



Arthur Lewis,

Institution

Building

and

Development in the Caribbean

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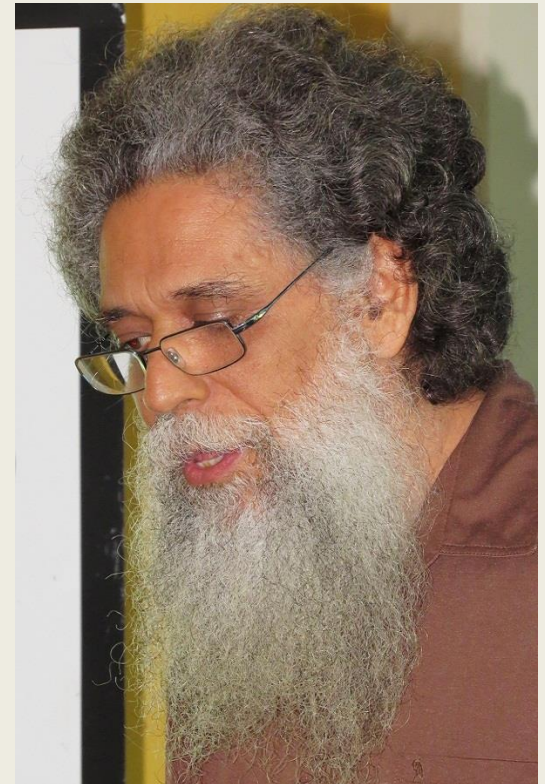
Port-of-Spain, Trinidad.

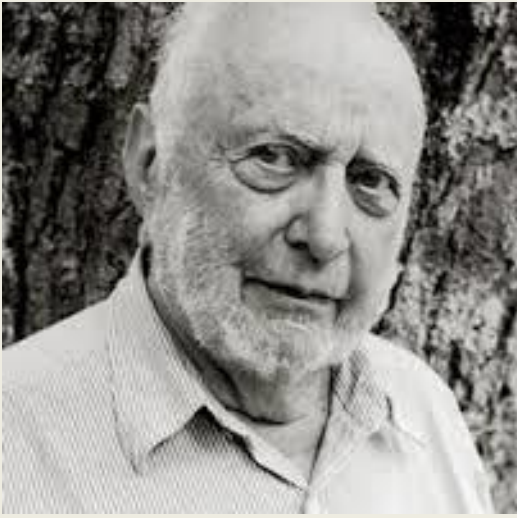
19 May 2017



“.....embedded in all of the things that Lewis thought was important was institutions. In fact, the word, institutions appears more than three hundred times in Arthur Lewis’ work.”

*Conversation with Professor Mark Figueroa,
5 April 2017*





(North, 1991, p. 97)

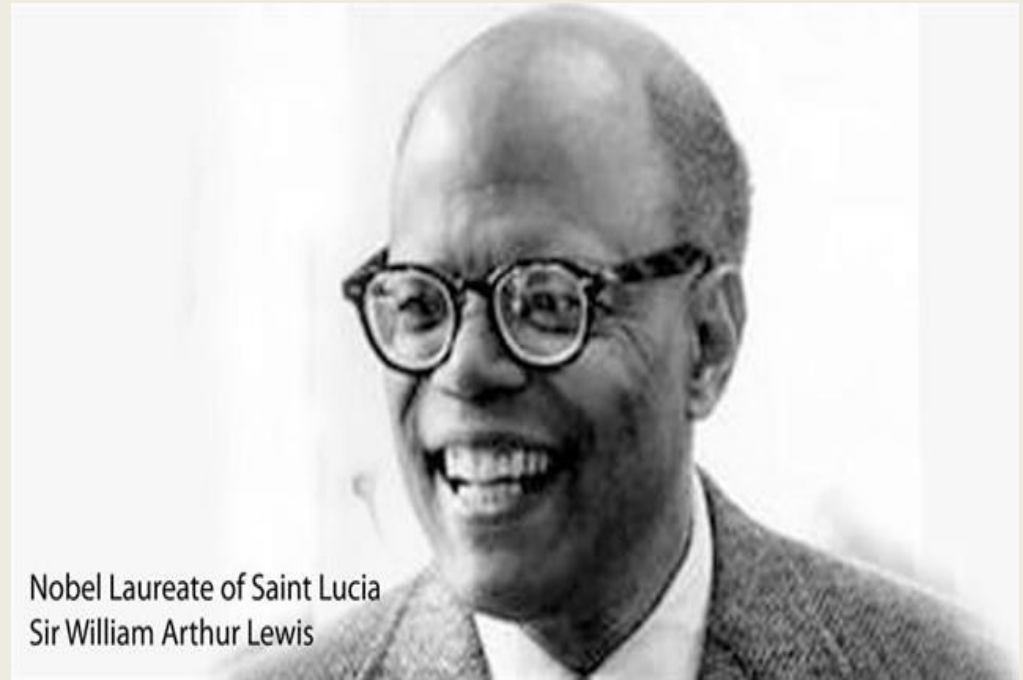
- **Born in Cambridge, USA on November 5 1920.**
- **Died in Michigan, USA on November 23 2015.**
- **Nobel Prize in Economic Science in 1993**

“Institutions are humanly devised institutions that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs...), and formal rules (constitutions, laws, property rights).

Throughout history, institutions have been devised by human beings to create order and reduce uncertainty in exchange.

Together with the standard constraints of economics, they define the choice set and therefore determine transactions and production costs and hence profitability and feasibility of engaging in economic activity.”

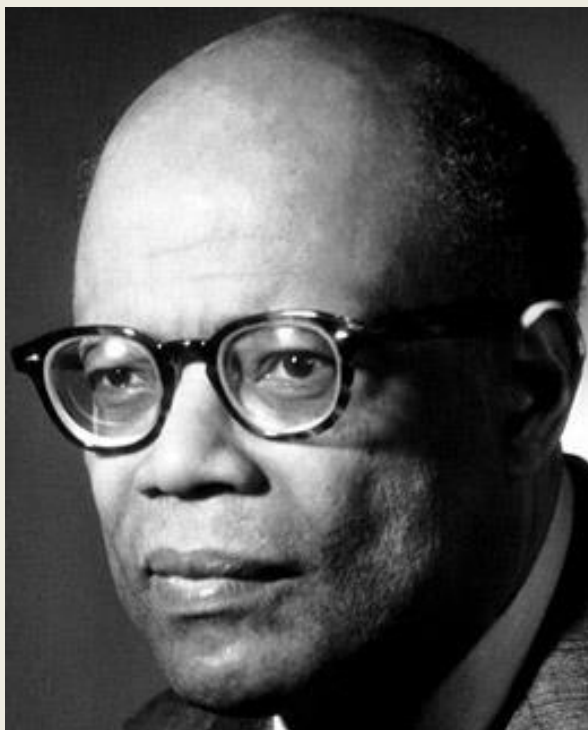
“Institutions promote or restrict growth according to the protection they accord to effort, according to the opportunities they provide for specialisation, and according to the freedom to manoeuvre they permit.”



Nobel Laureate of Saint Lucia
Sir William Arthur Lewis

(Lewis, 1955, p. 58)

*Born in Castries,
St. Lucia on 23 January 1915
Died in Bridgetown, Barbados on 15 June 1991
Nobel Memorial Prize in Economic Sciences in 1979*



(Lewis, 1955, p. 142)

“Institutions promote growth according to the extent that they associate effort with reward, according to the scope which they allow for specialisation and for trade, and according to the freedom they permit for seeking out and seizing economic opportunity.”



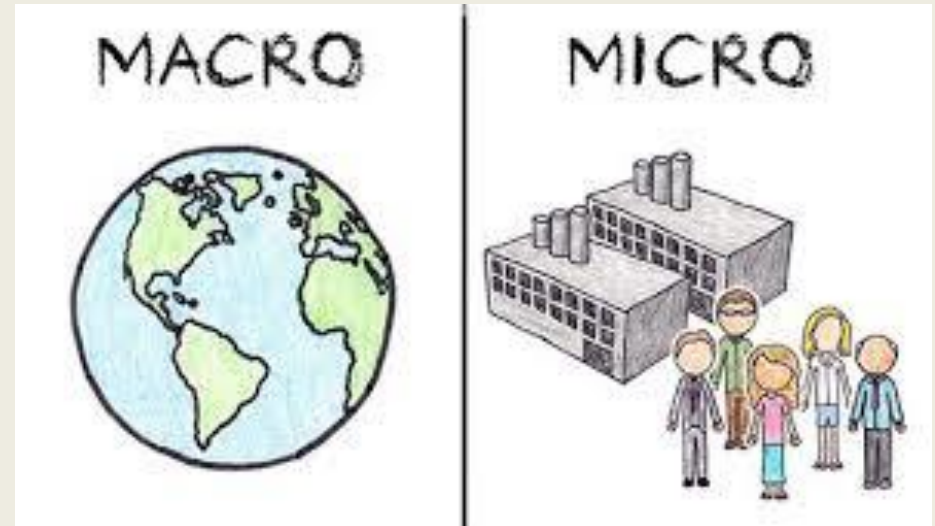
Macro-Institutions and Economic Growth

Lewis versus North

Main characteristics	Lewis (for example, 1955, 1979)	North (for example, 1991)
Historical Perspective	YES	YES
Informal Institutions	Family, Religion	Sanctions, Taboos, Customs
Formal Institutions	Custom union, Property rights, Competition Policy	Constitutions, Laws, Property rights
Dynamic nature of macro-institutions	Movement of modern institutions from the modern sector to the traditional one (for example, land tenure systems, female school participation, etc.)	Discourse on the historical evolution of Institutions

Micro-institutions

The administrative capacity of the state-institutions that are responsible for the economic development



Low Quality and Paucity of Political & Administrative Capacity in Underdeveloped Countries

“There is not a single colonial government whose staff has sufficient economic knowledge to deal with the matters discussed in any one of the preceding sections [the economic and social development of the ‘colonies’], let alone the whole lot.

This is because there are no proper Economic Departments, though here and there Economic Advisers have been appointed in the last three or four years, and given a man and a boy for their staff.

Moreover the Economic Department of the Colonial Office has been until recently the last refuge in this country of what is popularly called 19th century laissez-faire, and both the advice and the advisers sent out to the colonies have been of this school.

Much damage has been done to the colonies by this laissez-faire approach to their problems.”

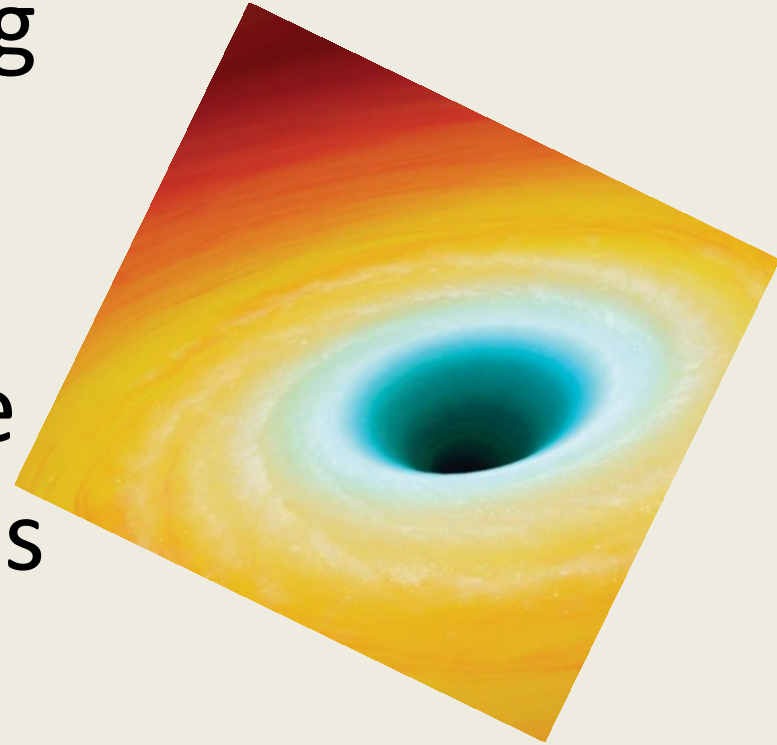
(Lewis, 1949, p. 782)



“... wealthier nations should institute a system of grants-in-aid [Marshall Plan] to enable poorer countries to improve their public service.”

(Lewis, 1951, p. 120)

Recognising this institutional void existing in underdeveloped countries, Arthur Lewis explicitly articulated the creation of institutions as facilitators of economic development



“These institutions are missing links
in the industrialisation process”
[of developing countries]

(Lewis, 1953, p. 130)





Characteristics
of the
Industrial Development
Corporation

Functions of the Proposed Industrial Development Corporation



- Prospect the international market and decide what types of industry should be encouraged.
- Advise the government on the types of incentives to offer.
- Attract manufacturers to the region.
- Alleviating problems faced by the industrialists.

Characteristics of the Proposed Industrial Development Corporation

- Responsible to the government but given freedom from the detailed accountability that characterises other government departments
- Autonomy from the Colonial Development Corporation
- Responsible for the entire region, what was then called the British West Indies
- International presence
- Human resource requirements
- Financing



Characteristics
of the
Institutional Framework
for
Development Planning
in
Underdeveloped Economies



Institutional Framework for Development Planning

- Establishing a Special Agency for the Development Planning Process
- Special Agency must be amply endowed with the requisite human resources
- Special Agency must have authority vis-à-vis the ministries
 - Head of Special Agency must be recruited from outside the civil service and be paid above civil service salaries
 - Head of Special Agency must have the confidence and support of Head of Government
 - Head of Special Agency must have the confidence and support of the strongest ministries



Institutional Framework for Development Planning

- The Nexus between the Private and Public Sectors in the Planning Process
 - “Knowledgeable and influential persons in industries where substantial change is desired” (Lewis, 1968, 710)
 - Investment Compatibility
 - Investment Incentives
- Special Agency must have control over the implementation of the Plan
- Special Agency must be represented on all committees which makes decisions in the implementation of the Private Sector part of the Plan
- The Plan must be flexible

The Legacy of Lewis in Institutional Building in Selected CARICOM Countries: The Peculiar Case of the Bauxite Industry



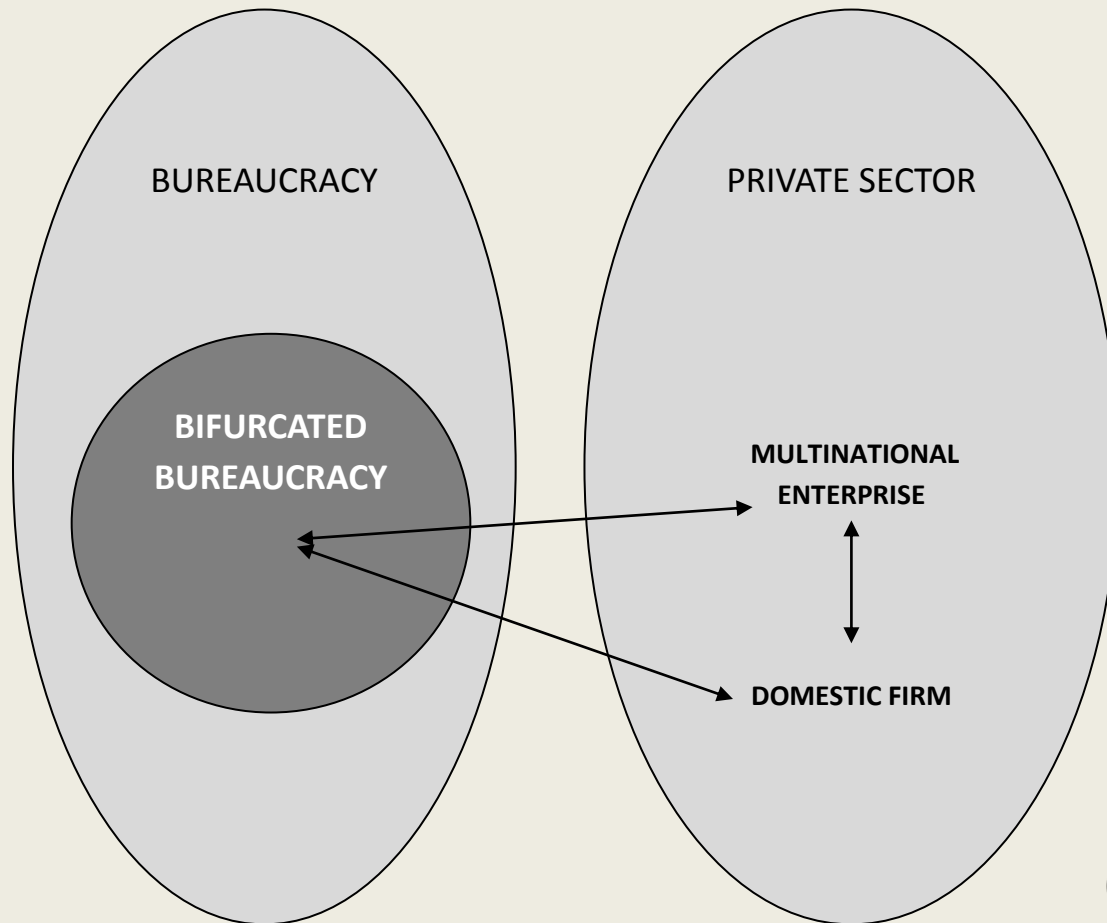
LOU ANNE BARCLAY

**MANAGING
FDI FOR
DEVELOPMENT
IN RESOURCE-
RICH STATES**

The Caribbean Experience



The Ideal Institutional Environment for the Industrial Policy Process



(Barclay, 2015, p.16)

Embedded Autonomy

...the strategic collaborative relationship that exists between an autonomous state and a dynamic, capable private sector

(Evans, 1995)



Embedded Autonomy

Embedded autonomy is an institutional environment in which efficient and autonomous bifurcated bureaucracies in collaboration with an entrepreneurial and capable private sector formulate and implement industrial policy that allow developing countries to achieve FDI-facilitated development

(Barclay, 2015)



Characteristics of Embedded Autonomy

- Creation of a Bifurcated Bureaucracy
 - Recruit the ‘best and brightest’
 - Compensation packages that are similar to those existing in the private sector
 - Information generating and assimilation capabilities
- A dynamic and capable private sector



The Bauxite Industry in the Caribbean

The background of the slide is a photograph of a vast, open landscape of reddish-brown bauxite hills. The hills are rounded and have a textured, granular appearance. The sky is a clear, pale blue, and the overall scene is brightly lit, suggesting a sunny day. The text is overlaid on this background.

The three bauxite-rich countries
(Suriname, Guyana & Jamaica)
are among the oldest bauxite
producing countries in the world

The Bauxite Industry in the Caribbean

These countries played a critical role in the North American aluminium industry

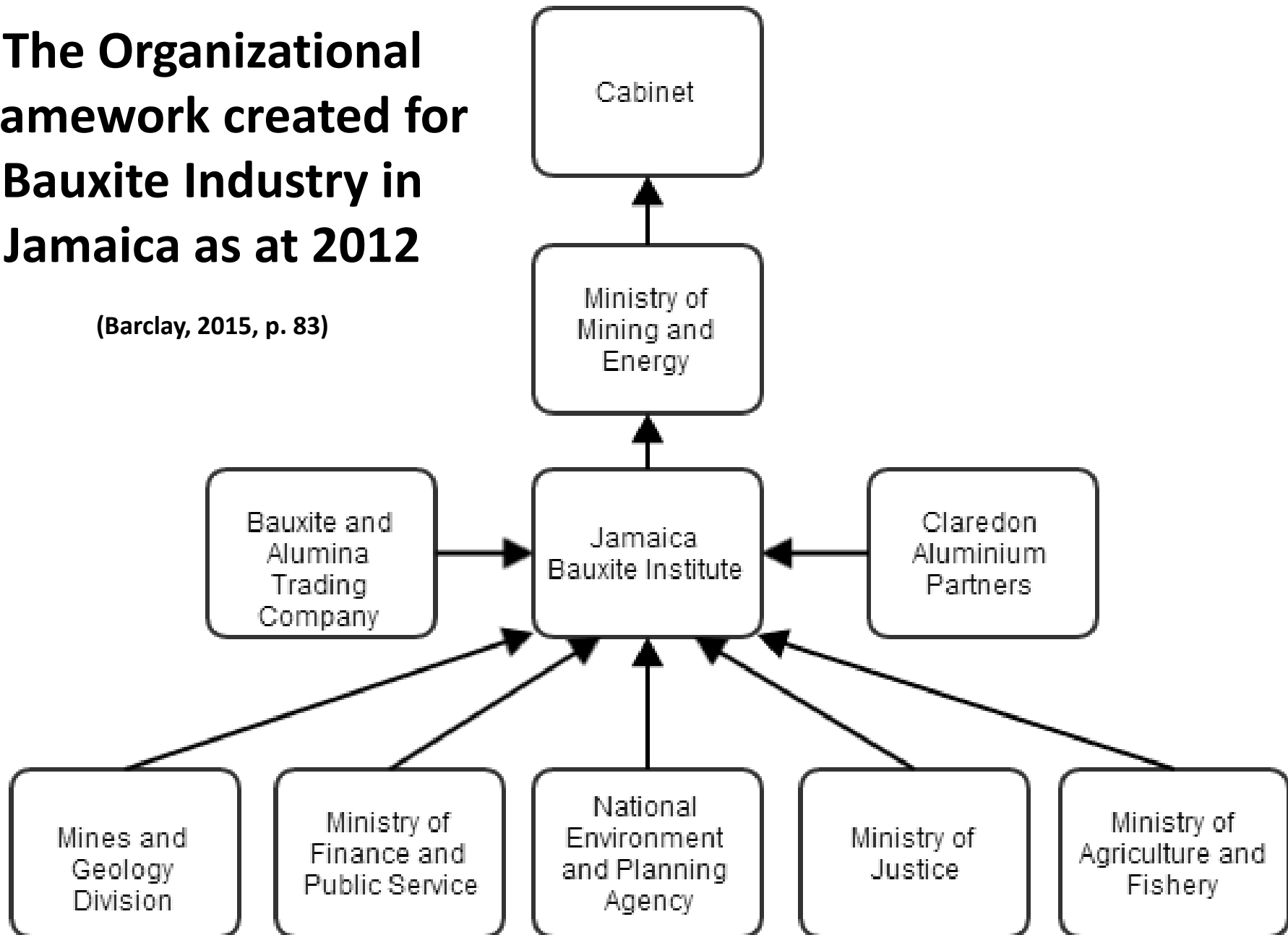
(Girvan, 1971, Ingulstad, 2013)

The economic decline in these three bauxite-rich countries was inexorably linked to the decline of this industry in these countries.



The Organizational Framework created for Bauxite Industry in Jamaica as at 2012

(Barclay, 2015, p. 83)

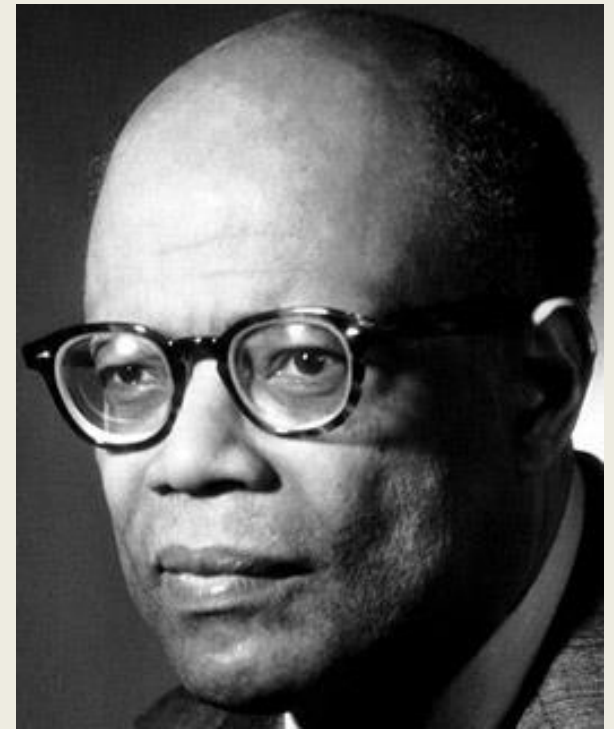


The Reality of Embedded Autonomy in the Caribbean

	Jamaica	Suriname	Guyana	Trinidad and Tobago
Bifurcated Bureaucracies	Jamaica Bauxite Institute (1976)	Bauxite Institute of Suriname (1981)	Web of bureaucracies	Web of bureaucracies
• Best and brightest	Initial years of operations	No	Initial years of operations	Yes
• Attractive compensation packages	Initial years of operations	No	Initial years of operations	Yes
Outcome	Inefficient	Inefficient	Institutional Desuetude	Efficient
Entrepreneurial and capable Private Sector	No	No	No	In recent times



“The British West Indies can solve these problems [economic development] if they set to them with a will. But first they must find a secret that will put hope, initiative, direction, and unconquerable will into the management of their affairs. And, this is the hardest task of all.”



(Lewis, 1950, p. 891)