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Introduction

Many general histories of the Caribbean have been written since the arrival of the Europeans in 1492. There have also been a number of economic histories covering the age when sugar was 'king' and the colonial possessions generated huge rents for their imperial masters. Yet since the Napoleonic Wars ended in 1815 little has been written on the economic history of the region as a whole, although there have been some excellent studies of individual countries.[1]

There are various reasons for this. For many countries, but not all, the nineteenth century was seen as a period of decline, and therefore the region was considered unworthy of serious attention by economic historians. The data for the different territories are not easily comparable and are hard to access in some cases. As a result, scholars have tended to focus on subregions – such as the British West Indies before independence or the French-speaking territories. For British, Dutch and French scholars, other colonies outside the Caribbean have attracted much more interest. Scholarship in different parts of the world has paid attention to the economic development of Cuba and Puerto Rico, but the rest of the Caribbean has generally attracted much less interest from the same researchers. The first independent countries – Haiti and to a much smaller extent the Dominican Republic – have generated monographs and articles published inside and outside those countries, but comparatively little of this has focused on their economies.

This book is therefore designed to fill a gap in the economic history of the region. It covers the period from the end of the Napoleonic Wars to the present. The story starts at a time when Haiti had already become independent, when the slave trade had started to be abolished and when Spain was strengthening its grip on its Caribbean colonies, having lost its mainland Latin American ones. The vast majority of countries were still British, Dutch, French or Scandinavian colonies, but in every case the old order was changing, and an uncertain future was beckoning.

[1] These are referenced mainly in the Notes on A., B., C., and D. tables.

The end of the Napoleonic Wars was the moment when transfers of sovereignty among colonial powers were coming to an end. There would still be a few – notably Spain to the United States in the case of Puerto Rico – but in most cases the transitions from now on would be to independent states. Military conflicts became less common, but the few that did take place caused much destruction. The quantity and quality of statistics in all countries improved as the nineteenth century advanced, and it becomes possible to detect trends and cycles that were previously obscured by a lack of comparable data.

The economic history of the Caribbean in the twentieth century has also been notable in two ways that have not perhaps received sufficient attention. First, the cycles that had so marked the nineteenth century did not disappear, but they started to take place around a rising trend. As a result, the Caribbean has reached a level of average income that is high by the standards of developing regions. Indeed, many countries now have income per head comparable to that of rich countries. Thus, the problem of production has become much less acute, and for many countries the principal problems now revolve around distribution, employment and sovereignty.

Second, the primary products with which the region has been so intimately associated – especially sugar – have become much less important because all countries have switched exports from agricultural commodities to mining, energy, manufactured goods, and services. Indeed, the Caribbean is the region of the world most specialised in service exports and is likely to remain so. This creates opportunities that are not available to other parts of the world, but these are still not properly understood.

Everyone is agreed that the Caribbean is a region, but there is no unanimity about the countries it embraces. The term 'Caribbean' is derived from the Spanish word for one of the indigenous peoples the *conquistadores* found on their arrival, but it did not define a region until much later.[2] A definition based only on language or colonial origin is clearly too parochial, but it is still common for books on the countries that were once British colonies to carry the word 'Caribbean' in the title without any qualification.

The **narrowest** acceptable definition includes all the islands that are not part of mainland states.[3] This is a natural derivation from the ancient concept of the Antilles, the islands divided into Greater and Lesser according to size and geography.[4] This has the advantage of simplicity and has been used by many

[2] According to Gaztambide-Geigel (1996), the expression 'Caribbean' only became common at the end of the nineteenth century.

[3] This definition excludes islands such as the Florida Keys (part of the US) in the north and Margarita (part of Venezuela) in the south. It also excludes islands belonging to Colombia, Honduras, Nicaragua and Panama in the west.

[4] The Greater Antilles comprise the large islands to the north (Cuba, Hispaniola, Puerto Rico and Jamaica). The Lesser Antilles are all the others (often divided into Leeward and Windward islands).

authors.[5] However, it leaves out the littoral states that share much in common with the islands in terms of history, culture and economic experience.

The **widest** acceptable definition includes all the littoral states from Mexico to Venezuela and the three Guianas.[6] This is very similar to the membership of the Association of Caribbean States (ACS).[7] It is also close to the concept of the Caribbean Basin promoted by the United States in the 1980s.[8] However, both definitions are much too broad for purposes of Caribbean economic history because they include some countries that are essentially part of Latin America (e.g. Guatemala) or whose intercourse with the island Caribbean has been minimal (e.g. El Salvador).

Some littoral countries have been virtual islands and should be included in a study of the Caribbean. These are Belize on the Caribbean coast of Central America and the three Guianas on the northern coast of South America (today called Guyana, Suriname, and Guyane, or French Guiana). It is true that **parts** of other countries – especially Costa Rica, Honduras and Nicaragua – have had for much of their economic history more connections with the island Caribbean than with the mainland. However, it is statistically impossible to separate these parts in the areas that matter. The definition of the Caribbean used here is therefore all the islands, Belize and the three Guianas – what has been called the insular Caribbean.[9]

This is nearly thirty countries and can be unwieldy. It is therefore necessary for many purposes to aggregate them into subregions. Some scholars have chosen to aggregate by size or geography, others by language, and still others by colonial origin. Aggregations by economic activity can also be found. A further complication is that in an economic history covering 200 years, the most appropriate type of aggregation will change over time.

The aggregation used in this book is by constitutional status.[10] Thus, the independent countries are first separated from the nonindependent ones, and the latter are grouped in terms of the metropolitan power with ultimate responsibility for defence and foreign affairs. The independent countries, however, are not all lumped together, because this would be unworkable today. Haiti and the Dominican Republic – the two countries that form the island of Hispaniola – form one subregion in all periods. Cuba is kept separate after

5 For a recent example, see Higman (2011).
6 There is even a definition based on 'plantation America' that embraces the southern US and parts of Brazil (see Wagley, 1960), but this is too unwieldy to be operational.
7 The ACS was established in 1994 and has twenty-five member and four associate states, but it excludes Puerto Rico, the US Virgin Islands and most of the British Overseas Territories. See Serbin (1994).
8 The notion of a Caribbean Basin was revived by US President Ronald Reagan (1981–9) to provide a means of rewarding friends and punishing enemies at a time of political upheaval in the region. It has therefore acquired a geopolitical meaning.
9 See Girvan (2005), p. 305.
10 The database allows countries to be grouped together in other ways if desired.

it became independent because it is such a large part of the Caribbean as a whole. The other sovereign states are included together after they gained their independence.[11]

In addition to aggregating countries into subregions, it is necessary to divide the two centuries since the Napoleonic Wars into subperiods. It is common in economic histories to use the notion of a 'long' or 'short' century depending on the cycles of growth or depression, and this approach is used here. The end of the nineteenth century coincided with the Spanish-American War in 1898. This marked the end of Spain as a colonial power in the Caribbean and the rise of a United States based on an empire that included territories and neocolonies. It is therefore an appropriate moment to end the first part of the book, which therefore runs from 1810–20 to 1900 – the short nineteenth century. Because this period coincided with the end of mercantilism in all countries and a reduction in trade restrictions of most kinds, Part I is also described as 'The Age of Free Trade'.

The second part of the book runs from 1900 to 1960. The end year is influenced by three considerations. First, it is a convenient moment to mark the beginning of the shift from economies based overwhelmingly on primary products to economies based largely on services. Second, it is the year soon after which many countries acquired formal independence. Third, it follows the triumph of the Cuban Revolution that has played such a large part in perceptions of the contemporary Caribbean. Because this period coincides with the introduction of imperial preference by the United States and by its reintroduction in the case of the UK, Part II is described as 'The Age of Preferences'.

The final part of the book runs from 1960 to the end of the first decade of the twenty-first century. This is a period when the region has been subject to rapid structural change, with which it has at times struggled to cope. The importance of traditional agricultural commodities, such as sugar, has dramatically declined while minerals and manufacturing exports have grown in importance. Overshadowing these changes, however, has been the rise of service exports that now exceed merchandise exports by value in most countries. Because this period coincides with the liberalisation of capital flows, the accelerated transfer of technology and the shift of economic power from the west to the east, Part III is described as 'The Age of Globalisation'. It is also the period when thirteen countries won independence to join the three – Haiti, Dominican Republic and Cuba – that were already sovereign.

These three time periods have then been used in the preparation of the database for this book. (Throughout the database the US dollar ($) is used as the unit of account.) The first part (1810–20 to 1900) is a mixture of annual and decennial data (A. tables), with the demographic data mainly given annually, but other data are given at ten-year intervals, starting in 1820 based on three-year

[11] Because they all became members of the Caribbean Community, they are aggregated as 'CARICOM'.

averages and ending in 1900.[12] This is the period when only Haiti was independent for the whole time and the Dominican Republic for part of it.[13] Other countries have then been grouped into British, Dutch, French and Scandinavian colonies. There is also a special database for Haiti (B. tables) based on annual data in view of the importance of a better understanding of the evolution of the Haitian economy in the nineteenth century.

The second part of the database (1900–60) consists entirely of annual entries (C. tables) – the subregions are Hispaniola (as before), Cuba (now independent)[14] and other countries grouped by the responsible metropolitan power for most of the period.[15] However, in recognition of the constitutional changes in many countries, I use the word 'dependencies' rather than 'colonies' in describing the subregions.[16] The final part of the database (1960–2008) also consists of annual entries (D. tables), and the subgroupings are now Hispaniola and Cuba (as before), CARICOM (i.e. the other independent countries), and the British, Dutch and French territories.[17]

Haitian independence and the Napoleonic Wars changed the political landscape, but it did not change the prevailing economic outlook. The Caribbean was still subject to the mercantilist policies practiced by the imperial powers, according to which the colonies enjoyed special privileges for their exports to the metropolis in return for restrictions on trade with other countries and favourable treatment of metropolitan imports. Even Haiti, despite gaining its independence in 1804, was made subject to these rules of the international game – first with Britain and later with France.[18] Adam Smith's *The Wealth of Nations* may have been first published in 1776, but it had little resonance in the Caribbean even fifty years later. Among the colonies, only a handful of ports in Dutch and Scandinavian possessions were free to import from any source.[19]

[12] The final year (1900) is not, however, a three-year average in order to make it compatible with later entries in the database.

[13] The Dominican Republic was briefly independent in 1821 and again from 1844 to 1861. It then became a Spanish colony before winning its independence for the third time in 1865.

[14] Cuban independence is usually dated from the end of the first US occupation in 1902. However, because Cuba is such a large part of the Caribbean, I have chosen not to aggregate it with the other independent countries at this time.

[15] I have therefore labeled the Virgin Islands 'US' rather than 'Scandinavian' because the transfer from Denmark took place in 1917.

[16] Even this may not satisfy the purists, because the French 'dependencies' became part of metropolitan France in 1946.

[17] Haiti and Montserrat (a British Overseas Territory) are members of CARICOM, but the former is included here in Hispaniola and the latter in British territories.

[18] See Chapter 7.

[19] At the end of the Napoleonic Wars, the most important were St Thomas (part of the Danish Virgin Islands), Curaçao (part of the Dutch Antilles) and Gustavia on the Swedish island of St Barthélemy. These ports could import freely, but other countries restricted their exports, and many goods ended up as contraband – including weapons sold to the revolutionary forces in South America.

The final abolition of the slave trade by the European powers, starting with Denmark in 1803,[20] did not change the prevailing orthodoxy in favour of mercantilism. Gradually, however, the heavy-handed restrictions and monopolist practices of mercantilism gave way to a new orthodoxy based on imperial preference. Spain, for example, gave its Caribbean colonies in 1818 the right to trade with all countries but imposed a four-tier tariff on their imports that favoured Spanish goods in Spanish ships.[21] French recognition in 1825 of Haitian independence led to a two-tier tariff that favoured exports from France. The United States, with no colonial possessions in the Caribbean, was therefore frustrated in its efforts to export its growing surpluses to countries that generally purchased their imports from farther afield.

The emancipation of the slaves in the European colonies started with the British possessions in 1834. By the time emancipation was completed in Spain nearly fifty years later, the prevailing orthodoxy had changed once again. Britain, Holland and the Scandinavian countries had eliminated imperial preference, and the independent countries had adopted uniform tariff systems. The door was open for the United States to export to the Caribbean the goods that would pay for its ever increasing imports. The trade pattern of the Caribbean for the next century was starting to take shape.

Whether operating under mercantilism, imperial preference or free trade, the Caribbean countries were expected to export primary products. As in mainland Latin American countries, these resources were then used to buy a range of manufactured goods whose local production was not encouraged by the prevailing orthodoxy. However, the small size of all Caribbean countries – physically in most cases and demographically in all – meant that export specialisation in a small number of products was taken to a very high level. As a result, many imports consisted of foodstuffs to feed the growing population. Thus, the Caribbean both exported **and** imported primary products, making calculations of the net barter terms of trade more complicated than in mainland Latin America.

The first chink in orthodox thinking came – appropriately enough – in Haiti. The leaders of the country in the first three decades following independence did all in their power to revive the export sector after the ravages of the revolutionary war. Their efforts to reestablish sugar exports, however, would fail, and the country came to depend on other commodities – especially coffee.[22] The need for diversification was apparent to many Haitian thinkers, and a lively debate began in the 1880s that revolved around the merits of industrialisation based on the substitution of imports. The first steps were taken to promote local manufacturing, but they were very timid, and the experiment had failed by the time of the US occupation in 1915.

[20] France abolished slavery, and therefore also the slave trade, in 1794, but it was restored in 1802. Slavery and the slave trade had been abolished in Haiti in 1793.
[21] The highest tariff band was reserved for foreign goods in foreign ships.
[22] See Chapter 7.

Policy in other countries was based on the need to promote exports of primary products, but domestic and foreign elites were aware of the dangers of monoculture – the dependence of export earnings on a single commodity.[23] Following a long period of low sugar prices, the British government had established a Royal Commission in 1896 to provide policy recommendations.[24] However, the hands of the Norman Commission – as it became known – were largely tied by the UK's laissez-faire practices at the time, and the only substantial change recommended was land grants to small farmers to reduce the power of the estates.

More significant was the reaction of Cuban intellectuals to the extreme specialisation of the island in sugar following the reciprocal trade treaty with the United States in 1903. This took two forms. First was the condemnation of sugar dependence on economic, social and political grounds, which found its most articulate expression in Ramiro Guerra y Sánchez's *Azúcar y Población en las Antillas*. First published in 1927, it was a devastating critique of what could go wrong in a society that had put all its eggs in one basket. The second was the recognition that not all export commodities are the same and that each one can have a different impact. This found expression in Fernando Ortiz's *Contrapunteo cubano del tabaco y el azúcar*, which was first published in 1940 and drew attention to the differential impact on Cuba of sugar and tobacco.

Ortiz's book might have opened up a fruitful line of research into what today would be called the 'commodity lottery'.[25] However, it was rapidly overtaken by another event in the Caribbean that would have greater influence on economic thinking. This was 'Operation Bootstrap' in Puerto Rico, which launched the rapid industrialisation of the US territory from the 1940s onwards, taking advantage of the island's privileged access to the US mainland and fiscal concessions from the local and federal governments. Furthermore, with the island's constitutional transition in 1952 to *estado libre asociado*, Puerto Rico was seen by many as offering a model for the future of the rest of the Caribbean.

One of those dazzled by the Puerto Rican experience was Sir Arthur Lewis, the Nobel-laureate, who was born in St Lucia and enjoyed a distinguished career in economics inside and outside the region.[26] From the 1930s onwards, Lewis had recognised the bankruptcy of an economic model based on a small range of agricultural exports that could not provide employment for the expanding labour force.[27] Industrialisation seemed to provide the answer. However, Lewis recognised that manufacturing could not be based only on the domestic market, as was happening in many mainland Latin American countries, or on export only to the United States, as was the case in Puerto Rico. At a time when federation was under discussion, he called for a customs union of

[23] On the establishment of monoculture in the British colonies, see Ward (1988), chap. 2.
[24] See Report of the West India Royal Commission (1897).
[25] See Bulmer-Thomas (2003), p. 43.
[26] For an excellent biography of Lewis, see Tignor (2006).
[27] See Lewis (1977).

Caribbean countries to promote intraregional manufactured exports.[28] More controversially, he was pessimistic about the capacity of local elites to provide the investment required and recommended policies that would encourage foreign capital – as in Puerto Rico – to take the lead.

This made Lewis deeply unpopular with many of the nationalist thinkers that emerged after the Second World War. Indeed, one of them dismissed the model proposed by Lewis as 'industrialization by invitation' – a soubriquet that quickly caught on in the popular imagination.[29] These intellectuals were much more inspired by the structuralists that had formed around Raúl Prebisch in the UN Economic Commission for Latin America (ECLA) and that would later lead to the dependency school.[30] Both theories started from the global nature of the economic system and emphasised the subordinate role played within it by the developing countries as a result of unequal relations between the metropolitan countries and the rest of the world.

That Caribbean countries had been caught up in a global design not of their own making since the arrival of the Europeans was hardly in doubt. Furthermore, it was obvious to all that the Caribbean was frequently disadvantaged by the operations of a world system in which policy was largely determined at the centre. At the heart of the relationship between the Caribbean periphery and the metropolitan countries, according to some, were the estates producing the traditional commodities for export, such as sugar. This line of thinking led in the 1960s to the Plantation School, whose most forceful exponents came from the newly independent countries of the British Caribbean.[31]

The Plantation School placed the sugar estate based on slavery at the centre of its analysis.[32] This was then modified to take account of the end of slavery in the nineteenth century while keeping the estate at the core of the theory. However, the Plantation School was launched just at the time that many Caribbean countries were making the transition from commodity to service exports. The analysis had to be modified again, but claiming that the new exports were no more than 'quasi-staples' did nothing to change the essential elements of the model because they were still controlled by foreigners. What mattered was to gain control of the economy through radical policies that favoured nationalisation, expropriation and indigenisation.

The Plantation School had some influence on economic policy in a number of countries. Yet it was in Cuba that the nationalist agenda acquired its greatest expression. This had nothing to do with the Plantation School, but it had a great deal to do with Marxism. These two theories therefore co-existed side by side in the Caribbean in an uneasy relationship, yet there was a great deal of

28 See Lewis (1950).
29 The expression was first used by Lloyd Best. See Meeks and Girvan (2010), p. 224.
30 ECLA, or ECLAC as it would later be called when a number of Caribbean countries joined, was established within the UN system in 1948 and quickly established a reputation under Prebisch for heterodox thinking. See Dosman (2008).
31 See Meeks and Girvan (2010), chap. 1.
32 See Best and Levitt (2009).

respect of each for the other. However, the failure of the radical experiments in Grenada, Guyana and Jamaica in the 1970s and 1980s undermined the Plantation School, leaving Cuban socialism as the preferred model for many on the left in the Caribbean.[33]

Others inside and outside the region had watched these developments with great unease. The business community in some countries fought back and found intellectual comfort in the neoliberal model that began to take shape in the 1980s. The collapse of the Soviet Union (USSR) did not destroy the Cuban Revolution, but it undermined the attractions of socialism in the Caribbean and left the field clear for policy recommendations based on free markets and private-sector initiatives. The international financial institutions took the lead, and the World Bank captured the new mood and orthodoxy with *A Time to Choose*, published in 2005. Its title was a provocative response to the 1992 Report of the West India Commission titled *A Time for Action*.[34]

Yet neoliberalism would in turn falter with the financial crisis unleashed across many parts of the world by the collapse of the subprime mortgage market in the United States in 2008. The Caribbean was affected in many ways, and the impact was made worse by a series of frauds perpetrated by foreign financiers.[35] The result was an intellectual vacuum in which both conservative and radical theories had become discredited and where policy had become ideologically rudderless. This was not necessarily a disaster, but it did mean that 'muddling through' became the order of the day in most countries.

This book is not based exclusively on any of the established theories of development for the Caribbean. Instead, it takes its inspiration from a series of ideas that begins with the recognition that the Caribbean has, since the arrival of the Europeans, slotted into a world system in which a small number of metropolitan countries have had an enormous influence as a result of their policies and economic performance. These countries, referred to in this book as the 'core', have changed over time. However, the importance of the core as a whole has not changed and needs to be the starting point for any economic history of the Caribbean.

The reason why the core has been so crucial is that the Caribbean economies have relied on exports to the rest of the world as their main engine of growth. Thus, the ratio of exports to Gross Domestic Product (GDP) is very high by international standards, and most of these exports are sold outside the region. The main market is the core, and therefore the consumption patterns of a small number of countries have had a very large influence on economic performance

33 On Marxist thinking in the Caribbean more generally, see Morrissey (1981).

34 The West India Commission had been established by CARICOM heads of government in 1989, and the report carried numerous policy recommendations to take integration of the region to a new level. See West India Commission (1992). The World Bank had never been enthusiastic about regional integration, and its 2005 report must be seen in this light.

35 The most notorious has been Sir Allen Stanford. His company, Stanford Financial Group, collapsed in 2009, leaving in its wake a series of financial disasters.

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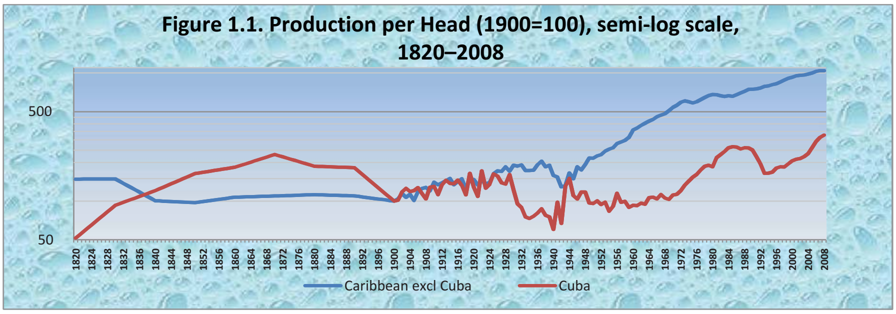

Figure 1.1. Production per Head (1900=100), semi-log scale, 1820–2008

Note: The production index is based on exports per head at constant prices until 1960 and GDP per head at constant prices thereafter. Years before 1900 are based on decennial data with gaps filled by interpolation.

Source: Derived from Tables A.1a, A.14, C.1, C.9, D.1 and D.19.

in the Caribbean. As these consumption habits have changed, the Caribbean has had to adapt in order to survive.

It is not just the consumption patterns of the core that have mattered. It is also the core's commercial policies. From mercantilism to imperial preference and free trade, the Caribbean countries have been caught up in a web of policies adopted by core countries that have had an enormous impact on income and employment. In the past, the instrument with the greatest impact was the tariff, but today it is just as likely to be the exchange rate or fiscal policy. A change in the basis for taxing airline flights in the core, for example, can have a major impact on visitor arrivals in the Caribbean. The core's consumption patterns and commercial policies then set the framework in which exports took place in the Caribbean and this, in turn, influenced other forms of production.

Before the Napoleonic Wars, many parts of the Caribbean had achieved a high level of output per head. This was based on an extreme level of specialisation in exports where land was owned by a few and labour was coerced, and thus the distribution of income was highly unequal. Nevertheless, by international standards, average income was high because Caribbean countries slotted into a colonial system based on specialisation in a small number of products with high labour productivity. The abolition of the slave trade, the emancipation of the slaves and the end of various colonial privileges then caused a crisis of production in some parts of the Caribbean. Cuba was at first exempt, but in the rest of the Caribbean the fall in production per head did not end until the middle of the nineteenth century, and it was not until the twentieth century that output per head started its upward trend again (see Figure 1.1).

Cuba, always among the largest of the Caribbean economies, at first followed a different path. The slave trade continued – albeit illegally – until after the US Civil War (1861–5), and exports per head at constant prices rose rapidly