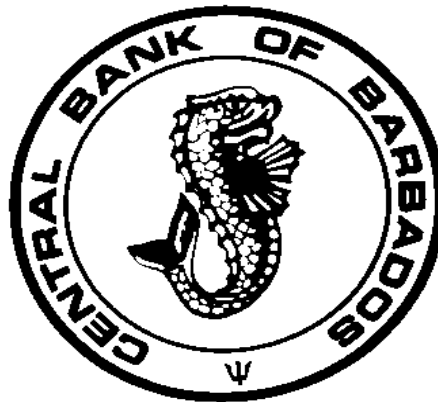


**REFLECTING ON DEVELOPMENT OUTCOMES: A  
COMPARATIVE ANALYSIS OF BARBADOS AND GUYANA**

BY

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**Reflecting on Development Outcomes: A Comparative Analysis of Barbados and Guyana**

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**Abstract:**

This study undertakes a comparative analysis of post-independence development outcomes of Barbados and Guyana. The study finds that differences in policies as well as institutional and governance structures account for the marked divergence between the two countries during the period 1970-1999. In assessing performance post 2000, the study finds that improvements in macroeconomic management, institutional strengthening, deeper social cohesion and political stability have allowed Guyana's growth rates to catch up and even surpass Barbados's. The research evinces key lessons that should help support the more even development of Caribbean countries.

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## **1.0 INTRODUCTION**

Caribbean countries share many commonalities – colonial history, small economic size, heavy external dependence and high vulnerability to exogenous shocks. Despite these and other similarities, there are stark differences. The marked divergence in economic performance between Barbados and Guyana, particularly during the past three decades is an apt illustration. Barbados and Guyana both gained independence from Britain in 1966 after centuries of colonial domination; socio-economic and political conditions at independence were broadly similar. However, four decades later, the level of real per capita income in Barbados is almost 225 times that of Guyana, while Barbados' human development index of 0.903 in 2008 ranked it the highest in the Caribbean and Guyana's index of 0.729, was the second lowest.

This research explores the possible antecedents of the strikingly dissimilar development outcomes between Barbados and Guyana particularly during 1970-1999. Of special interests are (1) the features of the development model that enabled Barbados to emerge as a leading economic player, with one of the highest standards of living in the Caribbean and (2) Guyana's development paradox - persistent and widespread poverty in the midst of natural resource abundance. The study also critically examines recent performance (post 2000) and in this regard, explores the convergence issue.

The literature explaining economic divergence between Caribbean countries is quite sparse. Nicholls (2001) employed pooled regression analysis to investigate the main determinants of

economic growth in 28 Caribbean countries over the period 1960-1998. His findings suggest that the growth rate of total exports was the main driver of per capita GDP in the Caribbean over the forty-year sample period. Nicholls also examined country specific determinants of growth performance by two major sub-groupings: independent states and overseas dependant territories. With this categorisation, Nicholls found strong empirical evidence that both the growth rate of total exports and expenditure on education were the main determinants of growth performance of the independent territories, while export growth was the main driver of growth in the overseas dependant territories.

Ramkissoon (2002), while not an econometric investigation, was a critical assessment of the factors that would have explained the variation in growth performance of 15 Caribbean countries over the period 1975-2000. Drawing heavily on neoclassical growth literature, Ramkissoon pulled out the following to explain why some countries outperformed others: geography; degree of vulnerability; natural resource endowments; openness; economic structure; workers' remittances; culture and social coherence; independence; endogenous policy; and political stability. Based on a critical assessment of these factors, Ramkissoon found that the smaller states outperformed the larger state and this was associated with a higher degree of openness, greater reliance on tourism and financial services as opposed to agriculture, entrenched political stability and societal cohesion. While Ramkissoon's research question was an empirical one, his methodological approach lacked empirical rigour and as such his findings must be interpreted with caution.

Griffith (2002) in a fascinating tale of four CARICOM countries: Barbados, Guyana, Jamaica and Trinidad and Tobago, sought to explain why Barbados performed better than the other three countries over the period 1970-1997. Griffith found that Barbados' outstanding performance relative to that of its counterparts was due to its ability to take full advantage of the opportunities that arose in a changing global system, when its traditional export industry became constrained. Moreover, Griffith found that the solidarity between the Government and social partners in resisting pressures from the International Monetary Fund (IMF) to devalue the Barbadian currency as a consequence of the country's balance of payments difficulties of the early 1990s preserved Barbados' economic and social gains, which was not the case in the countries that devalued.

Two recent studies, which specifically addressed the issue of divergence between two countries are DaCosta (2007) and Henry and Miller (2008). DaCosta's comprehensive study on colonial origins, institutions and economic performance sought to explain the divergence in social and economic development between Guyana and Barbados. Drawing on the colonial history and geography of both countries, DaCosta found that the main antecedents of Guyana's economic crisis and the consequent marked divergence in economic outcomes relative to Barbados were governance and institutional fragilities, entrenched political instability and a breakdown in the rule of law. While DaCosta located his work in the literature on colonial origins and institutions, the study duly acknowledged the role that economic policies played in contributing to Guyana's crisis. Given DaCosta's focus however, only a cursory examination is given of the non-institutional factors that would have been important in explaining the divergence between Guyana and Barbados. Henry and Miller (2008) held the view that given the

underlying similarities in the institutional structures of former British colonies: English common law, parliamentary democracy, rule of law etc, differences in institutions alone cannot adequately explain the divergence in economic performance between former British colonies. In examining the issue for Barbados and Jamaica, they found that differences in macroeconomic policies rather than institutional variances accounted for the different growth experiences between the two countries over the period 1960-2002.

While not ignoring the important role that institutions play in the development process, the study shares the view of Henry and Miller (2008) that differences in macroeconomic policies must be given more prominence in any study of the growth experiences of Caribbean countries, given the potent role that governments play in the context of small island economies. This study therefore extends the work of DaCosta (2007) and in addition to examining institutional factors, a deeper analysis of some of the key determinants of economic growth is provided, viz: physical and human capital and macroeconomic policies. These provide additional insights that give a fuller appreciation of the root causes of Guyana's production crisis and the consequent economic and social divergence from Barbados. Unlike DaCosta, the theoretical underpinning for the study is the new growth theories.

By drawing on the experiences of both countries, the study aims to evince key insights into the appropriate mix of policies to support the more even development of countries, especially in the context of the Caribbean Single Market and Economy objective. This study is particularly relevant at this juncture as the global economic crisis has highlighted the economic vulnerability of Caribbean economies and induced greater focus towards finding feasible, implementable and

sustainable development strategies for the Caribbean. This research will not only augment the remarkably scant Caribbean literature on economic divergence, but will also add to the current discourse on appropriate growth and development policies for the Caribbean, post crisis. In recognising the recent improvement in Guyana's economic performance and by exploring the convergence issue, this study builds on the earlier studies, which only focused on explaining the causes of economic divergence between Caribbean countries.

The remainder of this paper is organised as follows; section 2 provides a brief historic overview of the early political and socio-economic developments, giving specific focus to conditions in the year of independence. Section 3 critically examines socio-economic performance post independence, while section 4 explores the underpinnings of the divergent development paths between Barbados and Guyana in 1970-1999. Section 5 addresses the convergence issue by examining recent trends in the long-run growth rates of both countries and section 6 concludes with some insights for consolidating, accelerating and sustaining recent development gains.

## **2.0 BRIEF HISTORIC OVERVIEW: POLITICAL AND SOCIO-ECONOMIC CONTEXT**

At independence in 1966<sup>2</sup> both countries had experienced centuries of colonisation. The British rule over Barbados had been uninterrupted since they first settled in 1627 (Williams, 1984). The colonial masters placed much emphasis not only on settlements, but also on trade, education and the organisation of local government (DaCosta, 2007). Guyana's colonisation

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<sup>2</sup> Barbados: 30 November. Guyana: 26 May.

by the British was of a shorter duration since much of the country's early colonial history was primarily one of Dutch rule. During the 16<sup>th</sup> and 17<sup>th</sup> centuries, what was then Guiana comprised; Essequibo, Demerara, and Berbice. The government of the Essequibo and Demerara regions was in the hands of the Dutch West Indian Company from 1621 to 1800, while the affairs of the Berbice region was administered by the Berbice Association- a private chartered company (Daly, 1975). After the Napoleon wars, the British took possession of the territory in 1814. At emancipation, what was then British Guiana was a unified territory with all three regions being brought under a single administration in 1831. By then however, what is now Guyana, had experienced a long history of being essentially a trading outpost of Dutch companies (DaCosta).

Declining sugar prices in the late 19<sup>th</sup> century and early 20<sup>th</sup> century resulted in economic hardships for both countries. As DaCosta (2007) noted, the economic hard times led to the formation of workers' groups, which then morphed into organised workers unions and then into national political parties. By 1966, Barbados' political progress had generally been smooth. There was full self government and parliamentary democracy was well entrenched. In Guyana however, the political road had been bumpy. At independence, there was limited self government, while tensions between the rivalling political parties and racial divisions were rife. Guyana had suffered a major political setback, when in 1953, on concerns of the Marxist stance of the then ruling party, the British Government suspended the country's constitution and sent troops to occupy the country. The occupation lasted until 1957. Guyana's history points to a strong potential for emerging social discord; three divided territories being brought together, with strong ethnic heterogeneity, while Barbados' history

was one of long stable government rule, which portended well for social cohesion and inclusion.

At independence, Barbados and Guyana both faced the similar socio-economic problems - small economic size, high external dependence from centuries of colonisation, lack of economic diversity, with sugar production for export to Europe being the main economic concern, and relatively high levels of unemployment. Table 1 compares some selected socio-economic indicators in the year of independence. The parallels between the two countries are indeed striking. What is most revealing from Table 1 is that at the end of the colonial period, some of the important preconditions for future growth and development were in place in both countries.

Relatively high savings

and investment ratios

and investment in

human capital and

infrastructure would

have suggested strong

potential for growth in

both countries.

Comparatively, although

many of the social and

economic indicators

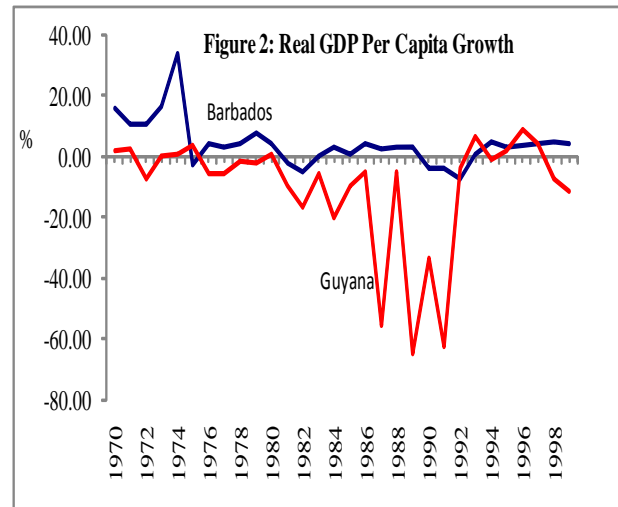
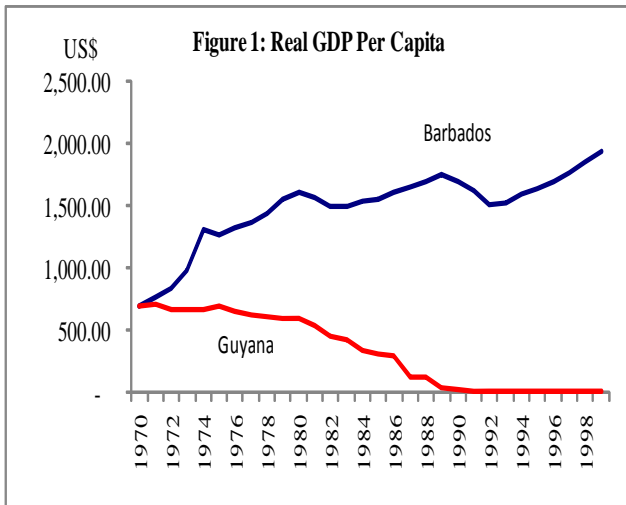
Table 1: Selected Indicators (1966)

	Barbados	Guyana
Real GDP per capita (U.S. dollars)	360.2	742.3
Agriculture, value added (% of GDP)	20.0	22.0
Openness ratio <sup>1</sup> (%)	136.8	115.2
Gross fixed capital formation (% of GDP)	21.0	22.0
Gross domestic savings (% of GDP)	21.3	21
Government spending on Education ( % of total Capital Expenditure)	5.2	4.7
Government spending on infrastructure (% of total Capital Expenditure)	23.4	38.8
Change in labour productivity (%)	2.6	3.7
Unemployment Rate (%)	13	20.9*
Population growth (%)	0.0	2.0
Literacy rate (%)	83.0	83.0 <sup>^</sup>
Death rate per 1000	8.2	7.9*
Sources: World Development Indicators, IMF IFS Statistics, Barbados Development Plan: 1969-72, Guyana Development Plan: 1966-72		
1. Total exports plus imports expressed as a ratio of GDP.		
* 1964		
<sup>^</sup> 1965		

were broadly similar, Guyana with its higher per capita income and abundant natural resources seemed better placed to achieve accelerated growth. Higher incomes in Guyana (almost double that of Barbados) would have suggested a greater potential for investment and future growth.

### **3.0 SOCIO-ECONOMIC PERFORMANCE: POST INDEPENDENCE (1970-1999)**

Surprisingly, by 1971 the economic fortunes of Guyana and Barbados seemingly diverge with Guyana falling behind. Recall that in 1966 Guyana had per capita income twice that of Barbados and by 1970, real GDP per capita was virtually the same in Barbados and Guyana; with income level per head in Guyana only US\$5.0 higher than in Barbados. One year later, the gap widened in Barbados' favour, with real income levels of US\$764.58, US\$50.0 more than they were in Guyana. By 1980, real per capita income had more than doubled to US\$1,611.0 in Barbados, while the level in Guyana (US\$600.3) was lower than it was in 1970. The divergence in real income levels continued and became more acute during the 1980s. By the end of the decade, the gap had yawned wider with Barbados' real income levels per person, US\$1,712.1 more than Guyana's. The 1990s, especially the earlier part of the decade was a challenging period for both countries in the wake of the oil price shocks of 1990/1991. Real GDP per capita declined at an annual average rate of 4.9% in Barbados and 33.4% in Guyana, during the period 1990- 1993. By 1999, real income levels had risen to US\$1,935.1 per person in Barbados, but had collapsed to less than US\$100.0 per person in Guyana, reflecting in part, the significant depreciation of the Guyanese dollar during the 1990s. Figures 1 & 2 refer.



The divergence between the two countries is also illustrated by the significant improvement in social conditions in Barbados. In 1970 for example, life expectancy at birth was 69 years in Barbados compared to 60 years in Guyana. By 1980, life expectancy had increased to 72 years in Barbados but only to 61 years in Guyana. Similarly, secondary school enrolment rates were 79.0% and 65.0% in Barbados and Guyana respectively in 1970. By 1980, enrolment rates were 97.0% in Barbados and 79.0% in Guyana. Meanwhile, life expectancy had risen to 74 years in Barbados and only to 62 years in Guyana by 1990. By 1997, the headcount poverty rate in Guyana was 35.0% compared with 13.9% in Barbados.

The question remains, why did income and welfare improve so significantly in Barbados but collapsed and stagnated in Guyana? An added consideration, in this seemingly paradoxically outcome, is the greater diversity and abundance of natural resources in Guyana and its higher pre-independence per capita income. This central question is the focus of the next section.

## **4.0 EXPLAINING DIVERGENCE IN DEVELOPMENT OUTCOMES**

### **4.1 Theoretical and Empirical Review**

Early formulation of models to explain cross-country growth variations suggested an exogenous residual termed technical change (Solow-Swan, 1956). Subsequent reflections on growth determination sought to incorporate other critical factors, such as capital accumulation (which includes human capital) and the public stock of knowledge and recognised that growth was endogeneously determined. The endogenous growth theory, pioneered by Romer (1986), addressed some of the limitations of the Solow-Swan model and assumed that economic growth was a function of technological change (endogenously determined), capital accumulation (which includes human capital) and the public stock of knowledge.

In subsequent research based on the new growth theory, a myriad of variables have been proposed as major growth determinants; those receiving the most attention can be categorised into three groups: structural, macroeconomic and institutions/governance factors.

#### *Structural factors*

Under this rubric, trade, investment as well education and human capital development have received the most attention. Regarding trade, at least three channels have been identified through which it affects growth. First, by allowing countries to exploit their comparative advantage, trade leads to gains in specialisation and in turn, gains in total factor productivity. Second, it

expands potential markets allowing firms to take advantage of economies of scale, which increases factor productivity. Finally, trade diffuses not only technological innovations but improves managerial practises, through stronger interaction with foreign firms with positive effects on economic growth. Most empirical studies point to a positive link between trade and economic growth [see Rodriguez and Rodrik (1999) and Easterly and Kraay (2000) for a comprehensive review].

On investment, in both the neo-classical and endogenous growth models, physical capital accumulation is a key factor of production. Empirical studies by Barro (1990) and Rebelo (1990) show that per capita GDP growth and investment ratios are positively related. Recent empirical studies by Agenor, (2000) and Ramirez, (2000) on developing countries that have tested the crowding-in vs. crowding-out hypothesis provide evidence that public investment crowds-in private investment with positive effects on output. These studies show that the availability of economic and social infrastructures create favourable conditions for private investment. Moreover, by stimulating aggregate demand, public investment tends to generate positive sales and profit expectations, which encourage private firms to undertake further investments.

Human capital captures the human being as a resource, embodying knowledge and know-how acquired through education and training. It plays an important role in many endogenous growth models [Lucas (1988); Becker, Murphy and Tamura (1990); Romer (1990)]. The stock of human capital reflects both quantity and quality and can be added to or depleted. With theoretical elegance, these models demonstrate that increases in human capital lead to higher

rates of investment in physical capital and in turn, higher per capita GDP growth. Barro (1991), in an empirical investigation of the sources of economic growth across countries found that poor countries tend to catch up with rich countries if the former have high human capital per person relative to their initial level of per capita GDP. Loayza and Soto (2002) modelled human capital as a direct factor of production and showed that human capital can counter the forces of diminishing marginal returns in other accumulable factors of production, thereby serving as complements to these factors.

### *Macroeconomic variables*

The debate over the link between good economic policies and growth has been rife in the economics literature. Loayza and Soto (2002) showed that by reducing uncertainties, macroeconomic policies that are prudent and predictable encourage private agents to concentrate on productive activities, which increases private investment. They underscored the importance of prudent fiscal and monetary policies that generate low inflation, stable exchange rates and high employment in contributing positively to economic growth. Other studies linking macroeconomic policies and institutions offer conflicting views. Easterly (2004) provided evidence that suggests macroeconomic policies do not have a significant effect on economic development once the impact of institutions is considered. Easterly argued that bad policies are a manifestation of low-quality institutions and that trying to correct policies without addressing the institutional weaknesses cannot be successful. In a recent study, Fatas and Mihov (2009) countered Easterly's argument and showed that improvements in macroeconomic policies can have beneficial effects on economic growth even in the absence of institutional reforms. While

not denying the importance of strong institutions, they reasoned that what matters for growth is the volatility in economic policy and not economic policy itself. Focusing specifically on the volatility of fiscal policy, they showed that it is a robust explanatory variable of cross-country differences in economic growth and argued that growth rates can be increased with more stable fiscal policies.

### *Governance/Institutional factors*

Governance has received significant attention as a key determinant of economic growth following the seminal work by Mauro (1995). Governance is generally conceptualised as a canopy covering several aspects of institutional quality, political stability, bureaucratic efficiency, prevalence of law and order (absence of corruption) and social cohesion. With regards to political instability, studies have shown a negative relationship with private investment and economic growth [Barro (1991); Levine and Renelt (1992); Mauro (1994)]. Dia (1996) found that for countries in Sub-Saharan Africa, incongruence between governance and indigenous values hampers economic growth.

Rodrik (1999) provided compelling evidence that weak public institutions and ethnically and economically divided societies responded worse to shocks than did those with high quality institutions and united societies. Easterly, Ritzen, and Woolcock (2005) in considering the role of institutions on economic performance showed that higher quality institutions (measured by rule of law) are positively associated with higher average growth rates over post-reform periods. These suggestive empirical results show that building social cohesion— through the construction

and maintenance of high-quality institutions pursuing the common good, and through the lowering of economic (and other) divisions—has been, and remains, a vital task for countries wrestling with development. Ethnic divisions make it difficult—although not impossible—to develop the social cohesion necessary to build good institutions.

## **4.2 The Case of Barbados and Guyana: 1970-1999**

The foregoing analysis offers some important insights into why the economic and social circumstances of countries vary. This section undertakes a critical examination of the key determinants of economic growth; capital investment, human capital, fiscal policies and institutions to help to explain the divergence in development outcomes between Barbados and Guyana during the period 1970-1999.

### ***4.2.1 Capital Investment***

Governments play an important role in economic performance through their respective policies pursued in respect of both the facilitation of private investment and their own investment programme. Although state ownership was a prominent feature of both economies, it was very selective in Barbados; in its 1969-1972 Development Plan, the Government of Barbados (GOB) accorded high priority to industrial development through the promotion of foreign and domestic investment. In Guyana however, state ownership became very entrenched and by the late 1970s the state controlled almost 80.0% of the economy (DaCosta, 2007). The widespread nationalisation was aligned with the co-operative socialism ethos prevailing at the time. Co-

operative socialism was to be the new vehicle for rapid growth and development (Lutchman, 1974).

As early as the mid 1960s, the investment climate in Barbados was already described as friendly, with proper and modern infrastructure and a well educated labour force, endowed with high technical and professional skills (Worrell, 1995). It was therefore easy for the GOB to capitalise on this advantage in pursuing market-friendly policies that encouraged foreign direct investment, particularly in the tourism and manufacturing sectors. In Guyana, heavy state involvement in the economy appeared to have crowded out private investment; in 1977, gross fixed capital formation (private) as a ratio of GDP, was 14.3% in Barbados, compared with 5.0% in Guyana. When public investment is considered however, the ratio of gross fixed capital formation (total) was quite high in Guyana and in some years exceeded the ratio in Barbados. For example, during the period 1970-1979, gross fixed investment (total) averaged 23.5% and 23.1% of GDP, in Guyana and Barbados respectively. The ratio was slightly higher in Guyana during the decade of the 1980s, averaging 26.1%, compared with 20.1% in Barbados. Table 2 refers.

Apart from the quantum of resources, the efficiency of investment is of paramount importance, especially in a developing country context. Despite Guyana's higher investment to GDP ratios, data on capital efficiency show much lower ratios when compared to Barbados'. Calculated based on national output and capital expenditure/public investment, the capital efficiency ratio was 18.1% in Barbados compared with 2.9% in Guyana in 1976. Ten years later, the ratio was 16.0% in Barbados, while in Guyana it was 5.9% (Table 2). Guyana's low capital

efficiency ratios highlighted the inefficiencies of the state apparatus. According to Worrell (1987), the record of the state enterprises in Guyana is one of undisputed failure. Worrell pointed out that even those public corporations with the most potential became defunct and even with a halt in production, workers were still paid, but from the central government's revenue. The failure of most of the state enterprises rested on incompetent management (perhaps a reflection of the limited emphasis placed on management training in the early Development Plans), lack of visioning and strategic planning. Even some of the cooperatives that were the hallmark of Guyana's cooperative socialism also failed due to lack of trained personnel with the requisite managerial skills (Hope, 1979).

In Barbados, the promotion of foreign investment in the key productive sectors of the economy facilitated the expansion in those sectors and engendered positive growth and development outcomes evidenced by high employment, income and an improvement in living conditions. The economy had grown rapidly, mainly as a result of the significant foreign investments in tourism and manufacturing sectors. By 1980, tourism accounted for 12.0% of GDP compared with 2.0% in 1956, long-stay visitor arrivals to the island increased to 366.9 thousand from 17.8 thousand in 1956 and total tourism expenditure was estimated at BDS\$115.3mn, a marked increase compared with expenditure of BDS\$35.0mn in 1960 (Phillips, 1995). Meanwhile, direct employment in the industry was estimated at 3,628 in 1975, almost double the amount of 1960. Pertaining to the manufacturing sector, its contribution to GDP rose from 7.8% in 1956 to 10.2% in 1980, while total employment in the sector grew by 2.3% between 1971 and 1979 (Cox, 1995).

In short, it appears that the market-friendly and outward-looking investment policies that Barbados adopted contributed positively to its growth and development outcomes, while the statist and inward-looking policies embraced by Guyana, coupled with the inefficiencies in the allocation of state resources were costly for its growth and development. The costs to Guyana of these policies were not just in relation to reduced investment inflows but also human capital depletion as highlighted in the subsequent section.

#### ***4.2.2 Human Capital***

From an examination of the early development plans of both countries, it is clear that both administrations recognised how central the development of human capital was to nation building. By the mid 1970s both countries had already introduced universal education. In addition to modernizing and expanding the education system, the early development plans also outlined strategies to increase training and build skills, especially of the unemployed and young students. In Barbados more so than in Guyana, extensive training was also geared towards boosting managerial skills in the private sector<sup>3</sup>.

The strategies and programmes outlined in the early development plans, while well intentioned, did not always reconcile with actual outcomes. An analysis of public expenditure on education, as well as secondary school enrolment rates shows a striking dissimilarity between

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<sup>3</sup> As enunciated in the its 1973-1977 Plan, the GOB was keen on ensuring that top management in the private sector was fully cognisant of, and adhered to modern management practices (p.3:10). To surmount the challenge of managing for development, the GOB co-sponsored with the private sector, the Barbados Institute for Management and Productivity. The focus on the Institute was to enhance the country's human capital at all levels (p.3:11)

Barbados and Guyana that could explain why the two countries transitioned along different development path.

As shown in Table 2, public expenditure on education as a percentage of government's expenditure averaged 21.0% and 11.5% in Barbados and Guyana respectively during the period 1970-1976. Gross secondary school enrolment over that period averaged 79.0% in Barbados but only 67.5% in Guyana. By 1990, spending on education accounted for 19.0% of public expenditure in Barbados but only 4.0% in Guyana. Meanwhile, in 1985, secondary school enrolment stood at 90.0% in Barbados, 18 percentage points higher than in Guyana; enrolment rates in Guyana were actually lower in 1985 than they were in 1980. By 1990 however, secondary school enrolment had increased to 80.0% in Guyana but had declined to 83.0% in Barbados. It is well established both theoretically and empirically, that education matters for economic development.

While education expenditure and school enrolment do not address education quality, Guyana's lower performance in those two areas however, is instructive. Moreover, this performance was compounded by extremely high levels of migration of skilled and educated Guyanese, a consequence of the apparent social discord arising from perceived social and economic disenfranchisement. As early as 1970, net migration was estimated at negative 33,712 in Guyana compared with positive 14,578 in Barbados. An estimated 72,000 Guyanese, almost 10.0% of the population emigrated during 1971-1981 (World Bank, 1993). During the 1980s, country estimates put the number of Guyanese emigrating at 10,000 to 30,000 annually. By

1990, net migration was estimated at negative 85,000 in Guyana compared with negative 5,000 in Barbados.

Undoubtedly, migration on this scale would have compromised Guyana's growth prospects by constraining the formation and expansion of critical human development skills. Some of the most skilled and educated nationals were among those who migrated from Guyana. This was a permanent loss of human capital, which would have certainly hindered Guyana's development prospects. In the case of Barbados, inflows of emigrants would have contributed positively to its economic growth and development. Thomas (1982) reasoned that frustration caused by economic mismanagement underpinned the mass migration of Guyanese. Economic management is therefore an important lynchpin of the arguments explaining the difference in development outcomes.

#### ***4.2.3 Fiscal Policies***

The early 1970s was a particularly challenging time for Caribbean countries. The international exchange rate system had begun to disintegrate, which drove fears about the value of the foreign exchange reserves. In addition, stagflation in industrial economies led to sharp increases in import prices, weakening external positions of countries, which not only led to a depletion of foreign exchange reserves but also elevated inflation and unemployment. In 1974 for example, the inflation rate was 39.0% and 17.9% in Barbados and Guyana respectively. Notwithstanding the hostile external environment, as Worrell (1987) pointed out, both countries benefited from the windfall receipts of higher sugar prices.

Barbados took the decision not to spend the entire windfall proceeds, but instead made a deliberate choice to add to its foreign exchange reserves. In contrast, the Government of Guyana significantly increased its spending on job creation and nationalisation programmes. When sugar prices declined subsequent to 1975, the fiscal situation deteriorated significantly in both countries. However, in the case of Barbados, the situation was quickly corrected given the reserves accumulated in the sugar fund and moreover, the Government's commitment to maintaining its fixed exchange rate regime. In Guyana however, the large deficits persisted and became more acute. The manner in which both countries dealt with the sugar windfall of 1974-1975 is one demonstration of the differences in fiscal management.

Generally, fiscal policies were more expansionary in Guyana than they were in Barbados. During the period 1976-1979, public spending and the overall fiscal deficit as percentages of GDP, averaged 26.0% and 19.3% respectively in Guyana, compared with averages of 16.8% and 5.5% respectively in Barbados (Table 2). In 1976 Guyana's public sector debt as a percentage of GDP had already exceeded 100.0%; at 118.2%, it was more than three times the ratio in Barbados. By 1980, Guyana's debt ratio had increased to 170.0%, five times greater than Barbados'. Rising debt levels in Guyana saw a ballooning of debt service payments which reached 44.0% of current expenditures by 1980. Bourne and Singh (1988) reported that by 1985, Guyana's total debt service to fiscal revenues had increased sharply to 102.0%, almost four times the ratio in Barbados.

Guyana's loose fiscal policies supported what Thomas (1982) termed the "erratic and unplanned expansion of state property" (p.44). Thomas went further and argued that the mismanagement stemmed from the lack of a planned policy framework for economic activity. Guyana's persistent fiscal deterioration precipitated an external crisis, which came to a head in the late 1980s. Guyana's external debt leaped from 187.0% of exports in 1980 to 668.0% in 1989 and with the devaluation in 1989, total debt to GDP exceeded 600.0% in that year. The deficit on the external current account widened from 7.0% of GDP in 1980 to 20.0% of GDP in 1988 (World Bank, 1993). The inordinate debt burden meant there was little or no resources left to be channelled to critical development areas such as education, health and infrastructure. By 1990 for example, expenditure on education as a percentage of total public spending was 4.0% in Guyana compared with 19.0% in Barbados. Meanwhile, expenditure on health was 2.6% in Guyana compared with 6.5% in Barbados, while the percentage of paved roads was 7.0% in Guyana compared with 87.0% in Barbados (World Bank, 1993).

Not only were measures of fiscal policy (in levels) healthier in Barbados than they were in Guyana, fiscal policy volatility, proxied by the standard deviation of public consumption to GDP, was considerably and consistently lower in Barbados throughout the two decades ending 1990. During the period 1981-1985 for example, fiscal policy volatility measured 1.2% in Barbados compared with 6.9% in Guyana. Indeed, higher volatility in fiscal policies has been proven empirically to be costly for growth, especially in developing countries. In spite of occasional slippages, by and large, Barbados had a more disciplined approach to fiscal management than Guyana; a deliberate policy stance to preserve the stability of the fixed exchange rate regime. Fiscal prudence, when it least mattered – the 1974/1975 foreign exchange

windfall due to sharp increases in sugar prices - helped firm Barbados' foreign exchange position and significantly increased its domestic savings and ultimately, investment and incomes. In Guyana by contrast, chronic fiscal mismanagement hampered the accumulation of foreign exchange reserves and depleted the country's domestic savings, which proved to be serious indictments against its development prospects.

#### ***4.2.4 Institutions/Governance***

Policies and programmes geared towards institutional building/strengthening as well as administrative reforms were critical to development planning in Barbados. The GOB stressed the importance of the institutional framework as a key factor affecting the pace and direction of socio-economic development. The 1973-1977 Development Plan laid the foundation for institutional and administrative strengthening of both the public and private sectors. Regarding the public sector, the Plan detailed measures that would essentially improve the efficiency and planning process of government. Some of the measures included expediting the decision-making process, integrating policy units/departments into ministries and increasing the intensity and scope of training for all public servants (p.3:6). In relation to the private sector, policies and measures were to be developed not only to boost commerce and industry, but also to change attitudes towards management and to foster more synergistic relations between the public and private sectors.

In Guyana, the early development plans paid little attention to institutional and administrative reforms. As Hope (1979) observed, the central government did not develop a large number of

institutional arrangements whereby certain agencies or groups coordinated the activities of other government departments. Moreover, because of the heavy involvement of the state in the economy, the institutional support to the private sector was weak. With a weaker institutional framework, Guyana was less able to adequately respond to some of the external challenges that it faced, particularly during the 1970s and early 1980s.

Institutional quality can also be assessed by movements in a country's nominal exchange rate (Nicholls, 2001). Indeed, Guyana's nominal exchange rate was very volatile especially during the period 1987-1995, with an annual average depreciation against the US dollar of 77.7%. Such massive depreciation of the Guyanese currency has prompted the belief that Guyana, as a resource endowed country, did not suffer from the Dutch Disease. Growth theory suggests that resource abundant countries tend to suffer from the Dutch Disease if increased demand for labour and capital in the natural-resource sector results in wages and interest rates hikes, as well as a marked appreciation of the local currency for countries with a flexible exchange rate regime. While interest rates have been notoriously and persistently high in Guyana, this is more attributable to poor financial intermediation, commercial banks' high level of risk aversion and the overall narrowness of the financial system and not necessarily a symptom of Dutch Disease. The authors are therefore convinced that the Dutch Disease cannot adequately explain Guyana's poor economic performance. A more convincing culprit is political/social instability.

Indeed, Guyana's post-independence history is characterised by social and political divisions. Political and ethnic conflicts have pervaded Guyana's socio-political landscape for decades,

starting as early as in the years leading up to independence in 1966, a reflection of its ethnic heterogeneity<sup>4</sup>. As DaCosta (2007) pointed out, the alignment of politics along ethnic lines made it difficult for Guyana to consolidate its political stability and build its institutions and social capital - national consensus on key developmental issues and trust at the community levels. In the post-independence period, state ownership and the wider polarization of the economy and the society along ethnic lines was mutually reinforcing. Ethnic tensions, especially around election periods resulted in mass political riots many of which turned violent. The social discord also manifested itself in frequent and disruptive industrial actions. During the period 1971-1976, there were 770 strikes in the sugar industry, in 1982 alone, some 653 strikes were estimated (Baber and Jeffery, 1986). During 1985-1995, an annual average of 401 strikes was recorded in Guyana compared with Barbados' annual average of 8 (Griffith, 2002). The escalation of the political and social divide coincided with the decline of the formal economy and the rise of the parallel economy (Garner, 2008).

As observed by Easterly, Ritzen and Woolcock (2005), the strength of a country's institutions may be in part, determined by the level of social and political cohesion of that country. Countries strongly divided along class and ethnic lines will place severe constraints on the attempts of even the boldest, civic-minded, and well-informed politician (or interest group) seeking to bring about policy reform. The strength of institutions itself may be, in part, determined by the level of social cohesion. Easterly et al also purport that the achievement of key development outcomes (the most widely available being "economic growth") should be

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<sup>4</sup> In Guyana the various ethnic groups are: Amerindians, African, Indians, British, Chinese and Portuguese with the Indian community representing the majority. In contrast, Barbados has a majority African population.

more likely to be associated with countries governed by effective public institutions, and that those institutions, in turn, should be more likely to be found in socially cohesive societies. In the study by Easterly et al, Guyana was grouped among the least cohesive societies.

Kaufmann, Kraay and Mastruzzi (2009) developed and tracked governance indicators for over 80 countries. They aggregate views on the quality of governance provided by a large number of enterprises, citizens and expert surveys in industrial and developing countries. In particular, they focused on the control of corruption, government effectiveness, regulatory quality, political stability, voice and accountability and the rule of law. As shown by the 2009 governance indicators, over the period 1996-2008, Barbados fell into the 75-100 percentile for most of the categories mentioned and compared favourably with its cohorts in the upper middle income category. Guyana however, fell into the 25 to 50 percentile and in most cases, ranked below its cohorts in the lower middle income category. Moreover, as evident in the charts in appendix 1, Guyana's ranking has fallen over time particularly in political stability, regulatory quality and rule of law, which are the indicators in which the deviation from its cohorts is the greatest. While this indicator only goes as far back as 1996, it provides sufficient evidence of how the state has influenced the quality of governance and institution not only over the last fifteen years, but in earlier periods as well. Indeed, the fact that this period was also correlated with strong economic growth and development for Barbados and economic stagnation for Guyana is perhaps indicative of the important role that the quality of governance and institutions play in development.

Guyana's failure to seriously address its political and social divisions and moreover, its lack of consensus building, compared with conscious efforts at strengthening institutions and deepening social cohesion in Barbados, appeared to be decisive factors in explaining why the two countries transitioned along different development paths. Moreover, the foregoing analysis highlights the importance of aligning policies to support the realization of aspirations of citizens as well as strong institutions. Policies that perpetuate social discord and reinforce discrimination can only lead to social in-cohesion so that even when policies are broadly similar, at least as stated, if executed in a discriminating manner, the development results will be different.

To sum up, the consequences of inefficient public investment, mass emigration, prolonged fiscal mismanagement and weak institutions resulting from political and social divisions, stayed with Guyana for many years and were manifested in the sustained contractions in real income during the period 1976-1994. Arguably, Barbados did not have the added challenge of entrenched political and ethnic discord, this, in conjunction with more prudent policies and the institutional capability to implement them, were critical planks in Barbados' development gains. Downes (2001) opined that Barbados' development experience offers useful lessons for other small developing states especially relating to strategic government interventions in markets and indicative development planning.

Table 2 traces the evolution of some of the variables identified as key determinants of economic divergence between Barbados and Guyana.

Table 2: Key Growth Determinants  
(Period averages unless otherwise indicated)

	1970-1975	1976-1980	1981-1985	1986-1990	1991-1995	1996-1999
<b>Gross Fixed Capital Formation/GDP (%)</b>						
Barbados	22.5	23.8	22.2	17.4	17.2	21.5
Guyana	21.8	26.8	26.4	25.4	39.0	29.5
<b>Capital Efficiency (%)</b>						
Barbados	22.2	17.0	15.8	15.7	30.3	18.2
Guyana	9.2	4.7	15.4	8.0	27.8	28.7
<b>Secondary School Enrolment (% gross)</b>						
Barbados	78 (1971)	80 (1975)	90 (1980)	90 (1985)	83 (1990)	100 (1999)
Guyana	64 (1971)	71 (1975)	78 (1980)	72 (1985)	80 (1990)	82 (1999)
<b>Net Migration (Number)</b>						
Barbados	14,578 (1970)	7,792 (1979)	5,000 (1983)	-5,000 (1989)	-10,000 (1993)	n.a
Guyana	-33,712 (1970)	-41,896 (1980)	-85,000 (1984)	-85,000 (1990)	-50,000 (1994)	n.a
<b>Public Consumption/GDP (%)</b>						
Barbados	13.7	16.4	17.2	18.0	17.2	21.5
Guyana	19.5	26.6	24.0	20.0	15.8	18.3
<b>Overall Fiscal Deficit/GDP (%)</b>						
Barbados	-4.0	-5.5	-5.8	-5.7	-1.4	-1.7
Guyana	-7.0	-23.1	-45.1	-35.3	-11.5	-4.7
<b>Fiscal Policy Volatility (St.Dev of Public Consumption/GDP)</b>						
Barbados	1.8	1.0	1.1	1.2	3.2	0.6
Guyana	3.0	2.1	5.8	6.9	0.8	0.5
<b>Public Sector Debt/GDP (%)</b>						
Barbados	25.1	33.6	58.2	62.3	79.1	69.2
Guyana	76.8	148.6	183.1	721.0	497.7	244.9

Source: World Development Indicators, 2009

## 5.0 PERFORMANCE POST 2000: 2000-2008

The early periods of the decade, especially 2000-2005, were particularly challenging for both countries. Real GDP grew at an annual average rate of 1.4% in Barbados and declined at an annual average rate of 2.2% in Guyana. The September 11<sup>th</sup> terrorist attacks in 2001 adversely

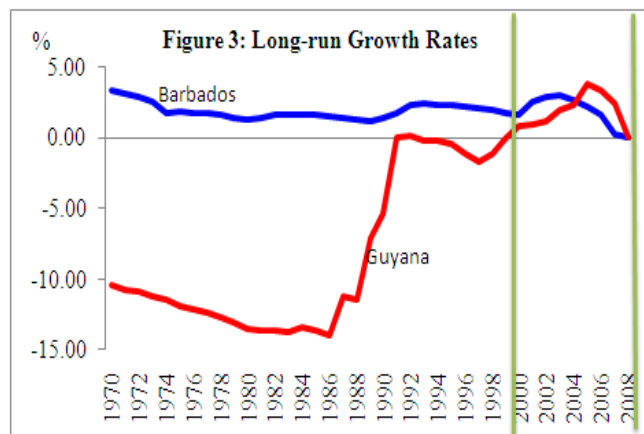
affected both countries, perhaps Barbados more so, given its heavy reliance on tourism. In Guyana, political unrest in 1998-2001 and floods in 2005 would have been, among other factors, contributing to the economic declines. Staritz, Atoyán and Gold (2007) in a comprehensive study of why growth stopped in Guyana during the period 1998-2004 identified some of the other factors that would have contributed to Guyana's economic contraction during the period: sustained declines in factor accumulation; substantial reductions in both domestic and foreign investments; and high levels of emigration. Staritz et al raised an important issue relating to Guyana's sustained economic declines during 1998-2004 in spite of the implementation of the deep and transformational reforms that arose out of the International Monetary Fund's (IMF) Economic Recovery Program (ERP) in 1988. The ERP focussed on entrenching macroeconomic stability; strengthening and reforming institutions to support economic development; embracing outward-looking market-oriented policies; and eliminating the distortions in commodity. Staritz et al reasoned that despite the far reaching reforms, institutional weaknesses still persisted. Moreover; external shocks would have also compounded the situation since Guyana's economy was still very much fragile at the time.

Since 2006, Guyana has posted economic growth in each year, which averaged 3.5% during 2006-2008 outpacing rates of growth in Barbados, which averaged 2.0%. In addition, human conditions in Guyana have also improved, as evidenced by the positive trend in Guyana's Human Development Index, which moved from 0.722 in 2005 to 0.729 in 2008. Moreover, moderate and extreme poverty rates fell from 43.0% and 29.0% respectively in 1992 to 36.0% and 18.6% respectively in 2006 (Inter-American Development Bank, 2008). Further, the

disparity in the long run-growth rates has waned considerably; in fact since 2006, estimates of long-run growth rates have been higher in Guyana than in Barbados.

These positive outcomes in Guyana warrant an examination of the convergence issue, albeit cursory. In the economics literature, convergence implies that a poor country, which had a lower level of income in some initial period, relative to a higher income country, is catching up and or growing faster than the higher income country. Brander (1992) explained that if a low income country is converging, or growing faster than a high income one, then a scatter plot of the long run growth rates and initial per capita income of the two countries should have a negative slope.

In the case of Barbados and Guyana, as is shown in figure 3, the gap between the long-run growth rates<sup>5</sup> has been narrowing since 2000; with Guyana's rates exceeding those of Barbados from 2006. While this diagram is helpful, the examination of convergence is best done using a scatter diagram.

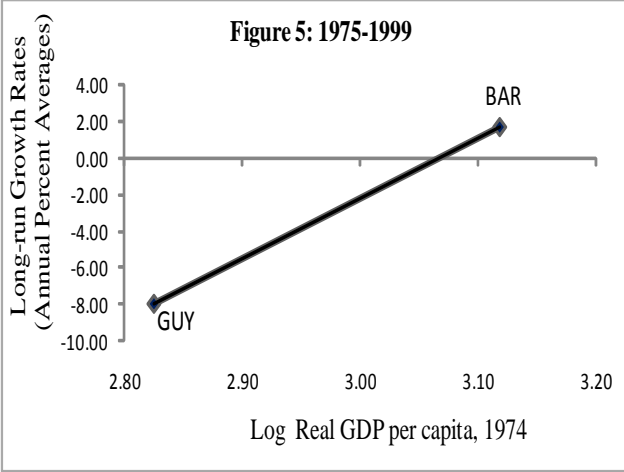
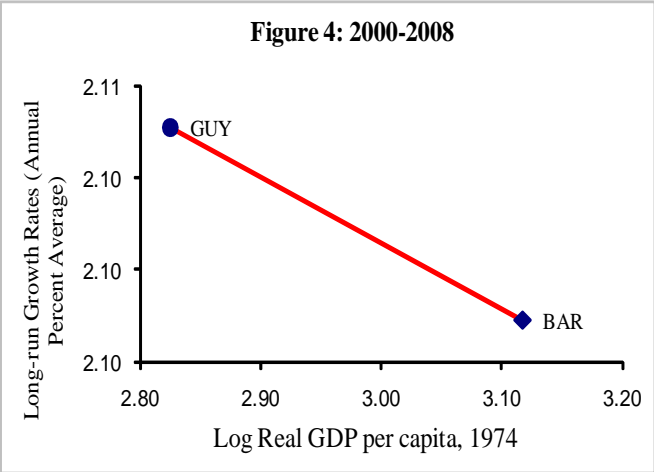


Scatter diagrams of the long-run average growth rates versus the GDP per capita in 1974 (the start of the significant widening in per capita incomes between the two countries) are therefore

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<sup>5</sup> Estimated as  $g = \left(\frac{V}{A}\right)^{\frac{1}{n}} - 1$ , where V is real GDP in the current year, A is real GDP in the initial year and n is the number of years between the current year and the initial year.

plotted to answer the convergence question. Indeed, the negative slope in figure 4 indicates convergence during the period 2000-2008. This is in contrast to the positive slope in figure 5, which confirms divergence in the earlier years.



Given its challenging economic history, Guyana has made tremendous strides at replacing economic mismanagement and declines with prudent macroeconomic management and growth. The journey has not been easy, however, commitment to improving economic policies and strengthening institutions, together with debt forgiveness and subdued political and ethnic conflicts, have reversed decades of economic collapse and stagnation and have allowed Guyana's long-run growth rates to outpace those of Barbados in recent years.

## 6.0 CONCLUSION

To sum up, Barbados pursued promotional and assistive policies in its “economic planning”, while for an extended period, Guyana adopted restraining and restrictive policies to “plan its economy”. The development outcome was economic and social advancement in Barbados, but economic and social decline in Guyana.

Barbados’ embrace of market-friendly/outward-looking policies, supported by the institutional capacity to implement such policies, as well as its prudent approach to macroeconomic management, increased its accumulation of foreign exchange reserves and in turn, domestic savings. Moreover, a commitment to a fixed exchange rate regime imposed fiscal discipline. In the case of Guyana, years of fiscal mismanagement coupled with inward-looking policies hampered the accumulation of foreign exchange reserves and domestic savings. In addition, institutional fragilities restricted the country’s ability to adequately respond to the external shocks and crises. Further, the high levels of emigration of skilled nationals, in response to the social and political discord would have significantly depleted the pool of human capital and as a consequence, undermined the country’s development prospects. Fortunately, concerted efforts by the Government of Guyana, over the past decade or so to address its development challenges have yielded significant improvements in development outcomes evidenced by faster and higher growth rates in income and positive movements in some of key social indicators.

Both countries however, remain highly vulnerable to external shocks, which threaten to erode development gains. Consolidating and accelerating progress should be priorities for both

Governments and must include stepped-up efforts at economic diversification; productive development policies that involve strategising on how best to extract greater benefits from the Diaspora engagement and boosting domestic competitiveness. Additionally, stimulating further private sector development, unlocking the untapped potentials that exist in both countries- ecological services in Guyana and cultural services in Barbados for example; strengthening institutions and governance and entrenching fiscal consolidation must also form part of the development agenda going forward.

The international community can also support both countries in several ways: first accepting that the particular vulnerabilities of both countries require special and differential treatment in the international trading arena; second, offering financial and other assistance to support their economic diversification strategies; and third, providing additional debt forgiveness in the case of Guyana, and in the case of Barbados, in spite of its middle-income status, increased concessional lending with a relaxing of the traditional conditionalities, given its high debt levels, which have become more burden-some over the past two years.

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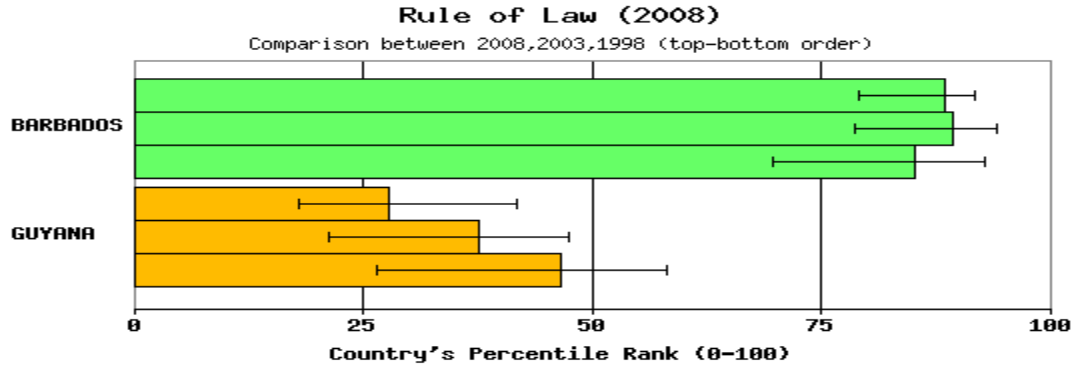
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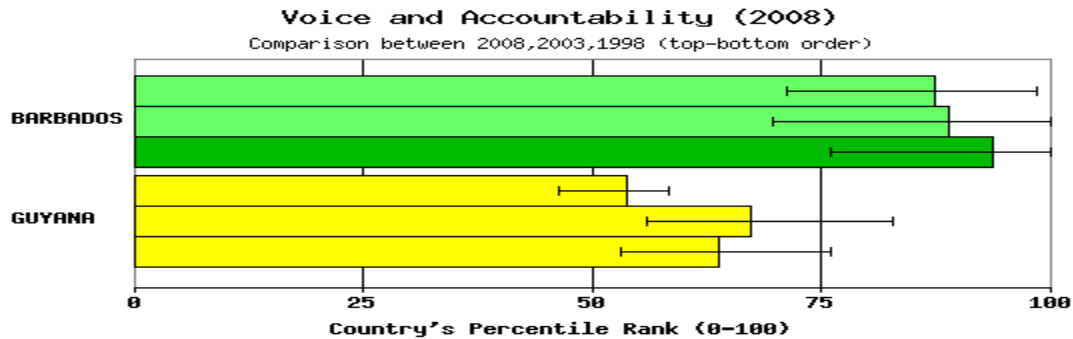
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## Appendix



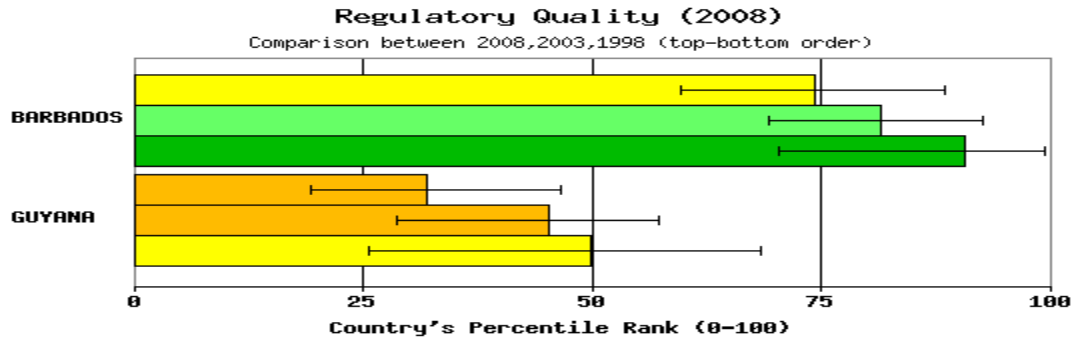
Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2009: Governance Matters VIII: Governance Indicators for 1996-2008

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.



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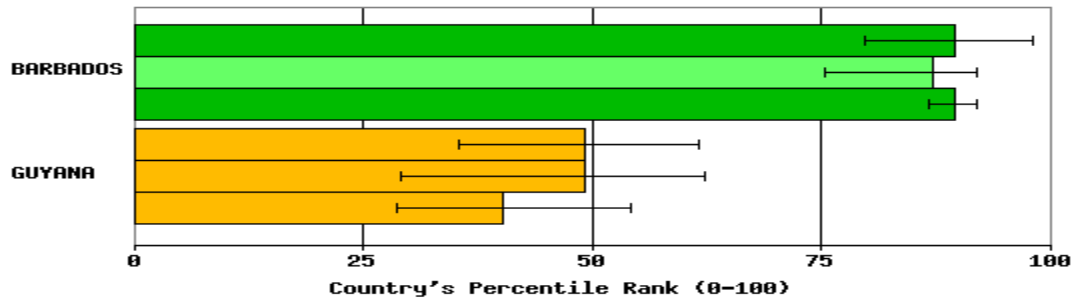


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### Government Effectiveness (2008)

Comparison between 2008,2003,1998 (top-bottom order)

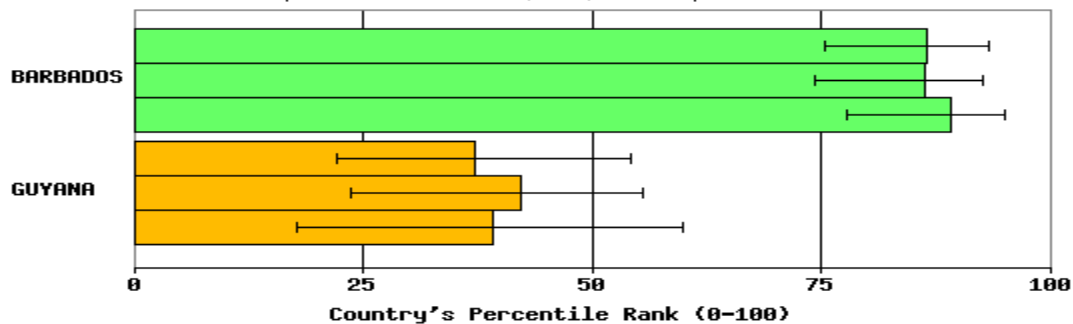


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### Control of Corruption (2008)

Comparison between 2008,2003,1998 (top-bottom order)

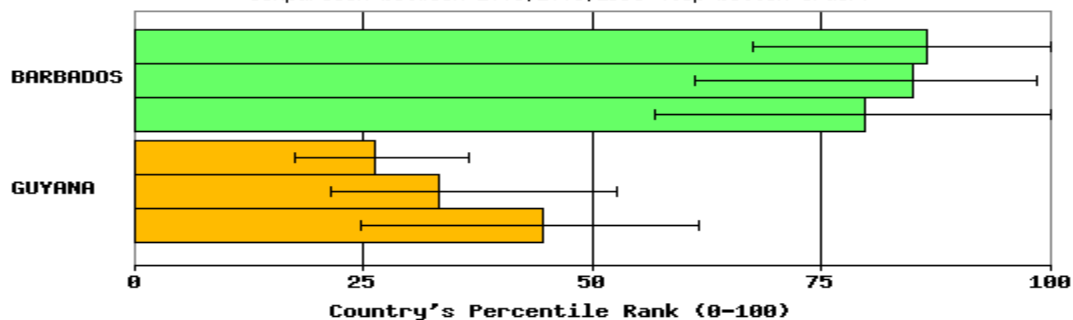


Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2009: Governance Matters VIII: Governance Indicators for 1996-2008

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### Political Stability (2008)

Comparison between 2008,2003,1998 (top-bottom order)

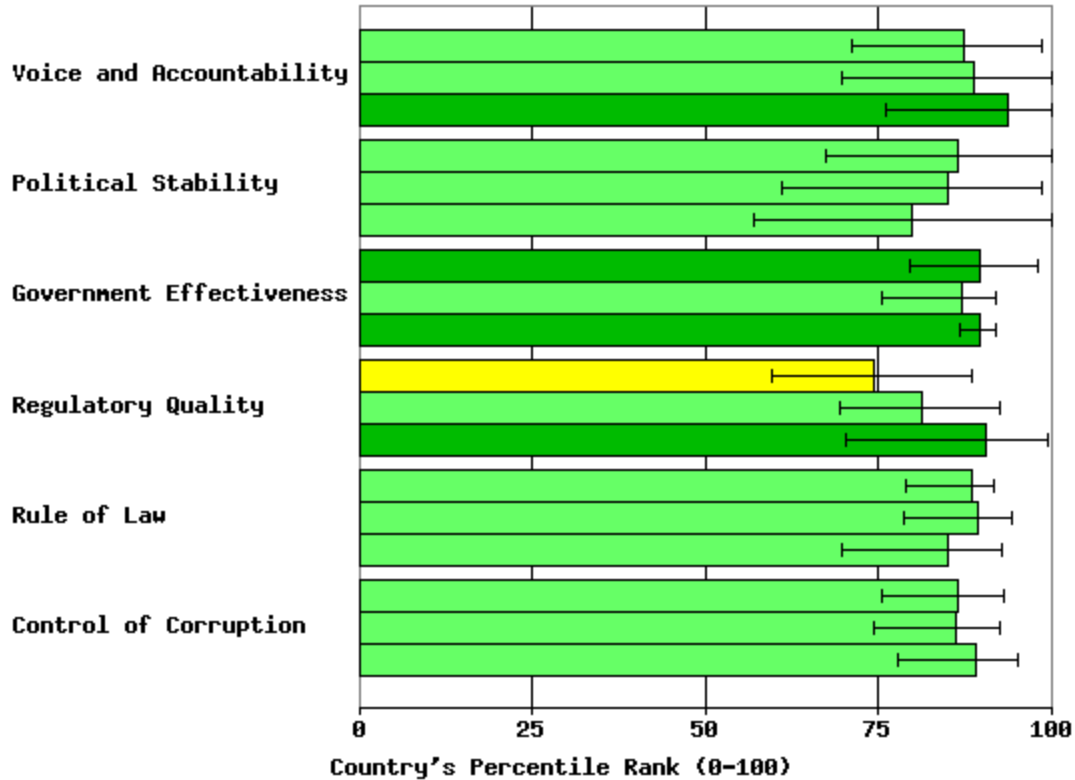


Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2009: Governance Matters VIII: Governance Indicators for 1996-2008

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

## BARBADOS

Comparison between 2008,2003,1998 (top-bottom order)

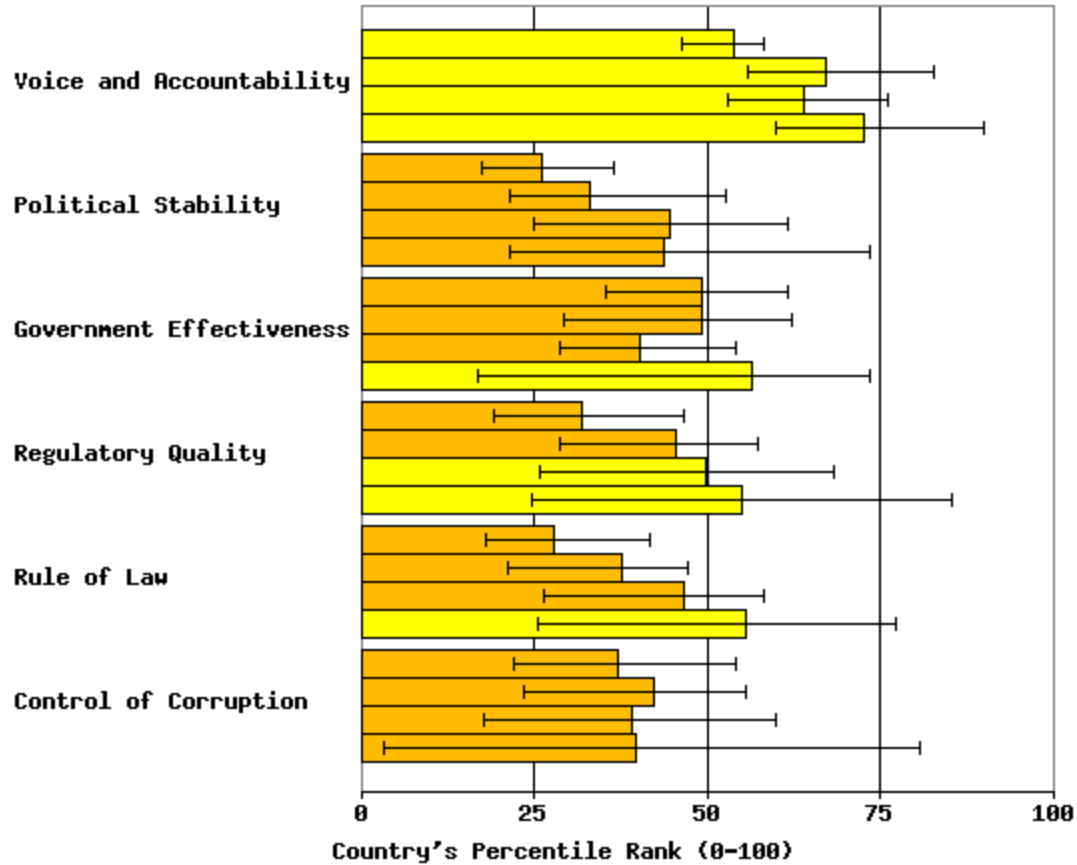


Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2009: Governance Matters VIII: Governance Indicators for 1996-2008

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## GUYANA

Comparison between 2008,2003,1998,1996 (top-bottom order)

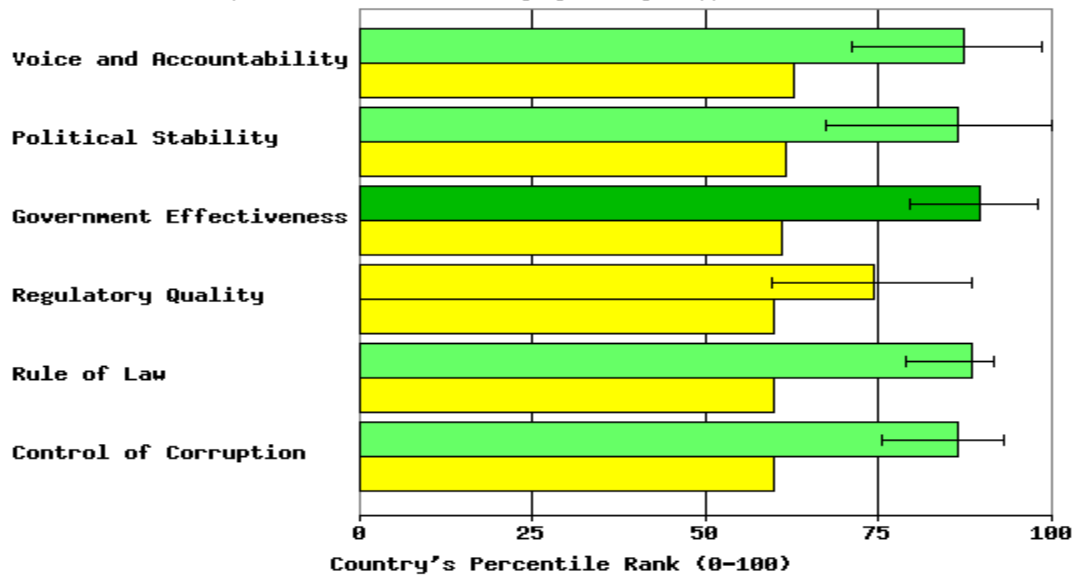


Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2009: Governance Matters VIII: Governance Indicators for 1996-2008

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## BARBADOS

Comparison with income category average (Upper Middle Income)

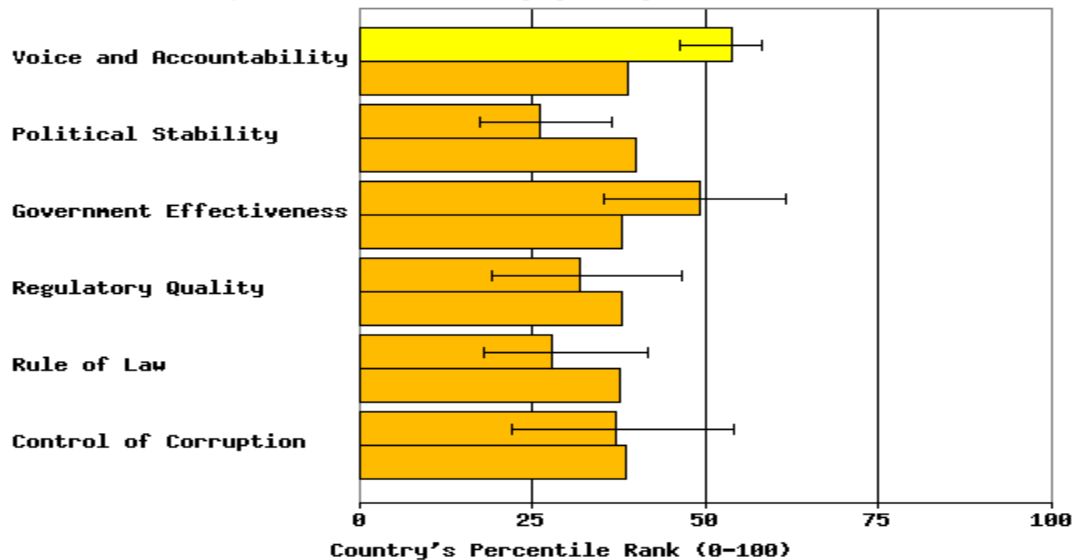


Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2009: Governance Matters VIII: Governance Indicators for 1996-2008

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

## GUYANA

Comparison with income category average (Lower Middle Income)



Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2009: Governance Matters VIII: Governance Indicators for 1996-2008

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.