

A TRIBUTE TO PROFESSOR C.Y. THOMAS

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I enthusiastically accepted the invitation of Dr. Derick Boyd, Executive Director of the Caribbean Centre for Money and Finance, to say a few words in recognition of the distinguished intellectual contribution of Professor C.Y. Thomas to the Caribbean region. Those of you who are aware of the ideological differences between the two of us over the years will be surprised to hear me say that no economist has played a greater role than Professor Thomas in shaping my central banking career and, partially at least, the institutional trajectory of the Central Bank of Barbados - a paradox that I will in time unravel. Thomas was the only professional economist of three members of a panel discussing the future of Central Banking which marked the Tenth Anniversary of the Central Bank of Barbados in 1982; the other two presenters were the late G. Arthur Brown, Governor of the Bank of Jamaica, and the late Gerald Bouey, Governor of the Bank of Canada.

Professor Clive Thomas has been for nearly four decades the most prolific Caribbean economist of his generation. His scholarship spans all aspects of Economics – theoretical, empirical, mathematical, sociological, epistemological, historical, political and moral. Indeed, he is most appropriately classified as a

“political economist” - in the Classical tradition of Alfred Marshall and Arthur Pigou, who saw Economics as a tool for the betterment of society and not simply for amassing private wealth. Moreover, Thomas’ extensive study of Marxist literature bred a passionate concern for “The Poor and the Powerless”, the title of one of his books.

Unlike modern “mainstream” economists, Thomas understands that economies and markets are comprised of people, not of mathematical symbols. It was William Stanley Jevons who first posited in the mid-nineteenth century that “Economics, if it is to be a science at all, must be a mathematical science.” In fact, as Adam Smith, John Maynard Keynes, Nobel Laureate Amartya Sen, Kenneth Boulding and Clive Thomas all understood, and as the recent catastrophic failure of econometric models of the financial system has confirmed, Economics, if it is to benefit the “poor and the powerless”, must become a moral science.

For obvious reasons I shall focus on Thomas’ work on central banking policy and practice. My first exposure to his scholarship was via his two path breaking studies of the currency board regime, predecessor of our central banks, “*The Balance of Payments in a Colonial Economy*” (1963), and “*Monetary and Financial Arrangements in a Dependent Economy*” (1965). In this presentation I have chosen as my point of departure his slender monograph, *The Structure, Performance and Prospects of Central Banking in the Caribbean* (1973), within which many important insights into the theory and practice of central banking are conveniently compressed. As the first serious critique of central banking in the region, it was especially timely since Caribbean central banking was still in its infancy, and policies and practices were still evolving. Unlike the majority of expatriate advisors on the establishment of the first Caribbean central banks, Thomas never doubted that central banks could make an important contribution to the region’s economic development and structural transformation.

Professor Thomas explained the inability of the Currency Board to promote the objectives of economic growth and structural transformation. First, it could only expand the note issue to the extent of its acquisition of external assets, and so lacked the capacity to expand the money supply. Furthermore, because of the extreme openness of regional economies, foreign commercial banks, under the currency board regime, in effect performed the traditional central banking functions. Specifically, they provided the country's accommodating finance, and imposed limits on credit creation in both the private and public sectors. In so doing, they maximized profits but promoted neither economic development nor structural transformation.

The earliest Caribbean central banks to commence operations were the Bank of Jamaica, in 1962, the Bank of Guyana and the Central Bank of Trinidad & Tobago in 1966. More than in any other sphere of public policy formulation, Thomas noted, central banking in the region had been dominated by foreign expertise, both in the framing of legislation and during the early years of administration, and the first governors were all expatriates - the Central Bank of Barbados broke that pattern in 1972. Thomas considered the resulting laws and institutional structures of the earliest central banks as, in the main, copies of an idealized Bank-of-England model, with its assumption of well developed financial markets rather than the undeveloped ones of the Caribbean. This model largely confined them to dealings with commercial banks and Government in the area of short term credit regulation, and did not provide for what was most needed, i.e. "the development of methods and conditions of dealing in financial claims with the public *as it exists* in the Caribbean," especially since a significant range of state-owned or quasi-state-owned financial institutions were excluded from the purview of the Central Bank. Thomas therefore concluded that the Bank of England model was "inadequate for the tasks at hand."

Thomas had only a narrow window of a dozen years (1961 – 1973) within which to carry out his empirical study and assessment of the early experience of the first

three central banks. He found them reluctant to stray too far from the Bank-of-England model, slow to respond to domestic crises and helpless in the face of external shocks, most notably the sterling devaluation of 1967. However, he conceded, the Trinidad & Tobago and Jamaica Banks did act, even if tardily, when runaway expansion of hire purchase credit made serious inroads into their foreign exchange positions. In the case of Bank of Jamaica, Thomas noted with satisfaction, "One thing seems clear at this stage: that the Central Bank has been forced to take steps which, in terms of its previous history, suggest a strong departure from its usual non-interventionist role."

Nevertheless, Thomas did establish two hardy theorems of central banking policy for small developing economies with underdeveloped capital markets and a pegged exchange rate: (1) that excessive credit extension, from the Central Bank, the commercial banking system or any other source, to Government or any other debtors, is almost certain to lead to foreign exchange reserve losses; (2) the need, in an emergency, for the regulation of capital account transactions. He also set much store by diligent economic research and timely statistical reporting for informing government policy and educating the public at large.

Thomas therefore put forward a programme for radical reform of the new central banks. "The development of their powers and policies," he insisted, "must be based on the intention of leading to structural transformation, and not simply to administering the payments and credit systems as they are." His first recommendation was the imposition of exchange controls against sterling to prevent "the destabilizing outflow of domestic savings, and to reduce the region's excessive dependence on that currency". Other recommendations included:

- (a) The regulation of borrowing by non-resident corporations to avoid crowding indigenous players out of the domestic credit market;
- (b) The implementation of measures to render the operations of commercial banks consistent with national economic goals, and

(c) The nationalization of the banking system so that it might play a fundamental role in the growth process under the aegis of the Central Bank, which would itself enter into commercial banking, mortgage and other activities as necessary.

Indeed, the Central Bank Thomas envisaged would more resemble the Gosbank of the former USSR than it would the Bank of England. Paradoxically, the Central Bank of Barbados, of which I was the first Governor, was able to pursue the strategy of economic development and structural transformation espoused by Thomas, and to carry out his broad recommendations more faithfully than any other central bank in the region - yet without crossing the Rubicon to a nationalized banking system.

The basic Barbadian strategy of economic development was, from the establishment of the Central Bank, to ensure an adequate flow of credit to the productive sectors of the economy - if necessarily at the expense of consumption. The Bank employed market friendly measures whenever feasible, and intervened boldly when market outcomes seemed counter-productive. In 1974 the Bank bailed out the Barbados Sugar Industry Bank to the extent of BDS\$34 million dollars (US\$17m) – a huge sum in those days - when Barclays withdrew its traditional credit advances to that institution; it bought the securities of the Barbados Development Bank; it initiated an export credit insurance scheme for Small Business; it fixed savings, lending and mortgage rates, as well as the spreads on foreign currency transactions; it regulated the Hire Purchase industry, and required commercial banks to seek permission for loans to foreign corporations – more often than not through moral suasion; and to this day it maintains exchange controls to regulate inward and outward capital flows - though in a most liberal fashion.

Moreover, as Thomas ordained, the Central Bank has published regularly annual reports, statistical bulletins and well researched economic papers, while its outreach programmes have made the Barbadian public the most informed on economic issues in the region. Most important of all, the Central Bank of Barbados has kept the “Washington Consensus” at bay, thus shielding the nation from the calamities of economic policies rooted in the ideology of ‘free market’ fundamentalism.

However, the Bank pushed for neither the nationalization nor indigenization of foreign commercial banks. My reasoning at the time was that such a course of action would overwhelm the island’s slender managerial resources, as did in fact occur in the nationalization programs of Guyana, Jamaica and Trinidad & Tobago, which countries would later reverse that policy. Indeed, I have often described “management” as the neglected factor in economic development.

I was also able to stave off an attempt in 1976 by incoming Prime Minister Tom Adams to consolidate all government financial institutions under a single umbrella with the Central Bank at the apex - as Thomas had indeed recommended. Barbados was thus saved from the financial crises of the ‘80s and ‘90s from which Guyana and Jamaica have not yet recovered. Nor did it escape my attention that foreign-owned commercial banks have ready access to foreign exchange resources that indigenous banks do not. In 1983 the foreign commercial banks were persuaded to introduce US\$14 million into the financial system that enabled Barbados to pass the dreaded IMF Standby Agreement “tests”.

The first clue to the apparent paradox, at which I hinted in the beginning, relates to my first meeting in 1967 with Professor Thomas in New York when I sought his advice on my PhD dissertation proposal. He was horrified at my acceptance of the Bank of England as the “true” Central Bank and a model which the new central banks should imitate. He pointed out that the Bank of England was a

special case of central banking in an economy with highly developed financial markets while the Bank of Jamaica, the subject of my study, was a special case of central banking in a dependent economy with poorly developed financial markets. Whereas the primary concern of the Bank of England was monetary stability, the criterion by which I should measure the performance of the Bank of Jamaica should be the extent to which it contributed to national economic growth and structural transformation, with currency stability and balance of payments equilibrium treated as operational constraints. I followed his advice: indeed, his finger-prints are visible on almost every page of my dissertation. During my most recent meeting with Professor Thomas about eighteen months ago in Barbados, I described myself to a member of our party as his former student, admitting apologetically that he and I had sometimes differed over the years. "If a student of mine did not subsequently disagree with me", Thomas wisely replied, "I would have failed as a teacher."

The clue that finally resolves the paradox of our relationship is that although C.Y. and I have been at times some distance apart ideologically, I have always admired his passionate commitment to social justice and his deep aversion to the "Authoritarian State", the subject of another of his books. And so, as we honour Professor Thomas, the economist, for his prodigious contribution to Caribbean scholarship, it is also fitting that we salute C.Y. Thomas the humanist; and, finally, we must express our gratitude to Thomas the patriot -- He could easily have gotten himself a lucrative Chair on a wealthy Campus abroad; instead he chose, at great personal sacrifice, and sometimes in unpleasant political circumstances, to serve at the University of Guyana which, in spite of severe resource limitations, has turned out hundreds of worthy graduates who, in turn, have made a considerable contribution to economic and social development throughout the region and far afield. We wish Professor C.Y. Thomas all the best in the years ahead.

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