

The Political Foundations of Economic Transformation

By Michael Harris

This is the full text of Mr. Harris' address to Am Cham. 10th Annual Trade and Investment Conference on "The Development of the Onshore Economy for Sustainable Development" November 24, 2011.

." We shall not fix our economy until we fix our politics and we shall not fix our politics until we recognise that the prime imperative is to emancipate our people; all our people; from the prison of dependency."

I wrote those words in an article in my column in the *Monday Express* a few months ago and I quote them here because they are, I think, a very appropriate introduction to my topic this morning. It is not too farfetched to say that our inability to transform our economy is directly attributable to our inability, thus far, to break free from the shackles of dependency which have bound us all the days of our lives.

The prison of our dependency as a people has many bars. But today I want to focus on two of those structures of dependency which have ever since our political independence kept us locked in what appears to be an endless cycle of frustration and futility.

Since the overall theme of this conference is one of economic transformation, the first of these two structures of dependency on which I will focus today is

economic. We have inherited from our colonial past a type of economy which has been described by the late Lloyd Best and others as a “plantation economy”.

The Plantation economy model as described by Best divides the macro economy into two sectors; the first sector is the offshore sector and it is where the bulk of national revenues are generated. This sector, operationally and functionally, is integrated into the international economy with relatively few operational linkages into the local economy. But by virtue of the revenues generated, and in particular its role as the predominant earner foreign exchange, this sector has a major and defining impact on the other sector of the macro-economy; the onshore sector which is where the bulk of the population live and work.

This dependence of the onshore economy for revenues and foreign exchange from the offshore economy does much to explain the cycles of growth and no-growth in the macro-economy. We have long recognised this dependence. As the Minister of Finance in his recent budget presentation put it “...we have eternally spoken about diversification of the economy; yet other than the transition from an oil-based to a gas-based economy, the structure of the economy has not changed. In essence Government revenue and GDP growth are highly linked to developments in the energy sector ...and economic activity in (the) non-energy sector remains dependent on Government’s ability to transfer the energy sector revenue to domestic expenditure. “

An important point needs to be made here. As the Minister of Finance noted in his recent Budget presentation, we have for many years framed the solution to this problem of economic dependence as an issue of diversification of the macro-economy. I want to suggest that this is a limited and ultimately fallacious view of the problem. For the fact is that over the years we have diversified. The profiles of both the offshore and the onshore economies are very different today than they were thirty years ago. But, as the Minister also notes this diversification has not served to change the fundamental structure of the macro-economy or the fact of our dependence on the fortunes of the offshore economy which, by definition, are outside of our control.

So that it is not diversification per se. which is the key to economic transformation. The core challenge of economic policy and management is the building of capacity in the onshore economy for self-sustaining growth and with that a progressively diminishing reliance on, and ultimately independence from, surpluses generated in the offshore economy.

Building such a capacity for self-sustaining growth in the onshore economy will ultimately depend on two key policy and management initiatives.

The first such initiative must be a well thought out program for the structural disengagement of the onshore economy from the offshore economy or, more precisely, from the easy and unmediated access to the revenues of the offshore economy. We must, if you will, progressively wean ourselves from

our dependence on the 'unearned' surpluses of the offshore economy the better to focus our decision-making, at all levels; government, business, unions, and consumers; on the realities of the onshore economy.

I do not propose to say too much about this initiative at this point in time except to make the point that any such initiative has less to do with economics than with politics.

The second key policy initiative is a concerted, massive and sustained thrust towards the development of new and innovative economic enterprises, industries and sectors.

In this respect we must acknowledge that the former Minister of Planning in the present government, Ms. Mary King, had certainly identified the issue of innovation as the central focus of her efforts. In this she was absolutely right. But if her fledgling efforts demonstrated anything at all it is that innovation must be more than the work of one ministry; rather it must be the central focus of economic policy of the entire government. You cannot have the Minister of Planning saying that innovation is key but then the Minister of Finance goes and borrows money to spend on consumption.

Having said that however I would want to insist that in the early phase of the thrust to innovation it ought not to be the business of government to decide and define in which sectors and which industries innovation will take place. Innovation is about unleashing the creativity and the entrepreneurship of the

people, in ways large and small, to exploit such opportunities to make money as they may perceive by utilising such individual comparative advantages which they perceive themselves as having. And where such efforts take root and bloom cannot be predetermined.

Nor do I believe that for the same reasons that at this point in time there is any point to the development of innovation clusters. The question is clusters of what?

The government's role in any innovation initiative is certainly important but it must be largely facilitative. If innovation is to be the central focus of government's economic policy then this must be demonstrated by its fiscal policy, in terms of the structure of its taxation and tax incentives; by its banking and financing policy, in terms of encouraging the banking sector to get into the venture capital business as well as getting into such business itself; by its infrastructural development policy; by the development of research facilities; by focusing the work of its missions abroad to assist our innovators and by making available ready and widespread access to information.

I had stated earlier that it is not the government's business to decide on or to define areas of innovation. This must be so except in one critical aspect. In the context of striving to transform the onshore economy not all innovation is equal. The focus of the government's facilitation must be on those enterprises, industries and sectors which demonstrate, in the words of Lloyd

Best, “ the potential capacity to become self-sufficient in foreign exchange earnings and which display the vision to compete in the global order through import *displacement* and export penetration”.

I turn now to the second of those structures of dependency which I want to focus on today. This one is political in the broadest sense of that term. More specifically it is constitutional. The fundamental constitutional problem which we face as a country and as a people is that we operate under a system of government and politics utterly inappropriate and inimical to the demands and needs of an independent and democratic society. Those structures and institutions of government and state which we have today have come to us almost intact from the days of our colonial past.

The structures of colonial government and administration were designed specifically and precisely to facilitate the uninterrupted exploitation of the wealth of the land for the benefit of the colonizer. Critical to such uninterrupted exploitation was the maintenance of the subjugation and quiescence of the colonized masses. Our role was to be the proverbial ‘hewers of wood and drawers of water’.

This was achieved by ensuring that, in the institutions of government and administration which were created to run the colony, all power and authority resided in the hands of one man, the colonial Governor, and that the masses of the people were deprived completely of any semblance of power or even

access to power; without voice, opinion or participation in the decisions which affected the colony as a whole and their individual lives.

The transition from colonialism to independence therefore had to be accompanied by a complete and total reversal of that colonial configuration of power. Such a transition should have seen the creation of institutions of government and administration which specifically allowed for, encouraged and protected the voice and participation of the people in the decision-making process affecting the affairs of the country

Unfortunately nothing like that took place. We moved to political independence taking with us the same institutions and systems of subjugation and disempowerment that had been wielded by the colonial governors. We exchanged the colonial Governor for a Prime Minister and we exchanged the Governor's administration for our central Executive.

So today, fifty years after political independence, all of us, from every corner of the land, and in whatever sphere of activity we might be, find ourselves dependent on the central government, for every aspect of our existence. Some of us may have greater influence in the corridors of government but all of us are dependent on the central executive to some degree.

The critical constitutional issue therefore, which has bedevilled our politics and our society for these past fifty years, is this **absolute imbalance in the distribution of power between the executive and the people.**

This brings us back to the question of economic transformation. For if we can agree that innovation is the key to economic transformation then it begs the question as to why has such innovation not taken place thus far? Why have we been unable to unleash “the creativity and the entrepreneurship of the people, in ways large and small?” Or, as someone recently put it, “Why do our entrepreneurs find it easier to import, mark-up and sell than to go through the hassle of production of globally competitive tradable goods and services?”

Certainly part of the answer has to do with the lack of facilitating infrastructure which I have earlier identified as the role of the government to provide. And definitely part of the answer has to do with the complacency which derives from our dependence on offshore surpluses. But I would want to suggest that there is an even more fundamental reason for the lack of enterprise and innovation in economic matters which is displayed by us as a people, a reason that is rooted in the political dependency which I have just described.

The question of what factors create and drive a spirit of enterprise among a people and, conversely, what factors inhibit such a spirit, is one that has occupied scholars for a long time. Cultural, religious, economic, racial, and geographic factors have all been regarded as critical at one time or another.

In our case, whatever other factors may be relevant, I would suggest that a key issue is **a risk averse attitude towards long-term investments**

which, in turn, stems from a fundamental sense of insecurity about the long-term prospects for our endurance as a viable political entity.

All business investments run the risk of failure, even those in such tried and true sectors as commercial trading. So that even the proliferation of fancy 'higgler' stalls, (otherwise known as malls) is an indication that our businesspeople are not completely risk averse.

However investments in new and innovative enterprises are almost always long-term. Even if we assume that all the infrastructural elements were in place, simply developing the product or service, establishing it in the marketplace and creating and growing market share are expensive and long-term propositions especially since the market-place which we need to penetrate and establish ourselves is not the local market or even the Caricom market, but the international market.

The reluctance of our people to invest in such ventures I am suggesting is occasioned by our lack of assurance and security regarding the future viability of the country itself. In other words, the main reason for our failure thus far to transform the on-shore economy may well be our persistent failure to get our politics right.

If our governments and administrations seem to be persistently incompetent, corrupt and clueless; if we have no assurance that the fruits of our efforts will be secure; if we feel that we have no control over

national policies and prescriptions; then what incentive is there for us as a people to invest our dreams, our energies, our imaginations and our resources in any long term enterprise? So we live, all of us, in the short-term, always looking for signs that the whole edifice is about to collapse and trying to ensure that we have an escape plan.

If my analysis is correct, the question arises how do we fix our politics in such a way that our people can come to develop the conviction that this nation, as a community of peoples, is stable, secure, viable and enduring?

The answer to that question, as I have argued and will continue to argue, is that we must construct for ourselves an appropriate and enduring system of governance. These days the term governance is used by many, but not everyone understands its meaning. Governance is not government. The latter term refers to the group of men and women who hold office at any particular time; the policies they pursue and the decisions they make.

Governance, on the other hand, goes beyond the functions of government and refers primarily to the relationship between the people and their government and to how this relationship affects, and is affected by, the process by which governments make their policies and decisions and seek to implement them.

In this context the critical question is the degree to which and the manner in which such decisions incorporate and reflect the will and wishes of those who are directly impacted by such decisions and their consequences.

Thus governance is really about the structural and institutional environment surrounding a government's decision-making process and the extent to which such structures and institutions facilitate the meaningful involvement of the people affected by such decisions.

But the argument which I am making here, and which I have sought to make over the years, goes beyond that. What I have also insisted on and what we must all come to understand is that in the absence of 'good governance', 'good government' is not possible. As I wrote some time ago, "Successful government, however defined, is only possible if *the process of government* is trusted by the vast majority of citizens..... (but) such trust on the part of the people in the process of government can only be won if the vast majority of people are persuaded that such (a) process is fair and equitable to them and their individual and collective interests."

Good governance does not guarantee good government but good government is not possible in the absence of good governance.

So what institutions and structures define good governance and assure the 'meaningful involvement of the people in the decisions which affect their lives.'?

I would want to suggest that there are four (4) fundamental pillars of good governance. These are Information, Consultation, Participation and Control. In the time I have here this morning it is not possible to deal comprehensively with any of these pillars. What I shall attempt to do is to give you some understanding of what each of them refers to, how they impact on a system of governance and give some suggestions as to some structures we might consider in building each of these pillars. I stress that these suggestions do not in any way pretend to exhaust the list of possibilities. I will then speak, in a little more detail, about one structure which I consider to be of utmost importance in any system of governance which we would construct for ourselves.

The very first pillar, indeed the foundation of any system of governance we would construct must be **Information**. If citizens are to participate in the exercise of political power in an effective and meaningful way, then they need to have information relevant to the issues being confronted in the political arena. This is one of the reasons why freedom of speech is considered such an important right and a free press such an important institution within democratic political systems.

This is also why transparency has become such an important objective in politics and government today. But we have to recognise that merely knowing what government is doing is not enough. Good information would include analysis, it would include the background facts and figures with which to make

sense of the foreground information and it would include access to different interpretations of the information.

In this context therefore let me suggest just a few of the structures which might be useful. Paramount of course is a free press and we must jealously guard the freedom of our press. But we must not fool ourselves that the commercial media is always free and unbiased. As such I would advocate converting CNMG into an independent public broadcast authority.

In addition we need to establish institutions and structures of research and dissemination. Here I would suggest that our Universities have a vital role to play which they have not been playing. I would also advocate that the Central Statistical Office be converted into an independent national authority charged with the ongoing gathering and dissemination of social data.

The second pillar of a proper system of governance is **Consultation**. As far as this is concerned what we need are structures which allow our citizens, individually and collectively, on an ongoing basis, to express their views on policy matters of concern to them and to promote and advocate their interests.

If we are to institutionalise consultation as a feature of our political process then we have no choice but to radically alter the structure of some of our political institutions. In this context converting our Senate to become a forum of interests has long been advocated as a first step. This is why Lloyd Best spoke of the “macco senate”. But implied in that term are several important features of any such institution, including but not limited to, the power and the

capacity to oversee the work of the government, to hold public hearings on issues, and to conduct investigations and enquiries.

One aspect of consultation which we used to have but which now seems to be in disfavour is the publication, by the government, of 'Green' papers on any major policy issue. Finally, and I would simply note it here, a major impetus to a proper process of consultation would be the formation of true political parties as distinct from the election machines which we have and have always had.

The third pillar of a proper system of governance is **Participation**. I earlier argued that trust on the part of the people in the process of government can only be won if the vast majority of people are persuaded that such (a) process is fair and equitable to them and their individual and collective interests. Key to such trust is the direct involvement and participation of the people in the process.

Today our participation is confined to voting in elections and to burning tyres on street corners. Beyond that we are the passive onlookers to policies and programs which affect us. Building structures of participation into the governmental process a vital step not only towards successful government but to democracy itself. **And in this context let me assert with all the fervour I can muster that only a decentralised system of government can facilitate the direct participation and involvement of the people in the governmental process.**

I will come back to the issue of participation shortly. The fourth and last pillar of good governance is **Control**. Unquestionably the most significant resource possessed by the people with which to control their leaders is our right, on a periodic basis, to review their performance and to decide whether we wish to keep them in office or to throw them out.

And in an ideal world that would be all that is necessary. The fact is however that we do not live in an ideal world. Here in Trinidad, as distinct from Tobago, that instrument of control over our leaders has unfortunately been utterly subverted and rendered almost useless by the fact that our politics has been corrupted by the issue of race with the result that our choices in our elections are, for the most part, not really decided by the performance of incumbents so much as by which tribe they represent.

The only way to revert to and restore a situation in which elections are truly an instrument of people control over governmental leaders is to change the bases of our political affiliations and mobilisation.

To accomplish this however we have first to recognise that the fundamental reason for the endurance of such tribal bases of political affiliation has little to do with racism. It is sheer foolishness to believe that more than half of the people of this country are racists. If that were truly so we would not even be here today, for we would have long ago drowned in a bloody sea of racial war.

What in fact gives rise to the tribal bases of political affiliation is the very same sense of insecurity and fear which inhibits the fullest expression of our creativity and enterprise. The insecurity and fear of which I speak do not derive from the epidemic of crime currently stalking our land. The insecurity and fear of which I speak existed long before the current escalation in crime.

When I speak of insecurity and fear I am referring to the fact that none of us in this country, of any race, feel a sense of security about our place in this land. We are insecure about whether the legitimacy of our share of the patrimony of this land will be acknowledged by others. We are insecure as to whether our right to an equitable share of national resources will be honoured. We are insecure as to whether that which we strive for and build will be left to us to enjoy. And we fear a conspiracy of the others that surround us to dispossess us of our rightful claims to this land.

It is this pervasive fear and insecurity which drives many of us, in the absence of any other demonstrable options or possibilities, to seek some minimal level of protection, comfort and security, in the arms of parties which claim to represent and defend our kind. The only way to diminish this pervasive fear and insecurity which all our people feel is to organize and structure our affairs in such a way as to give to all our people, of every creed and race and region, a secure sense of belonging to and ownership of this land.

This is why the four pillars of governance of which I have spoken here today are so critical and it is also why the most critical structure we need to build is a strong and entrenched system of local government.

A system of local government built around our communities, with clear and unambiguous responsibility for the provision of public goods and services to those communities, with adequate and constitutionally protected financial resources, with co-equal rights of decision-making, vis a vis the central government, on local issues, and with clear provisions ensuring that the voice of the people of those communities can be heard and taken seriously.

It is only with such a local government system that citizens can be assured of a measure of security, equality and protection at least in relation to those issues which affect them in the localities in which they live, and it is only with such assurance about their local conditions that people will be emboldened enough to begin to organize themselves on the basis of their real interests rather than their race.

This then, Ladies and Gentlemen, is how we can fix our politics.

This is how we construct a system of governance that is viable and enduring.

This is how we give to all our people a sense of security about their place in this land.

This is how we cast out the demon of racial politics from our land.

This is how we break free from the shackles of dependency.

This is how we unleash the spirit of enterprise and innovation amongst our people.

And this is how we begin the process of economic transformation.

Ladies and Gentlemen, I thank you.