

## **Institutions and Growth: Unearthing the Contributions of Caribbean Economists <sup>1</sup>**

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## **Abstract**

The claim that social institutions matter for sustainable growth and its implication, that a persistently slow growth record is partly the result of “bad” or at least anti-growth institutions, is now widely accepted in the discourse on growth and development. While this acceptance does not readily imply corrective policies, it has spawned an active research line that focuses on potential the mechanisms for slow growth. The resulting unanimity that institutions matter for growth is largely due to the post-1990s efforts of scholars in the neo-institutional school of thought. Yet much of these ideas, predate the writings of neo-intuitionists. Within the Caribbean, Lloyd Best, Kari Levitt, and George Beckford have since the 1960s argued that the slow and modest growth record that defines the Caribbean experience is the result of a social environment consistent with a relatively long period of foreign domination. The plantation economies of the New World create and encourage a structural environment lacking in the internal dynamism needed to generate sustainable growth, according to these scholars. Recent inquires into the institutions/growth relationship do not recognize either the contributions or limitations of these Caribbean scholars to the broader discourse. As a result this paper has two primary objectives. The first is to explore the contributions of Caribbean scholars and the insights provided regarding the institutions/growth relationship. In this unearthing, the paper will also address weakness’ that may explain its marginalization outside of the Caribbean and to a certain extent in contemporary Caribbean economic thought. An understanding of these contributions and limitations may help to incite future inquiries on the institutions/growth relationship from Caribbean scholars that build on and or replace the legacy of the 1960s.

## **Why Growth? Assessing the relevance of Growth for Jamaican Development**

While there are now competing ways of conceptualizing development<sup>2</sup> economic growth continues to serve as a principal means of achieving much of the widely accepted development goals such as is found in the United Nation's Millennium Development objectives. And while growth is not necessarily a causal source of development broadly construed, it remains a critical mechanism for: reducing poverty; unemployment; and if appropriately managed improving the distribution of income and income-bearing opportunities; increasing labor force participation rates in the formal sector; reducing crime and violence; diversifying production and even ensuring political stability.<sup>3</sup> The debate of how well growth and growth-oriented policies achieve these development goals and with what trade-off is beyond the scope of this paper. What is relevant, however, is whether the growth record of Jamaica has been good for Jamaican development, and what accounts for the well documented slow growth record. Subjectivity aside, for the remainder of the paper annual average growth rates of 2.00% that sustains for at least five years is used as the operating criteria of sustainable growth, Andrew Warner (2006).

Before addressing whether Jamaican growth has been good for Jamaican development, it is instructive to review the long-run growth record. Contemporary evidence of slow growth aside, the scanty historical record that is available indicates that slow growth did not define the early Jamaican years. Growth in 17<sup>th</sup> and 18<sup>th</sup> century Jamaica reflected the pre-eminent role of sugar and its high market value. As early as 1670 sugar-dominated production increased rapidly and by 1741-1775 sugar production increased by 170% , R.B. Sheridan (1965). With the rapid increase in sugar prices over the same period Jamaica became a bastion of growth and wealth accumulation with an estimated value in the period 1775-1782 that made Jamaica the richest colon of the British Empire, Sheridan (1965) pp 310. The dependency of Jamaican sugar on slavery also meant that this very wealthy Jamaica had one of the worst distribution of wealth/assets/power, Stanley Engerman and Kenneth Sokoloff (2000). This growth trend was no loner apparent by the 19<sup>th</sup> century but as is typical of inequality the distribution patterns remained embedded in Jamaica affecting all social relations on the Island. The reversal of fortune was caused by a number of factors including: the decline in sugar prices; the increased competition from beet sugar; the abolition of the slave trade in 1807; the emancipation of slavery in 1838; the decline in agricultural productivity; and a failure to develop secondary industries. This failure to develop secondary manufacturing industries in Jamaica contrasts with the case of England, where sugar gains were encouraged and financed secondary industries that that contributed to British growth in the famed Industrial revolution, William Darity Jr. (1992) With the decline in sugar and the secondary manufacturing benefits accruing to England, the Jamaican 19<sup>th</sup> century growth record stands in sharp contrast to the 17<sup>th</sup> and 18<sup>th</sup> century records. The seminal work by Gisela Eisner (1961) confirms that Jamaica's early 19<sup>th</sup> century growth record is marked by very slow growth rates, where the pre-depression period of 1832-1930 experienced average annual growth and per capita growth rates approximates to 0.01% and 0.000065% respectively. The average annual growth rates from 1850-1930 are only

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<sup>2</sup> See Amartya Sen (1999) for the Development as Freedom Paradigm and various issues of the Human Development Report for the United Nation's Development as Human Development Paradigm.

<sup>3</sup> See Dollar and Kraay (2002); Ravallion and Chen (1997 ); Ravallion ( 2001); Warner (2006); Francis and Harriott et al (2003); UN-WB (2007); Elliott (1998); Barro (1991).

slightly improved at 0.015% and 0.003% respectively. The mid 20<sup>th</sup> century once again offered Jamaica a period of stellar growth that like the sugar-based growth failed to generate secondary industries. This growth period began in the 1950s in response to the deliberate efforts to generate growth and development by governments in the post-1940s era. The rejection by some of the long-held view that the opportunities to diversify Jamaica's production base and to court growth through policy incentives was not possible paid of handsomely. Jamaica returned not only to a period of positive growth rates but one with rates that were often high and certainly sustainable from the 1950s through 1970s. Several sectors stand out in this approximately twenty year period including: construction, public utilities, transportation, manufacturing, and mining, Owen Jefferson (1972). Yet despite annual average growth rates of 6.7%, Jefferson (1972) at least in hindsight there were reasons for concern. Of all the sectors driving growth, only manufacturing held the promise for the creation of secondary industries an important issue for long-run growth. In addition, sectors such as transportation and public utilities are typically expanded over short to medium term periods and this expansion is dependent on government with obvious long-term financing implications. Mining, as a source of growth is also compromised by its high degree of mechanization that leads to negligible outcomes for employment and income. And consequently the observation that in its heyday mining accounted for 10% of GDP and 40% of exports while employing only 0.8% of the employed labor force suggests that maintaining the growth era would be at best difficult, Owens (1972), pp 162. With a golden era defined by sectoral growth with serious limitations and with the failure to generate a vibrant diversified manufacturing industry out of this growth period, sustainable growth since the early 1970s has remained stubbornly elusive despite a variety of competing policy approaches.

The sources of slow growth in Jamaica aside for now, Jamaicans, despite a persistently slow growth record, enjoy a relatively high quality of life at least regards to: life expectancy; literacy; and political stability. And even in the period of sustained growth it is difficult if not impossible to attribute much if any of these gains to growth. Instead it appears that the tremendous gains that are recorded in the broader area of Jamaican development reflect the purposeful action on the part of various governments oftentimes despite a sustainable income source. The first noticeable improvements in quality of life occurred with the one-time improvement in wealth/income distribution that followed from the emancipation of slavery, Eisner (1961). The decline in planter profits in the period 1832-1850 was the single largest causal source for the observed increase in equity. This altered consumption patterns, an outcome that in modern times is used as a questionable indicator of declining poverty. This shift while dramatic should not be overstated as it marked the transition to a new and free peasant class whose increased incomes often did not reflect similar increases in the ownership of property, and other forms of asset and wealth-improving opportunities. And not surprisingly then subsequent income and asset distribution changes remain modest. Beyond income distribution, since the 19<sup>th</sup> century access to education and health, both important sources of human quality of life, have improved dramatically. Access to education was ad hoc pre-emancipation, the provision of which was due to the Church with no input from government. The first notable change came after emancipation with stronger improvements after the constitutional shift in 1865 and a second wave of purposeful action in the 1930s and then again in the 1970s, all periods marked by long-stretches of modest growth. Ironically, the

rapid two decade growth period that defines the golden era is not associated with significant gains in either quality of life measures. To the contrary, during this period of rapid and sustainable growth in Jamaica: inequality and unemployment worsened; the value of agricultural output declined in absolute terms; the economy failed to diversify growing increasingly more reliant on the mining sector as the major source of export earnings; and the record on educational and other improvements is un-impressive; Derrick Boyd (1988), Owens (1972). Quality issues aside, today Jamaica boasts one of the world's highest literacy rates with almost 100% enrollment at the elementary level and life expectancy rates comparable to the wealthiest societies despite a poor long run growth record and periods of prosperity that failed to generate notable improvements.

It might be tempting at this juncture to interpret the Jamaican record as supporting evidence for the view that growth is a poor indicator of human development, the ultimate objective of development. Some may even be tempted to conclude that its active pursuit might be inappropriate. Indeed the recent observation that Jamaican official poverty indicators declined, by some measures as much as half, during a period of no growth in the 1990s might be interpreted as further evidence against the quest for growth. And while these outcomes may even be interpreted as being consistent with the Development as Freedom and Development as Human development paradigms, such conclusions would be pre-mature for several reasons. The first is the obvious fact that while Jamaica's record on quality of life improvements despite limited growth is undisputed, the purposeful goal of quality of life development is ultimately and fundamentally limited by the ability to finance efforts consistent with these expected outcomes. This is particularly true in contemporary Jamaica where debt/GDP and debt servicing/GDP and exports are serve as a binding constraint on growth and development, Dawn Richards Elliott and Rupert G Rhodd (1998); Rodolphe Blavy (2006). In addition to financial limitations, only sustainable growth will create a solution to two of Jamaica's persistently stubborn development issues; unemployment and the severe concentration of export earnings along with the failure to develop secondary industries. Since the 19<sup>th</sup> century Jamaica has struggled with limited employment opportunities. This manifests itself in persistently high rates of unemployment, a dependency on informal low-skilled activities, and a rapid dependency on a very broad service sector which often involves low-skilled employment. Concerned about a chronic failure in Jamaica and other developing countries to address the employment needs of the growing population, Arthur Lewis (1954) formalized his popular thesis on state-biased growth through the exploitation of surplus labor. To his credit Lewis saw and recognized the need for a dynamic manufacturing sector as a source for sustainable growth and employment. And while there are a variety of policy choices that seem to be consistent with growth, there is little to suggest that employment and or labor force participation can increase in a sustainable manner without growth. Of course Jamaica's growth record cautions that growth is no panacea either. Yet while true, the larger country evidence remains supportive of the expectation that growth that results in the creation of secondary industries involving a local entrepreneurship class offers the most predictable solution to long-term improvements in employment, an important source of quality of life improvements. The evidence is overwhelming: while the mechanisms through which growth will improve development are not well understood and hence growth can exist without development, growth remains the single most relevant source of predicting quality of life improvements that are sustainable. And so no

growth or even slow growth is the ultimate constraint on human development. The most compelling example of the continued need to secure sustainable growth comes from the mirage of the 1990s in Jamaica that suggested that poverty decline is consistent with economic stagnation. Elsie LeFranc and Andrew Downes (2000) unveiled this mirage by demonstrating that the widespread use of poverty measures using consumption data in conjunction with a rapid rise in remittances and improving inflation rates explains the apparent decline in poverty rates during a period of economic stagnation. LeFranc and Downes (2000) indicate that the traditional areas of human development have not been positively affected during this period of reported poverty decline. This then leads us back to growth and the quest then to understand why Jamaica has failed to sustain growth in particular pro-development growth.

What explains the apparent inability to exploit growth opportunities such as those provided by sugar/agriculture, bauxite and tourism in Jamaica? By most recent accounts, the poor growth record in Jamaica and by implication the failure to develop secondary industries are readily explained by one or more of the following: (1) low and declining agricultural and total factor productivity; (2) anti-competitive policies; (3) debt; (4) external shocks; (5) globalization; (6) macroeconomic disequilibria; and (6) crime. In response, scholars and policy-makers have focused on how to overcome these sources of slow growth. Much of the resulting efforts are directed at understanding and pursuing policies related to international competitiveness, debt stability/reduction, macroeconomic stability, regionalism and deepening economic integration, and crime. There is little doubt that this focus is important, but there are a number of bothersome facts that challenges this episodic approach which ignores the chronic long-run growth experience in Jamaica. These truths include the common experience of: (1) declining agricultural productivity; (2) unemployment pressures that are not absorbed by other areas; (3) increases in social tensions, (4) failure to develop sectoral linkages; and (5) persistent unequal access to education, wealth, and other opportunities all of which are capable of undermining long-run growth. And so while addressing the short-term constraints is and always will be important, the issue of why Jamaica has been and remains incapable of overturning these long-run trends cannot be addressed through short-term research.

### **Why slow growth? A Review of Growth Research from the Caribbean and Beyond**

Most growth theories focus on the supply constraints of growth and there in seek an understanding of long run growth<sup>4</sup>. Growth theorists typically see growth as an equilibrium generating process that in the long run is constrained by the population growth. Depending on the underlying assumptions made in the theoretical model, growth in the short run may exceed the long run growth rate as producers substitute factors of production in response to the equilibrating adjustments in factor prices. This typical neoclassical assumption that is used in the popular Solow growth model is in contrast with the Keynesian influenced models that question the smooth and quick adjustment that is required to facilitate factor substitution. From this view, the short and long run growth rate will approximate to the population growth rate and any deviation is marked by macroeconomic instability and idle capacity. Despite the underlying differences in

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<sup>4</sup> The alternative is the demand-side growth model that describes long run growth constraints in terms of balance-of-payments disequilibria. While very appropriate for countries like Jamaica, this approach assumes an appropriate supply side adjustment. The focus in this paper on supply side constraints should not be interpreted as evidence that supply side constraints are more binding than demand side influences.

specifying the output/input relationship, capital accumulation is an important constraint on growth in both the Keynesian and Neoclassical growth models. Since their inception, it is now widely recognized that factor productivity growth is as critical, if not more, to generate welfare improving growth rates. In terms of policy prescriptive, the Keynesian based growth models imply a strong and positive role for the state to encourage a growth rate that is consistent with a stable path. This is in contrast to the implications from the neoclassical model. The neoclassical growth model predict a limited role for government policy and emphasize instead the market as the key instrument for establishing prices that reflect scarcity that will then appropriately guide production and growth. The relevance of a middle ground has since been established by empirical analysis. This empirical scrutiny was driven by the 1980s Endogenous Growth Theory, EGT, which achieved much success in its ability to reconcile a role for technology, markets, and government in the pursuit of growth. Since the development of the EGT scholars have become focused on attempting to identify the sources of productivity growth or the lack thereof. As a result empirical analysis now defines much of the scholarship in search of the sources of productivity growth. This empirical focus now supports the recognition that the sources of productivity growth are many and include geography and historical legacies that affect social institutions or norms. This is not a coincidence, as the claim that social norms may undermine growth achieved theoretical credibility in the 1990s the same time period that empirical analysis came to dominate the search for productivity improvements. From this union a voluminous empirical literature has confirmed much about suspected correlates of growth. It has also become very evident that empirical analyses are limited in their ability to specify the mechanisms through which growth is achieved, or fail to. And so an impasse if not yet there is in the making, as economists know much more on the sources of growth but painfully little on how to replicate successful growth experiences through policy. Some believe that this reflects the nature of the questions being asked, Dani Rodrik (2000), while others argue in very familiar tones that it reflects the nature and scope of growth theory, Lant Pritchett (2006). Both are consistent with the fact that only theoretical inquiries can establish mechanisms through which growth operates, with empirical analysis serving to confirm these proposed mechanisms. With the deflowering of the last prominent growth/development theory the EGT, the most promising works are in the area of institutional theory.

The theoretical/empirical process that came to define the quest for growth outside of the Caribbean also occurred within the Caribbean but with a methodological approach strongly critical of mainstream economic models. The first purposeful look at growth in the Caribbean has been summarized in the now popular and well cited Lewis (1954) model. Influenced by the classical thesis that agriculture and land constrains growth and the Keynesian notion that growth may be purposefully sought through state policies, Lewis (1954) argued that capital accumulation as a source for industrial development would generate jobs, lower unemployment rates, raise aggregate incomes and in the end generate sustainable growth with the output being exported both regionally and extra-regionally. Certainly Lewis had the foresight to recognize the role of trade and manufactured production for poor countries, many of whom were once thought to exhibit comparative advantages only in agriculture. Yet despite this foresight much remains amiss. First, is the post 1990s re-interpretation of the industrialization/growth relationship. Despite the obvious correlation between industrial share and growth, it is not

readily apparent that it is the sectoral composition that drives sustainable growth and hence using policy to generate sectoral shifts oftentimes fail to generate expected growth, Elliott (1998). Instead, some now argue that industrial changes are the outcome of growth rather than a causal source of growth, North (1990) a theoretical claim that threatens much of the policy prescriptions of the Lewis model. This view is consistent with the fact that despite the widespread use of both import substitution and export led approaches to growth in the developing world, the success have been few and more important they are not readily decomposed into two clearly defined groups. In addition, the widespread use of causal analysis has made it glaringly obvious that there are multiple approaches to growth. The implication is that for countries engaging in the same approach the differential outcomes are the result of unseen often invisible reasons. While Lewis' most celebrated works do not appreciate the role of such unseen cultural and institutional influences on growth by the 1980s this changed, (1984). He argues in this period, that pre-dates the re-birth of institutionalism, that growth theories while useful in identifying the patterns of growth fail to identify the sources of such growth since these are partly dependent on historical and cultural norms. Lewis (1984) consequently calls for an eclectic approach to development theory that includes a series of complementary theories including: *"...a theory of distribution....a theory of government...a theory of class formation and class conflict, to go hand in hand with a theory of entrepreneurship"* pp8.

Long before Lewis' apparent change of heart? , some Caribbean scholars argued that within the Caribbean structural rigidities undermine the efforts to generate growth and hence any development approach that ignores these are doomed to fail. The most famous version of this argument is summarized in Best and Levitt's plantation economic model formulated in the 1960s. Narrowly defined within the confines of the Caribbean, Best and Levitt were critical of Lewis' earlier expectation that since the creation of secondary manufacturing industries hold the promise for employment and growth then using policy to encourage their creation would necessarily generate sustainable growth in the region. For Best and Levitt (1968) the foreign domination in Jamaica results in a plantation legacy that is partly reflected in a mind-set that is inconsistent with growth and development independent of the approaches used to court such. For reasons to be explored at a later point, these views have been marginalized and have had only a limited influence on Caribbean economic thought or policy, Bernal, Figueroa, Witter (1984). Instead Caribbean economic scholarship has been preoccupied with a number of themes, replicating the trend in the broader development literature of seeking empirical validation at the expense of theoretical inquiry. Caribbean economics since the 1970s have been defined by efforts to establish statistical links between growth and: privatization; integration regionally and otherwise; macroeconomic stability through structural reforms; debt; crime; remittances; and the informal economy. From this we are able to confirm suspected relationships statistically. Yet despite this much of the information acquired from growth regressions, especially given the reliance on cross-section analyses, is useless in establishing the mechanisms through which these variables undermine long-term growth. Not surprisingly, policy directives are compromised. As a result, both within and out of the Caribbean the need for theoretical explanations remain extremely relevant and yet painfully under-provided. This recognition has created a number of possible theoretical directions in the broader development literature. To date, Caribbean scholars appear reluctant, however, to shift research direction in an effort to fill existing

voids. This is particularly alarming since much of what is being explored has obvious though un-recognized roots in Caribbean scholarship. For example, Lant Pritchett (2006) appears to respond without acknowledging the 1984 call made by Lewis for a stages approach to growth/development theory given the failure of ..”*the economist’s dream..to have a single theory of growth that took an economy from the lowest level of say \$100 per capita past the dividing line of \$2000, up to the level of Western Europe and beyond. Or to have, since processes may differ at different stages, a set of theories growing out of each other longitudinally, and handing over to each other*”, Lewis (1984) pp 5. A second and more popular theoretical effort underway is the effort to build a theory of growth on the foundations of social institutions, North (1990); Engerman and Sokoloff (2000; 2003). This approach is very much consistent with the early ideas of Best and Levitt which were once considered radical, Bernal, Figueroa, Witter (1984). Yet this work remains absolutely under-appreciated and unrecognized outside of the Caribbean. Since it offers a useful place for Caribbean scholars to direct and influence the direction in development theory, in the next section we re-visit the plantation economic model in an effort to understand what role remains for these early Caribbean thoughts.

### **Is the Plantation Economic Model still Relevant?**

In short, yes the plantation model is not only relevant but in some ways probably more relevant today than when it was first incepted in 1968. For sure the historical approach used by Best and Levitt (1968) was not the first in economic analyses. In fact, long before Best and Levitt’s contribution to economic thought, there were a group of North American scholars in the early 20<sup>th</sup> century that rejected the a-institutional basis of neoclassical theorizing, Anne Mayhew (1987). The central ideas of Thorstein Veblen and John R Commons continue to resonate through the works of those that are identified as Original Institutional Economists, OIE and for that matter through the 1990s re-birth of institutionalism as a relevant paradigm in social science research. The rejection by OIE of neoclassical theorizing reflects two central issues: (1) the claim that markets and private properties are essential to generating efficient economic outcomes; and (2) that social norms are irrelevant to decision making. In contrast, OIE scholarship presumes that social institutions broadly defined as culture directs most of human activity, governing “*all...culture defines the permissible and the forbidden, defines right and wrong, the admirable and its opposites, ..and so provides opportunities as well as limits*”, Walter Neale (1987), pp. 1179.. Human behavior is itself the result of two competing values, those that reflect obvious attempts at problem solving, Instrumental Values, and those that reflect myth, taboos, and generally culture, Ceremonial Values. A central difficulty in OIE is the limitations that are implied by an approach that embeds all decision making in culture since culture is necessarily unique to a given time and place. This is in conflict with evidence that suggest that humans do exhibit some common behaviors that may even reflect innate cognitive patterns. And consequently even when institutions are believed to affect behavior there remains a need to reconcile broad behavioral patterns with country specific norms. While the Caribbean scholars were clearly not the first to consider historical legacy in economic thought, their efforts to embed growth theory around institutions was certainly unique and original. In addition to this novel and still unresolved issue of whether and how to define growth theory within the context of

intuitions, the historical methodology employed to the issue of growth was also an original piece of scholarship.<sup>5</sup>

The plantation model begins with the assumption that that the motives for New World settlement is a predictor of the ability to generate long-run economic growth and development. For Best and Levitt (1968) these motives were of three types and consequently generate three economic structures with three sets of long-run growth implications. The three motives were: (1) settlement; (2) conquest; and (3) exploitation. New World societies formulated for settlement, such as the USA, Australia, Canada, meant societies with an egalitarian socio-economic structure which lies in strong contrast to those formulated for the purpose of conquest and exploitation. The latter includes Jamaica and other plantation economies where the exploitation of sugar on large landholdings meant a structure embedded in inequity. New World territories that were motivated by conquest had more in common to those for exploitation, differing in military and political needs that reflected the different settlement motives. While Best and Levitt's typology was broad their primary focus was narrow, and restricted to explaining the lack of growth dynamics in the "*hinterlands of exploitation*", pp.285. They employed an exclusively historical methodology, which by current standards amounts to a descriptive outline of the features typical of sugar plantation societies, including a narrative on the stages a plantation passed through on its way to marginalization. The plantation legacy explains, according to scholars in this tradition including Best and Levitt (1968) and George Beckford (1972), the lack of dynamism in plantation economies and the legacy of foreign domination created societies lacking in independent thought, tastes, and entrepreneurship behaviors and "*progress-oriented values*", Beckford (1972) pp203. The resulting replication of inherited patterns and ideas that were nurtured under a history of foreign domination sustains the pattern of persistent unemployment and poverty outcomes that would only change, if the causal source of foreign domination ended. With this end, the plantation economies would be pre-disposed to a change in stagnant ideas and the opportunities for growth and development could consequently be exploited, a claim that has been associated with "*philosophical idealism*", Bernal, Figueroa Witter (1984), pp. 41. While Best and Levitt (1968) were critical and suspicious of all things foreign, they recognized that markets offer an important contribution to solving the issue of poverty. Regional integration was important but not for the same reasons as they appear in the Lewis model, but because of the potential benefits from a common Caribbean identity while also serving as an outlet for specialization. For Best and Levitt, then there appears to be no strong commitment to a particular approach to development at least not in the polarized and strongly rhetorical pro-state versus pro-market manner that later defined policies in the region. Really none of these issues mattered since development within the context of foreign domination was not and is not conceivable in the plantation economic model.

In many ways writing in the 1960s Best and Levitt were ahead of themselves, and it is only thirty years later that much of their original ideas have infiltrated economic

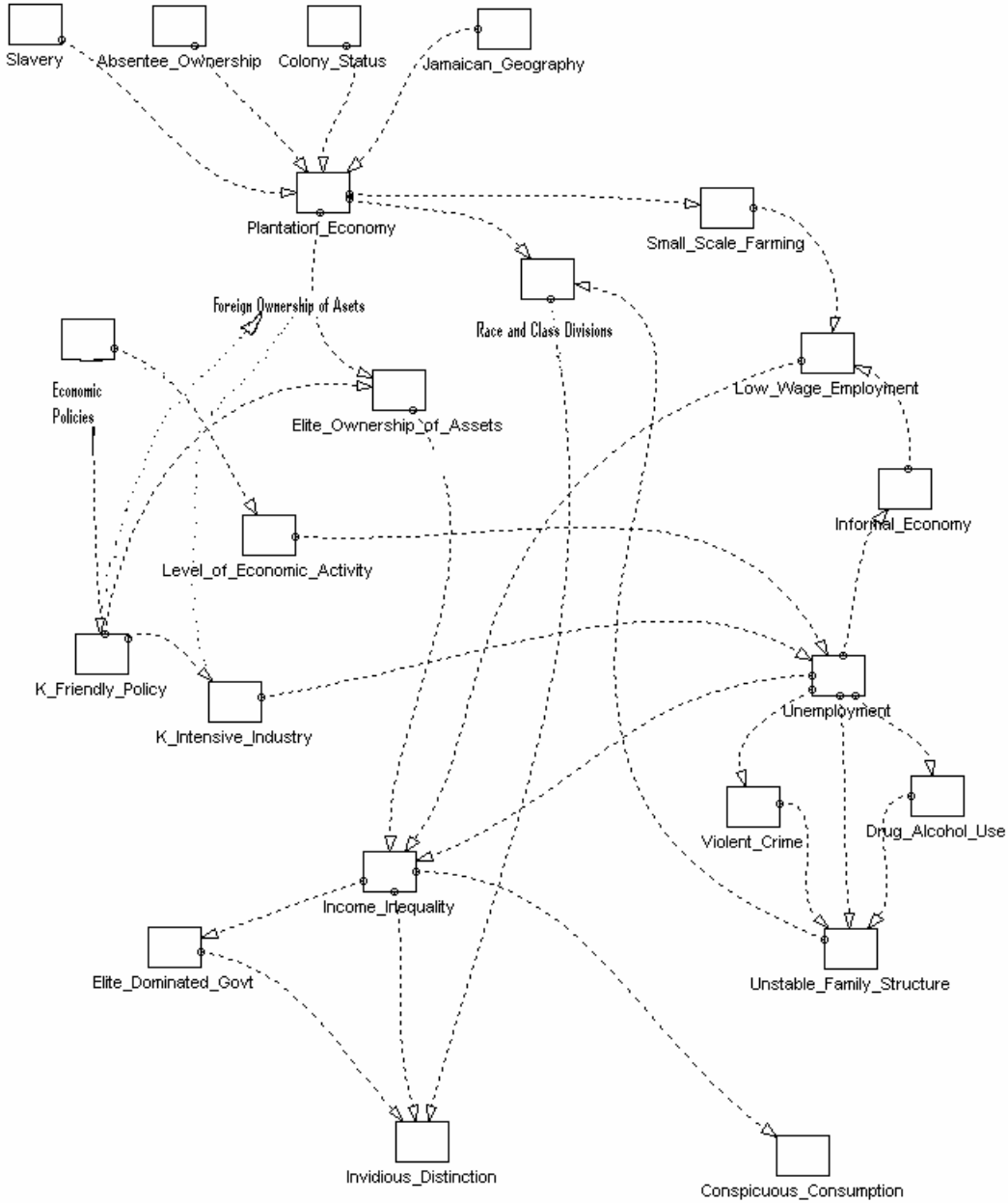
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<sup>7</sup> The claim of originality rests on circumstantial evidence, in particular the absence of any reference to OE scholarship, the fact that by the 1960s OIE was marginalized and the contributions not available in mainstream outlets, the fact that the plantation model is a growth theory within the broad tradition of development theory that began in post 19940s as scholars were explicitly focused on the absence of growth and limited development in throughout Latin America, the Caribbean, Asia, and Africa.

thought, unfortunately with no recognition for their contributions outside of the Caribbean. Possibly this reflects the weakness in the methodology they employed and the mechanism for slow growth that they focused on. Embedded in the notion that ideas generate slow growth is a need to explain why and how these ideas repeatedly generate slow growth centuries later. To some extent the earlier works of the OIE scholars address this, but at a highly abstract level that while capable of many insights remains too broad to direct policy. In addition, while the OIE framework allows patterns of underdevelopment to be described, no effort has been made to incorporate these ideas in a growth theory framework. A similar criticism may be made of the Best and Levitt model despite the explicit effort to offer the plantation model as a theory of growth.

Yet within the context of the plantation growth model, the central focus on foreign domination allows the model to be re-interpreted with the insights gained from recent efforts to re-conceptualize institutions. Before exploring these advances and how they build on the early plantation model, it is useful to summarize the relationship between the plantation legacy and the record of slow growth that is advanced by Best and Levitt which is itself consistent with the OIE approach. Figure 1, is an adaptation of a schematic from Dawn Richards Elliott and John T Harvey (2000) that offers a holistic look at Jamaica's persistent struggle with growth and development. At this level of abstraction, the similarities in the OIE paradigm and the Best and Levitt (1968) model are astounding. Social norms in the Caribbean reflect the historical legacy of slavery and plantation economy. These norms support a pattern of inequality which becomes normalized by efforts to maintain this pattern by local elites. Within this environment both invidious distinction and conspicuous consumption offer such opportunities. Growth policies invariably fail as the social environment fails to broaden access to wealth-generating norms. In the end, as the amended schematic shows, even as government policy approach change and social development improves, the broad pattern of underdevelopment remains stubbornly intact encourages a booming low-skilled informal sector and many examples of widespread social marginalization.

# The Pattern of Jamaican Underdevelopment



While very useful in describing the broad patterns of Jamaica's development struggle there are a number of weaknesses in the plantation model that challenges its place as a modern growth theory. First, the proposal that foreign domination is anti-growth is underdeveloped and in the Best/Levitt framework not readily linked to slow growth. As a result, one is left to ponder what aspect of this foreign domination undermines productivity. It is also unclear through what mechanism foreign domination undermines growth, allowing underdevelopment to sustain even after the degree of foreign domination declines. While the writings of Best and Levitt clearly recognized a link between the plantation legacy, foreign domination, and asset/wealth/power inequality they failed to systematically develop this promising link to slow growth. The resulting focus on foreign domination as the mechanism for slow development proved to be inflammatory and not very useful. This is particularly true of claim that underdevelopment persists through ideas brought on by foreign domination which fails to recognize the potential of such ideas have positive ends. In addition the policy implication those foreign-dominated ideas will change in response to nationalization simplistic missing the path-dependent nature of social norms. A serious flaw then in the plantation model is the failure to systematically explore the channels through which growth is and continues to be compromised. In addition, it is critical that any theory of growth is broader in scope than the plantation model in its original form which addressed growth constraints in a very special case. The fact is that modern economic growth remains elusive for most countries in the world, the possibility of which cannot be explored in the original plantation model. In the end, while Best and Levitt were ahead of themselves in recognizing that a historical legacy may compromise growth intending policies, their chosen methodology proved to be lacking in analytical rigor. Together with their narrow focus, it is probably not surprising that the plantation model quickly disappeared from most discussions on growth and development, especially in light of the evidence that nationalization of local assets, an implication of the original model, proved as disappointing as foreign owned assets in terms of growth.

These weaknesses aside, the plantation model remains useful as a theory on growth. The failure to systematize the mechanisms that link aspects of foreign domination to slow growth may be overcome especially in light of the now established base offered by contemporary institutional theory. By all accounts, Douglass North in 1990 with his analytical framework legitimized and generalized the central idea apparent in Best and Levitt's and the OIE scholars that historical legacies matter for development. North (1990) legitimized this line of thinking by successfully reconciling the potential of universal human behaviors with the relevance of social norms capable of affecting such behaviors. For North human behavior is rationally constrained by a set of inherited social norms that are transmitted intergenerationally and therefore capable of existing over the long-term even as they undermine economic gains. Since social norms, which are the formal or legal and informal or cultural legacy of the past, influence behaviors then where these norms are not supportive of growth, then growth simply will not occur even as policymakers make overt efforts in pursuit of growth. With this analytical framework, North (1990) argues that the mechanism that links institutions to growth is transaction costs. Social norms or ideas/culture/institutions affect economic outcomes through transactions cost, with increases in transactions cost limiting exchange and hence production and growth. There are obvious difficulties in this approach that remain

unaddressed including explanations of how institutions are formed, the relationship between formal and informal norms, how informal norms once formulated become modified, and how informal norms influence behaviors. In addition, the focus on exogenous institutions imply a correct set of institutions for growth, an outcome that is not readily reconciled by cultural differences and the modification of institutions over time. And consequently by know means is it the case that North's proposed mechanism is the defining one that unifies institutional analysis. As a result scholars continue to address these limitations in an effort to better understand the various pathways through which institutions may support and or undermine growth. While the plantation model has not yet be re-modified based on the knowledge gains from contemporary institutionalism the opportunity to do so certainly exists.

In the specific case of the plantation model, the mechanism that is consistent with Best/Levitt's contributions is one that may be directly related to foreign domination, the central focus of Best and Levitt. A defining feature of foreign domination that is discussed throughout the writings of the plantation scholars is asset/power inequality and behaviors that sought to maintain this inequality, pp 296. Asset/Power inequality while a defining feature of plantation economies is however not unique to them and this fact immediately broadens the scope of the plantation model if inequality can be linked to slow growth through legal and cultural norms. In a series of publications Stanley Engerman and Kenneth Sokoloff (2000), having parted company with the transactions cost mechanism popular with most recent works on institutionalism, offer inequality as the source of income gaps among former British Colonies. Arguing against the idea that an exogenous transfer of British social institutions explains the relative success of some former British colonies, Engerman and Sokoloff (2000) propose that unequal access to power, wealth, education voting rights that was common in the New World and independent of the European colonizing nation generated social institutions inconsistent with long run growth. In addition, these institutions once established are robust and quite often replicate the pattern of inequity and slow growth. This claim that inequality may adversely affect long run growth is gaining widespread acceptance, including the specific claim that inequality may undermine growth through institutions; William Easterly (2002); Elliott (2007). Since inequality may be directly linked to foreign domination the foreign domination/inequality/institutions/growth relationship suggest that the plantation model remains useful not just for plantation economies but for the broader development community. In addition, the relevance of the plantation model is once again confirmed by the empirical support reported in one of the most cited and celebrated papers that confirms the institutions/development link. Daron Acemoglu, Simon Johnson, and James Robinson's (2001) celebrated paper begins exactly as Best and Levitt's did almost 30 years ago: with the idea that settlement motives predict long run economic performance. Using the probability of dying as a proxy for settlement motive, Acemoglu, Johnson, and Robinson (2001) argue that where this was low the incentives were great for settlement and this spawned a set of social norms conducive to growth. On the other hand where the probability of death was relatively high, exploitation was the incentive and this lead to the creation of "extractive" states which typically meant low long run growth outcomes generated by a set of social norms not supportive of growth but consistent with the motive of exploitation.

The suggestive evidence is strong: the weakness of the plantation model may be overcome with an analytical framework that establishes a theoretical relationship between culture and other forms of social norms and a mechanism, like inequality, that explains the persistent nature of underdevelopment. For example, if we crudely re-interpret Best and Levitt's (1968) early model the story might proceed like this. Influenced by natural opportunities that predisposed Caribbean nations to sugar production, African societies to slave exportation, and much of Latin America to mining, European contact with the New World is associated with an early history of unequal access to power, wealth and other social opportunities, consistent with the very motives for European contact. These initial inequalities create strong incentives for ruling elites to use resources to maintain their relative socioeconomic standing. This carried many implications including a racial/class ideology that placed the European in a position superior to all and the African inferior to all. The resulting racial/class ideology like all social norms have outlived the very institution of slavery/imperialism that spawned it as the values are transferred in legal and cultural norms across generations. Not surprisingly the social norms of the New World continue to reflect this racial/class ideology which itself impacts on decision making often times with adverse outcomes, George Alkeroff and Rachel Kranton (2000). Beyond the race/class dimensions, resources were used to withhold suffrage and educational opportunities as well as access to credit and other means of acquiring property. Whether and how these social norms impact on issues related to productivity, a central feature of long run growth is a future project and at this point only broad conjectures may be suggested. In the case of Jamaica low productivity may be linked to poor property rights, school quality, and limited credit access in a country for which large shares of individuals by virtue of income/asset levels are barred from credit markets. This fact means greater difficulty in the building a vibrant domestic entrepreneurial class. With poor property rights for example in rural farming areas and limited access to credit the opportunities for farmers and other urban poor the opportunity to engage in entrepreneurial activities are few. As the formal financial sector continues to fail as a source of credit for much of Jamaica the efforts at micro-lending continue to be slow a fact that indicates a challenging future for entrepreneurship and other behaviors. A second example that is useful in illustrating the productivity/historical links is in education access and quality. Jamaica's school structure despite the recent Rose project, continue to track poor students into vocational, all age, newly converted all-age high schools and wealthier students into the traditional high schools established for the local elite in the 19<sup>th</sup> century. While Jamaica boasts high enrollment rates, the quality differential among schools are striking and not controlling for high drop out rates, the implication on productivity alarming. Clearly there is a link between current productivity levels and Jamaica's historical path. The Best/Levitt model offers a theoretical base from which to explore many of these links and establish the pathways through which the grip of the past on the future may be broken.

### **Plantation Economic Model and the Future of Caribbean Growth Research**

About 30 years ago a group of Caribbean Scholars advanced the thesis that the observed and oftentimes perplexing historically slow growth record in Jamaica and other Caribbean nations reflect their plantation legacy. While it was seen as radical, possibly given its critical approach and modeling weakness, this idea has now been mainstreamed in the broader development research literature. Unfortunately, the intellectual

contributions of the plantation scholars are not acknowledged and have had no impact on these trends. At this point, much has been confirmed using cross section analyses and a limited number of time series analyses about the arguments offered by Best and Levitt. Yet much remains to be answered in the quest to fully understand how history matters including the mechanism through which it does and equally important how to use policy to change the path that history once established. This is no easy feat, given that scholars remain unsure about how institutions are formed and whether and how institutions can be used as a basis for constructing growth theories as Best and Levitt believed. While Caribbean scholarship has stayed away from its historical roots, some small change is evident. Well needed are theoretical insights to explain empirical findings that institutions including the political structure are important avenues through which relatively slow growth persists. Some of the recent contributions include the promising research on Jamaica's government structure and its links to slow growth by Andres Mejia Acosta and Dillon Alleyne (2006) that is consistent with empirical evidence that links Jamaica's political structure with persistent inequality and slow growth, Elliott (2007). A second example is the recent study by Aamos Peters (2006) that suggest that the degree of foreign direct investment, FDI, in GDP in contrast to domestic investment is an indicator of the relatively poor quality of Caribbean institutions. The broad literature that informs Peters (2006) work indicates that FDI is oftentimes a substitute for growth-enhancing institutions. As the institution quality improves, the theoretical argument proceeds: (1) domestic investment increases as entrepreneurs are less likely to sell off existing ownership to foreign investors in search of high risk/high return ventures; (2) access to credit improves which increases the domestic opportunity for investment; (3). The historical reliance on foreign capital direct investment and otherwise makes this particularly relevant for the Caribbean if indeed it is the case that increasing FDI shares is inconsistent with growth given the argument that it reflects limited access to credit and domestic investment. There is evidence that low factor productivity in Jamaica is partly the result of inadequate formal institutions, Baris Yoruk (2007), but without the appropriate theoretical building blocks why and how remains unclear.

There are several important incentives that hopefully will convince Caribbean scholars that the legacy of the Caribbean Political Economists such as Best and Levitt; Norman Girvan; George Beckford; and others in the so-called radical school continues to be relevant to the Caribbean and beyond. The long record of slow-growth in Jamaica despite many policy alternatives stands as the most important. In addition, however, the international credibility that is now attached to the claims that historical legacies matter for development and the limited knowledge in the mechanisms by which they matter should indicate that a research agenda within this paradigm offers professional opportunities to those interested in issues related to development. Of course mere Caribbean pride should also serve as an incentive in light of the fact that many insightful contributions from Caribbean scholars remain un-acknowledged, under-developed, and effectively invisible. Worse is the recent claim that contemporary Caribbean economic thought is as weak as many of the Caribbean economies, Thomas Klak (1999). This sentiment is offensive for many reasons including the potential that to varying degrees, it might be accurate.

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