

PROBLEMS IN THE DEVELOPMENT OF THE E.C.C.A.*

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The East Caribbean Currency Authority was established in 1965 in accordance with an agreement made between the Governments of Barbados, the Leeward Islands and the Windward Islands, with the exception of Grenada. At the end of 1967 the Government of Grenada applied for and was subsequently granted membership in the East Caribbean Currency Area.

According to the preamble to the East Caribbean Currency Agreement 1965, the E.C.C.A. was formed because of a desire "to establish a common currency and to establish an authority to issue and manage that currency, to safeguard its international value and to promote monetary stability and a sound financial structure in the territories of the participating Governments". In its conception, therefore, the E.C.C.A. was intending to be nothing less than a Central Bank.¹ However, in terms of its present operation, there is very little to distinguish the E.C.C.A. from the British Caribbean Currency Board, which it has in part replaced. To date the Authority has functioned almost exclusively as a money changer, and is ill equipped to exercise control over financial institutions, in the interest of "monetary

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¹For the purposes of this paper, a functional specification of a Central Bank is being used.

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stability and a sound financial structure".

THE E.C.C.A.'s INADEQUACY: A SUGGESTED INTERPRETATION

The inability of the E.C.C.A. to move beyond the mere issuing and redemption of currency, and actively promote the ends for which it was established, can, perhaps, be partly explained by the fact that it is acutely short of staff versed in the theory and techniques of monetary management as it applies to small, open, underdeveloped economies. Of greater significance, however, is the fact that the orthodox central banking powers with which the E.C.C.A. has been invested, are not operational in the financial environment of the East Caribbean Currency Area.

The general powers granted to the E.C.C.A. and the specific restriction imposed upon it are enumerated in Articles 19 and 20 of the Currency Agreement. The powers granted to the E.C.C.A. correspond to the powers which a Central Bank in a developed monetary economy would need to enable it to pursue the orthodox techniques of monetary control: Bank Rate policy and open market operations. The E.C.C.A. has the power to grant advances to, open accounts for, and accept deposits from commercial banks. It can also purchase and sell a specified list of securities.

The restriction placed upon the E.C.C.A. have the effect of ensuring that it cannot deviate significantly, by way of acts of commission, from the established practices of orthodox central banking. The most significant of these restrictions are: The E.C.C.A. may not grant loans upon the security of any shares; draw or accept bills payable otherwise than on demand; grant advances to financial institutions other than banks.

Thus it is that, on the one hand the Currency Agreement inhibits the E.C.C.A. from operating in any manner which does not conform to orthodox central banking techniques; while on the other, our financial environment makes the use of these techniques futile, if not impossible. Essential to the successful application of Bank Rate policy is a situation where commercial banks regard the Central Authority as lender of last resort. However, the commercial banks operating in the East Caribbean Currency Area are branches of foreign banks with resources far in excess of those at the command of the E.C.C.A. At present these banks rely on their overseas head-offices for emergency loans. To them, the rate at which the E.C.C.A. is willing to rediscount Treasury Bills and other first class bills borders on the irrelevant.²

Open markets operations seek to regulate economic activity by influencing the liquidity position of the commercial banks in such a way as to force or encourage bankers to adjust their portfolios, thereby altering the volume of credit in a way desired by the Central Authority. The rationale for open market operations derives from the theory that commercial banks seek to maintain cash and liquidity ratios which would establish a desired balance between making profit and taking risks. However, because of the peculiar circumstances of our dependent monetary economy, banks operating within the region find it unnecessary to maintain fixed cash or liquidity ratios. As

²Indeed, up to the time that this paper was written, commercial banks in the region had never availed themselves of this rediscounting facility.

a consequence, open market operations cannot influence the behaviour of commercial banks in the East Caribbean Currency Area by influencing their liquidity position. But the most obvious reason why open market operations cannot work in the East Caribbean derives from the fact that the area does not have a money market of any significance in which the E.C.C.A. can operate.

Given the present structure of the East Caribbean economy, it is pointless to conceive of the E.C.C.A. as a miniature Bank of England. To the extent that the E.C.C.A. possesses the ambition to conform to the orthodox model of a Central Bank, there is little hope of its developing into an institution capable of promoting "monetary stability and a sound financial structure". Moreover, irrespective of the desires of the officers of the E.C.C.A., if it is equipped with traditional instruments only, it will certainly remain ineffectual. The orthodox techniques of monetary control were fashioned to meet the requirements of a particular type of economic environment. We in the Caribbean must seek to develop techniques which are suited to the social, economic and political realities of our situation. Indeed, we must apply our minds to the basic problem of defining in specific terms, the role of a Central Bank in a dependent economy.

ON CENTRAL BANKING IN THE EAST CARIBBEAN

In this section an attempt will be made to define what ought to be the specific objectives of central banking policy in the East Caribbean Currency Area. In doing this I shall accept as

a datum that ultimately, the role of the E.C.C.A. ought to be the maintenance of external and internal monetary stability and the promotion of 'a sound financial structure', and proceed to give specific content to these general objectives by relating them to economic conditions and political aspirations in the region.

In regard to economic conditions in the region, the most significant features are a low level of development, extreme openness and a dependent monetary system. The economic implications of these phenomena have been given detailed treatment by others.³ For the purposes of this paper, however, the significant characteristics deriving from these features are a high impost coefficient, and monetary and credit systems that are highly integrated with British and other North Atlantic systems.

Monetary Stability

In any economy the problem of maintaining internal monetary stability can be subdivided into: (a) the problem of maintaining confidence in financial institutions. In a developed monetary economy the problem of maintaining internal monetary stability is essentially the problem of maintaining a stable price level. This is so because confidence in financial institutions can, by and large, be taken for granted.

However, in an open dependent economy such as the East Caribbean, control of the price level is beyond the immediate competence

³For a detailed discussion of monetary dependence, see C.Y. Thomas: Monetary and Financial Arrangements in a Dependent Monetary Economy, I.S.E.R., 1965.

of the Currency Authority. Moreover, the high import coefficient which is a characteristic of our economy, acts as an automatic adjustment mechanism to keep our price level in line with the rest of the world.⁴ In the East Caribbean, therefore, the problem of maintaining internal monetary stability essentially becomes the problem of maintaining confidence in financial institutions rather than that of maintaining confidence in the value of the currency.

In regard to external stability, ours is a similar problem to the one confronting developed countries. The promotion of external stability involves the long-term objective of maintaining balance between current account transactions and the net flow of long-term capital. It also involves taking the teeth out of speculation against the currency.

Sound Financial Structure

Our view of what constitutes "a sound financial structure" in an East Caribbean context must not only be derived from economic conditions in the region, but must also be consonant with the aims and aspirations of the region. In regard to the latter, this paper will proceed on the assumption that economic development is the over-riding consideration. The further assumption will be made that there is a commitment to the idea of regional integration as a strategy of development. Thus, on the basis of these assumptions, it is being

⁴The degree to which our price level can vary from the price level in the North Atlantic is a function of transport costs, the percentage mark up of the commercial sector and the degree of protection afforded local industry, and differences between local and North Atlantic Consumption and production patterns.

postulated that the criteria by which the "soundness" of our financial system must be judged should in some way relate to the efficiency with which the system mobilizes and allocates loanable funds on a regional basis, to those sectors of the economy that are deemed to be strategic to the development process.

Viewed in this light, the development of a sound financial structure involves the regulation of existing intermediaries and the development of such additional intermediaries as are necessary to provide for the efficient transmission of loanable funds from surplus spending units to deficit spending units. It also involves the financial integration of the region.

The foregoing leads to the conclusion that the East Caribbean Currency Authority should be pursuing policies oriented toward two separate but related goals. First, but not necessarily foremost, the E.C.C.A. should concern itself with financial reconstruction. The E.C.C.A. should be pursuing policies designed to reduce the degree to which our financial system is integrated with North Atlantic Systems, whilst imparting a regional bias to our financial institutions. The E.C.C.A. should also seek to promote the development of such additional institutions as are necessary to cater fully to the present and future credit requirements of a developing region.

The E.C.C.A.'s second area of concern should be the regulation of the allocation of loanable funds. The E.C.C.A. should seek to place itself in a position where it is able to exercise quantitative and qualitative control over the portfolio preferences of financial institutions. However, as was pointed out above, far reaching changes

in the powers and organizational structure of the E.C.C.A. must take place before it is equipped to function in the manner suggested.

PROBLEMS IN THE DEVELOPMENT OF CENTRAL
BANKING IN THE EAST CARIBBEAN

On this view of the role of a central banking institution in the East Caribbean, there arise at least seven major problems which will have to be solved:

- (1) How can the E.C.C.A. contribute to the maintenance of confidence in financial institutions?
- (2) How can the E.C.C.A. equip itself so as to be able to ensure the external value of the currency?
- (3) How best can monetary dependence on North Atlantic economies be broken?
- (4) How can a regional bias be imparted to financial institutions in the area?
- (5) What new financial institutions should be encouraged?
- (6) How can the E.C.C.A. influence the portfolio preferences of banks and other financial institutions?
- (7) How can the E.C.C.A. determine what is an optimal allocation of financial resources?

Cutting across all of the foregoing is the more general problem of operating a multi-national central banking institution in a context of unco-ordinated national policies, and in a region characterized by different levels of development in the constituent territories. This section will be devoted to a brief discussion of these eight problems.

Confidence and Financial Institutions

The major threat to confidence in our financial institutions is posed by the possibility that, at times, an institution can experience

difficulty in honouring its short-term obligations. Sound portfolio management requires that financial institutions maintain some level of liquidity in their asset holdings which is consonant with their liability structure. However, unless an institution keeps all its assets in liquid form, there is some degree of probability that it will, from time to time stand in need of emergency loans in order to meet its short-term obligations. If there is no source from which financial institutions can obtain this kind of loan, the occasional failure of an institution must be expected. The E.C.C.A. should therefore assume the role of lender of last resort, not only to commercial banks, but to all other financial institutions operating in the area.

The problem outlined in the preceding paragraph is particularly severe in the case of institutions such as building societies. A building society is an institution which specializes in making long-term loans, however a significant amount of its liabilities are essentially short-term. Building societies are able to perform the important function of translating short-term loans into long-term loans, because of the averaging benefit of the law of large numbers. Given the portfolio preferences of surplus spending units and the rate of saving in the economy, building societies can normally expect an inflow of new loans which will tend to off-set, if not exceed the demands made on them for repayment of loans. Of course the analogue to this is that we can occasionally expect the inflow of new loans to fall short of demands for repayment. The frequency with, and degree to which this latter situation will

occur will depend on the probability density functions of the two flow variables. It is my view that in the East Caribbean institutional and structural parameters will lead to a high degree of variability in these flows, and to the relatively high probability of a building society's experiencing a liquidity crisis.⁶

At the moment the E.C.C.A. is prohibited by law from lending money to building societies. Should it prove desirable to encourage the growth of this type of financial institution, in the region, the E.C.C.A. should be permitted to grant loans to them, in cases of emergency. To be able to do this, the E.C.C.A. should be empowered to rediscount mortgages, as well as to grant loans on the security of mortgage instruments.

External Stability

As mentioned above, the problem of maintaining external stability involves the maintenance of balance, over time, in the autonomous transactions on the current and capital accounts of the balance of payments, including speculative movements against the currency.

At the moment the E.C.C.A. is singularly ill-equipped to stave off any threats to the external value of the currency. Article 11, of the 1965 Currency Agreement, compels the E.C.C.A.

⁶The probability that a financial institution will experience a liquidity crisis depends on the distribution of reserve losses, as well as on the level of liquid reserves maintained by the institution. Building societies can, therefore, reduce their risk of failure by maintaining high cash reserves. However, this policy reduces their capacity to transform short-term credit into long-term credit.

to buy and sell sterling on demand "form immediate delivery in London". In addition to this, the E.C.C.A. has absolutely no say in the administration of foreign exchange controls against non-sterling currencies.⁷ Consequently, the E.C.C.A. is in no position to regulate trade and payments with the rest of the world.

As a minimum approach to the problem of external stability, the E.C.C.A. should be empowered to issue general directives to the financial ministries in regard to the exercise of foreign exchange controls; and should also be relieved of its obligation to buy and sell sterling on demand. In regard to the latter, it must be pointed out that there is no logical or causal necessity for the establishment of a fixed parity with sterling to be accompanied by free convertibility into sterling. Indeed, from the point of view of maintaining balance in our trade and payments position with the rest of the world, including the rest of the sterling area, it is logically possible that fixed parity with sterling can be inconsistent with free convertibility into sterling. In fact, to the extent that there is substitutability between transactions (both on current and capital account) with the sterling area and transactions with the non-sterling area, free convertibility arrangements with sterling makes nonsense of the imposition of exchange controls against the non-sterling area, and amounts to little more than discrimination

⁷Foreign exchange controls against non-sterling countries are exercised by the various ministries of Finance within the region. Decisions in this regard are still made in conformity with Bank of England directives, rather than in accordance with local requirements.

in favour of British goods and British financial instruments.

In regard to the imposition of restrictions on convertibility, it is worthwhile to distinguish between restrictions on current account transactions and restrictions on the movement of loanable funds. The regulation of current account transactions usually involves interference in the pattern of trade and production. The greatest care must, therefore be taken to ensure that restrictions on current account transactions are consistent with national development policy.

The influence of international capital flows on trade and production is more diffused and consequently less disruptive. In order to be in a position to regulate these flows the E.C.C.A. should be empowered to fix local asset ratios for commercial banks and other financial institutions.

So far we have been concerned with instability deriving from imbalance in our trade and payments. However, there is another source of instability which derives from our operating a sterling exchange standard. As long as we should fix the par value of our currency in terms of sterling, the external value of our currency can be no more stable than the value of sterling. Legislation should be introduced to empower the E.C.C.A. to alter the parity with sterling in the event of a devaluation or revaluation of that currency.

Structural Re-orientation

The breaking of monetary dependence on the North Atlantic and the imparting of a regional bias to our financial institutions can be regarded as two aspects of a more general problem; the problem

of re-orienting our financial structures. Essentially, it involves the breaking of the branch firm relationship between commercial banks and insurance companies in the region and their overseas head-offices. Decision making units such as Barclays Bank D.C.O. will have to be replaced by regional organizations which are given the highest possible degree of autonomy in so far as relations with the North Atlantic are concerned.

However, the question of decision making is only one aspect of dependence. Our present monetary dependence derives not only from the fact that our major financial institutions are foreign-owned and controlled, but also from the fact that these institutions are unable to obtain securities of a wide enough variety to enable them to operate a balanced portfolio on the basis of local financial assets.⁸ Simultaneously with the attempt at structural re-orientation, the E.C.C.A. must, therefore, take steps to increase the variety and volume of available local securities.

New Financial Institutions

The question of what new financial institutions should be encouraged is essentially an empirical problem. This question can only be answered in the light of careful research into the credit requirements of the region, as well as the potential sources of loanable funds. Credit requirements will have to be estimated not only on the basis of demands currently made on the system, but also on the basis of projected growth rates in the various sectors of the

⁸ Another course of monetary dependence is free convertibility with sterling.

economy. The type and volume of loanable funds that can be obtained from primary sources can be established through a careful examination of income and expenditure patterns within the region.

It is, therefore, evident that it is beyond the scope of this paper to make a definitive statement concerning the type of financial institutions that are required in the East Caribbean. However, there is adequate theoretical justification for holding the view that the region stands in need of an organized market for equities. At present, equities have a low priority ranking in the portfolio preferences of the majority of surplus spending units within the region. This low priority ranking is in part a reflection of the fact that local equities are not very liquid and are, consequently unable to compete with money, bank deposits and treasury bills as the temporary abode of purchasing power.

In places such as London and New York, equities have a relatively high degree of liquidity because of the high level of activity on the stock market. Because of the small size of the East Caribbean, no market in the region will ever develop the volume of activity which is necessary to impart a high degree of liquidity to equities. Unless some other device is used to impart liquidity to equities, they will continue to have limited attraction for savers. This in turn would act as a serious brake on the development of a market for equities, on the mobilization of resources for development, and on the degree of popular participation in economic activity. It is my view that these problems would be obviated if

the E.C.C.A. should engage in the buying and selling of equities, and if it should undertake to make loans against the security of equities.⁹

It should be noted, however, that the low level of demand for equities is only one of the factors inhibiting the growth of a stock market. There is also a severe limitation on the supply side. At the moment, most of the firms operating in the region are either family firms, or international concerns with little or no interest in the issuing of shares on the local market. "Pari passu" with attempts at stimulating demand for equities, attempts should be made to augment the supply of this kind of paper by encouraging the formation of more public companies.

Credit Control

3 Techniques of credit control can be classified as direct and indirect. Two examples of direct control are moral suasion and the imposition of legal reserve ratios. In both cases a direct attempt is made to influence the institution's portfolio policy. The institution is persuaded or coerced into acting in the manner desired by the Central Authority, irrespective of the private profitability of the act.

Bank rate policy and open market operations are examples of indirect controls. Indirect policies attempt to alter the data

⁹The suggestion that Central Banks should hold equities is not a new one. Professor Kennedy has made such a suggestion. However, Kennedy's case for the holding of equities was based upon income considerations, and was limited to the holding of foreign assets. Cf. Charles Kennedy: "The Case of Equities as a Part of Official External Assets". Social & Economic Studies, Vol. 14, No. 3, September, 1965.

upon which financial institutions base their calculations in regard to the optimal distribution of their portfolios. Indirect controls derive their validity from the postulate that financial institutions behave rationally in the pursuit of a clearly defined objective. In the case of commercial banks, in developed countries, this objective is usually taken to be the maximizing of expected profits. Indirect controls, therefore, involve the dangling of carrots or the setting of snares to induce financial institutions to re-adjust their portfolios in a way desired by the Central Authority.

It should by now be obvious that indirect controls require a higher degree of expertise on the part of central bankers than direct controls require. The central bankers must be clear on how a wide range of economic variables can influence the portfolio preference of financial institutions. He must also be sure of his ability to manipulate these variables with great precision. A necessary prerequisite for the use of indirect controls is accurate and comprehensive information on most aspects of economic activity.

In the absence of adequate information and expertise, direct controls are sure to prove superior to indirect controls. At the moment the E.C.C.A. is empowered to collect information from commercial banks only. It is also acutely short of staff. Indeed, unless the E.C.C.A. is granted the power to collect information from all types of financial intermediaries, and unless it takes steps to acquire additional qualified staff, it would be dangerous for it to attempt to exercise control of any nature over financial institutions.

Allocation of Financial Resources

There are two aspects of the problem of efficiently allocating a country's financial resources. First there is the question of the holding of foreign reserves, and then there is the question of allocating available loanable funds to the various sectors of the economy.

The 1965 Currency Act stipulates that the East Caribbean Currency Authority "shall at all times maintain a reserve of external assets consisting of gold, sterling or currencies convertible into gold or sterling for an amount not less than seventy per cent of the value of its notes and coins in circulation and other demand liabilities..." The Act goes on to state that this minimum percentage may be reduced to sixty per cent if each of the participating Governments give its written agreement. In practice, however, the E.C.C.A. has been maintaining an external assets ratio of somewhat over one hundred per cent. In December 1968, the proportion of external assets to demand liabilities was 101.1 per cent. This is an altogether unsatisfactory situation.

Strictly speaking, the rationale for holding foreign reserves should relate to the need for settling balance of payments deficits. The decision as to what constitutes an optimal level of foreign exchange should be based on an understanding of the determinants of the balance of payments. Moreover, the level of foreign reserves which the E.C.C.A. should maintain should be tied to its demand liabilities only if it has been indicated that the demand liabilities of the E.C.C.A. provide the best indicator of

changes in our balance of payments position. In any event, a hundred per cent external assets ratio is altogether too high. As Nevin points out, "The maintenance of a 100% foreign backing to a currency can be justified logically only on the assumption that the possibility exists that every single currency note outstanding might be presented to the issuing authority for conversion into some other currency".¹⁰

The view has been expressed that high foreign reserves serve the purpose of maintaining foreign investors' confidence in the currency. In this connection, the question must be asked whether confidence is a variable directly correlated with the level of foreign reserves, or whether there is some critical minimum level of of foreign reserves that is consonant with confidence. It will also be worth establishing whether the benefits derived from foreign investment can outweigh the costs involved in maintaining otherwise excessive foreign reserves.

However, concern with the problems mentioned in the preceding paragraph rests upon the assumption that we consider our holding of foreign reserves as one of the key variables which determine the volume of investment flowing into the region. This assumption is far from obvious and should only be accepted in the light of empirical evidence. On "a priori" grounds a much stronger case can be made out for the influence of political factors and real economic variables on the rate of foreign investment.

¹⁰Cf. Edward Nevin: Capital Funds in Underdeveloped Countries. London, Macmillan, 1961: Chapter 1.

In its programme of research, the E.C.C.A. should give priority to the problem of determining what constitutes an adequate level of foreign reserves. However, whatever the optimal level of reserves will prove to be, one thing is certain the present level is too high, and leads to a situation where we in the Caribbean are continually lending our money to Britain at relatively low, short-term rates of interest, and are at the same time borrowing from abroad at higher long-term rates of interest.

So far we have been discussing the quantitative aspect of the problem of foreign reserves. This problem also has a qualitative dimension. Apart from the problem of establishing the optimal level of foreign reserves, there is also the problem of attaining an optimal distribution of the portfolio of foreign assets. These two problems are not mutually exclusive, but it is methodologically advantageous to make a distinction between them for purposes of analysis.

The type of assets which comprise the E.C.C.A. should display a liquidity structure which harmonize with the demand liabilities of the E.C.A.A., and the behaviour pattern of persons and organizations who hold these claims against the E.C.C.A. In addition to liquidity considerations, foreign assets must also be evaluated in accordance with yeild and risk. Those responsible for administering the portfolio of the E.C.C.A. must establish a delicate balance between the rate of return on various types of assets and the risk of capital loss on these assets. The rational response to this problem will, in all probability, result in the E.C.C.A.'s

diversifying its assets, not only with respect to liquidity, but also with respect to country.

On September 25, 1968 the East Caribbean Currency Authority entered into an agreement with the United Kingdom Government, which requires the E.C.C.A. to hold all of its external reserves in sterling. Despite the fact that the E.C.C.A. was given a dollar guarantee on 90% of its reserves held in sterling, it is safe to conclude that this agreement runs counter to sound portfolio management on the part of the E.C.C.A.

In regard to the second aspect of the allocation problem, the decision as to how financial resources should be allocated to various sectors of the economy; this is essentially a problem in economic planning and takes us somewhat beyond the exclusive domain of central banking. This decision would have to be taken in collaboration with those departments that are responsible for development planning. In fact these departments and the E.C.C.A. should collaborate in the drawing up of an annual monetary plan aimed at integrating monetary with general economic policy.¹²

Problems of a Multi-National Central Banking Institution

The problems discussed above are by no means peculiar to the East Caribbean Currency Authority. Indeed, the foregoing remarks could apply in large measure to any of the Central Banks in the Commonwealth Caribbean. However, in the case of the E.C.C.A., an added dimension is given to these problems by virtue of the multi-national nature of this institution. Any discussion of the problems

confronting the E.C.C.A. would be incomplete unless some mention is made of the problem of operating a multi-national central banking institution in a context of unco-ordinated national policies, and in a region characterized by different levels of development in the constituent territories. We turn now to a brief discussion of this problem.

The problems posed by the multi-national nature of the E.C.C.A. are all questions of management, which can be analytically separated into problems of portfolio management and problems of internal monetary and credit policy. In regard to the former, the problem of ascertaining what constitutes an adequate level of foreign reserves is aggravated by the varying levels of development and the absence of co-ordinated economic policies within the region. This study has not advanced a method for calculating an optimal level of foreign reserves. Nonetheless, it is safe to say that any attempt to calculate an optimal level of foreign reserves must revolve around an attempt to link reserve losses to economic aggregates such as National Income and the Stock of Money, as well as to the income and expenditure patterns of decision-making units. In attempting to calculate an optimal level of reserves for the E.C.C.A., cognizance will have to be taken of the national differences mentioned above.

¹²Cf. Xenophon Zolotas: "Monetary Planning"; Bank of Greece Papers and Lectures, No. 22, 1967.

In regard to internal monetary and credit policy, economic and political reality dictates that there should be no single unified set of policies which apply without discrimination throughout the entire region. The region must be divided up into discrete policy areas. In the limiting case, they could be as many policy areas as there are separate territories. However, islands at a similar level of development, and pursuing a similar economic strategy can be grouped together. Thus, one can envisage the E.C.C.A.'s applying relatively sophisticated techniques of monetary control in Barbados, whilst at the same time, operating in Montserrat in the Traditional Currency Board manner.¹³ One can envisage the application of one rate of rediscount in Barbados, and another rate in Antigua.

¹³This possibility renders Barbados' recent decision to establish their own central banking institution at once unnecessary and unfortunate.

CONCLUSION

A recurring theme throughout this paper has been the need for a break with orthodoxy if the E.C.C.A. is ever to come to grips with the problems which will confront it as it strives to promote the ends for which it was established. In particular it has been argued that the E.C.C.A. should stand ready to lend to all 'bona fide' financial institutions in cases of emergency. It has also been suggested that the E.C.C.A. should venture beyond a mere concern with short-term stability and seek to promote structural re-orientation of our monetary and credit systems.

I have also sought to emphasize the need for meaningful research into economic conditions in the region. The policies which the E.C.C.A. pursues should be informed with a knowledge of the structure and working of the East Caribbean economy. The E.C.C.A. must have at its disposal detailed information on all financial institutions operating within the economy. Detailed research must be undertaken into the income and expenditure patterns of decision making units, as well as into their portfolio preferences. The E.C.C.A. must also be fully cognizant of the development plans of the various governments. Indeed, it is desirable that the E.C.C.A. should participate in the formulation of such plans.

The implications of these proposals for alterations in the present powers and structure of the E.C.C.A. are evident. Legislation must be introduced to enable the E.C.C.A. to break out of the straight jacket of orthodoxy, and the staff of this institution must possess the expertise and the desire to rely less on tradition and more on logic and sound financial principles as they strive to mould the E.C.C.A. into an institution capable of living up to the demands made on it in the 1965 agreement.