

**This American Life Episode Transcript
Program #410 Act II**

If You Were Stranded On A Desert Island And Could Only Bring One Economic Plan...

Host Intro: Now we turn to another country where people reached a crisis point ... and had to re-evaluate how to run their country ... the country is Barbados ... Alex Blumberg from our Planet Money project tells us.

Alex: When you hear the story of Barbados in the 90's you will think to yourself, I've never heard of people getting together and doing what this entire nation decided to do ... it's remarkable. And it's even more remarkable when you compare Barbados to one of its neighbors, Jamaica.

The two countries should be very similar - Both were colonized by the British. Both gained independence in the mid-60's and then became parliamentary style democracies. And both started from the same place economically, one wasn't much richer than the other.

But to give you a sense of life in Jamaica today ... let's go to the side of a road, next to a little strip mall. There's a couple women selling fruit out of cardboard boxes. And they say life here is so bad that the police, the metroman they call them, steal from them regularly:

Woman 1: When the metroman come here, they run away with our things.

Woman 2: They come and take away all of our stuff and lock we up, yeah.

Alex: Wait, the police come and take away your stuff?

Woman 1: Yes. We have to beg them, but they come by.

Woman 2: We don't get it back. Them carry it to their homes and take it for themselves.

Woman 1: Sometimes we cry, hungry you know.

Compare that to this ... now we're in a mall in Barbados, which basically looks like a mall in the United States.

Alex: Tell me about life in Barbados, how is it?

Woman: For me it's great, absolutely; Absolutely fantastic.

Alex: And why do you say that?

Woman: Over the years we've had excellent governance in terms of the people who run the country.

Alex: I'm just laughing because you never, ever hear anyone say that, I'm just trying to imagine going out in the United States.

Woman: This is a fact in Barbados. You just have to compare us to the rest of the world.

Some quick statistics for comparison. Five decades after independence, median income in Barbados is twice what it is in Jamaica. Literacy rate in Barbados, over 95% ... in Jamaica, it's estimated that a fifth of the population is functionally illiterate. And Jamaica has one of the highest murder rates in the world, while Barbados is near the bottom.

So what did Barbados do so right?

Come with me now to the 1990s ...

Music: Everybody dance now.

This is the C and C music factory's monster hit from 1991, it actually has nothing to do with Barbados, but 1991 is when our story begins.

And as the 90's got under way, Barbados was doing okay ... but then, oil prices went up ... the world went into recession ... tourism is a huge industry on Barbados, and foreigners weren't taking as many beach vacations ...

Which created a big, big problem for Barbados: When you're a small country you rely on the rest of the world to make almost everything you need, toothpaste or wheat or C&C Music Factory CDs ... and if you wanna buy things from, say, the US, some importer somewhere in your country, has to have actual US dollars, picture real dollar bills, to pay for those things. So where do they get those dollars? Well ... this is an oversimplification but basically ... Americans come to Barbados and spend them on hotels and coconut drinks ... or importers from America buy Barbados rum and pay in dollars. And then Barbados can turn around and spend those dollars on stuff from America.

It's iron-clad: No foreign dollars, no goods from abroad.

This is a problem a lot of countries get into ... you may have heard the term "foreign exchange crisis" - that's what this is. And in 1991, Barbados was facing one. The first people who knew this were the employees of the Barbados central bank, where the supply of American dollars (and all those other foreign currencies) had been steadily dwindling. DeLisle Worrell is the governor of the Barbados central bank:

DeLisle Worrell: In about mid-1991, we had no foreign exchange reserves.

Alex: You literally had no reserves at all.

DeLisle: Yeah, maybe about 10 million dollars, something like that."

10 million dollars, to a central banker, even one on a tiny Caribbean island? That is nothing.

And so the Barbadian government did what almost every government in this situation does: It went to the IMF - the International Monetary Fund - and asked for a foreign currency loan. The idea being, we'll borrow a couple hundred million dollars US now, and then when Americans start coming back to our beaches, we'll pay you back in dollars.

The IMF did what IT always does. it said, sure, we'll give you the money, but there are strings attached ... so you don't get into this situation again.

You need to rearrange your economy so you don't need as many foreign dollars. Which means basically, want your citizens to spend less money on stuff from abroad. But since almost everything in Barbados comes from abroad, that basically amounts to, the entire nation of Barbados just needs to spend less. And the way you keep people from spending, is sort of dreadful. You need them to get poorer.

So here's how you do that: You can devalue your currency ... so if it costs 5 Barbados dollars to import a C&C music factory CD now it would cost 10. Ditto for bread, toothpaste, prices for everything go up.

Or you can cut government services ... which - think about it - means all kinds of people have less money in their pockets.

Neither of course is very popular.

Leroy Trotman: I am Leroy Trotman. I am the general secretary of the Barbados Workers Union.

Leroy Trotman is often called Sir Roy. Knighthoods seem pretty common in Barbados, I ran into a couple knights while I was there. And Sir Roy was one of several people called to an emergency meeting by the prime minister in mid 1991, to discuss the crisis and what the IMF wanted Barbados to do.

Now Sir Roy – and most people in Barbados – had no love for the IMF. They'd seen what had happened to other countries in the caribbean when the IMF got involved. Higher unemployment, massive currency devaluations, sometimes riots and violence ... it seemed everywhere the IMF went, trouble followed. Fairly or not, they blamed the IMF and the terms it imposed on countries it lent money to. And so, to Sir Roy and his colleagues, this crisis was the biggest threat that an independent Barbados had ever faced:

Leroy: We took a position that we would see ourselves as a country which was being invaded by the IMF. And our approach thereafter was that we had to resist this invasion, and that was what we actually called it.

Alex: An invasion?

Leroy: Yeah, the trade union called it that.

But the unions knew that they'd need help resisting the IMF. And so, they hatched what seems like a fairly strange plan for a trade union. They decided to band together not just with other unions, but with management as well. With the business councils, and chambers of commerce on barbados. To join together, to confront the IMF and set the terms of the loan. Tony Walcott is the executive director of the Barbados Employers confederation. A business group. At first, he says, employers were dubious:

Tony Walcott: I think employers traditionally didn't see themselves as being part of the problem. But it was so serious that something had to be done. And this is when all parties

came together and said look, devaluation is not option. Massive wage cuts or retrenches in public services was not an option.

And so Roy Trotman representing workers, found himself side by side with Tony Walcott's group, representing managers and business owners, in front of the IMF. To press the case that some of their solutions would do more damage than good.

Leroy: we told the IMF for example that we would not agree to a largenon of the size of classrooms. They wanted to double the size of classrooms. They wanted to have people going to the hospital and have to pay for services. And our position was that we were going to be under an IMF program for a while, but we were go to come up from it. And when we came back up from it, our people had to be healthy and they had to be educated and ready to take on the job of building the country again. And the IMF was persuaded by us. I think the government was also persuaded by us. The employers were side by side with us in these arguments.

The arguments stretched on for months, the employers and employees on one side, the IMF on the other, the government sort of in between. The main sticking point, wage cuts. Lower wages would mean people would buy less from abroad, which would mean they'd need fewer us dollars. So the government was proposing a big wage cut. The unions and the employers together tried to fight it. They staged a general strike and held a massive two-day demonstration, the largest in barbados history, it's estimated that 10% of the island's population took to the streets. Here's Sir Roy Trotman, addressing the crowd at that march:

Leroy: Let me tell you, ladies and gentleman. (clapping). The people marched against the walls of Jericho. And because the people marched, the walls of Jericho fell.

But in the end the speeches, the general strike, the 30,000 marchers on the street could not contradict the basic reality ... that the country of Barbados would run out of money, unless it figured out a way to get its people to spend less. And so the government under pressure from the IMF, insisted on an 8% pay cut for all public sector workers, across the board.

And it's at this point, that things departed from the usual script, where each side digs in for a brutal war of attrition. Sir Roy and the leaders of the other unions knew that fighting on - more strikes, more demonstrations, which might get out of hand and lead to violence - all that could kill an already fragile tourist industry. And so they went back to their members and in meeting hall after meeting hall, all over barbados, explained to the union rank and file, we're sorry, this is the deal:

Alex: Do you remember a specific meeting in a hall where you felt like, 'man, what am I going to tell these people?'

Leroy: Every time I stood up ... It was difficult, I mean, sometimes it then become easy to go into groups because people told you about your heritage. Some of them had visions for your future that you didn't exactly agree with. But I mean, the job had to be done. If you are a leader you have to lead.

Dennis De pieza: Yes we effectively agreed to an 8-percent pay cut.

Alex: Here's Dennis De pieza, head of another union organization.

Dennis: We had to choose between the lesser of two evils -- either taking a pay cut or having many Barbadians on the street, without a job, to put it in a simplistic way. All we say is, 'save Barbados poorest.' We had the interest of country paramount.

Leroy: The Barbados work force in the trade union movement took a very patriotic stance.

Again, labor leader Sir Roy Trotman.

Leroy: And even now I still feel a sense of pride that the Barbados workers rallied behind us. Not 100 percent, but to the great level that they did. And the employers were with us step by step in all of this.

This part of it is important. The self-sacrifice was contagious. If the unions could go against their very reason for existence, and lend their grudging support for wage cuts, then the business community could go against the thing they held most dear, Profits. Here's tony walcott, who represents the businesses:

Tony: The mercantile community said, 'look, we will accept a lower margin or a lessened margin, just to be able to hold prices.' You kept your retail price fixed at a number so it rolled into your margin a bit.

Alex: So here you are, the price of oil is going up, so that means the price of all sorts of other things is going up because everything is tied to oil. And instead of raising it to that level, they just took it...

Tony: It ate into their margins.

Alex: So instead of getting 50 percent, they were going to get 30, 40 percent.

Tony: That's correct; that's correct ... Well, as Sir Roy said, nobody wanted the devaluation, and I'm not sure that would have saved Barbados, and people were just prepared to tighten their belts a bit and ride out the rough patch that we were going through.

Workers and employers came up with all sorts of ideas to try and reduce the impact. Remember, the world was in recession at this time, so layoffs were already up in Barbados. These wage cuts were going to make that even worse. But, the unions and employers came up with ideas to reduce the impact of lay-offs, or as they were termed, retrenchments. Again, Tony Wolcott, with the business community:

Tony: We started to develop tools like insisting that if there were going to be retrenches in a household, both bread winners would not be retrenched. At least one had to be retained to ensure that there was money coming in.

Everyone chipped in. Even Pension funds sold off their foreign assets -- american stocks and bonds -- as a way of bringing american dollars back into the system.

In the end, this collective sacrifice worked. The recession ended. People came back to spend their vacations in Barbados, and the Barbadian economy continued to grow. Within 5 years, Barbados had paid back its loan to the IMF, and real wages were higher than they were before the 8% cut.

And Barbados society seemed permanently altered.

These meetings between employers, employees and government were so effective that they became formalized ... into what's called the social partnership.

I was actually in Barbados during one such meeting, the yearly gathering of all three groups, the so-called Week of Excellence. Tony Walcott, who represented the employers, and Sir Roy and Dennis De Peiza who represented labor, were all there together, in the same room when I was talking to them.

And what they do, during these meetings is essentially, try to see things from each other's points of view.

For example. Hotel management's always like, be extra nice to the guests or they'll all take their vacations in Antigua. And labor's like, uh, I'm on my lunch break. The social partnership tries to get labor and management to recognize their common interest in keeping tourists coming to Barbados, and work together to make sure that keeps happening.

For example, a new pilot program that they've undertaken, to improve productivity in the hotel industry. Basically that means, to get the staff to provide better service to the guests, but also to reduce waste, be more profitable for the hotel. Again, here's Tony Walcott:

Tony: If they recognize that their reward is going to be based on efficient use of, let's say the cleanliness of the place, hence any gains you're able to make are going to be paid as a productivity bonus.

Alex: So basically what you're doing is you're establishing what exists on Wall Street, where if people have a good deal they get a bonus. You're putting it on the level of the gas station attendant and the chamber maid, the people in the hotel service, and the bar tender. Tony: That's correct. It's based on output.

Alex: Now, we're staying at the Hilton. if I talk to the person who is cleaning my room, would they be familiar with this?

Tony: Yes, Hilton is in the pilot scheme.

O'neal: Yeah, yeah Hilton they do a lot of training.

Alex: This is O'neal, a Hilton bartender I met. He said that as part of this pilot scheme, employees at the Hilton go through trainings where they're encouraged to think about things like management does, i.e. from the point of view of the customer:

O'neal: If you're an employee and you put yourself in a guest situation, you can be a guest, you try to put a role play on it, you know what I mean, to get feedback on it. And that's how they do it.

Alex: Tony also said there are productivity bonuses, do you know about that?

O'neal: Yeah, yeah, yeah.

Alex: And how does that work?

O'neal: Extra effort, if you do something that would go beyond your job commitment, you know what I mean, they give you bonuses.

Alex: Have you gotten a bonus?

O'neal: Yeah, I always go beyond by own job. I always do.

And employers also try to see things from labor's point of view, especially when they're in negotiations with labor, and labor might not believe the claims management is making. Again here's Tony Walcott with the business community:

Tony: Several of the companies have opened up their financials to the union. These are private companies; their financials are not generally published. Yet officers in these companies are willing to sit down with the union and share their financials with the union. The union has been satisfied based on the presentations we've made that the companies do not have the ability to pay. But the key driver was have to sustain existing employment levels. And if it means that we don't take a pay increase to be able to allow our brother to stay employed, that has been a driving force for both the employers and the workers represented.

Alex: For Tony Wolcott, it all comes down to one simple thing. Which, when he said it, I couldn't believe what I was hearing:

Tony: Trust and that to me is a key factor in the whole cohesion of the social partnership that we've got here.

Alex: The reason that I'm laughing is that you represent the employers of Barbados, and again, I'm putting this into the American context. It's just sort of hard to imagine an American leader of a business association talking about how much they trust the labor union. It just doesn't seem possible, right?

Tony: No, but it's about trust.

Alex: In trying to figure out how much the rest of the world can learn from Barbados experience, people I spoke to are divided. Some point out that what Barbados did would only work in a tiny society like Barbados, it's only 300,000 people after all, so it's harder to depersonalize the other side in negotiations. But others say anyone in this type of budget crisis -- which today includes Greeks, Spaniards, Hungarians, New Yorkers to name just a few -- anyone can do what the Barbadians did, bring all the sides together talk, and listen, and try to see things from each others point of view. It's essential, they say, because if you don't, the long term consequences can be devastating. The long-term consequences look like Jamaica.

Because Jamaica in the mid 1970's faced the identical crisis Barbados faced in the 90's. A foreign exchange crisis. The Jamaican central bank had run almost completely out of foreign dollars. The country had no money to buy the things it needed to buy from abroad. And it was also forced to turn to the IMF for a loan.

Jamaica's leader at the time was a bright and charismatic man named Michael Manley, popular with the rich and the poor. But unlike the leaders in Barbados, he did not bring the country together to share the burden of becoming temporarily poorer. To build trust between rich and poor, between workers and business owners. The thing that almost all middle class Jamaicans alive at the time remember, in 1975 he made a famous speech, saying that if Jamaicans didn't like what he was doing, there were five flights a day leaving for Miami.

Thousands of middle class Jamaicans took his advice. They left. Including the guy I first heard the whole story of Jamaica and Barbados from, an economist named Peter Henry. He was nine when he moved to America with his parents, he's now the dean of the business

school at New York University where he takes a professional interest in what happened to his old country.

The exodus of foreign capital and middle class Jamaicans that Peter was a part of crippled the Jamaican economy. It actually shrunk an average of 2 percent per year for 15 straight years in the 70's and 80's, a statistic that makes economists gasp. And successive Jamaican governments, faced with declining tax revenues, continued to borrow, so that today, almost 50% of all the money the government collects, goes toward paying interest on debts from the past. Peter Henry:

Peter: You tend to think about economic disasters in autocratic countries where people are trying to please the populace, and that isn't necessarily the case. This is a smart man, a man with a big heart, who mean to do well, and this is why I think it's all the more powerful a lesson. Even in places where governments are trying to do the right thing, trying to empower their citizens, if they follow bad policies, there will be substantial long-run consequences.

Alex: Of course, in a crisis like the ones Barbados and Jamaica faced, and many governments face around the world are facing right now, at the time its implemented, bad policy can feel like good policy - people keep their jobs and their salaries. And good policy can feel bad, there are protests, and marches in the streets, and calls for the government to resign. The true consequences to Barbados and Jamaica were only revealed over time, as they marched steadily down their divergent paths. Barbados isn't a miracle, but after decades plodding slowly along, it now looks like one.