countries and groups, on the one hand, and the United States and other pro-capitalist countries and groups, on the other, has moved the agenda of discussion away from economic management and toward ideology and millenarian expectations that capitalist or non-capitalist development can overcome the traditional structural obstacles which beset Caribbean economies.[7] The discussion of economic options in the region needs to move away from polemical ideological emphases and toward a reassessment of structural obstacles and the extent to which small size limits the real options available for Caribbean economic development, regardless of which ideological tendencies are favoured. Only within a context of these concerns is it feasible to relate Caribbean political economy to a rigorous comparative analysis of economic systems in the Caribbean.

The Open Economy

Implicit in the foregoing is the idea that--however valid the critique of certain structural features of the Caribbean economy--some features of openness are due to the small size of the region's economies while others are due to the legacy of colonialism. The fundamental error of the plantation school lies in its failure to distinguish the one from the other and its tendency to treat all features of openness as attributable to economic colonialism. Prescriptions for structural change to advance these economies must identify the features of openness that are inherent in small size and are therefore unavoidable, and formulate strategies for economic development which accept that reality. Secondly, those prescriptions for change must also pinpoint the surviving colonial features of these economies and advance policy strategies designed to remove them. The critical structural adjustments necessary in Caribbean economies are those which seek to advance economic decolonisation within this framework of a realistic appraisal of options and limitations.

The unavoidable features of openness in Caribbean economies relate to the following factors:

(1) A high level of dependence on imports for both consumer and producer goods.

(2) The level and momentum of economic activity being influenced mainly by the capacity to earn foreign exchange through exports of merchandise or by tourism or other services.

(3) Dependence on long-term capital inflows to accelerate export capability in high technology areas requiring large investments, or in export areas where advanced technology or the penetration of the markets of developed industrial economies may be important to maximising export potential.

(4) The need to organise factor costs in production and efficiency in resource use to ensure international competitiveness.

(5) Export expansion in production being determined more by overseas market possibilities and comparative advantage to compete in those markets than by domestic resource endowment of raw materials.

(6) Income levels and living standards determined mainly by the capability to earn foreign exchange, with the propensity to import increasing as income levels rise.

(7) Expansion in the range of domestic production rapidly increasing demand for imported raw materials.

(8) The need to give priority in credit, resource allocation, and production incentives to export-oriented production.

(9) The need for a high degree of integration into international commodity trade if aspirations for higher living standards are to be realised.

Underlying the above is the suggestion that small economies seeking economic advancement have no option but to emphasise export-oriented growth. Secondly, the search for development strategies should center around efforts to maximise the rate of return from domestic and foreign investment and export production by redefining one's role in the international division of labour.[8] Essentially, this involves shifting emphasis from primary-goods exports with low international demand (and zero or declining incremental changes in demand as income increases) to manufactured goods, services, or primary products for which market demand increases as incomes rise.

Import substitution--seeking to maximise production for the domestic market of basic goods, such as food, which can be efficiently produced in adequate quantities and at competitive prices in order to reduce pressures on the demand for foreign exchange--should be seen as complementing, rather than at variance with, such an export-oriented strategy. An appropriate development strategy for a small economy is one which accepts the limitations inherent in small size and promotes export-led growth by modernising the export sector along these lines while promoting import substitution of basic goods, such as food. A fundamental distinction must therefore be made between an undeveloped open economy with colonial legacies of dependence on raw materials, primary goods, traditional agricultural exports, and consumer-goods imports, and a developing or developed open economy which has modernised its export sector and increased the range and volume of basic goods produced for the domestic market in areas where this is feasible, given domestic resource endowment of land and raw materials. The developing open economy must therefore walk on two legs while seeking to redefine its role in the international division of labour. Decolonisation essentially involves dismantling the colonial pattern of commodity exchange--cheap primary goods for industrial and consumer goods--and replacing it with new export initiatives rather than abandoning the export emphasis.

To be sure, only the more innovative or productive small Third World economies are going to be able to carry out this structural change. But this development path for small economies such as those of the Caribbean is both necessary for economic advancement and improved living standards as well as independent of whether capitalists, the state, or worker-run cooperatives control the means of production.

Political ideologies tend to treat the issue of ownership of the means of production in terms of which class ought to exercise economic and political hegemony. The traditional capitalist view is that the private sector has an inherent right to be the principal force controlling productive forces in the economy. The socialist view insists that the state--on behalf of workers, or workers directly through worker-owned cooperatives--should exercise dominance over the productive forces. Alternatively, economic nationalism advances the view that foreign ownership of the means of production should be avoided at all costs. These are all ideological positions rather than economic strategies of how best to allocate roles in the distribution of power over economic forces in the small, open economy.

In the Caribbean, there are five main forms of ownership that contend for power and control over productive forces: (1) local capitalists, (2) foreign capitalists, (3) the state, (4) petty commodity producers who are self-employed and hire no labour power, and (5) worker-run cooperatives. The local and foreign capitalists are likely to be most efficient in the expansion and promotion of export sectors of the economy. The state, the petty commodity producers, and the cooperatives are likely to function best in the production of basic goods and services for the domestic market. Such a rational division of labour, it seems to me, is important in enabling the small, open economy to walk on both legs.

Modernising the small, open economy over time will inevitably lead to pressures to eliminate the weaker forms of ownership and management, and a trend toward concentration of capital. The state, it seems to me, should undertake the task of keeping opportunities open for the continued survival of the cooperative and petty commodity sectors in order to maximise employment and income flows to poorer class groupings lacking access to capital but possessing all of the other attributes for productive entrepreneurial activity.

A number of structural changes will attend the development of the small, open economy. First, there should be a diversification of exports and foreign-exchange earners leading to a decline in the export-commodity trade concentration index. Second, trade-partner concentration should decline as the increase in the range of exports and foreign-exchange earners facilitates penetration of a wider range of export markets. Basic consumer-goods imports in areas such as food should be low or in decline, while consumer-goods imports should shift to diverse items which cannot be produced competitively. Increases in export or foreign-exchange earnings should be used to diversify domestic production by increasing areas of domestic production serviced by the state, by the petty commodity producers, and by worker cooperatives. Failure to achieve this is illustrated in some tourist economies which failed to capitalise on the potential market of millions of tourists.

Implicit in this analysis are various indicators which should be used in evaluating the development of small, open economies. These include: (1) per capita foreign-exchange earnings (exports and tourism), (2) commodity concentration in export trade, (3) level of food imports, (4) per capita import levels, (5) per capita consumption of consumer durables, and (6) country concentration in export trade. These indicators should provide a basis for ranking Caribbean countries in terms of their relative progress in redefining their role in the international division of labour. If adequate statistical data were available, one should be able to construct indices of Caribbean development to indicate changes over time for each economy and comparative levels between economies. Data limitations, however, permit this to be done only on a partial scale. For some indicators, cross-sectional comparisons between economies can be made, while for others, some indication of change over time can be approximated by crude measures.

The degree of openness of Caribbean economies can be measured by computing the value of imports as a percentage of GDP. It will be instructive to determine whether countries with higher living standards have lower or higher levels of openness. The logic of my analysis suggests that higher living standards are likely to be found in Caribbean economies with the highest levels of openness as measured by trade dependence. Secondly, contrary to the arguments of the dependency and plantation schools of political economy, higher living standards should be found in economies with higher levels of aid and foreign-investment inflows. Whatever the structural limitations and development problems related to dependence on external capital, the net effect in both the Third World generally and in the Caribbean has been to raise both income levels and productive capability of economies lacking adequate technology, capital, and management capacity.

The development of Caribbean open economies will also impinge upon the social structures of these societies in a precise and predictable way. As foreign-exchange earning capacity rises, class structures should change in predictable directions. The middle sectors of white-collar, professional, and semi-professional occupations should expand considerably, employment in agriculture will decline, and the petty commodity sector will shrink as more and more of the labour force shifts from self-employment and own-account activity into wage and salary categories. As this occurs, the bargaining power and political strength of organised labour will grow within the political system as the main sectors of the economy become unionised.

With increased unionisation and major shifts from petty commodity self-employment into wage labour and the attainment of higher living standards, two sources of stress begin to develop in the open economy. High levels of unionisation bid up the price of wages, thereby limiting the potential for increased employment and undermining the potential to expand output and employment by utilising the comparative advantage of cheap labour to develop labour-intensive export industries. Secondly, the premature decline of the petty commodity sector limits employment potential whereby increased prosperity could sustain a wide variety of lucrative petty business operations. The effect of both of these factors is to retard the ability of small, open economies in the Caribbean to move toward full employment as has occurred in open economies such as Singapore, Hong Kong, and South Korea. Fuller development toward industrialisation for export and modernisation of the export sector is also retarded. These structural obstacles lie at the root of the inability of Caribbean open economies to fully come to terms with and overcome the crises generated by the dislocations of the world economy due to changes in world commodity prices. Also, as a result of these structural obstacles, domestic production of basic goods for the local market lags behind export growth, thereby increasing the pressures on foreign-exchange supplies. The declining petty commodity sector, added to the limited management capacity of the state in the production sphere, results in decreased domestic food production while export and foreign-exchange earnings expand. This diminished or retarded potential for import substitution in food production has the effect of aggravating the balance-of-payments problems that have their basis in unfavourable dislocations in world commodity prices. The latter could be more easily overcome if these economies were better able to walk on two legs and thereby become more resilient to such pressures.

Liberal-democratic political traditions--a legacy of centuries of political learning, essentially under British influence--have created a high propensity for unionisation in the Commonwealth Caribbean. Similar European and North American influences have also induced a high propensity for trade unionism in some of the non-English-speaking territories of the region. This factor limits the degree to which options available for the further development of the open economy toward full employment and export growth can be realised in the Caribbean.

Comparing Caribbean Economies

The Caribbean economies fall essentially into three basic categories, with communist Cuba and the Haitian peasant economy representing relatively unique systems within the regional profile. First, there are the traditional economies--in which the structures of production and trade remain similar to those that existed during the colonial period, except for modest attempts at import substitution in a rather limited range of manufactured goods. In essence, the pattern of exporting raw materials and primary products and importing consumer goods continues without any basic change. In these economies, development efforts emphasize increasing foreign-exchange earnings through tourism. This category includes the following countries:

Dominica	Dominican Republic
St. Vincent	Grenada
Martinique	Montserrat
Guadeloupe	Surinam

These countries represent the lowest level of development of the open economy in the Caribbean. Haiti, the poorest country in the region, is not an open economy but rather represents a highly internalised system of subsistence-level peasant agricultural production characterised by extremely low technology and income, by Caribbean standards, and by high exploitation of peasants through surplus income extraction by landowners.

The second category of economies consists of those built around tourism and the marketing of petroleum products. Most of these have attained very high income and living standards. These tourism/petroleum economies tend to show even higher levels of openness than the traditional colonial economies. Foreign ownership and white-expatriate domination of top managerial jobs tend to retard black majority economic power. Both this factor and the domination of the rhythm of life and the life style by white residents and tourists result in deep social divisions and an underlying fragility to social structures, as well as patterns of politics that are more conservative than those found elsewhere in the Caribbean. This second category includes:

Bahamas
Bermuda
Netherlands Antilles
U.S. Virgin Islands
Antigua

With the exception of Antigua, which has only partially developed this economic structure, the number of tourists visiting these countries exceeds the host population in any year. In the late 1970s, the annual ratio of tourists to local residents was 3.7:1 in the Bahamas, 9:1 in Bermuda, 3:1 in the Netherlands Antilles, and 11:1 in the U.S. Virgin Islands. In Antigua the ratio was .85:1.

The third category represents those Caribbean territories in which a relatively diverse structure of export and domestic production has been added to a continuing traditional colonial economy. This category divides into two sub-groups. The first represents the more advanced economies, where this structural modification has been developed over the last three decades with varying degrees of success. This sub-group includes:

Puerto Rico
Trinidad & Tobago
Jamaica
Barbados

Their infrastructures are adequately developed for large-scale export manufacturing and extensive diversification of foreign-exchange earnings. In contrast to the traditional colonial economies, where raw-material, primary-goods, and agricultural exports dominate, in these economies a significant capacity for export manufacture has developed and export earnings from manufactured goods are significant. Puerto Rico, with an export economy in which manufactures represent some 50 percent of export sales, is the outstanding case. In all four cases, however, wage-income factors have retarded the potential to develop export manufacturing on the scale attained by newly industrialised Asian countries such as Singapore and South Korea. In Puerto Rico, despite extensive investment inflows from the United States and direct access to the U.S. market, the transition toward full employment and a fully developed export manufacturing economy was arrested by uncompetitive wage rates and the bidding up of the wage price necessary to induce full employment because of massive welfare payments through U.S. federal grants that by 1978 reached a level of $(U.S.) 1.6 billion in food stamps, with beneficiaries representing 52 percent of the population. In the case of Trinidad, large infusions of petro-dollar earnings had the same effect of making the labour price uncompetitive for this type of development. In Barbados and Jamaica, there is a common factor of strong trade unionism and the tendency to concentrate manufacturing capability on domestic rather than export markets. In both cases, however, some progress has been made in export manufactures, but within limits.

By way of contrast, Table 1 compares the real growth rates of manufacturing production for Barbados, Jamaica, and Trinidad with those for the export-oriented Asian economies of Singapore, South Korea, and Taiwan. It will be noted that the industrialised Asian economies are characterised by a significantly higher scale of manufacturing expansion. Although Puerto Rico stands out among the Caribbean economies, and Barbados clearly experienced faster industrial growth than either Jamaica or Trinidad over the period, the most outstanding fact is the degree to which industrial expansion in the export-oriented Asian economies dwarfed the growth trends for the Caribbean.

Table 1

EXPANSION OF MANUFACTURING OUTPUT IN REAL TERMS, 1967-1977
(percent increase in total manufacturing output between 1967 and 1977)

Jamaica	11% (21% up to 1974)
Trinidad	21
Barbados	54
Puerto Rico	82

Singapore	253
South Korea	490
Taiwan	370

SOURCE: World Bank, World Tables, 1980.

The second sub-group consists of other countries attempting to diversify exports and domestic production by significantly increasing manufacturing capacity, but in these cases the effort is of recent origin. These countries are:

St. Kitts
St. Lucia

These two countries can be viewed as moving marginally out of the structures of the traditional plantation economy by attempting strategies seeking to diversify foreign-exchange earnings.

Cuba, like Haiti, stands by itself in the sense that it represents a traditional colonial export economy dominated by sugar, combined with a heavy emphasis on import substitution of basic-goods production to minimise the need for imports, especially in the area of food. Although the Cuban economy has failed to modernise and diversify its export-earning sector, it has been more successful than the others in the region in walking on two legs by combining diversified domestic production with a traditional primary-goods export orientation. The Cuban strategy of developing basic-goods production to raise the living standards of the majority has eliminated a great deal of the poverty inherited by the Revolution in that plantation economy. But this was achieved at the expense of failing to modernise the export sector of the open economy. Recent Cuban efforts to attract tourism, invite foreign investment, and develop trade links with capitalist-industrial hard-currency markets represent initiatives, however partial, which seek to address these weaknesses within the Cuban open economy. Ideological polarisation and political hostilities between Cuba and the United States stand in the way of these developments, which could well accelerate if a liberal president replaces Ronald Reagan in the next U.S. presidential election.

In the case of Haiti, export manufacturing has been attempted on a significant scale to complement traditional primary-goods exports in a peasant economy with a low level of openness. Here the low price of labour offers a comparative advantage over other Caribbean countries where the infrastructure for production is more developed.

As can be seen from Table 2, the overwhelming majority of Caribbean economies have a high level of dependence on imports. Most fall above the bottom line--imports representing at least a third of GDP--that is interpreted as defining open economies. Only Haiti and the Dominican Republic fall below that line, and in the case of the Dominican Republic the ratio of imports to GDP is only marginally below the cut-off point used to define openness.

The highest level of openness is found among the small tourist/petroleum trading economies. This is followed by relatively high levels of openness among the traditional export economies. Openness per se, therefore, shows no consistent relationship with income levels. Those open economies which have modernised their export or foreign-exchange-earning sectors through tourism (Bahamas, Bermuda, Netherlands Antilles, U.S. Virgin Islands) and modernising export manufactures supported by tourist expansion (Puerto Rico and Barbados) show the highest income levels. The lowest income levels are to be found among the traditional export economies which have not significantly redefined their role in the international division of labour.

The three traditional economies with high income levels (Surinam, Martinique, Guadeloupe) are all beneficiaries of massive aid flows from European sources. Surinam, in addition, benefits from having a small population supported by mineral earnings from bauxite and alumina. The colonial status of Martinique and Guadeloupe facilitates large-scale income transfers from France which artificially raise living standards and perpetuate a material basis for disinterest in political independence.

Table 2

CROSS-TABULATION OF LEVELS OF
OPENNESS AND PER CAPITA INCOME

	Per capita income levels ($U.S.)			
Openness (% imports over GDP)	Below $600	$600-999	$1,000-1,999	$2,000+
Low (below 33%):	Haiti	Dominican Republic		
Medium low (33%-50%):			Cuba Jamaica	Guadeloupe Martinique Puerto Rico Trinidad
Medium high (51%-75%):	Guyana	St. Kitts		Barbados
High (76%-99%):	St. Vincent Dominica Grenada Montserrat	St. Lucia Antigua		
Very high (100% & over):				Bahamas Bermuda U.S. Virgin Islands Netherlands Antilles

SOURCE: The World in Figures (London: The Economist, 1981).

It can also be seen from Table 2 that degree of openness varies with economic size. There is an overall -.31 Pearson R correlation between population size and level of openness among 20 Caribbean economies, while the Pearson R correlation between income levels and openness is a similar .34 coefficient.

The development of the foreign-exchange earning capacity of Caribbean economies varies considerably. Table 3 groups these economies in terms of varying levels of per capita export and tourism earnings. The cross-tabulation shows a high association between income levels and foreign-exchange earnings, thereby indicating the degree to which the strength of the export sectors and foreign-exchange earners determines income levels. Hopes for advancement along the income scale clearly require, as a prerequisite, an increase in the capacity to earn foreign exchange. There is an overall .80 Pearson R correlation between level of foreign-exchange earnings and per capita income levels in the Caribbean. Implicit in this finding is the inference that mere changes in the classes which own the means of production are quite irrelevant to the advancement of Caribbean open economies regardless of whether those changes in class ownership move toward state, private-sector, cooperative, or petty commodity ownership. The stimulation of growth and development in the Caribbean by inducing a fuelling of economic momentum through increased increments of foreign-exchange earnings is an inescapable and unavoidable development strategy in the region, regardless of what ideologies or forms of ownership prevail in individual countries. Conversely, the logic of the structural features of the small, open economy will tend to encourage convergent and similar economic strategies across the region which will cut across ideological tendencies, although these policy similarities will be obscured by continuing ideological symbolism in policy articulation.

Table 3

CROSS-TABULATION OF PER CAPITA FOREIGN-EXCHANGE EARNINGS & PER CAPITA INCOME LEVELS, 1979

Per capita foreign-exchange earnings ($U.S.)	Per capita income ($U.S.)			
	Below $600	$600-999	$1,000-1,999	$2,000+
Below $400:	Haiti St. Vincent Dominica Dominican Republic Guyana Grenada	St. Kitts		
$400-599:		Antigua	Cuba Jamaica	Guadeloupe
$600-999:				Surinam Martinique
$1,000 & over:				U.S. Virgin Islands Bermuda Bahamas Barbados Puerto Rico Netherlands Antilles

SOURCE: The World in Figures (London: The Economist, 1981).

There has been considerable reduction in the commodity-trade concentration index over the past two decades--a consequence of the diversity of export-trade merchandise in economies such as Jamaica and Barbados, where a diversity of export manufactures has been added to the traditional export economy. In contrast, economies which retain traditional export patterns, such as Guyana and the Dominican Republic, show no significant changes in the export-trade concentration index. In Jamaica, the index declined from 53 to 28 between 1961 and 1977, while in Barbados it fell from 69 to 20. Over the same period, the export-commodity trade concentration index in Guyana and the Dominican Republic remained at over 70 and 60, respectively. The bulking of oil revenues in the Trinidadian economy increased the commodity trade concentration index over the period from 13 to 41.

The postwar trend in the Caribbean has been toward a decline in trade dependency on a single dominant purchaser of exports, but with varying degrees of change depending on how the economies diversified and modernised their export sectors. Barbados, for example, sold 62 percent of its exports to Great Britain in 1958. By 1979, the United States had replaced Britain as the country's leading export trading partner, but was purchasing a much smaller 26 percent of Barbadian exports.

Small, open economies faced with foreign-exchange pressures place great value on economic aid from the capital-surplus industrialised economies, both capitalist and communist. There is a relatively high level of aid accruing to Caribbean countries from multilateral and bilateral sources. The countries most integrated with centers of capitalist and communist industrial power tend to get disproportionate shares of these flows of aid. More importantly, in per capita terms, the pattern of aid flows for the region over the 1970-1978 period shows a distinct imbalance in favour of the higher-income economies in the region. Precisely because this aid allocation has a political rather than an economic rationale, the principal beneficiaries are countries which have stronger economies.

The most favoured aid recipients from western sources are Martinique, Guadeloupe, Puerto Rico, and Bermuda--with the first three receiving more than \$(U.S.) 5,000 per capita in aid over the 1970-1978 period. Interestingly, these are all colonial states which continue to enjoy the benefits of direct economic assistance from affluent North Atlantic capitalist economies. Cuba is the only economy in the region to be the beneficiary of large-scale communist Eastern European aid, but the per capita level of that aid is approximately 25 percent of the aid channeled to the very favoured high-income colonies in the region (Martinique, Guadeloupe, and Puerto Rico). Over the same period, poorer countries such as Haiti, St. Vincent, Guyana, and the Dominican Republic received less than \$(U.S.) 100 in per capita aid from western sources.

A disappointing feature of Caribbean economies over the entire postwar period has been the performance of agricultural and food production and the very high import food bills these countries generate as they move from traditional export economies toward diversification of production. The following data from F.A.O. sources give a picture of the size of the per capita food import bill some Caribbean economies accrued in 1978. Netherlands Antilles, Barbados, and the Bahamas top the list. Clearly, modernisation of the sectors earning foreign exchange was not accompanied by increased capacity in domestic food production. A very high level of food importation is also reported for Martinique, a traditional export economy receiving large quantities of economic aid.

Table 4

LEVELS OF PER CAPITA FOOD IMPORTS, 1978
(in U.S. $)

Jamaica	$ 74
Haiti	$ 11
Guyana	$ 51
Martinique	$295
Netherlands Antilles	$438
Barbados	$231
Bahamas	$299

SOURCE: F.A.O. Trade Yearbook, 1979.

Table 5

PER CAPITA FOOD PRODUCTION, 1974
(1961-65=100)

Barbados	74
Cuba	93
Dominican Republic	98
Guyana	96
Haiti	105
Jamaica	95
Martinique	84
Puerto Rico	72
Surinam	144

SOURCE: F.A.O. Trade Yearbook, 1979.

Table 5 illustrates that, with the exception of Surinam, food-production levels in the region were in most cases below the levels attained in the 1960s. The drop in per capita food production was especially large in Barbados and Puerto Rico, where efforts at diversifying production have not been accompanied by improvements in agriculture, as was the case with expanding Asian open economies such as Taiwan and South Korea. In South Korea over the same period, for example, domestic food production grew by 45 percent, while it declined by 26 percent in Barbados and by 28 percent in Puerto Rico.

Part of the increased stress on Caribbean open economies in the 1970s was due to the decline in food production, leading to excessive demands for food imports and high food prices, which aggravate pressures for higher wages and thereby limit the room for employment expansion in industries where cheaper labour costs are a critical comparative international advantage. Failure to develop this sort of basic-goods import substitution also directly limits the potential to expand employment as incomes rise and the export sectors develop.

The dislocations of the world economy in the 1970s had especially traumatic effects on the Caribbean open economies. Foreign debt as a proportion of GNP grew significantly for most countries, and the big-spending socialist governments in Guyana and Jamaica recorded the largest increases in the growth of the public debt. The exceptions were the Bahamas (due to its access to foreign capital) and most tourism/petroleum economies with relatively easy access to foreign exchange.

Table 6

NATIONAL PUBLIC DEBT AS PERCENT OF GNP, 1960, 1970, 1979

	1960	1970	1979
Bahamas	5	6	3
Barbados	9	6	21
Dominican Republic	1	20	32
Haiti	11	10	30
Trinidad	5	15	27
Guyana	38	52	138
Jamaica	11	12	54

SOURCE: World Bank, World Tables, 1980.

Table 7 shows that 7 out of 22 countries recorded negative per capita average real income growth over the 1970-1977 period. Weak performances seem to have characterised both traditional export economies and those open economies which had managed to modernise their means of earning foreign exchange and thereby redefine their role in the international division of labour. Part of the tendency to retreat into ideology and ideological concerns has its basis in the traumatic effect of the 1970s on all countries in the region, as their confidence in facing the future and the uncertain patterns of recession in the world economy was severely shaken.

Table 7

PER CAPITA AVERAGE REAL INCOME GROWTH, 1970-1977

Antigua	-3.7
Bahamas	-7.2
Barbados	2.6
Belize	4.7
Bermuda	2.4
Cuba	-1.2
Grenada	-3.2
Dominican Republic	4.6
Guadeloupe	2.9
Guyana	.4
Jamaica	-2.0
Haiti	2.1
Martinique	5.7
Netherlands Antilles	.5
Puerto Rico	.1
St. Kitts	1.6
St. Lucia	.7
St. Vincent	-2.2
Trinidad	1.5
U.S. Virgin Islands	.5

SOURCE: World Bank, World Bank Atlas, 1979.

As mainly open economies, the momentum of economic activity in the Caribbean will continue to reflect the upward and downward cycles in output, demand, and spending in the advanced industrial-capitalist economies. Sort-term changes in growth patterns in the region will hinge on the resurgence of bouyancy in those economies. A more important and far-reaching issue concerns why the more advanced of these open economies have thus far failed to achieve fuller employment, income, and welfare benefits for their working people as a result of the modernisation of sectors earning more foreign exchange in the postwar years.

Living Standards, Employment, and Structural Changes

It has often been suggested by politicians, intellectuals, and journalists that an area of basic weakness in the Caribbean open economy is its tendency to benefit affluent minorities and its failure to generate any real trickle-down of benefits to the working people as a consequence of growth and economic expansion. Both the plantation school of political economy and Marxist-Leninist critics echo that critique. It is even felt in some respected academic circles in the Caribbean that data on per capita income purporting to compare the living standards of the majority classes in these societies tell us nothing about the real level and quality of life within them. The case of Jamaica is often cited as a typical example--in which economic growth has not been reflected in welfare levels for the masses and where extreme income concentration produces an acute level of capitalist exploitation.

First of all, the highly skewed concentration of income in Jamaica is due mainly to the large income differentials separating wage- and salary-earners and property owners in the modern sectors of Jamaica's dual economy from the large petty commodity sector of traders, small farmers, and artisans. By Caribbean standards, Jamaica has an extremely large petty commodity sector in comparison with other middle-income countries in the region, and the country's income distribution is therefore more unequal than the typical Caribbean pattern.

Table 8 sets out the statistical details of Pearson R correlations between quality-of-life indicators and income levels. These findings point to the following flow of causal relationships in the chain of forces linking per capita incomes to the quality of life enjoyed by the majority classes:

Higher per capita income → Higher per capita government revenue →

1. fewer citizens per medical doctor
2. lower infant mortality
3. fewer students per teacher
4. higher levels of life expectancy

Table 8

PEARSON R CORRELATION COEFFICIENTS BETWEEN INCOME INDICATORS AND QUALITY-OF-LIFE INDICATORS
(income indicator=per capita revenue in $U.S., 1979)

per capita income	.73
number of citizens per medical doctor	-.69
life expectancy	.74
number of students per teacher	-.41
infant mortality per 1,000 live births	-.65

(n = 25 countries)

What the findings suggest is that the major factor influencing the quality of social reproduction in the Caribbean (health, education, etc.) is the level of resources available to the state as the state assumes major responsibility for social services. Where the financial resources or revenue base of the state are higher, citizens live longer, are healthier, and have better social services. Apart from Cuba, where the state controls 75 percent of GDP as state revenue, for the remaining Caribbean countries the most important factor determining level and quality of social services is per capita income, which determines the latter through its influence on the level of per capita revenue resources which the state has at its disposal. For the Caribbean as a whole, as Table 8 suggests, per capita revenue resources are high or low depending on the income base and per capita levels which provide taxable income. As has been shown with the development of welfare-state programs and social services in advanced capitalist countries, the improvements in the quality of life that can be achieved by upgrading these social indicators require an economic base that grows over time and provides an expanded surplus to fuel social expenditure.

Cuba and the higher-income countries in the region tend to have per capita revenues considerably above the overall Caribbean average. This grouping includes the Bahamas, Bermuda, Puerto Rico, Surinam, Trinidad, and the U.S. Virgin Islands--all of which had per capita revenue levels of between \$(U.S.) 900 and \$(U.S.) 1,600 in 1979. This contrasts with low-income countries such as Dominica, the Dominican Republic, Haiti, St. Kitts, St. Vincent, and St. Lucia--where per capita revenues for 1979 varied between \$(U.S.) 19 and \$(U.S.) 156.

The pressure for improved social amenities and for the involvement of the state in managing public enterprises has induced a relatively high level of government spending over GDP in Caribbean states. This level of government spending over GDP grew rapidly in the region in the 1960s and 1970s, but the rate of increase was particularly accelerated in regimes with socialist tendencies in Guyana, Jamaica, and Grenada. In the mid-1960s, government spending over GDP in the Caribbean was approximately 15 percent. The overall 1979 average for 23 countries was 27 percent, representing an 80 percent increase. Next to Cuba, with its high 75 percent expenditure over GDP, the ranking of relative levels of government spending in the region reflects clear ideological factors which have shaped the role which the state plays in the economy, and therefore how much of the national product the state appropriates.

The overall mean percentages shown in Table 9 indicate that as one moves from the right to the centre to the left, the level of government spending over GDP increases progressively. Notwithstanding these ideological impulses to raise the level of government spending, however, the fact remains that a limited or low taxable income base restricts quite severely the resources available to the state to improve the quality of life.

Table 9

GOVERNMENT SPENDING OVER GDP IN THE CARIBBEAN, 1979
(in percent)

Communist regimes		Socialist regimes		Nationalist & liberal-reformist regimes		Conservative regimes	
Cuba	75%	Guyana	52%	Trinidad	33%	Bermuda	19%
		Grenada	43	Barbados	28	Cayman	17
		Jamaica	37	Bahamas	19	Haiti	7
				St. Vincent	33	U.S. Virgin Islands	25
				St. Kitts	36		
				Belize	24		
				Dominica	27		
				Puerto Rico	26		
				St. Lucia	29		
Average levels:							
75%		44%		28.3%		17%	

The differences among Caribbean economies go further than the varying levels of per capita income outlined earlier. Three important features change as the open economies of the region move from lower to higher per capita income. First of all, appreciable upward social mobility occurs as the occupational hierarchy widens at the middle and upper-middle levels. The proportion of the labour force engaged in professional, administrative, and clerical jobs increases significantly between lower and higher per capita incomes, as can be seen from Table 10. In addition, the size of the service sector increases, while agricultural workers decline rapidly and the petty commodity sector also diminishes rapidly in size. The evidence therefore suggests that as income rises the structure of occupational opportunity changes and life chances for some are improved by upward and vertical social mobility into the middle sectors and from the petty commodity and agricultural sectors to wage employment in the expanding service sector.

Table 10

OCCUPATIONAL CHANGES & PER CAPITA INCOME LEVELS, 1970

Per capita income levels (in $U.S.)	% labour force in professional, administrative, & clerical jobs (mean %)	% labour force in service sector (mean %)	Petty commodity sector as % of labour force (mean %)	% agricultural labour (mean %)
Below $600	20	23	18	48
$600-999	25	24	16	32
$1,000-1,999	26	32	15	27
$2,000+	36	37	8	16

SOURCES: ILO Yearbook, 1972; Norma Abdullah, The Labour Force in the Commonwealth Caribbean (St. Augustine: ISER, 1977).

The basic social weakness of the Caribbean open economy lies not in income concentration but in high levels of open unemployment, varying according to the following 1979 estimates:[9]

Bahamas.	19%
Barbados	11%
Dominica	24%
Guadeloupe	25%
Guyana	21%
Puerto Rico . . .	18%
Trinidad	12%
Jamaica	31%

The issue of unemployment, however, must be seen in the context of the effect of the bidding up of the price for labour in open economies in which cheap labour offers a strong comparative advantage to attract labour-intensive manufacturing enterprises. A fundamental contradiction therefore exists between demands for the development of an export-oriented open economy and the bargaining power of labour.

Not surprisingly, consumption levels of a variety of modern amenities and consumer durables tend to increase in the Caribbean as per capita incomes rise. If we exclude Cuba, where the economic strategy restrains per capita consumption of luxury goods and certain amenities, the picture which emerges from Table 11 is one that shows a steep rise in the per capita consumption levels of motor cars, television sets, and telephones as per capita incomes rise.

Table 11

CONSUMPTION OF LUXURY GOODS BY
PER CAPITA INCOME, 1979

Groups of countries	Motor cars per 1,000 persons (mean)	Television sets per 1,000 persons (mean)	Telephones per 1,000 persons (mean)
per capita less than $600 (6)	35	12	27
per capita $600-1,999 (5)	60	74	54
per capita $2,000+ (10)	188	174	161

Clearly Caribbean economies have a high propensity to convert income into modern consumer goods. That fact indicates the degree to which economic strategies for development in the region have to take into account strong consumer urges and demands for imported merchandise which can only be met by having strong export and foreign-exchange activities to finance the high propensity to import consumer goods.

Foreign investment is perhaps the most contentious issue relating to the small, open economies of the Caribbean. There are clear costs attached to heavy reliance on foreign investment by small, open economies. Notable among them are the repatriation of profits, foreign control of critical investment and business decisions, the difficulty of ensuring that full local benefits accrue from such investments where host governments may lack either adequate information or bargaining power, and the costs in tax and other incentives that are given to attract such investment. These obvious costs have to be weighed against potential benefits.

In a world economy that for a number of historical reasons has concentrated surplus capital in the capitalist-industrial countries, small, capital-deficient Third World economies have no option but to seek out capital inflows from that source if they hope to modernise their economies and redefine their role in the international division of labour. This is especially so because these economies also lack a mastery of the modern technology which is often necessary to develop efficient exploitation of mineral resource endowments, the production of industrial goods for international markets, and the modernisation of management and production systems in the local economy.

Caribbean economies, of course, have a long history of dependence on foreign capital--with origins dating back to the slave plantations of colonial history which provided large-scale accumulation of profits that benefitted metropolitan European economies rather than the Caribbean. This legacy of exploitation of the region by foreign capital lies at the root of Caribbean intellectuals' deep hostility toward continuing dependence on foreign capital. A distinction must, however, be made between foreign-capital accumulation in the traditional colonial plantation economies and foreign-capital accumulation under contemporary conditions of political sovereignty. The latter permits policies of economic nationalism, enabling the state to maximise the flow of local benefits through taxation and joint ventures and by policies which can set the terms and conditions under which capital accumulation takes place. More importantly, distinctions must be made between strategic forms and areas of foreign investment which develop production in areas demanding high technology and large-scale financing, neither of which are available in the small, open economy. Additionally, foreign capital can have a modernising effect if it is guided into areas where it can develop production and employment not likely to be developed by local capital and if it can influence advances in local technology and management systems. Precisely these effects are manifest in the Asian industrialised economies.

By adopting a generic model of the Caribbean economy which emphasises the continuity of patterns of commodity exchange, structural weakness, and external dependence between the colonial period and the contemporary context, the plantation school fails to distinguish between types of foreign capital which are likely to have quite different long-term effects on the development of the small, open economy. Caribbean economies can be distinguished between those which featured foreign-capital accumulation under absentee plantation owners during the colonial period, and those which had both that form of foreign investment as well as more modernising forms of foreign investment which have brought advanced technology and have significantly increased productive capability in specific sectors of the economy--notably bauxite and alumina (Jamaica, Surinam, Guyana), oil (Trinidad), tourism (Bahamas, Bermuda, U.S. Virgin Islands, etc.), petroleum refining (Netherlands Antilles, Bahamas, etc.), and manufacturing (Puerto Rico, Barbados, etc.).

The patterns of foreign investment and income in the Caribbean confirm the view that countries which have attracted larger inflows of foreign investment tend to have higher per capita incomes and living standards. Those countries have economies in which modernising forms of foreign investment in the postwar period increased productive capability and income levels. The effect has been to widen the income gaps between the more prosperous Caribbean economies with per capita incomes of over $(U.S.) 2,000 and the poorer Caribbean economies with per capita incomes below $(U.S.) 500. The combination of very small populations and large capital inflows has produced the relatively high per capita incomes found in some small, open Caribbean economies (Surinam, Bahamas, Bermuda, Netherlands Antilles, U.S. Virgin Islands, etc.).

Despite real and understandable fears about the long-term political effects and economic vulnerabilities that could result from heavy reliance on foreign capital, the Caribbean is heavily dependent on foreign savings to fuel investment, and most governments seek foreign-capital inflows in different forms. Recent announcements of Cuban interest in seeking foreign capital from western industrial sources confirms the degree to which this tendency is not limited to conservative or liberal regimes. What is seriously lacking in most of the region are policies geared to maximising the development of petty commodity production and worker-owned cooperatives, complemented by state-owned public enterprises, where these forms of ownership could expand domestic production of basic goods to complement the impact of foreign investment in export sectors.

Conclusion

This analysis has tried to examine the attributes of open economies in the Caribbean against a background of the principal literature on the region's political economy. It argues that small size poses structural features and limitations, as well as options, for development which must be understood in contemplating development alternatives in the Caribbean.

This brief survey of the region's economies also suggests lines of policy thought, indicators for comparative analysis, categories for classification, and causal links which might provide a foundation for efforts to develop a more refined comparative view of Caribbean economic systems.

The analysis suggests that beneath the obscuring cover of ideological polemics which reflect rivalries between socialist and capitalist forces competing for ideological hegemony in the Caribbean, there exists a common agenda of policy priorities and goals related to the logic of the open economy.

Development of the small, open economy in the Caribbean requires policy strategies that redefine roles within the international division of labour--moving away from traditional patterns of colonial export economies and toward the development of new sources of foreign-exchange earnings, which are the main determinant of the level of economic activity in the small, open economy. Openness per se has been confused with the colonial legacy of backward economies. What is needed is an appreciation of how an open economy can be guided toward growth which improves and enhances the quality of life for the majority classes in the region.

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[3] See, for example, George Beckford and Michael Witter, Small Garden, Bitter Weed: Struggle and Change in Jamaica (Morant Bay, Jamaica: Maroon Publishing House, 1980).

[4] William Demas, The Economics of Development in Small Countries, With Special Reference to the Caribbean (McGill University Press, 1965).

[5] Some early advocates of the plantation school have, of course, since shifted to eclectic Marxism.

[6] The achievements and prospects of the Caribbean Common Market (Caricom) are fully discussed in The Caribbean Community, published by the Caricom Secretariat in 1981.

[7] In Jamaica in particular, capitalist and socialist positions are often posed with the certainty and fervour of evangelism by politicians and intellectuals alike.

[8] This idea is developed in my Understanding Third World Politics and Economics (Kingston: Earle Publishers, 1980).

[9] Handbook of Nations (Detroit: Grand River Books, 1981).