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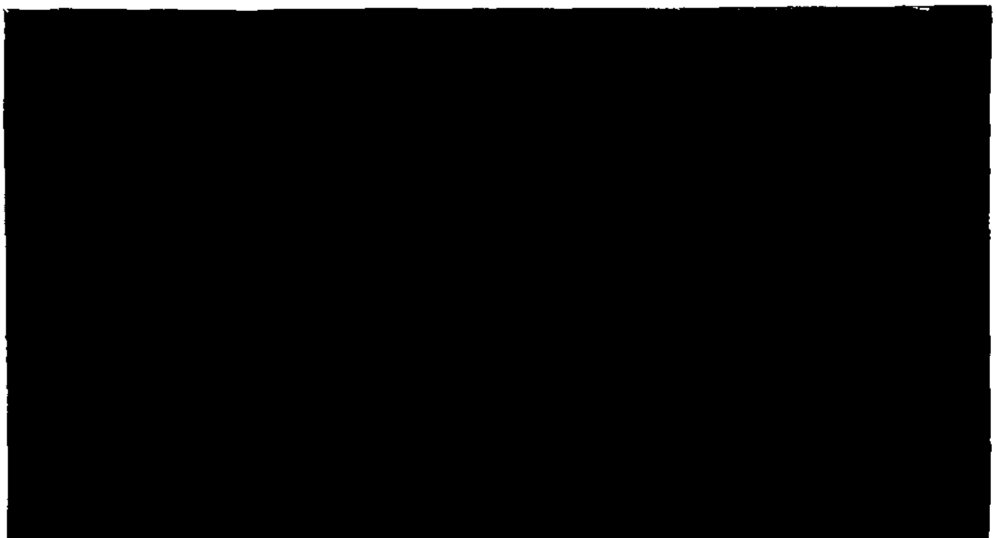

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THE ISSUE OF CENTRAL BANK INDEPENDENCE RELEVANCE WITHIN CARICOM

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Abstract

At the end of the 1980s many countries began considering changes in legislation that would make their central banks more autonomous. Since that time a large body of literature has developed on the issue of central bank independence but there are only a few studies we are aware of which focus specifically on the Caribbean. We hope that by producing this paper we would initiate further work on the independence of Caribbean central banks.

This paper attempts to illuminate the issues involved in the determination of central bank independence. We review the theoretical arguments and empirical evidence for both industrial and developing economies. We then use an approach considered to be useful in measuring the independence of developing countries central banks to determine the relative independence of Caribbean central banks. Statistics on inflation are examined to observe any possible relationships. We find that with the possible exception of the ECCB, Caribbean central banks lack autonomy.

Perhaps it is a realistic assumption that central bankers always make their decisions in accordance with trained common sense while politicians seek to maximise their individual utility.

Introduction

I am posing the question, Is Central bank independence an issue of relevance within CARICOM?

In small countries, like those in the region, the role of governments is critical in moving the economy forward. The engine of economic growth has often been lubricated by fiscal and/or monetary policies as well as by enabling legislation and facilitatory policies. Governments have been known to influence the money supply in order to promote certain effects in the economy, and have often engaged in deficit spending, close to elections, to ensure that they retain political power. An independent central bank, with price stability as its primary objective, may resist attempts to print money from which government can collect seigniorage revenues to fund its programmes. Can you imagine the fate of a Governor who refuses to accommodate the requests of an incumbent government?

Ladies and gentlemen, I have not answered the questions posed thus far and I may yet pose others which will remain unanswered. Let me state emphatically, at the outset, that my purpose in writing this brief paper is not to attempt to resolve the issue of central bank independence only to stimulate discussion on it. This I believe is necessary as we ponder issues related to a single market and economy. Among the issues of importance, the creation of a regional central bank ought to receive a lot of deliberation, and nowadays the issue of independence has wide currency. I am not inclined to agree with Forde (1998) who asserts that there can be no independent central bank as long as such institutions are creatures of statute. Perhaps their independence can be well established by law, even though that itself may be a necessary but not sufficient condition for independence.

The issue of central bank independence has not been the focus of much research work by Caribbean scholars. Papers by Blackman (1988), Davis (1992) and Worrell (1990) have discussed the issue to some satisfaction. While others by Bourne (1992) and Farrell (1993) have merely referred to the issue *en passant*. None of the papers has, however, attempted to examine the relationship between tenure of governor and independence of the central bank or the latter and inflation.

Given the dearth of research on the issue of independence of Caribbean Central Banks we decided to undertake this brief exploratory study in the hope that it would stimulate researchers to explore more fully this very interesting if not relevant topic. Because it is an exploratory paper we have avoided any indept analysis of data and have focused instead on the issues which we hope can be tested by data in future research. The rest of the paper is organised as follows: immediately after the introduction we pose the question, why independence. This is followed by section three which looks at the issue of price stability and discusses issues of a theoretical and empirical nature. We then focus on the measurement of independence and provide a review of recent empirical work. Finally, we discuss the Caribbean central banks and independence and offer our closing suggestions.

Why Independence?

According to Posen (1998) a remarkably broad consensus of academics and policymakers, conservatives and liberals, have rallied around the idea that freeing monetary policy making from political direction eases the attainment of price stability at little or no real economic cost. The erection of barriers to government control of monetary policy has been agreed to in virtually all the member countries of the European Union, most of the remaining members of the OECD, and a growing number of NICs and transition economies. In view of these developments, it appears that central bank independence is rapidly becoming a worldwide norm for the organisation of monetary authorities. The success of the Bundesbank, and to a lesser extent the Federal Reserve is generally associated with their independence (Forder, 1998). Not everyone agrees with the above position, however. Venner believes that central banks have found themselves in the untenable situation of having to finance fiscal deficits, regulate the banking system and maintain the internal and external value of the currency, all at the same time. He contends that they have therefore emerged as vital institutions whose capacity to influence the process of development indicates that they represent a clear and present danger to the stable functioning of the macro-economy. This he believes is responsible for the strident calls for the independence of central banks (Venner, 1997 pg.9).

Support for central bank independence (CBI) became widespread in the 1980s. Forder (1998) suggests that the Delors Report and subsequently, the Maastricht Treaty made the independence of the European Central Bank the centrepiece of the institutional design of monetary union. He further contends that the case of New Zealand appeared to provide both a working model of appropriate institutional design and evidence of a causal link between independence and inflation. According to him the nature of the problem that independence is said to solve has caused a certain degree of confusion. He identifies two separate issues:

1) the problem of the time inconsistency of optimal plans; and
2) the credibility of policy announcements.

Time inconsistency results from the inherent conflict of interests between the central government and the central bank. The former usually places strong emphasis on achieving short-term goals, for example, employment creation while the latter's goal (price stability) tends to be long-term in focus. When there is a possibility that policymakers actively seek to deceive the public, there is a problem of credibility (Forder, 1998).

Posen (1998) contends that the granting of independence to a central bank is meant to increase the credibility of commitments to price stability by constraining the elected government's ability to inflate. He asserts that independence for central bankers was identified with laws to protect the following:

i) the ability of the governors to refuse to monetise public debt;
ii) the security of tenure of the governors, once appointed; and
iii) the primacy of the price stability goal in central bank policy making.

Rogoff (1985) sparked considerable debate on the issue of CBI with his seminal paper which is generally regarded as a *sine qua non* for anyone interested in the topic. His paper examines the practice of appointing "conservatives" to head the central bank, or of giving the institution concrete incentives to achieve an intermediate monetary target. He demonstrates that society can make itself better off by selecting an agent to head the independent central bank who is known to place a greater weight on inflation stabilisation (relative to unemployment stabilisation). Notwithstanding, he concludes that in choosing among candidates it is never optimal to select an individual who is known to care "too little' about unemployment.

Rogoff appears to suggest that the views of potential candidates for governorship are known. Perhaps in the developed countries governors are chosen from among individuals in private sector or academic institutions whose views are well known. But this does not appear to be the trend in the Caribbean, and I am doubtful whether such considerations apply. In the Caribbean, the process of selection and appointment of governors seems to be highly politicised. There have been instances, however, where succession planning seemed to be at work, The Bahamas, for example.

The Issue of Price Stability

From reading the literature it appears that there is broad consensus, at least in developed economies, that the primary objective of central banks is to ensure price stability. Two examples readily come to mind: the hyperinflations in the 1920s and 1940s in Germany made domestic price stability the most important policy objective in that country; and in New Zealand there has been an accord between both political parties to make price stability the only objective of the central bank. The Bank can pursue that objective without government interference (Venner, 1997 pg. 14).

Historically, price stability, while being an important objective of regional central banks, has not been their main or primary objective. The Central Banks of Guyana and Trinidad and Tobago were more growth oriented and less preoccupied with price stability in the early 1970s (Thomas, 1972 pg 6). While Bourne (1992) contends that both the Bank of Guyana and the Bank of Jamaica did not seek actively to preserve the internal and external value of their national currencies during the 1980s. However, more recently, especially among those countries which sought access to fund programmes, and in others which have experienced extremely high levels of inflation, price stability has become the focus of greater attention (**See Table 1**). But perhaps in the earlier years the focus of regional central banks was wider, in that they paid greater attention to issues related to the development of the financial system, and improvement of the availability of credit as well as the maintenance of price stability. Price stability as the primary objective of central banks is like a mantra nowadays.

Table 1
CARICOM: Inflation Rates (%) Annual Averages

Countries	1991	1992	1993	1994	1995	1996	1997	1998	1999
The Bahamas	7.4	5.6	2.7	1.3	2.1	1.6	0.5	1.6	1.3
Barbados	6.0	6.1	1.1	0.1	1.9	2.4	7.7	-1.2	1.6
Belize	4.5	2.4	1.5	2.6	2.9	6.4	1.0	-0.8	-1.2
Guyana	70.3	14.2	7.7	16.8	8.1	4.5	4.1	4.8	8.6
Jamaica	51.1	77.3	22.1	35.1	19.9	26.4	9.7	8.6	6.0
ECCB Area	4.4	3.0	2.1	1.7	3.4	2.3	2.5	2.2	2.2
Suriname	26.0	43.7	143.5	368.5	235.8	-1.0	7.2	19.0	98.8
Trinidad & Tobago	3.8	6.6	10.7	8.8	5.3	3.3	3.7	5.6	3.4
AVG.	21.7	19.9	23.9	54.4	34.9	5.7	4.5	5.0	15.1
Std Dev.	25.7	26.9	48.8	127.4	81.4	8.6	3.3	6.6	34.0
Co-eff of Var	1.2	1.4	2.0	2.3	2.3	1.5	0.7	1.3	2.3

Source: National Data form Central Banks

There have been suggestions that developing country central banks, sometimes play the role of development banks and hence in those countries, the objective of price stability is subordinated to other considerations. Demas (1976) contends that the central overriding object of a central bank in the third world country should be to assist in the economic development of the country. He does not agree with the paramountcy of the price stability objective (pg 103). Fry (1998) contends that in most developing countries, the fiscal situation usually dominates other areas of macro economic policy, including exchange rate and monetary policies. When we speak of price stability we use it in the context attributed to the Fed Chairman, who is reported to have said, that price stability can be defined in qualitative terms as a rate of inflation which does not materially influence economic behaviour.[1] Some economists appear to favour a concept of price stability which involves a very small but positive rate of inflation (Fagan, 1988 pg. 157). Goodhart (1994) believes that greater autonomy is more likely when central banks are asked to achieve a single macro outcome such as the maintenance of price stability.

In view of the importance attached to the latter objective our discussion of CBI starts from the idea that the main final objective of monetary policy is price stability. In most countries the formation of monetary policy is partially influenced by political considerations. Even the Federal Reserve, which enjoys a high degree of formal independence, is not immune to pressures from the executive and legislative branches of government. Cukierman (1992) claims that there is an increasing body of evidence that monetary policy in the US is partly responsive to the desires of the President, Congress, the financial community, and periodically some other less visible institutions or groups. The situation has not been entirely different in the Caribbean because of the close relationship between Ministers of Finance and the central banks. Davis (1992) contends that the fiscal policies of the Government of Jamaica has been merged with the monetary policy of the Bank of Jamaica causing the latter to lose sight of its own objective. Further, she claims that the central banks of Jamaica and Barbados are both institutionally dependent on their governments for direction and control.

Theoretical and Empirical Case for CBI

According to Cukierman the case of central bank independence rests on two pillars, one theoretical, the other empirical. With respect to the theory it is suggested that the credibility of monetary policy is supposed to be enhanced when it is implemented by an independent central bank as government pressures for a more expansionary stance can be more easily resisted. The

[1]See Fagan, 1988 pg. 142

eradication of this so-called time inconsistency problem, and the weakening of the political business cycle should then lead workers to lower their inflationary expectations, and thus to moderate their wage claims. As a consequence of lower wage settlements, average inflation (as well as its variability) should be reduced (Cukierman, 1992 Chapter 3). The theoretical argument is based on the view that policymakers are subject to an inflationary bias. The inflationary bias normally arises because of several objectives, but the best know example is of government attempting to increase employment/reduce unemployment through monetary expansions, fueling inflation and inflationary expectations which persists long after the desirable effects of the expansion have disappeared.

Cukierman believes that the inflationary policy bias can be eliminated by precommitting policy, prior to contracting time, to price stability or to a low rate of inflation. He suggests that this can be achieved by giving sufficient independence to the central bank, and by directing it by law or other means to focus on price stability even if it implies neglect of other objectives. It may be useful to note at this point that a review of the central banking acts for several such banks in the region (The Bahamas, Guyana, Jamaica, the ECCB and Trinidad and Tobago) reveals that price stability while mentioned as an objective, does not appear to be the primary objective of regional central banks. As we have intimated before there are perhaps historical reasons for this.

There appears to be widespread agreement among economists and other observers of monetary policy that the degree of independence of a nation's central bank is an important determinant of policy actions and therefore of inflation. But one needs to remember that the degree of such independence is determined by the nature of political and legal institutions as well as by less formal and more fluid factors such as accepted practice, culture, and personalities (Rogoff, 1985). The degree of legal independence of a central bank depends on decisions of political authorities as expressed through the legislative process. It appears, therefore, that legal independence is more likely in countries which have a strong tradition of respect for the rule of law. In developing economies where it is common for politicians to use economic policy to influence the outcome of elections, the legal independence of central banks is not expected to be formalised in statute. In his theory of the Political Business Cycle[2], Nordhaus contends that democratically elected governments are prone to use economic policy as a means of securing electoral gains. In doing so the governments generate cycles in the economy that are synchronised with the timing of elections. It is doubtful that such activity would have the desired effect in societies such as Guyana and Trinidad and Tobago where voting patterns appear to follow other considerations. This view is confirmed by (Ryan, 1991 pg 145) in the case of

[2] See Keith Blackburn, 1992 for further details

Trinidad and Tobago. Given the racial composition of Guyana's population and the close similarities often drawn about both societies the pattern may be similar.

The empirical case for central bank independence rests on the observation that there is, cross-sectionally, a negative correlation between various proxies for CBI and inflation.[3] Cukierman (1994) believes that legal independence is a reasonable proxy for actual independence provided there is sufficient respect for the rule of law in the country under consideration. He suggests that as far as central bank legislation is concerned, the law is a poorer indicator of actual practice in the LDCs than in the developed economies.

Most studies which seek to demonstrate the benefits of independent central banks have tended to consider the simple issue of whether independence is associated with low inflation. For Cukierman (1992) there is an objective difficulty in characterising and measuring central bank independence, since it is determined by a multitude of legal, institutional, cultural, and personal factors, many of which are difficult to quantify and some of which are unobservable to the general public. As we alluded to earlier, there are basically two issues; one relates to possible differences between the rate of time preference of political authorities, and that of central banks and the other, the subjective trade-offs of the central bank and of political authorities between price stability and other goals such as high employment, extraction of seigniorage revenues, and balance of payment objectives. It is generally agreed that central banks are relatively more concerned than the political authorities about price stability.

Measurement of Independence

According to Cukierman (1992) Central bank independence depends on the degree of independence conferred on the bank by law but also a myriad of other less structured factors such as informal arrangements between the bank and other parts of government, the quality of the banks research department, and the personalities of key individuals in the bank, and other economic policy-making units like the Ministry of Finance. He used the following to rank CBI:

i) the legal framework governing the appointment, dismissal and term of office of the governor;
ii) issues concerning the resolution of conflicts between the executive branch and the central bank, and the degree of participation of the latter in the formation of

[3]Details appear Cukierman, 1994

monetary policy, and in the budgetary process;

iii) final objectives of the central bank as stated in its charter;

iv) legal restrictions on the ability of the public sector to borrow from the central bank.

Regarding (I to iv) above Cukierman contends that central banks:

a) in which the legal term of office of the chief executive is longer and in which the government has little legal authority in the appointment of dismissal of the governor are classified as more independent;

b) which enjoy wider authority to formulate monetary policy and can resist the executive branch in cases of conflict are classified as more independent;

c) in which the only or main objective of policy is price stability are classified as being more independent than those with a number of objectives in addition to price stability;

d) in which the limitations on lending from the bank to the public sector are stricter are classified as being more independent.

If we use the above guidelines to measure the independence of Caribbean Central Banks then we must conclude that with the possible exception of the Eastern Caribbean Central Bank none of the others is independent. Price stability, as we have alluded to before, is neither the main nor final objective of any of the banks, as written into their charters. And Governors are invariably appointed by the political directorate who have the ability to vary the legislation to suit their purposes.

We now review some empirical studies on the subject of central bank independence. Jan Sikken and De Haan (1998) examine whether monetary accommodation and central bank independence are systematically related. Also, whether there is a relationship between central bank independence and government budget deficits. Both tests were carried out in a group of thirty (30) developing countries. They conclude that only if the turnover rate of central bank governors or the political vulnerability index is used as a proxy for central bank independence, monetary accommodation of deficits is negatively related to CBI. They find no relationship between CBI and the level of budget deficits.

Fry (1998) tests the hypothesis that the fiscal situation in a developing country determines the extent of its central bank independence. In assessing how independent a central bank is he uses a simple measure based on action that all central banks can take: the reaction to increased credit demands by the central government. He measures independence by the extent to which a central bank neutralises increased credit demands by the central government. He concludes that CBI, in developing countries is determined by both, the the size of government deficits, and the methods used to finance them. The bigger the fiscal deficit and the more a government finances the deficit through borrowing from the central bank, the less independent the central bank would be. He observes that the central banks with the greatest independence are located in high growth countries.

Posen (1998) tests the hypothesis that the mechanism by which CBI leads to low inflation is the enhancement of credibility of commitments to price stability. He uses a sample of 17 OECD member countries from 1950-1989. He finds no evidence to support the hypothesis. Further that governments facing independent central banks are just as likely to engage in the monetisation of deficits and the electoral manipulation of macroeconomic policy as those with direct control of monetary policy. In developing countries, in particular, Forder (1998) argues that statutory independence is empirically unimportant because political regimes are less well established and the status of the central bank therefore both uncertain and subject to rapid change. He believes that studies which measure CBI by reading the statutes and testing for a relationship with inflation are inappropriate since they make no attempt to measure bahaviour.

Cukierman (1994) contends that behaviourally oriented proxies of CBI are preferable in LDCs since evidence indicates that in the LDCs there is a negative relationship between CBI and its proxies and inflation. He suggests indices based on the actual turnover of the central bank governor, and on the likelihood that he will be removed from office following a political transition. Cukierman (1992) conducted a survey of over fifty (50) countries during the period 1950-1989 for developed countries as well as developing countries, specifically to examine turnover rates of governors. The survey produced turnover rates ranging from 0.03 (average tenure of 33 years in Iceland) to 0.93 (average tenure of 13 months in Argentina). He finds that the turnover rates in the LDCs tends to spread into a range that has not been experienced in the developed countries. The highest turnover rates in the developed countries (DCs) being 0.2 (average tenure of 5 years) in Spain and Japan.

Cukierman contends that since all DCs have turnover rates below 0.2 that it is not very likely that these rates are effective proxies for independence in those countries. Contrariwise, since LDCs, in his sample, are characterised by turnover rates above 0.2, it is likely that governor's turnover is a meaningful proxy for independence in developing countries. He thinks that it is very likely that CBI is lower the higher the turnover rate of governors. He claims that for sufficiently high turnover rates the tenure of governors is shorter than the Executive, and hence the former are more susceptible to the latter's influence. On the other hand, low turnover does not imply high independence on the grounds that a relatively subservient governor will tend to stay in office longer.

Perhaps it is worth noting here that in Argentina (where tenure was shortest) the legal term of a Governor's appointment is four (4) years. However, there is an informal tradition where the governor is supposed to offer his resignation to the executive whenever there is a change of government or even the finance minister. During the 1980s because of the adherence to tradition the actual term of office of governors in Argentina was ten (10) months. Cukierman concludes that within the LDCs there is no relation between inflation and legal independence. However, there is a strong positive association between inflation and governor's turnover. Within the developed economies he concludes that inflation is negatively related to legal independence and unrelated to governor's turnover. He also believes that his conclusions imply that inflation is lower the higher is CBI and that, given independence, countries that pre-announce monetary policy have even lower rates of inflation.

Caribbean Experience

Following from Cukierman it appears that any attempt to measure the independence of Caribbean central banks should utilise the following indices considered to be suitable in the developing country context:

i) the actual turnover of central bank governors;
ii) the political vulnerability of the bank.

The latter is defined as the fraction of political transitions that are followed within six (6) months of a replacement of a central bank governor. Cukierman (1994) contends that the above indices have the advantage of being based on actual behaviour and hence appear to be particularly appropriate measures of independence in LDCs. We tend to agree with his conclusion given the supremacy of the political authorities in our economies. Because we have not been able to access information on the political transitions following the replacement of governors we have been circumscribed to examine only the actual turnover of governors. We also review some inflation statistics to observe possible relationships.

There is close to consistency with respect to the appointment of Caribbean Central Bank governors as expressed in the legislation. All governors are appointed by the political directorate for periods not exceeding five (5) years with eligibility for re-appointment. In the case of the

ECCB, its governor is appointed by a Monetary Council comprising one minister of each participating government. Perhaps this is partly responsible for the greater autonomy which the ECCB enjoys vis a vis its Caribbean counterparts. There are special conditions regarding termination of appointment but these relate to issues of capability of the office holder, misconduct or dereliction of duty, not anything related to achievement of a target, as exists in some jurisdictions.

Farrell (1993) contends that the period up to the mid 1970s presented few opportunities for conflict between the central banks and the governments. When one looks back at the tenure of governors at the turn of the 1970s it is clear that they enjoyed security of tenure **(see Box 1)**. In Barbados, Sir Courtney Blackman held office for fifteen (15) years; in Guyana, Patrick E. Matthews for sixteen (16) years; G. Arthur Brown for thirteen (13) years in Jamaica; Victor M. De Miranda for seventeen (17) years in Suriname; and Victor E. Bruce for fifteen (15) years at the head of the Central Bank of Trinidad and Tobago. Most governors enjoyed a comparatively long tenure in office by 1990s standards. Among these individuals were the first indigenous governors to head the region's central banks. Farrell suggests that the incumbents were well respected both locally and among their international colleagues. We think it would be a mistake to associate the long tenure of those officials with independence of the central banks during their term of office. We believe it would have been very difficult to replace those individuals. Especially because skills in the area of central banking would not have been very widespread at that time (late 1960s, early 1970s). It is a matter of speculation but in both Guyana and Trinidad and Tobago, governments were entrenched and coincided with the tenure of governors. The political directorate may have been pleased with their performance.

Box 1

Tenure of Governors (1963-2000)*

The Central Bank of The Bahamas		**Central Bank of Barbados**	
T. Baswell Donaldson	(1974-1980)	Sir Courtney Blackman	(1972-1987)
William C. Allen	(1980-1987)	Dr. Kurleigh King	(1987-1992)
James H. Smith	(1987-1997)	Calvin Springer	(1992-1997)
Julian W. Francis	(1997-)	Winston Cox	(1997-1999)
		Dr. Marion Williams	(1999-)
Central Bank of Belize		**Eastern Caribbean Central Bank**	
Sir Edney Cain	(1982-1983)	Cecil Jacobs	(1983-1989)
	(1991)	K. Dwight Venner	(1989-)
Robert Swift	(1983-1986)		
Alan Slusher	(1986-1990)		
Keith Arnold	(1992-		
Bank of Guyana		**Bank of Jamaica**	
William P. D'Andrade	(1968-1975)	G. Arthur Brown	(1967-1977)
Patrick E. Matthews	(1975-1991)		(1989-1992)
Archibald L. Meredith	(1991-1998)	Herbert S. Walker	(1977-1981)
Dolly Singh (Ag)	(1998-)	Horace Barber	(1983-1985)
		Dr. Headley Brown	(1985-1989)
		Roderick Rainford	(1992- 1993)
		Jacques Bussieres	(1993-1996)
		Derick Latibeaudiere	(1996-
Central Bank of Suriname		Central Bank of Trinidad and Tobago	
Victor M. De Miranda	(1963-1980)	Victor E. Bruce	(1969-1984)
Dr. Jules Sedney	(1980-1983)	Dr. Euric A. Bobb	(1984-1988)
Henk O. Goedschalk	(1985-1993)	William G. Demas	(1988-1992)
	(1997-2000)	T. Ainsworth Harewood	(1992-1997)
Andre E. Telting	(1994-1997)	Winston Dookeran	(1997-)
	(2000-)		

* Apart from the fact that individual central banks were established in three separate decades (1960,1970 and 1980s) we have tried to limit our focus on indigenous governors.

Source: a) Central Banks of the Caribbean Community - A Profile, CCMs 1996.
b) Annual Reports of Central Banks.

The reality of the mid 1980s and hitherto is curiously dissimilar to that which we have just described. In Barbados, Jamaica and Trinidad and Tobago subsequent office holders have not exceeded a period of five (5) years in office. It is possible that some governors had attained retirement age and therefore were obliged to demit office but, we are certain that those were not the only circumstances. In Jamaica between 1977 and 2000 seven (7) individuals have held office but no one has remained in that position for a period exceeding four (4) years. Time will reveal if a new era has dawned. When one considers that Jamaica experienced some of its most difficult economic times during this period one cannot be faulted for believing that some individuals were casualties of those circumstances.

In Trinidad and Tobago between 1984 and 2000 four (4) governors have held office, and to date no one has remained in office for a period exceeding give (5) years. Perhaps in Trinidad and Tobago it is easier than elsewhere to draw the conclusion of limited autonomy of the central bank. Following a change of government in 1986 Farrell (1990) suggests that relations between the new government and the Bank became "progressively icy". Farrell claims that the government was either "cautious or suspicious" of the governor's advice, particularly his suggestion that they seek access to resources of the IMF. The governor subsequently resigned after a highly publicised conflict with the Minister of Finance. From 1984 to the present, no governor has held office for a period in excess of five (5) years. It is perhaps not coincidental that no political party has enjoyed a second term over the same period. It should be noted, however, that governors' tenure did extend over two different regimes but that there were no contract renewals.

In Barbados, we find perhaps one of the shortest tenure of office by any governor in the Caribbean. Newspaper reports suggested that the exit of the governor had nothing to do with policy but perhaps a disagreement over an administrative issue. In light of the situations described above, one is inclined to believe that none of those institutions is autonomous.

While we suggested that long tenure in office could not be used as an indicator of CBI, it appears that in the case of a relatively shorter period in office we can infer that in those central banks where governors' tenure appears to vary with the Executive that those institutions lack autonomy. Our preliminary analysis finds turnover rates of between 0.06 and 0.93 (16 years to 12 months) up to the mid 1980s and rates of 0.09 to 0.5 from 1985 onwards (11 years to 2 years).

Farrell (1993) argues that the opportunities for conflicts between the central banks and the governments arose post 1975 when many of the region's economies experienced internal and external imbalance, caused by weak fiscal policies and inappropriate financing of the consequent deficits. The latter he suggests, more than any other issue tested the independence of the central banks and the mettle of its leadership. He further contends that in a number of countries (Jamaica, Guyana, and Trinidad and Tobago in the 1970s and 1980s and Barbados in the early 1990s) the central banks financed the governments excessively. Tables 2 and 3 in the Annex gives an indication of central bank credit to governments. It is not surprising that those actions subsequently lead to devaluations in Guyana, Jamaica and Trinidad and Tobago and also higher levels of inflation. More independent central banks may have been able to resist the government's request for credit but these institutions could not exercise such independence. The following statements support our view of limited autonomy. Davis (1992) writes:

i) *The Bank of Jamaica has consistently monetised the government deficit because it operates more like an arm of the Ministry of Finance (pg. 49).*

ii) *The Bank of Jamaica cannot be described, by any standard as being independent because the Bank of Jamaica over the years has used its monetary policy to support government's fiscal operations (pg. 12).*

Vellos and Sosa (1997) write about Belize:

> *"Under the present legislation the Central Bank is seemingly not accorded sufficient autonomy as its ability to maintain monetary stability and adequate foreign asset holding is largely subject to fiscal initiatives of central government" (pp 181-182).*

They further suggest that developments since 1990 highlighted the need for greater restrictions on government's access to deficit financing.

The observations of both Davis, and Vellos and Sosa appear to reveal some desire on the part of the central banks for greater autonomy. Farrell (1993) contends that the legislation governing the central banks of the Caribbean gives the governments the power to issue directives to the central bank to give effect to their wishes and hence their inability to resist pressure for excessive government financing. The latter, in particular, suggests to us that the issue of CBI is relevant within CARICOM, though it is a question of degree rather than existence. It is doubtful that any central bank , in the region would seek unbridled independence to formulate and carry out policy. Some decisions, especially those concerning exchange rates, are simply too politically sensitive to leave to central bankers. In any event, in democratic societies governments and not central banks are entrusted with policy making. Perhaps what appears indispensable is a close working relationship between both parties. The central bank providing what in its judgement is sound technical advice but leaving the responsibility for major decisions to the Executive. An interesting observation is credited to G. Arthur Brown:

> " *Many critics of central bank policy in the Caribbean appear at times to assume that these banks should have their own economic and foreign policy. A word which is pejorative but aptly describes what these critics advocated, is sabotage*"[1]

This statement, in very unequivocal fashion, reminds us that in any democracy the Government is supreme as far as policy making is concerned.

Conclusion

Our Caribbean central banks, with the possible exception of the Eastern Caribbean Central Bank (ECCB), have not enjoyed much autonomy, though it appears that some wished they had. Perhaps, the ECCB's perceived independence derives more from its multi-national character than its charter. It is no doubt impossible, in the long run, to maintain socio-economic and political stability without price stability, and this of course is the task of central banks. But in small developing economies like ours it appears too narrow an objective for our central banks to focus mainly or exclusively on price stability. Most economists would probably agree that a low and steady rate of inflation is the major contribution that monetary policy can make to economic growth but there is no conclusive evidence that inflation is lower the greater CBI. Most of our central banks do not appear to be independent yet in spite of this inflation has been relatively low or declining in most jurisdictions (See Table 1). It appears difficult to make any connection between governor's tenure, inflation and independence, since despite the change of office holders, the trend of inflation has been fairly consistent during the 1990s.

In the Caribbean, institutions like central banks are likely to remain instruments of government policy, to be used, sometimes, by politicians for their own ends. According to Blackman (1988) the legislation, and certainly the practice, also supports the principle that the central bank is subordinate to the Administration. Only if the process of integration is advanced do we see the likelihood that there will be an independent central bank. We, therefore, agree with Venner (1997) who asserts that federal constitutions seem to be propitious for the existence of independent central banks. He further suggests that the ECCB is a good model for the creation of a Caribbean Central Bank. Only time would reveal if we shall travel along that path. However, if we continue with our current model a new system for the appointment of governors has to be devised. The tenure of governors ought not to be as uncertain as it now appears and should not remain under the complete control of the Executive.

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1 See Blackman, 1998 pg. 62

A most desirable attribute of any central bank is credibility. Its actions in the public domain help to inspire confidence and to improve its credibility, which in turn help to promote its autonomy. Events occurring in Jamaica and Suriname in the middle to late 1990s may have contributed to a lowering of public confidence. Farrell (1993) makes a bold claim that policy makers in the Caribbean have been losing the capacity for independent thought and action. We hope that that is no longer the case. In the absence of those critical characteristics it appears that policy will have to be dictated to us. In such a situation we have no reason to speak of our even to consider the issue of central bank independence.

We would like to suggest the following areas for future research:

i) investigation of the relationship between CBI and governor's tenure;
ii) investigation of the relationship between CBI and political vulnerability;
iii) investigation of the relationship between budget definite and CBI.

TABLE 3
CARICOM CENTRAL BANKS
LOANS AND ADVANCES $MILLIONS LOCAL CURRENCY
(1984 - 1996)

Country	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**
The Bahamas	27.90	29.15	30.26	42.77	60.07	44.52	45.39	45.27	47.64	49.92	47.09	50.57	55.44
Barbados	133.69	82.56	93.14	112.11	101.14	164.43	202.67	291.51	230.17	176.65	129.20	73.80	80.80
Belize	5.64	9.87	12.22	10.49	0.00	1.29	1.29	8.60	15.56	12.02	11.12	7.19	-
OECS	-	-	1.08	3.57	2.27	3.44	3.11	2.78	2.46	2.13	1.80	1.46	1.15
Guyana	211.43	510.49	1003.01	1705.07	2864.08	3585.95	3903.60	2442.97	-	-	-	-	-
Jamaica	75.07	73.18	76.04	65.29	406.11	394.32	192.23	80.73	60.01	60.01	60.00	3095.06	-
Trinidad and Tobago	-	-	1003.16	808.60	1153.00	1524.58	1536.68	1438.26	2092.37	1321.81	777.00	-	-
% Assets													

Source: Caribbean Financial Statistics, Volume 1 April 1997, CCMS

ANNEX

TABLE 2 A AND B

CENTRAL BANK CREDIT TO CENTRAL GOVERNMENT (NET)

(A) (1972-1983) $million local currency

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Trinidad and Tobago	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A	N.A.	N.A.	N.A.	N.A.	N.A.
Jamaica	82.0	95.0	66.0	243.0	487.0	701.0	944.0	1604.0	1485.0	2262.0	2558.0	3429.0
Guyana	83.0	152.0	90.0	147.0	388.0	531.0	602.0	738.0	1028.0	1159.0	1866.0	2218.0
Eastern Caribbean States	--	--	--	--	--	--	--	--	--	--	--	--
Belize	--	--	--	--	--	--	--	--	--	--	--	--
Barbados	-46.1	5.6	-6.2	34.8	66.9	71.4	76.4	59.0	112.6	137.8	135.0	138.4
The Bahamas	--	24.2	62.7	69.5	88.9	91.6	108.7	93.3	78.6	93.9	105.7	150.3

(B) (1984-1995) $million local currency

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Trinidad and Tobago	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1967.7	2068.4	2518.0	2359.8	1658.8	2465.7
Jamaica	3737.0	3230.0	4324.0	2626.0	1276.0	9.0	-1609.0	-4824.0	-2968.0	-4612.0	-6927.0	-3658.0
Guyana	N.A.	4148.0	5437.0	7131.0	11284.0	26980.0	35570.0	75226.0	112395.0	113374.0	112074.0	N.A.
Eastern Caribbean States	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A	N.A.	N.A.	N.A.	N.A.	N.A.
Belize	--	--	--	--	--	-27.3	-54.5	-29.8	4.4	45.2	57.6	101.2
Barbados	138.4	116.6	143.5	237.9	259.2	213.4	346.6	458.9	507.9	590.2	403.7	386.2
The Bahamas	124.7	117.2	84.0	147.4	206.4	239.6	271.5	313.5	351.2	429.3	405.3	419.4

Source: Caribbean Financial Statistics, Volume 1 April 1997, CCMs

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