Two Tales of Entrepreneurship: Barbados, Jamaica, and the 1973 Oil Price Shock

Matthew Clair, Peter Blair Henry, and Sandile Hlatshwayo*

Abstract

From 1961 to 2011, Barbados's GDP per capita grew roughly two times faster than Jamaica's. As a result, the income gap between Barbados and Jamaica is now more than three times larger than at the time of independence. Qualitative historical analysis, exploiting the interplay between public policy and entrepreneurship before and after the 1973 oil price shock, demonstrates that pro-entrepreneurial policies in Barbados versus anti-business policies in Jamaica explain in part the economic divergence of these two islands.

* Harvard University, New York University, and the University of California at Berkeley. We thank Will Baumol, Miguel Soto-Class, and seminar participants at Centro Para La Nueva Economía for helpful comments. Allison Parker provided invaluable editorial assistance.

Introduction

To a certain extent, macroeconomic indicators abstract from daily experience. National statistics conceal the all-important fact that the growth of an economy is the amalgamated outcome of a large number of micro actors that come together in just the right way to edge an economy forward. In the most successful economies, these actors interact and, more importantly, transact, in an efficient way. In countries that lag behind, these interactions and transactions are slow and strenuous, if they happen at all. A number of factors influence the ease with which these interactions occur (e.g. institutions and infrastructure); but policy is first among equals.

Along a continuum, governments can choose policies that act as enablers or disablers of the private sector. Over the past three decades, most governments have shifted toward the enabling end of the continuum, from economies where the state exerts great control over the means of production and allocation of resources to market economies buoyed by entrepreneurial initiative. In disabling economic environments, governments act as gatekeepers, implementing policy measures that serve as barriers to private sector activity. In contrast, enabling economic environments are those in which officials constantly seek new ways to promote firm development and harness the power of the market. The growth narratives of Jamaica and Barbados illustrate the power of shifting from a disabling policy stance to an enabling one—a process that unleashes the capacity of the entrepreneur to create value for business and society.

In this world of national economies, where perfectly controlled laboratory experiments do not exist, Barbados and Jamaica are as close to twins as you are likely to find. Small tropical islands colonized by the British and primarily inhabited by the descendants of African slaves who were brought to the Caribbean to cultivate sugar, these two islands gained independence four years apart (Barbados in 1966 and Jamaica in 1962). From their virtually identical colonial origins, the two countries inherited the same fundamental institutions: Westminster Parliamentary Democracy, constitutionally protected private property, and English Common Law. Given the largely indistinguishable initial conditions of Barbados and Jamaica at their independence, institutional theories of development predict that these two countries should have experienced similar economic trajectories,[1] but this is not the case. From 1961 to 2011, Barbados's GDP per capita grew roughly two times as fast as Jamaica's (Figure 1). As a result, the income gap between Barbados and Jamaica is now more than three times larger than at the time of independence. The lion's share of this divergence in living standards occurred between 1973 and 1987, when Jamaica's economy contracted by 2.4 percent per year while Barbados's grew by 1.5 percent per year. In other words, for fifteen years, income per capita in Barbados grew by 3.8 percentage points faster than Jamaica's.

Previous research finds that differences in macroeconomic policy, not institutions, explain much of the divergence in growth (Worrell 1981; Henry and Miller 2008). Under the leadership of Michael Manley, the Jamaican government nationalized core industries, pursued policies of import substitution, and ran large budget deficits, causing the country's GDP per capita to contract by 4.6 percent per year from 1973–1980 (Table 1). The economy of Barbados, on the other hand, grew by 2.5 percent per year (Table 1) during the same period of time by pursuing policies that eschewed extensive government ownership, favored free trade, and maintained fiscal restraint.

But a macroeconomic account alone is insufficient to understand the complexities of the growth narratives of Jamaica and Barbados. Building on previous work, this paper uses the 1973 oil price shock as a natural experiment to examine the impact of policy choices on each country's

[1] See, for example, North (1990).

*micro*economic setting. Specifically, we use qualitative historical data to compare the impact that the policy choices of each nation's leadership had on local entrepreneurs. Our investigation reveals that differing policy choices in times of crisis have a substantial impact on entrepreneurial activity. Where Jamaican policymakers and politicians hindered entrepreneurs, Barbadian policymakers and politicians enabled them. From divergent choices came divergent outcomes—a constrained and lackluster entrepreneurial environment in Jamaica and a comparatively strong entrepreneurial environment in Barbados. The effects of these policy choices in the years immediately following the 1973 oil crisis continue to exert a profound impact on these economies today.

Two Islands, One Tale: Pre-1973 Entrepreneurship

In the mid-1930s, the Nobel Laureate Caribbean economist Sir Arthur Lewis was a student at the London School of Economics (LSE). A native of St. Lucia, he was intimately aware of the need for economic development in the Caribbean, where the demands of a colonial plantation economy had resulted in economically dependent, agriculturally based societies with excess labor. While attending the LSE, Lewis would spend hours in the Colonial Office Library "reading reports from the colonial territories on agricultural problems, mining, currency questions and the like, and [learning] about the efficacy of different policies" (Lewis 1992). As he progressed through his studies and began teaching at the University of Manchester, he developed his own policy prescriptions for the development of Caribbean economies—ideas most notably discussed in two of his works, *Industrialisation of the British West Indies* (1950) and "Economic Development with Unlimited Supplies of Labour" (1954).

Lewis's prescription for the Caribbean, dubbed "industrialization by invitation," centered on the acquisition of foreign capital and the use of incentives in order to promote "export-led" industrialization. In his assessment of industrialization by invitation, Andrew Downes (2004) identifies six fundamental elements of Lewis's prescription:

1. Focus on the international export market,
2. Pursuit of policy measures to make products internationally competitive,
3. Strategic alliances with foreign industrialists,
4. A key role for the state in defining policy,
5. Investments in human resource development, and
6. Use of local resources, such as agriculture and tourism.

Under a policy of industrialization by invitation, governments enable entrepreneurs by removing the barriers to economic activity and providing incentives (such as investment capital and import tariff exemptions) to start new businesses.

For much of the 1950s and 1960s, Jamaica and Barbados initiated economic policies in the spirit of Lewis's industrialization by invitation and both nations experienced rapid economic growth, diversification of industry, and increased labor force participation. However, long before Lewis formalized his theory, entrepreneurs, politicians, and other officials from the 1930s had begun laying the groundwork for independent economic activity in each country.

Following the drop in prices for sugar—the major export commodity in both countries—during the Great Depression, wages suffered and labor riots spread throughout the Caribbean. Increasingly, black Caribbean writers, journalists, and popular figures made visible the plight of the masses of unemployed and disaffected West Indians. Soon a nationalist movement gained traction, and demands for independence from colonial powers rippled through the Caribbean. But if such independence were to come, West Indian societies believed that the transition from dependent plantation economies to independent industrial economies must come as well. While the meaning and extent of cultural nationalism varied across the two islands,[2] the underlying discontent experienced in Jamaica and Barbados spurred both countries to try to strengthen and transform their economies. Their attempts to do so became more rigorous and sustained in the 1950s as Lewis and other economists provided the theoretical grounding for both nations to develop policies intended to court foreign capital, provide incentives and tax breaks to entrepreneurs, and develop manufacturing and tourism industries they believed would ensure their future economic independence.

In the case of Jamaica, the 1944 constitution, largely a concession to the 1930s riots and agitation for self-government, was the first step in removing barriers to entrepreneurship and industrialization within the country. The constitution and later amendments gave local Jamaicans greater political power and enabled the local government to begin formulating policy outside of the colonial economic system. By 1952, the government had established the Industrial Development Corporation, which moderated barriers to business development. In addition, several laws—the Pioneer Industry Act (1949), the Industrial Incentives Law (1956), the Export Industry Encouragement Law (1956), and the Hotel (Incentive) Act (1968)—offered tax breaks and incentives to encourage various industries.

Barbados implemented similar policies during the same period. As in Jamaica, local entrepreneurs eager for greater self-governance led the way in convincing the colonial

[2] See Barrow and Greene (1979), Patterson (1982), and Robotham (2010) for in-depth discussions of the historical and cultural reasons for the differences between Jamaican and Barbadian societies' embrace (or alternatively, rejection) of black nationalist ideologies. Some scholars have argued that because the population ratio of slave to white was higher in Jamaica than Barbados, Jamaican society is less cohesive and more racially divisive than Barbadian society, where the white and black populations were forced to get along and establish a more racially integrated social system after the abolition of slavery. While a cultural analysis of the two nations adds to the narrative of their policy divergence, we believe that policy choices provide a more direct mechanism for explaining economic divergence. In other words, cultural differences may affect economic divergence, but the effect would mostly flow through the construction and implementation of policies.

government to enable a more robust and diversified economy. In 1940, a Barbadian businessman named Wynter Crawford began what would evolve into more than three decades of policy advocacy on behalf of the private sector. A conversation with an American businessman prompted Crawford to approach the colonial authorities requesting an incentive program (Carter 2008). In 1957, the Barbadian government created a development board, similar to Jamaica's Industrial Development Corporation, that within its first ten years of operation extended eighty-nine loans to individuals and companies to promote tourism and manufacturing enterprises (Downes 1993). Further, as in Jamaica, Barbados passed several laws to incentivize development—the Industrial Incentives Act (1963), the Industrial Development (Export Industries) Act (1963), and the International Business Companies Act (1965).

The results of these efforts speak for themselves. In Jamaica, the manufacturing sector took off. For example, in 1949, the apparel industry met less than 20 percent of the citizenry's needs; but by 1955, that number rose to 80 percent, with some fifty garment factories employing 3,000 workers and an estimated 46,000 "cottage-type" (or "necessity") entrepreneurs operating businesses out of their homes using private sewing machines ("Garment Industry Rises" 1955). Tourism in Jamaica also grew during the period. From 1955 to 1972, total visitor expenditures rose from US$15.1 million to US$134.7 million, an average annual increase of 47 percent over the period; the number of hotels tripled over the period from 1945 to 1970 (Meditz and Hanratty 1987; Stone and Wellisz 1993). The rise in tourism also triggered a rise in a number of complementary businesses, such as food suppliers and transportation providers, run by local entrepreneurs.[3] Additionally, in 1952, Jamaica began to produce bauxite thanks to foreign firms

[3] While local entrepreneurs took part in the tourism industry, one should not overstate their participation. Jamaica's hotels sourced only 30 percent of hotel food supplies from local suppliers in 1968, reflecting the relatively low

like the American company Reynolds Metals Limited, the first bauxite mining company on the island. Later, the production of bauxite would constitute the most significant industry in Jamaica, making Jamaica the number one producer of bauxite in the world in the late 1950s.

Foreign firms' ability to enter the marketplace was just as integral to Barbados's success as it was to Jamaica's. Aided by its own Pioneer Industries Act (1951), Barbados enabled the formation of both local and foreign-owned businesses. Beginning in the 1940s and into the 1950s, many bottling companies were established—Barbados Bottling Company Ltd. (1944), Bottlers (Barbados) Limited (1954), and Banks (Barbados) Breweries (1960s). Other packaging companies also made Barbados home. In 1955, local Barbadians L. G. and Sylvia Hutchinson started ECAF Products Limited, the company credited with the introduction of hygienically sealed bags of consumables to the island nation. Moreover, following the two major industrial acts passed in 1963, the establishment of forty-four factories led to the generation of more than 2,000 jobs (Beckles 2006). In addition to these light manufacturing companies, tourism followed the same generative path witnessed in Jamaica. The industry went from a state of near nonexistence in the early part of the twentieth century to being an integral part of the economy in the 1960s. By the late 1960s and early 1970s, more than 200,000 tourists arrived in Barbados each year, contributing on average more than 12 percent of GDP ("National Adaptation Strategy" 2010) and the majority of total foreign exchange earning—two figures that do not include the indirect contribution of tourist expenditures from sources other than hotel and travel receipts.

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tourism multiplier of the island compared to other small island economies. Some estimate that Jamaica keeps only 50 cents on every dollar spent in the tourism industry (Belisle 1984; Litvin and Fyffe 2008).

In the aggregate, these firm-level activities added up to growth in both nations. Jamaica saw real GDP per capita growth of 3.6 percent per annum from 1962 to 1968 and 4.6 percent per annum from 1969 to 1973. Barbados saw moderately stronger growth over the full period (see Figure 1). From the 1950s to the 1970s, these aggregate gains had less and less to do with productivity in agriculture and more and more to do with gains in the industries encouraged by enabling policies. Tables 2 and 3 show the composition of GDP in each nation, revealing a considerable drop in agriculture as a percent of GDP and a gain in construction, manufacturing, retail, and financial industries.

Because of the enabling policies of successive governments, at the beginning of the 1970s, Jamaica and Barbados found themselves in enviable positions. But in 1973, the external environment suddenly turned less favorable as events thousands of miles away from the blue waters of the Caribbean disrupted the growth trajectory of both countries and forced their leaders to make difficult choices about the path forward—choices that would impact the entrepreneurial environment, for better and for worse.

One Shock, Two Responses: Post-1973 Entrepreneurship

In October of 1973, and in part as retaliation for U.S. involvement in the Arab-Israeli War, the Organization of Arab Petroleum Exporting Countries (OAPEC) initiated an embargo that tripled the price of oil and precipitated the global recession of 1974–75. As the world economy slowed, tourist arrivals declined, and the economies of Barbados and Jamaica were hit simultaneously with declining foreign exchange earnings and the rising cost of fuel. The multipronged hit to these small island economies conspired to reduce growth and drive up inflation (see Table 1).

Faced with this crisis, the leadership of each country had to decide how best to respond. The Barbadian government decided to engage the West and continue policies aligned with Lewis's industrialization by invitation. The Jamaican government took the opposite course, attempting to close off its economy and direct the allocation of scarce economic resources by seizing the commanding heights of the economy. These differing policy choices would define Barbados's relative success for more than a decade after the crisis—and Jamaica's precipitous decline.

Rhetorical Policies

Before the implementation of policies come the rhetorical flourishes of leaders. Leaders use words, ideas, and values to set the direction and tone of public discourse and to encourage their constituents and colleagues in government to adopt policies that they believe will ultimately deliver on their vision for the country. As Giandomenico Majone (1989) argues in his book *Evidence, Argument and Persuasion in the Policy Process*, "public policy is made of language […] Political parties, the electorate, the legislature, the executive, the courts, the media, interest groups, and independent experts all engage in a continuous process of debate and reciprocal persuasion." An increasing body of literature on political economy documents that absent any real or tangible policy change, the words and ideas of politicians can and do have an independent effect on economic activity by shaping the expectations of consumers and businesses, both foreign and domestic.[4] Truer words were never spoken about Barbados and Jamaica. Emerging as they were from the turbulent social and cultural dynamics of the 1960s, each nation engaged

[4] See, for example, Wood, Owens, and Durham (2005). In this study, the authors find that presidential rhetoric "significantly affect[s] people's perceptions of the economic news, as well as their confidence about current and future economic conditions" (642).

in often heated political dialogue and rhetoric, or what we term “rhetorical policies,” in the aftermath of the 1973 oil price shock.[5]

In Jamaica, Michael Manley’s charisma and ability to appeal to and capture the energy of the black power movements and socialist ideology sweeping the Caribbean in the 1960s contributed greatly to his electoral victory in 1972. The son of the founder of the People’s National Party (PNP) and self-described “socialist” Norman Manley, Michael Manley chanted “better must come” to large crowds of working- and middle-class Jamaicans fed up with the corruption, economic inequality, and political suppression under the Jamaica Labour Party (JLP), in power in the 1960s.[6] While Manley’s electoral rhetoric gave Jamaicans a sense for his policy proclivities, it was not until the period immediately following the oil shock crisis that his rhetoric turned into *rhetorical policies*.

In the fall of 1974, after a meeting with the PNP, Manley announced his “democratic socialist” vision for Jamaica—a formalized embodiment of his “moral” belief in “social justice for all people” (King 2008, 42). Democratic socialism as outlined by Manley was an ideological shift to the left and away from the Lewis model of industrialization by invitation.[7] As it pertained to the economy, democratic socialism had a few major components: (1) a non-aligned foreign policy intended to foster Third World cooperation and unity instead of dependence on the West;

[5] For a more in-depth discussion of the role of rhetorical policies versus tangible or “real” policies in Jamaica under Manley and Edward Seaga, see Stephens and Stephens (1989).

[6] During the 1960s, the JLP discouraged political dissent, ever wary of the resurgent cultural and racial nationalism in the West Indies during the time period. Stephens and Stephens (1986) describe the JLP as “heavy hand[ed] towards political dissent, such as the banning of the scholar Walter Rodney and other radical figures, censorship of radio programs, withdrawal of passports of persons who had visited Cuba, bans on books, etc.” (45). For an excellent narrative of the Walter Rodney Affair and an illustrative example of suppression by the JLP government, see Gonsalves (1979).

[7] For a content-analysis comparison of Manley’s socialist rhetoric as compared to his successor Edward Seaga’s capitalist rhetoric, see Brown (1982).

(2) national control over economic resources to aid in redistributive economic policies; and (3) popular appeals to workers, often in contrast to the middle and upper classes, and in support of free and fair democracy (Stephens and Stephens 1986; Levi 1990). Manley pursued these rhetorical policies by re-engaging with Cuba; encouraging Third World economic cooperation in speeches throughout the Caribbean, South America, and Africa; criticizing Western economic institutions; and even stating in an oft-quoted speech, "Jamaica has no room for millionaires." The Prime Minister's rhetorical policy regime surprised many of his supporters, even angering some, particularly those in the business community.

A 1974 editorial in the *Jamaica Daily Gleaner* argued that the government "has created certain doubts, real or imaginary, as to the place of the private sector in the future of the economy. It is important to note that businessmen are affected by real and imaginary factors" ("Business" 1974). The same article concludes that the relationship between the government and the private sector is as one between "enemies." Even outside of the editorial pages of the *Gleaner* (which exhibits a history of conservative commentary), everyday entrepreneurs expressed similar concerns about Manley's rhetorical stance. In his biography of Manley, Darrell E. Levi (1990) describes a near-hysterical fear on the part of many in the business community who believed, based on little other evidence than Manley's rhetoric, that Jamaica was "going communist," as one Chinese-Jamaican grocer put it.

Pamphlets and rumors spread throughout Jamaican society, and small-business owners and entrepreneurs fled the country. Harrison (1988) describes the reaction to Manley's rhetorical and real policies:

> Fearing that Jamaica would move further leftward and expropriate investments, foreign and domestic capitalists, largely through the agency of the Jamaica Labour Party (JLP) opposition, mobilized a destabilization campaign to undermine the legitimacy of the PNP

> administration and oust it from office (Keith and Girling, 1978:29). Bauxite companies cut back production and filed a litigation suit; the American press discouraged tourism, Jamaica's second largest foreign exchange earner; local capitalists cut back production and, in many cases, closed down business and fled the island with their capital; and international commercial banks ceased making loans to Jamaica (p. 105).

For many entrepreneurs and middle-class Jamaicans, there was a real fear about the future of the country. Recounting how "middle class professionals […] migrated in hordes," the legal scholar E. M. Brown (2000) notes in a piece in the *Los Angeles Times* that the Jamaicans who fled "were leaving not only for ideological reasons but, more important, to safeguard their children's futures." More than 100,000 Jamaicans chose to "go foreign" from 1976 to 1980, and in 1977 the number of administrators and managers migrating to the U.S. jumped by a factor of four (Koslofsky 1981). This exodus was perhaps most pronounced among the Chinese-Jamaican community. In 1970, there were 11,780 Chinese in Jamaica. By 1980, that number had fallen to 5,320, less than half the previous amount—a drop that is in part, though certainly not wholly, attributable to Manley's rhetorical policies during the decade (Look Lai 1998).

The policy rhetoric in Barbados never reached the fever pitch it hit in Jamaica. Faced with the same pressures as Jamaica—demands for racial and class equity in the face of an oil price shock—the leadership of Barbados took the opposite rhetorical policy path, pursuing an unequivocally close relationship with the West and reasserting support for capitalism, the free market, and Lewis's industrialization by invitation.

In the 1960s, Barbados, like Jamaica, faced domestic pressure to incorporate the black masses into the polity and economy through direct appeals to black power and socialist ideology. Although such ideologies, as embodied by the Barbadian People's Progressive Movement (PPM), failed to gain widespread appeal in the nation, the lack of economic opportunities for blacks necessitated that the two mainstream political parties—the Barbados Labour Party (BLP) and the Democratic Labour Party (DLP)—pay “at least lip service to these aspirations” (Will 2008, 138). While BLP leader Grantley Adams declared an “assault on the oligarchy” (Layne 1979, 46) in the 1950s and DLP member Frank Walcott referred to the almost exclusively white business sector as a form of “apartheid” (Will 2008, 139), the rhetoric did not go further than abstract acknowledgment of racial, economic, and social inequality. In fact, the conservative government, under the leadership of the DLP and Errol Barrow, the nation’s first prime minister, passed the Barbadian Public Order Act of 1970—a piece of legislation meant to limit the assembly, free speech, and other activities of any individual or group determined by the government to be militant, radical, and/or racist (against the white, and economically powerful, minority).

While the suppression of black power, socialism, and agitation for equality in the 1960s arguably cost the JLP the 1972 elections in Jamaica, this suppression had little political cost for the Barrow administration in Barbados. Although Barbadians pushed back against the Public Order Act by protesting that their rights to assembly and speech be restored, by the time the election of 1971 rolled around, they chose to stay the course and re-elected Barrow’s conservative-leaning government.

Barrow’s rhetorical policies in response to the oil crisis were the opposite of Manley’s. Unlike Manley, Barrow refused to engage in any meaningful rapprochement with Cuba, maintained close ties with the West (particularly Britain and the United States), and refused to assent to populist rhetoric. In an article comparing Barrow’s rhetoric with Manley’s, the *Jamaica Sunday Gleaner* wrote:

> Compared to Manley, Barrow was so leery of the possible negative impact of certain kinds of rhetoric that he imposed the Public Order Act of 1970 to deal with the black

> radical upsurge that might have resulted from Black Power ideology that was taking hold in the region at that time.
>
> Barrow was aware that the capital accumulation strategy that he was following was built upon, among other things, foreign investor confidence, and American tolerance, if not indulgence, and this could not tolerate a black radical upsurge. It is in this light that Hillbourne Watson comments that Barrow knew how to take the pulse of popular sentiment and how to demobilise it (“The Failure” 2006).

If Manley believed that Jamaica had “no room for millionaires,” Barrow believed Barbados was the place for them. In a speech just before the 1971 election, Barrow commented that black power supporters were “the biggest collection of misfits and dropouts from society he had ever seen [and were…] against anybody who [was] successful” (Will 2008, 140). His rhetorical strategy was calculated, in that its aim was to foster inclusion within the capitalist system rather than find an alternative to it. His rhetoric was meant for the “explicit purpose of allaying the concerns of the foreign investors, the tourists, the black middle strata and the local whites” (Hilbourne 2001, 66). Barrow’s rhetorical support for entrepreneurs did not go unnoticed by local Barbadians. Speaking at the 2011 annual Sir Harold Bernard St. John Lecture, the former president of the Barbados Hotel and Tourism Association and current resort owner Alvin Jemmott noted of Barrow: “The freeing up of the capital markets was significant to the growth of the local entrepreneurs; former Prime Minister Errol Barrow had the view that local people should have access to capital at better terms than foreigners should” (“Local Entrepreneurs Responsible” 2011). Barrow’s rhetorical support was so strong that by the mid-1970s, many began to perceive Barrow as supporting the (mostly white) business elite at the expense of, rather than in addition to, the black working class. This change in perception cost the DLP the election of 1976, ushering in Tom Adams (of the BLP) as prime minister at the height of the oil crisis’s impact on the real economy.

Adams and the BLP largely eschewed heated ideological debates (e.g., Socialism vs. Capitalism) in favor of a more measured rhetorical policy approach to the economy. Describing Adams's rhetorical strategy, Beckles (2006) notes that Adams focused on "financial and managerial acumen within regional politics, rather than radical socio-cultural dynamism" and further, he "promoted an undoubtedly private-sector image for the party and was able to defeat the Democratic Labour Party and restore the sagging public confidence and the optimism of the professional classes and corporate elites" (Beckles 2006, 283). The transition from Barrow to Adams can be seen as a transition from a reactive, anti-black-power rhetorical policy to a proactive, pro-business rhetorical policy aimed at increasing the economic prosperity of all. Barbadian entrepreneurs took note. In the absence of divisive economic rhetoric, entrepreneurs gained even more confidence in the direction of the economy and in the ability of the government to dampen the radical sentiment of a working class whose workforce participation was integral to the functioning of many businesses, particularly foreign firms and those in the tourism and sugar industries. A survey taken of a sample of business owners in 1978 confirms the effectiveness of Adams's approach. When asked, "Is your business doing better today than it was in 1974?" nearly two-thirds of respondents answered in the affirmative (Barrow and Greene 1979, 72).

Where Jamaica chose rhetorical policy antithetical to entrepreneurial activity, Barbados stuck with the rhetorical policies of the free market. The rhetorical policies each country chose had real effects on entrepreneurial confidence. And when these rhetorical policies became more than mere rhetoric (as we discuss in the next section), the effects in each country grew ever more pronounced as entrepreneurs had to contend with laws and actions that either enabled or disabled their ability to harness the power of the market.

Economic Policies

The spike in oil prices after 1973 caused fiscal difficulties for both Jamaica and Barbados. Because both nations are small, open economies, they are uniquely vulnerable to external shocks. Each government's ability to invest in infrastructure development, education, health care, and other government programs is a direct function of their ability to maintain a current account surplus. Howard (1992) notes that this need for balance "is why governments of small countries need to save more, that is, achieve current account surpluses in order to finance capital expenditure" (Howard 1992, 11). The oil shock crisis, by increasing the cost of foreign goods and making it more costly to produce goods for export, destabilized this balance in both nations.[8]

The two nations' adjustment to these problems largely mirrored their rhetorical policies. Jamaica increased taxation, levied major industries, created money, and attempted to increase exports by nationalizing companies. Barbados, however, took a different approach. While Barbados revised its tax policy and also levied at least one major industry (sugar), the government did not create money to finance the deficit or nationalize firms with the intent of controlling the commanding heights of the economy. Instead, the government provided incentives and investment meant to encourage entrepreneurial and firm-level growth. Where Jamaica initiated policies largely in conflict with the tenets of industrialization by invitation, Barbados continued to pursue such policies.

Immediately following the crisis, both nations raised taxes. The goal of these tax increases was to raise revenue and stabilize reserves. While each nation's short-term goals were

[8] For specific numbers on balance of payments and foreign reserves in each nation, see Downes (2001) for Barbados and Manley (1987) for Jamaica.

the same, their actions differed because of shifting long-term views on the role of the state in the economy. The imposition of two levies—one on Jamaica's bauxite industry and the other on Barbados's sugar industry—provides a comparative illustration of the approach each nation took to taxation policy.

In 1974, following drawn-out negotiations with the five foreign corporations producing bauxite in Jamaica, Manley imposed a 7.5 percent levy on the industry in order to raise revenue to balance the budget. In addition to imposing the levy, the government purchased 51 percent of operations (Stephens 1987). The revenue generated by the levy, though considerable and with the potential to alleviate a tenuous fiscal situation, was misspent. Levi (1989) notes that "instead of investing all bauxite revenues in a capital development fund, as Manley promised, much of the revenue was used shortsightedly, under tremendous domestic political pressure, on current expenses" (p. 149). The misspending of the revenue, however, was not the only problem surrounding the bauxite levy. Because Manley "unilaterally" imposed the levy, the five foreign firms retaliated against the Manley government in their home countries by lobbying politicians (members of Congress in the U.S., for example) to reduce foreign aid to Jamaica. Writing in the summer of 1977, an analyst for the Heritage Foundation produced a policy brief characterizing the negative reaction of foreign entrepreneurs to Manley's policies:

> One of the principal reasons unemployment has risen substantially and government revenues have not been able to meet outlays is the curtailment of new foreign investments. The nationalization programs and sometimes strident anti-capitalist rhetoric has discouraged any new investment. One financial officer of a large American corporation stated quite simply: "We don't want to get caught like the boys in Cuba, where they could take out a suitcase and that's it." There is over $1 billion of foreign investment in Jamaica, but some of it is closing down, rather than contend with the new taxes and regulations (Gayner 1977, 3).

And with respect to the bauxite levy in particular, the policy analyst wrote:

> With the new tax, Jamaican bauxite becomes the most expensive in the world. This not only has discouraged any new investment, but also has precipitated the closing of some existing plants in Jamaica, such as, the $90 million Revere Copper and Brass affiliate. Revere has charged that the taxes constitute an expropriatory [sic] act and are seeking $64.2 million in compensation from the Overseas Private Investment Corporation for their facilities in Jamaica (Gayner 1977, 4).

This antagonism directed at Manley's policies isolated the nation from much-needed foreign capital, which declined precipitously during the period (see Table 4). Under Manley, Jamaica forgot the benefits of industrialization by invitation, namely the importance of creating a friendly environment for foreign business.

Barbados also imposed a levy, but with fewer detrimental consequences because it had the effect of incentivizing industry and its revenue was allocated with prudence. Barrow's rhetoric with regard to the 1975 levy, which he imposed on sugar farmers, revealed that he intended to use the levy in order to both finance the deficit and also invest in future growth. The administration imposed the levy at a time when the market price for sugar had tripled, providing much needed foreign exchange to a country still battling the effects of the oil shock. The *Virgin Islands Daily News* reported that "the money gained from the [Barbadian sugar] levy would be allocated for low-interest loans to agriculture for mechanization, diversification and farm incentives, to the Barbados Workers Union for a mortgage financing plan and to the National Housing Corporation for mortgages and housing construction" ("Sugar Growers" 1975).

Barbados's levy on the sugar industry was also distinct from Jamaica's levy in that it avoided a fracas with foreign capitalists. While Western companies made up the bauxite industry in Jamaica, mostly local planters managed the sugar industry in Barbados. As such, the levy in Barbados was not seen as a broad attack on foreign capital. Moreover, because local sugar planters were an integral part of Barbadian society and politics (as opposed to foreign capitalists), the government had a much greater obligation (and political necessity) to ensure their fair handling in discussions over and in the execution of the levy.

The Barbadian approach to the levy not only helped to buttress business growth (particularly when compared with Jamaica's approach) but also the approach was more effective in helping to stabilize the deficit. Barbados did a much better job managing its fiscal deficit to GDP ratio in the period 1974 to 1981 (Table 5). According to Worrell, the Governor of the Central Bank of Barbados, this success had its underpinnings in Barbados's handling of its levy revenue. Worrell (1995) states:

> The Barbados Government resisted the temptation to create additional public service jobs with the [levy] proceeds, keeping the underlying budget fairly close to the limit of ordinary revenues. As a result, when sugar prices reverted in 1976, the Barbadian Government was able to keep the budget deficit within bounds. In contrast Jamaica and Guyana had embarked on ambitious job creation and nationalization programmes which left Government with large deficits once the windfalls came to an end. Financing these deficits led to balance of payments crises with inflation, shortages, currency devaluation and loss of real income in Jamaica and Guyana. Prudent fiscal policy in Barbados which appeared unnecessarily harsh to many Barbadians at the time saved the country from a similar fate (9).

This finding suggests that Barbados's taxation policy was one part of a more effective Barbadian stabilization strategy.

The story of these two levies provides one example of each nation's corrective approach to the oil crisis and, in a larger sense, reflects the shifting policy positions of each nation regarding the best economic path forward after a major crisis. In addition to the imposition of the levies, each nation altered its corporate tax rates and engaged with entrepreneurs differently in order to stabilize their economies. For example, in 1977, Barbados raised its company tax rate from 40 percent to 45 percent (Lent 1977; Worrell 1982). On the other hand, Jamaica in 1976 added a 7.5 percent surcharge on a company tax rate that ranged from 45 to 50 percent (Lent

1977). In other words, doing business in Jamaica was 7.5 percent to 12.5 percent more costly than doing business in Barbados from a purely tax-based perspective. By 1983, the average income tax payment for a person making $20,000 a year amounted to US$5,700 in Barbados and US$9,400 in Jamaica.[9] In addition to taxes, both countries flirted with the nationalization of key industries—Jamaica to a far greater extent than Barbados. While Manley conceived of nationalization as an opportunity to control and direct the commanding heights of the economy in order to permanently alter the socio-economic structure of Jamaica, Adams was very hesitant in his nationalization program, choosing to take up holdings in a select few (and mostly, utility) companies after "cordial negotiations" and with the clear understanding that "the Government had no intention of dominating such ventures but was quite prepared to finance their operations on development banking principles" (Hoyos 1988, 104–5).

In addition to stabilizing fiscal policy and altering taxation, both countries found it imperative to bolster the entrepreneurial initiative of what was becoming their most important industry: tourism. The fiscal problems faced by both countries reflected the depressed (and negative) profit growth at the industry level. For most industries—including the manufacturing, construction, retail, and service industries—energy was a major input of production. As such, the oil crisis had the effect of increasing the costs of production, even in Barbados where oil production, though it existed, was negligible. Yet the tourism industry was perhaps most vulnerable to the oil shock. There, the price of oil affected not only production (in the cost of

[9] Although the average amount of taxes per person is higher in Jamaica, the tax to GDP ratio is higher in Barbados than in Jamaica. Between 1974 and 1976 the tax to GDP ratio was 19.9 percent in Jamaica and 22.7 percent in Barbados (Howard 1989). Howard argues that the lower tax to GDP ratio in Jamaica, however, does not reflect a "lower incidence of taxation." In fact, he refers to the Jamaican tax system as "burdensome" and states that "Perhaps one reason for the low income tax/GDP ratio in Jamaica has been widespread tax evasion, informal labour activity and unincorporated business activity, which are important factors in reducing the taxable base of the economy" (Howard 1989, 121).

energy and electricity to heat and cool hotel rooms, restaurants, and the like)[10] but also consumption (in the cost of transportation for travelers).

Barbados experienced its first drop in the number of tourist arrivals in 1975 (see Table 6). In 1974, 230,718 tourists visited the island, and in 1975, 221,486 visited. The number of tourist arrivals would surpass the 1974 level in 1977, suggesting that the industry was able to bounce back fairly quickly. In Jamaica, the industry took longer to rebound. Tourism arrivals peaked at 432,987 in 1974 and hit a low of 264,921 in 1977—a much more significant drop than in Barbados. The Jamaican tourism numbers would not regain their 1974 level until the 1980s. Policy choices help to explain the difference.

Rhetorical policy, of course, plays a role here. Manley's antagonism toward the West certainly played a role in Western perceptions of the island. When Manley was re-elected in the late 1980s, one Jamaican voter recalled the Michael Manley of the 1970s, expressing his hope that Western tourists no longer feared the nation that once experimented with "communism" of a sort. Speaking to a reporter at the Florida newspaper *Sun Sentinel*, the voter said, "American tourists don't have to fear coming to Jamaica. They don't have to feel like with Manley the communists are in and the Americans are out" (Gibson and Melvin 1989). Moreover, Manley's emphasis on Jamaican self-reliance and Third World independence from the West necessitated a shift away from acknowledging and bolstering international tourism as an important part of the Jamaican economy.

Rhetorical policy aside, a couple of key tourism policy differences between the two countries also existed. The Jamaican government, through the Minister of Industry, Tourism, and

[10] In Barbados, for example, tourism consumed the most electricity—30,491,664 kWh in 1976—of any other industry in the country. See Table VIII in Holder (1978).

Foreign Trade, pursued two main policies: the nationalization of hotels (many of which were insolvent because of decreased demand for rooms) and the promotion of domestic tourism. Neither policy proved very effective. Nationalization of hotels proved disastrous, as by 1980 the government was left with seventeen hotels that were unprofitable and a drain on the nation's fiscal health (Cowan 1983). Moreover, domestic tourism had mixed success. While domestic tourism did increase under Manley's Domestic Holiday Program, the increase did not make up for the decrease in international tourism. Despite the domestic travels of local Jamaicans, the number of rooms used by Jamaicans decreased through the period 1976–1980 (Chambers & Airey 2010).

Barbados, on the other hand, stayed the course with its pre-1973 investment in international tourist arrivals and enabled the tourism industry by shifting its marketing and promotion of tourism toward a more diversified international market. Immediately before the oil shock crisis, Barbados had successfully pursued a promotional tourism strategy targeted at American and Canadian tourists. One initiative, called the "Barbados Bonanza" of 1964, offered potential Canadian tourists exclusive packages for weeklong stays. As a result, the number of Canadian visitors rose from 7,000 in the summer of 1963 to 30,000 in the summer of 1966 (Phillips 1987). But, as in Jamaica, the oil shock crisis depressed the number of tourist arrivals and their lengths of stay. Instead of nationalizing hotels or shifting to a domestic tourism strategy, Barbados remained committed to its promotion of international tourism and in its encouragement of individual hotel entrepreneurs to invest in less costly apartment hotels (rather than luxury hotels). Further, the tourism board recognized that diversification was necessary. In 1973 and 1974, the board's promotional expenditures shifted away from the U.S. and Canada toward the U.K. and other Caribbean countries (particularly Trinidad and Tobago, which had benefited from the spike in oil prices) (Figure 2). The diversification efforts helped the tourism industry recover faster without relying on the resurgence of arrivals from the U.S. and Canada, which would not come for several more years.[11]

In addition to its more effective tourism strategy, the government of Barbados also understood the oil crisis to be a critical event that necessitated a change in the way it managed its energy consumption. Instead of focusing solely on the rationing of energy, the country encouraged alternative sources of energy, namely solar energy, and in the process provided incentives for entrepreneurial growth. In 1974, Barrow passed the Fiscal Incentives Act, which included tax and duty exemptions for solar industries. Later, under Adams, the government provided further incentives to two specific solar water heater companies, Solar Dynamics and Sunpower Limited. As a result, the solar industry in Barbados exploded, copycat start-ups proliferated, and the geographic scope of the sector expanded to other Caribbean countries. The University of the West Indies estimated that solar energy use in 2007 reduced imports of fossil fuel by 33,000 tons, which translates to US $16 million in savings for a country that spent US $208 million on oil imports that same year.[12] According to a journalist's report at the time the study was released, "With almost 30 years of experience under its belt, Barbados is leaps and bounds ahead of Bermuda, and the United States for that matter, in the implementation and use of solar energy" (Jones 2007).

From taxes and spending to energy and tourism, the economic policy choices of each nation affected their entrepreneurial environment. Barbados's measured fiscal policy, investment

[11] See Phillips (1987) for an in-depth discussion of Barbados's tourism policy over the years.

[12] Savings data was collected from Jones (2007). Crude oil prices were collected from the Energy Information Administration's 2007 Annual Energy Outlook. Total spent on oil imports in 2007 was collected from MacCulloch (2010).

in future growth, light taxation policies, and commitment to international tourism all served to edge the nation's economy forward after the oil shock. Jamaica, on the other hand, misallocated its revenue, pursued more disabling taxation policies, and chose to alienate Western tourists and capital. Paired with economic theory on development and entrepreneurship,[13] the data provides qualitative evidence to suggest a causal relationship between economic policy choices and microeconomic entrepreneurial activity. Our findings suggest that sustained, enabling governmental policies can help a small, open economy and its entrepreneurs rebound from an exogenous shock.

Conclusion

Short-term choices have long-run consequences. Jamaica's policy missteps in response to (legitimate) social demands and the oil crisis of the 1970s left a legacy of debt that continues to hinder the country's ability to grow. In 2008/2009, the government of Jamaica spent 53 percent of its budget on debt servicing versus 11 percent in Barbados. While Barbados invests heavily in health and education, Jamaica is unable to devote comparable resources to productive public expenditure (Table 7). The Global Competitiveness Report ranks Barbados 17th globally in terms of its level of health and education spending and Jamaica 109th globally (Table 8). The current entrepreneurial environments of each nation reflect these differences. With greater ease of doing business and less violence and corruption, Barbados enables entrepreneurs to thrive, while Jamaica still struggles to encourage entrepreneurial initiative.

While it is true, as Eckaus (2002) notes, that the golden rule of growth is that there is no golden rule, there exists a clear difference between policy frameworks that enable economic

[13] See, for example, Chenery (1980), Wennekers and Thurik (1999), and Kreft and Sobel (2005).

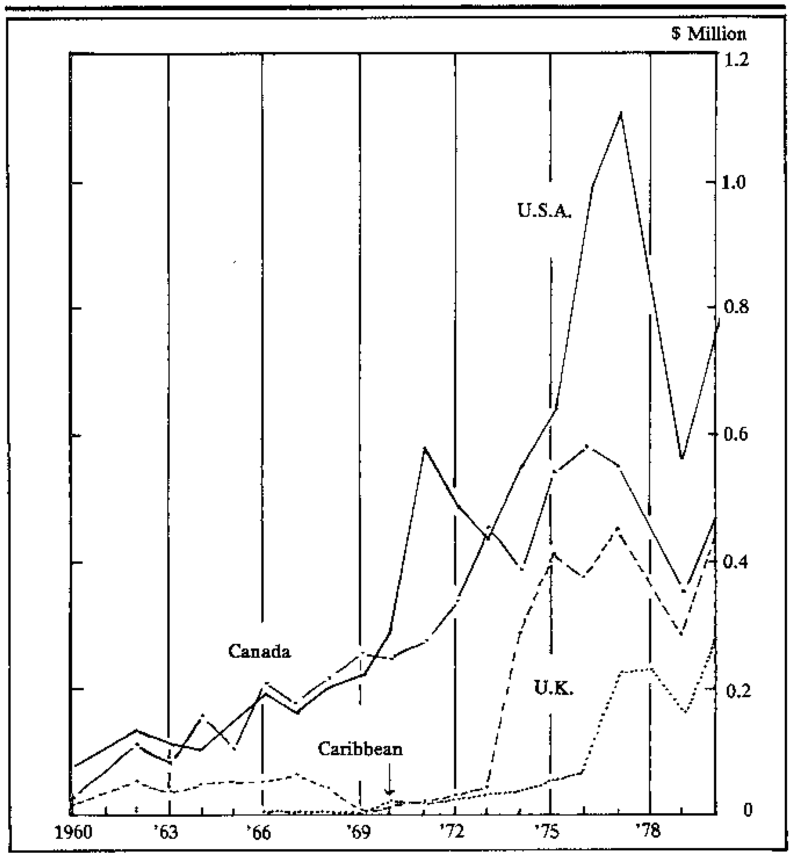
activity and those that do not—particularly in the case of small, island economies vulnerable to external shocks. From the two islands of Jamaica and Barbados, we find that a positive policy framework is one that offers flexibility, encourages innovation and efficiency, and works despite volatility in political will. The key to sustained growth in these nations is a commitment to an enabling approach that breaks down barriers to productivity, recognizes the importance of foreign capital, and allows for the innovation of entrepreneurs.

Figures and Tables

Figure 1: Standards of Living Diverge after the 1973 Oil Shock Crisis

Sources: Real GDP per capita data were sourced from the World Development Indicators (WDI) (2011). Where WDI data were lacking, Penn World Table 6.1 and the IMF's World Economic Outlook real GDP per capita growth rates were used to close the gaps.

Figure 2: Barbados's 1960–1980 Promotional Expenditure by Locational Destination of Funds



Source: Phillips, E. 1987. "The Development of the Tourist Industry in Barbados 1956–1980." In *The Economy of Barbados 1946-1980.* Edited by DeLisle Worrell. Central Bank of Barbados. Bridgetown, Barbados.

Table 1: Economic Policy and Performance Diverge after 1973 Oil Shock Crisis

	Barbados		Jamaica	
	1966–1972	1973–1980	1962–1972	1973–1980
Avg. Growth Rate of GDP Per Capita	5.7	2.5	5.1	-4.6
Fiscal Deficit, percent of GDP	2.7	5.3	2.3	15.5
Inflation	6.0	14.8	4.4	23.0

Source: Real GDP per capita data from the same data sources as Figure 1. For remaining data, see Henry & Miller (2008).

Table 2: Composition of Jamaican GDP at Factor Costs, 1950, 1960, 1970

	1950		*1960*		*1970*	
Sector	J$M	%	J$M	%	J$M	%
Agriculture	43.2	31.5	51.9	12.0	78.9	7.4
Mining	*	*	41.6	9.6	146.7	13.7
Manufacturing	15.8	11.5	58.7	13.6	139.8	13.0
Construction and Installation	10.6	7.7	51.1	11.8	155.7	14.5
Electricity, Gas, and Water	1.5	1.1	4.5	1.0	11.8	1.1
Transportation, Storage, and Communication	10.0	7.3	33.4	7.7	62.9	5.9
Distribution	21.2	15.5	77.8	18.0	179.5	16.7
Financial Institutions	2.8	2.0	16.2	3.8	43.6	4.1
Ownership of Dwellings	8.3	6.1	13.5	3.1	104.7	9.8
Public Administration	7.0	5.1	26.6	6.2	91.6	8.5
Misc. Services	16.6	12.1	56.3	13.0	57.1	5.3
Total	137.0	100.0	431.6	100.0	1072.3	100.0

*The mining sector was virtually nonexistent in 1950.

Numbers may not add to 100.0% because of rounding.

Source: Stephens, E. H. and J. D. Stephens. *Democratic Socialism in Jamaica: The Political Movement and Social Transformation in Dependent Capitalism.* Princeton, NJ: Princeton Univ. Press, 1986: 23.

Table 3: Composition of Barbados GDP at Factor Costs, 1955–1970 (%)

Sector	*1955*	*1960*	*1970*
Sugar	23.4	21.3	9.9
Other Agriculture	11.8	6.7	4.8
Manufacturing	19.2	8.3	10.1
Construction	7.3	9.8	10.0
Wholesale/Retail Trade	10.6	23.0	26.0
Tourism	n.a.	n.a.	n.a.
Government Other	8.7	9.8	15.6
Total	100.0	100.0	100.0
Sugar Industry Exports as a percentage of total domestic exports	93	93	60

Source: Beckles, Hilary McD. *A History of Barbados: From Amerindian Settlement to Caribbean Single Market, Second Edition.* Cambridge, UK: Cambridge University Press, 2006: 279.

Table 4: FDI Net Inflows in Jamaica and Barbados, 1973–1981 (Current $US)

	Jamaica	Barbados
1973	22.2	4.8
1974	23.3	2.2
1975	-1.9	22.2
1976	-0.6	6.0
1977	-7.0	4.5
1978	-26.7	9.1
1979	-26.4	5.1
1980	27.6	2.2
1981	-11.5	7.2

Sources: Jamaican FDI Data: Source - Bank of Jamaica, 2011, Chandar Henry; Barbadian FDI Data: Source - World Development Indicators, 2011.

Table 5: Ratio of Fiscal Deficit to GDP (%)

	Jamaica	Barbados
1974	-7.7	-5.3
1975	-7.8	-2.6
1976	-15.4	-7.0
1977	-14.3	-8.3
1978	-16.6	-2.8
1979	-13.4	-3.4
1980	-20.8	-5.2
1981	-15.6	-8.1

* Surplus (+), Deficit (-)

Source: Howard, M. "Financing in Jamaica, Barbados and Trinidad and Tobago 1974–1984," *Social and Economic Studies*, Vol. 38, No. 3 (1989): 135.

Table 6: Tourist Arrivals in Jamaica and Barbados Per Annum (excluding cruise ship arrivals)

	Jamaica	Barbados
1970	309,122	156,417
1971	359,323	189,075
1972	407,806	210,349
1973	418,257	222,080
1974	432,987	230,718
1975	395,809	221,486
1976	327,706	224,314
1977	264,921	269,314
1978	381,818	316,883
1979	426,540	370,916

Sources: Forecasting tourist arrivals in Barbados Author: Dharmaratne G.S. Source: *Annals of Tourism Research*, Volume 22, Number 4 (1995): 804–818(15) Publisher: Elsevier (defined as long-stay tourists); Bank of Jamaica, 2011, Chandar Henry, Senior Economist (defined as stopover tourists).

Table 7: Composition of 2008/2009 Fiscal Expenditures (% of Expenditures)

	Jamaica	Barbados
Education & Health	18	27
National Security	8	2
Debt Servicing	53	11

Source: Government of Barbados (2010) and Jamaican Ministry of Finance and the Public Service (2008).

Table 8: Business and Competitiveness Indicators

	Jamaica	Barbados
Global Competitiveness Data	107/ 142 – Overall Ranking 106/ 142 – Health & Primary Ed. 85/ 142 – Higher Ed. & Training 11.8% mentioned “Corruption” as an impediment 0.9% mentioned “Gov’t Instability”	42/ 142 – Overall Ranking 17/ 142 – Health & Primary Ed. 25/ 142 – Higher Ed. & Training 0% of respondents mentioned “Corruption” or “Gov’t Instability” as an impediment to doing business
Doing Business Data	88/ 183 – Overall Ranking 23/ 183 – Starting a Business 103/ 183 – Registering Property 172/ 183 – Paying Taxes 126/ 183 – Enforcing Contracts 98/ 183 – Getting Credit	N/A

Sources: The 2011–2012 Global Competitiveness Report is constructed by the World Economic Forum, 2011–2012; the 2012 Doing Business Report is constructed by the World Bank.

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