

The View from Europe
By David Jessop

Some uncomfortable truths for 2013

A short while ago the German Chancellor, Angela Merkel challenged the way in which Europeans think about the world and what they have come to expect from their governments.

“All of us have to stop spending more than we earn every year”, she told the Financial Times. “If Europe today accounts for just over 7 per cent of the world’s population, produces around 25 per cent of global GDP and has to finance 50 per cent of global social spending, then it’s obvious that it will have to work very hard to maintain its prosperity and way of life”.

Her message was intended for a Europe that cannot agree on how best to address the serious economic uncertainty it continues to face. However, much of what she said can be related to the challenges the Cariforum nations are also experiencing in relation to competitiveness, austerity and growth.

Mrs Merkel made clear that if Europe is to survive the challenge of globalisation and restore competitiveness, it would have to work very hard to maintain its welfare system, would need to spend more on education and have to overhaul its tax and labour markets.

She suggested that one of the difficulties in addressing the problem was in overcoming Europeans’ mindset about the world.

“I find it worrying that many people in Europe simply assume that, alongside the US, Europe provides the only frame of reference for the world - that Europe is traditionally strong and that the world looks to us. Other models have long since emerged: China, India, Japan, Brazil, and they will be joined by other countries that are working hard and proving to be innovative”, she said.

What the German Chancellor was suggesting was that Governments and their electorates may have to accept that there are finite limits to what nations, even the most developed, will be able to provide to their citizens in future if they are to remain constantly competitive.

Put another way, accommodating low growth, indebtedness, increasingly volatile electorates, unemployment and a healthier but aging population, will require the gradual lowering of social expectations and placing a defined and well understood ceiling on such spending if nations are to achieve sustainable growth and have continuing weight in the world.

This is a politically potent message, as, for the latter part of the twentieth century and the start of the twenty first, increasing the level of support for social programmes has been a measure of progress and a state’s vitality.

Although the Caribbean has continued to grow apart from Europe and is greatly influenced by US materialism and culture, much of the political and social idealism of the old world continues to influence regional thinking. One consequence is that all Caribbean Governments are presently empowered by, and committed to delivering programmes through the public sector in ways that envisage a significant continuing role for the state in providing health care, education, pensions, employment and forms of welfare.

The effect is that while the German Chancellor's words reflect challenges that Caribbean politicians understand, few as yet seem prepared to accept, let alone explain where the analysis may lead.

As a consequence many Caribbean governments prefer to look to the International Monetary Fund for support in restoring economic stability and addressing the problem of long term debt. But so far few have attempted to explain in convincing detail how they intend going beyond this or the likely harsh reality of what it may take to achieve growth. Put more bluntly, the present level of social provision offered may not be sustainable; and it may be necessary to cut the public sector, its pensions and benefits. In parallel politicians will have to explain to the wealthy why it will be necessary to terminate unsustainable tax concessions, and end the avoidance or evasion of income and corporation tax.

Instead much of the Caribbean seems to hope that there will continue to be concessional support from nations new to the region, or that preferential economic arrangements will continue unchanged while the rest of the world tries to recover.

This year, however, could be the one in which this approach ceases to be sustainable: when for whatever reason, a change in the terms of the PetroCaribe oil agreement with Venezuela will have to be renegotiated; when IMF programmes bite and begin to touch citizens in ways they find difficult to accept; when Europe says no more in relation to the ways in which it has provided development assistance in the past; when food prices pass beyond government's ability to subsidise them; and when the international dance of diplomats and ministers ceases to attract a positive response.

Change to what ones believes is socially just is dispiriting, but globalisation is redirecting wealth leaving regions like Europe and the Caribbean needing to adapt and cease hoping to recreate the past.

Many of the Caribbean's bright outward looking young people have already understood this. So too have some governments such as that in Guyana which despite its problems has constructed a new environmentally-led way to approach the world, while deepening its integration with its close neighbours. Cuba, which at times has seemed mired in the past, has also actively set about trying to reconstruct its economic model with the objective of enabling its socially oriented system to make use of market forces to stimulate development.

It is now widely accepted that the region's ultimate recovery depends on two primary forces: the global economic impetus that will come from renewed growth in emerging economies such as China and Brazil; and a return to prosperity in the region's main visitor feeder markets of Europe and North America.

Governments have to accept they cannot wait for this to happen, they need to develop strategies that citizens understand, and encourage opposition parties and social partners to act more in the national interest. They need to promote hope and a collective will to succeed.

The year ahead is likely to challenge many of the assumptions most have grown up with in relation to the role of the state. If nations are not to continue to be dependent on the largesse of others, or on political tradeoffs, a painful process of new thinking is required.

David Jessop is the Director of the Caribbean Council and can be contacted at david.jessop@caribbean-council.org

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