THE FISCAL SECTOR IN THE CARIBBEAN
1974-1984

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Introduction

The focus of this paper is on the theoretical and empirical developments in the fiscal sector in the Caribbean between the years 1974 to 1984. Fundamentally, the main purpose of the paper is to review the state of knowledge under five areas. In section one, we will review the theorétical and empirical issues. Section two will evaluate some theoretical and émpirical developments deriving from the international arena. Section three will focus on the impact of the international developments as they penetrated the regional decision-thinking, vis-a-vis the fiscal sector. The fourth section is an assessment of the response to mechanisms to the international fiscal developments. Finally, we present a section which offers some future perspectives on the fiscal sector in the Caribbean.

Fiscal Theoretical and Empirical Developments: Regional

In many respects, we would not be overstating the case that there were few theoretical ane empirical developments in the area of the fiscal sector between 1974 - 1984 in the Caribbean. By the Caribbean, we are referring to the narrow definition of the English-speaking Caribbean. These are the countries of the Organization of Eastern Caribbean States (OECS) and the Caribbean Community and Common Market (CARICOM). The theoretical and empirical developments were merely tests of or replication of tests of long established notions and concepts in the subdiscipline of public finance. There were one

or two attempts at departing from the established path. By and large, these were only at the individual state level. At the regional level, there were few studies which sought to concretize any far-reaching theoretical and empirical analyses of macro-approach to the fiscal system.

Outside of the period of analysis, that is, before 1974, there were some general themes in the theoretical and empirical developments in the fiscal sector. Works of the Keynesian-oriented welfare approach cebtered on the analyses of Luke (1951); Prest (1957, 1960); O'Loughlin (1962); and Andic and Andic (1973). These were more in the vein of microstudies. Their specificity was global, both at the regional level and the country-specific level.

At another level of generalization, but in the context of specific aspects of fiscal policy, the works of Lovejoy (1963); Ahiram (1964); Chen-Young (1967); Oldman and Taylor (1970); and McLure (1973, 1977) are worthy of note. These works sought to detail theoretical and empirical analyses at the level of an individual state, but with regional wide applicability.

In that mode, another set of works may be mentioned. These are the works of McLeod (1969); Goffman and Mahar (1971); Hope (1972); Bonnet (1973); and McLeod (1973). Emphasis here was on orientation to some sensitivity analyses in measurements of income taxes, revenue shares and expenditure shares.

Between the period 1974 - 1979, there was a veritable outflow of works which sought to concretize another set of issues. In this

period, works covered historical, theoretical and empirical issues. There was a genuine case of attempts, by authors, to be pragmatic in the search for models of fiscal performance and fiscal activity in the region. Time series analyses featured heavily in the analyses.

In the patterns and historical evolution are the works of Sommersall (1974); Mann (1975; Odle (1976); Jones-Hendrickson (1976); Jones-Hendrickson and Bourne (1977), and Howard (1979). By and large, these works sought to lay out the canvas of historical public finance/ fiscal policy and the problems attendant with the operationalization of fiscal policy in the region - specifically as the policy related to the historical antecedents; or how the policy "evolved," in the words of Odle (1976).

Other works, in the 1974 - 1970 period, centered on implicit and explicit models of fiscal policy, rudimentary and quasi-sophisticated models of fiscal operations. Performance, capacity, flexibility, automaticity of the fiscal systems, and systematic structures of the systems were the focus of analyses in these works. Here, some of the workd are Jones-Hendrickson (1977); Baptiste (1977); Francis (1977); Jones-Hendrickson (1978, 1979); Howard (1979); and Cox and Zephirin (1979). There was no marked departure from established models, except in the case of Jones-Hendrickson (1978), where he attempted to establish a concept, called the "disassociation factor." This notion was built on a macroeconometric model, as opposed to the simple, simple equation models of other studies.

Between 1980 - 1984, the fiscal articles were an assortment of historical empirical, theoretical and policy-oriented. In many respects, these were linked to the balance of payments issue. Here, the works of Hope (1980); Girvan (1980); Girvan, Bernal and Hughes (1980); and Jones-Hendrickson (1980), are but a few references.

Admittedly, the recap of any such developments over the period of analysis will be biased. What we attempted to do was to focus on those that had some particularity in terms of some essence of theory and empirical analysis, and which departed, somewhat, from the norm in the fiscal literature. Pragmatically and, perhaps, optimistically, we could assume that the works of fiscal policy in the region could filter into the decision-making of the political directorate. Andic and Cao-Garcia (1980:4) contend that: "..... politicians do not appear to be willing to pay too much attention to the strategic proposals of the economists, although many governments go out of their way to pay, many times rather handsonely at that, for such economists to write fiscal reform proposals."

The Andic-Cao-Garcia idea has merit. However, we are of the view that regional political directorate respond, quicker, to internationa developments than they respond to regional developments. Their response to regional developments is, for the most part, reaction; on the other hand, their response to international developments is pro-action. With this background, let us now turn to the international theoretical and empirical developments in the fiscal sector.

Fiscal Theoretical and Empirical
Developments: International

Over the period 1974 - 1984, there were few major international theoretical and empirical developments in the fiscal arena. Countries were concerned with thr aftermath of the oil crisis; debt problems; conditionalities; repayment schedules; rescheduling; in sum, survival of the economies. In the Caribbean region, there was much ado about the role of government in the economy; the tools of public finance that were opened to the economies; the social and societal framework in which governments should operate, and the response to external agencies, agents and agents provocateurs. The regional governments started to articulate policies which put them on the cutting edge of government-led policies and government-sequestered involvement, vis-a-vis international lending agencies and international systems. One result was, the Caribbean Group for Cooperation in Economic Development (CGCED) which was launched in 1978.

The CGCED was oriented to speedy mobilization of funds and other assistance for the support of stabilization activities in the region. In 1978, also, the Caribbean Development Facility (CDF) was established. The CDF was geared to the coordination and harmonization of the dispersal of funds in the support of common services in the the region, but particularly in the member states of the Organization of Eastern Caribbean States (OECS) [World Bank Annual Report, 1979:69].

By 1980, winds of economic and political change were sweeping over the Caribbean. These economic and political changes were linked, in a nebulous way, to the latest political developments in the United States of America. Ronald Reagan had taken over the reins of government in the U.S.A. With him came sweeping reforms which were to spill over into the domestic environment of the Caribbean. The Caribbean response in the fiscal area was manifold. Two notable areas, however, was the notion of Reaganomics and the curtailment of soft assistance replenishments at the International Development Agency of the World Bank.

Reaganomics, in its outward manifestation, brought a fiscal response in the region from the political directives of the much wanted Caribbean Basin Initiative (CBI).

Reagonomics is predicated on the notions of supply-side economics, the Laffer curve and Say's Law. Supply-side economics is nothing more than old wine in a new bottle. It is a resuscitated version of classical macroeconomics. Ostensibly, it is a counter to Keynesian demand-side economics. In its classical garb, Reagonomics manifests itself as a resource allocative system wherein relative prices play a critical role. The rational individuals in this schema make decisions about work effort, saving, investment and consumption, based on relative costs and relative prices. This line of reason forces the classical economists and the modern-day Reaganauts to contend, for example, that if a person is not working, this is due to the fact that the person's wage rate is greater than the person's

marginal product. Say's Law guides this thinking. Supply creates its own demand.

The supply-side economics line of reasoning goes something like this: if there is high unemployment and if there is under-utilized capacity in the economy, these negatives are not attributable to the nature of the market. On the contrary, these negatives are directly attributable to leech-like and parasitic nature of government. If government is removed from the backs of the people, all will be well. If laissez-faire is permitted to work, all will be well. In a Lafferian sense, the burdensome taxes of government, the onerous regulations of government, the muddling through of fiscal policy of government, all will coalesce to constrain output. In the end, the result is high levels of unemployment, stagnation and no prosperity.

Fundamentally, therefore, Reagonomics in the U.S.A. revolves around three rings: privatization of the economy; the reduction of social welfare programs; and the redistribution of the tax burden away from the wealthy and business sector. This last rign is keyed to the idea that there is some optimal level of tax, the Laffer curve.

Reagonomics was transported to the Caribbean via the much discussed Caribbean Basin Initiative (CBI). One perspective of this CBI is given in Jones-Hendrickson (1985). There, the central points are that CBI as the external variant of Reagonomics, centers on

increased trade, increased aid and fiscal incentives to the private sector. This package of Trade, Aid and Privatization (TAP) is oriented, ostensibly, for the Caribbean region to tap the market of the U.S.A. for a twelve-year period. Even though the CBI has some possibility of penetration of regional goods into the U.S. market, the CBI has not achieved this objective.

The Reaganomics rainstorm has its washout in international lending institutions. In the case of the International Monetary Fund, the World Bank and the International Development Agency (IDA), new policy directives were put into effect by these bodies, vis-a-vis their operations in the region. This was a global thrust. The Caribbean IMF/World Bank?IDA case would make an interesting scenario. Fundamental to the region was the action of the U.S.A. in tightening the fiscal screws at these international institutions. The Reagan Administration cut its commitment to the Seventh Replenishment of IDA resources by about 25 percent in 1985. The immediate fall-out of this action was IDA's drastic cut-back in its allocation of soft funds to countries below the IDA per capita level of U.S. $791.

Arising out of this version of Reaganomics and the World Bank and its affiliates, was the new mood at the World Bank. Countries were now strongly encouraged to graduate. They were forced to move, from the arena of obtaining soft funds with long-term concessional arrangements, to hard short-term, so-called market loans. The World Bank and the IDA made some efforts to accommodate the region. Special efforts were devoted to the member states of the OECS. This,

however, did not come without a hard political battle. The battle was backed up with some strong arguments from the OECS governments which sought to demonstrate that the economies of the OECS were not fully credit-worthy, along the lines of the World Bank. (See Jones-Hendrickson, 1985).

The Reagan doctrine of fiscal reorganization penetrated the IMF via the ideas of James Baker, U.S. Secretary of the Treasury. His objective was to put forth a trial of activities in the solution of debt problems in the debtor nations of the world. In his attempt to make his ideas universal, he clothed these ideas in a package that the World Bank and the IMF and the IDA found hard to refuse.

Baker's plan called for structural changes in all economies that were debt-laden and, in turn, all economies that sought financial assistance from the IMF/WorldBank/IDA. In the region, this meant Jamaica and Guyana, principally. The other countries were not all exempted from the stringencies or conditionalities.

The idea behind structural change in the economies and Baker's plan was to increase growth in the economies, institute sound balance of payments mechanisms, and reduce inflationary pressures. The countries had to strengthen their private sectors, cut their budgetary deficits and implement supply-side economics. Here, as we noted earlier, the emphasis was on tax cuts, trade liberalization and the promotion of investment via the private sector.

On average, the World Bank had a diffuclt role to play. Given

the dominant role of the U.S.A. in the voting rights of the World Bank, the Bank had little choice but to institute some of Baker's ideas. The Bank started to make what it called "policy-based loans." These were nothing more than carrot-and-stick-type laons. The region had to accept, for the most part, the supply-side approach to fiscal arrangements. By and large, the developments in the international arena were colored by the terms, impositions and conditionalities of the Wrold Bank and the IMF. Even though the regional fiscal directorate tried to respond to the impositions of these international lending agencies, the directorate soon discovered that they were dealing with institutions which were monolithic, conservative, gargantuan in their methodology and massive in terms of thier borrowing capacity. Furthermore, the directorate soon discovered that the World Bank, in particualr, would lend, but it would not make loans in a country that could taint its cherished AAA credit rating. Some regional governments borrowed in the international financial market, but, on par, the World Bank terms were better.

Impact of the International Developments on Region

It is not clear how the economics of Carter, Reagan and the international financial institutions have impacted on the Caribbean Region. Despite the many developments from the international arena, there are still many cases of budgetary deficits, balance of payments problems and persistent and chronic trade imbalances. The region seems to be basically characterized by substantial and steadily

increasing trade deficits. On average, the increase in the import bill was due to the increase in demand for food, beverages and the persistent increase in oil prices. We will now evaluate countries.

1. In Trinidad, where oil import was not a problem, the structural nature of the economy was not on a sound footing.

Between 1973 and 1979, the public sector current revenue of Trinidad and Tobago increased from T/T $476 million to about T/T $3 billion. Petroleum taxes, royalties and levies rose from about 24 percent to over 60 percent. The revenue to GDP ratio showed a market improvement; it rose from about 24 percent in 1973 to over 40 percent by 1979. Total expenditures grew at an increased rate. Massive overall budgetary surpluses were in evidence between 1974 and 1979. The budget was balanced in 1978 and 1979. Special funds, earmarked for special projects, were the order of the day. At one time, there were nearly fifty such projects.

Trinidad and Tobago ignored the dictates from abroad and from the region between 1974 and 1979. Policies of fiscal responsibility were ignored. While Trinidad and Tobago was on this level of "money is no problem, the problem is money," some cracks in the fiscal system were being identified.

There was a noticeable deceleration in the production of petroleum. This had serious revenue implications. The nation also went on a heavy capital investment program in the Point Lisas area. The trade surplus of 1974 started on a progressive decline.

By 1978, there was an estimated 50 percent decline in the trade surplus. The volume of sugar was down by 25 percent and many export restrictions were forcing Trinidad to react to its regional partners. In particular, Guyana and Jamaica had imposed restrictions and Trinidad reacted to everybody, including Barbados.

Given the heavy investment that Trinidad and Tobago was in, between 1974 - 1979, the Government decided to make loans on the international market. In 1977 and 1978, the government engaged in borrowings from the international market. There was, however, an overall balance of payments surplus in 1978 and end of year reserves was in a healthy position of nearly US $2000 million.

By 1980, Trinidad and Tobago had no response to the international fiscal stringencies. Revenue on current account was still growing; petroleum taxes were still on the rise. The public sector continued its massive spending, as exemplified by an over 70 percent rise between 1977 - 1979. Public sector wage increases and the large-scale infrastructural developments pushed the budget into a deficit position by 1980. The public sector borrowing requirement was estimated to be over US $315 million in 1980. Both domestic and foreign borrowing were to be targeted to satisfy this requirement.

By 1984, Trinidad and Tobago had an estimated inflation rate őf 13.4 percent. Unemployment was between 12 percent to 20 percent. The public sector deficit was about seven percent.

By and large, what was observable was an economy that had a problem of surplus management now moving into one of serious budgetary management. For the first time, the international fiscal dictates were now seriously impinging on Trinidad and Tobago.

2. In the case of Barbados, basic economic management made it an economy to be emulated during the 1970's. The tourism sector continued its strong performance from the beginning of the 1970's and economic growth was respectable. Inflation was problematic fro the country's decision-makers. This inflationary phenomenon was exacerbated with increases in import prices and an overall depreciation of the Barbados dollar. Unemployment was somewhere between 15 percent and 20 percent. Barbados has maintained a substantial trade deficit for years. On par, the deficit in the trade balance has been offset by the increases in tourist revenues, returns on foreign investment and remittances from abroad. The latter has been on the decline. Nevertheless, it is still significant.

Barbados' fiscal approach to development during the period 1974-1984 has been one of economic diversification in the mould of a middle-income developing country. In the development plans of the country, for example that of 1979-1983, the focus was on industrial promotion for export development, employment creation and enhancement. Emphasis was also on the necessity to widen

and deepen the base of agriculture. Fisheries were given some emphasis, too. In addition to the above developments, Barbados made several attempts to reduce the fuel import bill. Domestic oil and gas production were stepped up. The country supplies about one-third of its domestic oil resources. In July 1982 the state-owned Barbados National Oil Company was created to assume drilling and production facilities at the Woodbourne Oilfield. This was formerly a private sector operation.

Barbados manufacutring sector has been fairly good. Expansion has been on the order of about five percent between 1974-1978. About 15 percent to 20 percent of the labor force is employed in manufacturing. It is estimated that 10 percent of GDP comes from manufacturing and about 50 percent of export earnings are generated by manufacturing. However, since much of the raw materials are imported, the multiplier effect from this section is somewhat weak.

Over the period 1974-1984, Barbados was able to organize its economy as such that the developments in the international arena were not problematic from a management point of view. The import bill continued its upward surge in the period primarily on the strength of the demand for food, beverage and oil. Exports showed some strength in the area of electronics and other screwdriver type industries. Tourism earnings continued to be a main earner of goreign exchange. Between 1974-1976 there were overall balance of payments shortages. In 1978, a substantial infusion of short-term capital shifted the balance of payments to a surplus

position. Barbados begun borrowing actively on the Euro-dollar market during this period. Foreign exchange reserves continued to rise. In sum, Barbados was viewed as a fairly sound middle-income country. It was not a country that was managing surplus, as in the case of Trinidad and Tobago. It was a country that was seen as a well-managed country in some parts of the international arena.

3. Belize, like Barbados is one of those countries where agriculture still plays a key role. Fishing is critical, also. Industry is limited and is centered on the processing of raw materials. A major economic development in the period 1974-1984 was the formulation of the three-year, 1977-1979, Development Plan. The Plan planned for a 23 percent growth in GDP over the period. This was a heroic goal given that five percent growth rate was the norm over the most recent years.

The basic aims of the plans for Belize in 1974-1979, as the country got geared up for independence in 1981, were to expand the industrial sector, increased the production of food, enlarge the tourist plant and capacity and institutionalize a well-meaning devotion to solid infrastructure. The pôlitical directorate in Belize planned to operate on expansion for local consumption and for export. Transport facilities were to be seefed up with financial assistance from the Caribbean Development Bank.

Even though Belize did not fall under any harsh conditionalities of the international institutions in the early years 1974-1979, the political directorate still instituted measures which were aimed at levels of fiscal management. By 1978, these were clear guidelines that government policies were targetted to reduce inflation as it crept into the Belizean economy from Mexico and the U.S.A. Government policy was also oriented to increasing production and widen the base of employment opportunities of Belizéans at home and the estimated 30,000 to 40,000 in the U.S.A.

Between 1980-1984 there were large inflows of foreign aid into Belize. Much of this aid was devoted to building infrastructure and assistance in agricultural development. Floods hampered agriculture. December 1979 was particularly severe. Coming three years after the ravages of hurricane Greta in 1978, the floods of 1979 added insult to injury. Belize tried to adjust to the problems of flooods, hurricanes, high oil prices and high inflation. The large increases in public sector infrastructual development and the high public sector wage agreements all seemed to have placed Belize on a precarious position by 1980.

A new development plan, 1980-1983 was geared to a follow through on the 1977-1979 plan. Emphasis was on promoting greater self-reliance and self-sufficiency. The vehicle for this strategy was to be expansion of food production and import substitution of manufactured goods. Central to the new plan's

goal was the widening and deepening of the productive capacity of the country. Belize was, in some respects, following a type of Reaganomics. The political directorate tented the notion that the economy was a mixed economy. Furthermore, the political directorate subscribed to the idea that increased rates of economic growth and development are best operationalized via the expansion of cooperatives, the promotion of self-help schemes and the active participation of the public sector.

During the fiscal year 1980-1981 Belize gained the indirect blessings of the World Bank. The World Bank report for the period 1972-1977 commended the Belizean political directorate for their effective and efficient budgetary management. Belize continued along the lines of modernization with the assistance of the Caribbean Development Bank and with aid and technical assistance from the international arena. Fiscal reforms elsewhere did not hamper its progress.

The government decision-makers focused on improving the infrastructure in the areas of transport and energy. The modernized port of Belize aided the country tremendously. The devaluations of the Mexican peso during the period under review, hurt Belizean trade with Mexico. But, the country still pushed ahead with its public sector investment. By 1983-1984, the first quarter, the budget was over BZ $195 million. Approximately 55 percent of the budget was devoted to infrastructure development. In the new move to push the economy in the early

post-independence phase, the political directorate emphasized a fiscal strategy that stressed financing that was a combination of public sector financing and private sector financing. Towards the end of 1984, it was becoming increasingly clear that there were noticeable deteriorations in the Central Government finances between 1980-1984. There was a sharp decrease in taxes on income and foreign trade. External grants were on decline. The Mexican peso devaluations. The deficit was about eight percent to 10 percent of GDP. This eas cause for concern. This was cause for Belize to put into effect some of the policies that were tarted regionally and internationally.

4. The Bahamas economic and political directorate pattern their fiscal response to the dictates arising from the close links to the economy of the USA. GDP grew on the order of three percent to six percent in the 1974-1978 period. Social factors stemming from a high growth rate and migration issues constrained the decision-makers to focus on social infrastructure in the country. Increased social services, a new hand policy and the provision of public housing were all given attention by 1980.

Tourism and off-shore banking continued to be the backbone of the major source of income and employment. The government estimated that tourist revenues increased by a 100 percent between 1970 and 1980. The 1973 oil crisis put a damper on tourist revenues, But, on par, over 50 percent of government's revenue is directly attributable to the tourist sector. About

66 percent of customs duties and about the same percentage of employment-both directly and indirectly - could be linked to the tourist sector. Given the heavy dependence on this one industry, and given the country of origin of the majority of the tourists, it is no small wonder that the Bahamas' fiscal policy were close to that type of fiscal policy in operation in the USA.

But while there is some close link between the fiscal policies of the USA and the Bahamas, the Bahamas had some clearly articulated policies which were oriented to its own growth strategy. For instance, the drive to self-sufficiency in food has been a top priority of the political directorate; this has been true at least since independence. The rationale here is to cut down on the scarce foreign exchange devoted to food imports.

The manufacturing sector has remained small primarily because of inadequate raw materials and the igh cost of labor services. But while there is a small manufacturing sector, the fact that there is no direct taxation has been a boon to the Bahamas in the attraction of financial and other related services. Within the period 1980-1984, the manufacturing sector centered on the huge importation of crude oil for refining and reexport, the extraction of salt and aragonite. The latter is used in agriculture and in the manufacture of steel, glass and cement.

All things being equal, given (1) the Bahamas' proximity the USA market; (2) the currency link with the US dollar; (3) the absence of direct taxation and (4) the tight secrecy laws governing banks and other financial institutions in the

Bahamas, it is clear why there were no marked policy revolt from the policies of the international arena. The Bahamas, however, introduced some fiscal changes. We will discuss these under country responses in the next section.

5. Jamaica's political directorate could easily designate the 1974-1979 as the best of times and the worst of times. The period was one of falling overall output. There was a pronounced period between 1974-1976. The dictates of the International Monetary Fund (IMF) were the order of the day. The IMF seemed to be the main savior in terms of balance of payments and budgetary support. High inflationary rates, between 25 percent and 30 percent, high unemployment rates in excess of 30 percent, massive debt service payments, unease in the private sector and other disequilibrating tendencies in the economy, all served to throw the Jamaica of 1974-1979 into a fiscal chaos.

Over the period 1974-1979, the economy went through a fiscal tailspin. Foreign exchange crises hampered the economic breakthrough that the country could have made. Capital flight exacerbated the already precarious situation. The large increases in the fuel bill, the fall off in agricultural exports, primarily sugar, and the soft market for alumnia, all pushed Jamaica into a rather sorry economic predicament.

The public sector was forced to adopt drastic measures. It opted for a quasi-functional finance type of approach. International reserves were needed. Revenues were needed in

the Treasury. In desparation, the public sector engaged in large-scale deficit financing. Foreign loans were made, seemingly, from every available country and company. Over the 1974-1979 period, it is estimated that the budgetary deficit increased $170 million to over $600 million. Correspondingly, the public sector external debt increased from US $700 million to oearly US $2 billion. The debt service ratio was about 20 percent.

Given the scenario of Jamaica's position, the IMF was the keycard supporter. Jamaica was able to obtain support via the Extended Fund Facility. Over a five-year period, the IMF injected in excess of US $400 million on a facilitating basis. Jamaica was pulled into the trap of the IMF. The bad fiscal management practices of the country, meant that it had to be subjected to the dictates and conditionalities of the IMF. Both of the IMF "medicine" and "pill" were bitter, as Girvan, Bernall and Hughes (1980) described.

In the Jamaica case the IMF policies were supply-side economies in action. IMF's stabilization programs were worked out between Jamaica's decision-makers and the IMF. In large measure, the goals and objectives were to reduce private and public sector spending and create an investment climate that would facilitate unfettered capitalism. Price and fiscal incentives, a la Reaganomics were to be the operational thrusts.

The 1978 package was a masterpiece of IMF conditionalities. Jamaica was on the brink. It was therefore subject to abolition

of the dual exchange rate regime; the dollar was devaluated by 32 percent against the US dollar. There were a series of monthly min-devaluations between 1978-1979. Subsidies were cut; wages increases were limited to 15 percent. Nearly J$200 were levied in additional taxes; a linit was set on the Bank of Jamaica's net bank credit to the public sector and in areas in foreign payments. The IMF attempted to police these rules and regulations that it imposed. There was much grandstanding between Jamaica's political directorate and the IMF about whether the "tests" were passed or not. In the end, Jamaica broke. Poor fiscal management, disasters due to draughts, floods, crop disease and the severity of the IMF "medicine" all forced a virtual collapse. By 1980 the country was ready for a change.

In October 1980 there was a change of government. The country was now under the directorship of a political directorate that seemed sympathetic to promoting the bidding of the IMF as well as to wing the line in the manner of Reaganomics. There was a great deal of political hoopla, fanfare and rhetoric. When all was said and done, Jamaica still had not dugged itself out of the situation of 1974-1979.

The new party was supposed to work miracles. Jamaica was supposed to be the shinning star of Reaganomics in action in the Caribbbrean. The Caribbean Basin Initiative was supposed to revolutionize the growth trajectory of Jamaica. When the smoke was cleared, however, the country was back to square one.

There were some inchoate examples of improvements. But, by and large, the IMF and its conditionalities still prevailed.

In the 1981-1982 period there was a small improvement in GDP. The noticeable capital inflows in the 1980-1984 period were undergirded by another Extended Fund Facility loan, from the IMF. Over US $500 million were injected in Jamaica. Commercial banks and other private sources, particularly in the USA, injected sums of excess of US $100 million. The capital plowed into Jamaica because the new political directorate agreed to the stringent IMF terms.

By 1984 the rality of the severity of the IMF tum Reaganomics program in Jamaica was brought into stark relief. The economy was now attempting to pursue a program of sturctural adjustment, The World Bank was strongly encouraging all of the countries of the region to follow such a program. A persistent shortage of foreign exchange still impacted on the country. The 1980 IMF Extended Fund Facility provided support for three years. Nearly US $600 were involved. But, despite all of this support, despite all of the talk of financial wizardry of the new political directorate, the IMF had to cut its program in September, 1983. By 1984 the Jamaica dollar was going through a period of "cricket" fiscal in terms of its sustained devaluations.

6. Guyana like Jamaica went through the worst of times during the 1974-1984 era. Over that period the economy was best

characterized by negative, no or low growth. Chronic recession, recurring balance of payments problems, budgetary deficits and inflation on the order of 20 percent to 30 percent. The very sharp deterioration in the terms of trade of Guyana, like so many other countries in the region; the steep oil import bill, the recessionary prices for bauxite, sugar and adverse climatic conditions all coalesced with the poor fiscal management to throw the economy into spiral of negatives. Acute shortages of foreign exchange was the result of all of these negative scenarios. In such an event, the last resort was the IMF.

Guyana turned to the IMF for balance of payments support through the Extended Fund Facility. In following this path to recovery, the political directorate had to succumb to the dictates of the IMF and the implicit Reaganomics style, supplu-side type of economic reorganization. The INF conditionalities through its package of reform centered on the usual "medicine". Guyana and the IMF agreed that what Guyana needed were: control of wage increases and a definite reduction in public expenditure and the arrears in foreign payments. Finally, the government had to set in motion some specific fiscal policies which were clearly designed to increase revenue and manage consumption patterns.

Guyana borrowed or attempted to borrow from any country, company or institution that would lend - in addition to the IMF and the World Bank. Whether it was the Bank of America, Libya or the CARICOM. Multilateral Facility, Guyana had some outstand-

ing balance. The loans were, ostensibly, earmarked for some sound projects. For example, 1980 IMF/World Bank loan was a medium-type structural adjustment loan which was to finance the US$2 billion Upper mazurine hydroelectric project. Balance of payments support and support in essential imports were also targetted with IMF and World Bank assistance.

In the final analysis Guyana, like Jamaica, was not able to march out of the mire of economic problems. Bad fiscal management combined with overly strict IMF/World Bank conditionalities enabled the political directorate to take the short road to nowhere. The foreign exchange shortage was even more severe by 1984 than it was in the early years. A 20 pwrcent devaluation; a delinking of the Guyana dollar from the US dollar; a linking of the Guyana dollar to a market basket of currencies; Guyana and CARICOM partners problems; Guyana and the Caribbean Development Bank problems, and the rest, all pointed to the inevitable: Guyana failed to meet the IMF performance targets. This let to the suspension of INF assistance. In due course Guyana's credit rating was pushed into greater jeopardy - a prospect that seemed hard to contemplate.

7. Finally, we turn to the OECS member states. We will assess them from the perspective of the Windward Islands and the Leeward Islands. As far as the Windward Islands were concerned, the single event that was of momentous proportion was the Grenada public sector domination between 1979-1983. Grenada's fiscal

policy directorate claimed that they were oriented towards a greater role for the public sector. The departure from the traditional fiscal lines of development in the other Windward Islands was certainly worthy of note and worthy of attention. The novel experiment in state dominated fiscal system was not permitted to last long. External and internal agents of change changed the scheme of things.

Over the 1974-1984, all of the countries in the Windward Islands - Grenada, Dominica, St. Lucia and St. Vincent - went through some turbulent political times. Some of it was a reaction to the international pressures and demands of the people. Some of it was a response to the dictates of external decision-making.

These countries were in urgent need of foreign aid to deepen their infrastructure, widen their industrial base and reduce the high dependence on imports. High unemployment, underemployment and disguised employment characterized the islands. The lend of need varied. St. Lucia was relatively more productive and more dggressive to its development programes than the rest. This, however, may be due to St. Lucia's early start in diversifying its economy. In Dominica, St. Vincent and Grenada where agriculture was still critical, the name of the game was "trying to catch up." When the ravages of hurricanes are factored into the scheme of events between 1974-1984, the Windward Islands had more than their share of bad luck.

It is not amazing, therefore, that these countries sought financial assistance from the Caribbean Development, the IMF, World Bank and the International Development Agency. Dominica was the most extreme case in terms of its buckling under the conditionâlities of the IMF loan agreement. Grenada, and St. Lucia signed IMF loan agreements. The other countries were forced into other fiscal arrangements with foreign decision-makers. The United States Agency for International Development in conjunction with much diacussed Caribbean Basin Initiative gave assistance to all of the countries in some form and fashion: direct aid; indirect aid; soft-loans; basic needs grants - the works. The upshot of all of this was a situation where a group of islânds were increasingly becoming dependent on external finance to engineer the growth perspective that should emanate from within the countries. While the countries were contmplating what alternative fiscal policies and procedures to adopt, to put them on some sustained growth trajectory, the World Bank informed them that they had to graduate from soft, concessionary funds of the IDA to hard, non-concessionary fund of the World Bank. This was threw the countries into a panic psychology.

By and large during the 1974-1984 period the Windward Islands were running the usual trade deficits. Tourism revenues and other capital inflows was a slightly offsetting factor. Dominica's export of soap, coconut oil and grapefruit were showing some signs if pushing the country out of its problems.

But the terms of trade were still not fully favorable to Dominica. By the end of the period the current account deficit was still high, foreign exchange reserves were low, foreign borrowings were high relative to GDP and the public debt was over US $40 million.

Grenada, St. Lucia and St. Vincent were in similar positions. Grenada was now heavily dependent on the USA. It anticipated large inflows of capital from the USA, Britain and Canada. As it turned out, it had no choice but to tow the line of the international lending agencies as well as the policy dictates of Reaganomics.

St. Lucia had a balance of payments problem by the end of the period. It was managing itself foreign trade deficit. It was shifting its trade away from sterling, given weaknesses in the pound sterling. St. Lucia was the only country, at this time, which seemed to be actually following the notion of supply-side economics.

Finally St. Vincent was in a similar state of affairs as the others. By 1984, however, there were some substantial expenditure plans for rehabilitation of the economy; deepen the infrastructure and pushing ahead with other plans to set the country on a stable growth trajectory. Much of its financing came from the CDB, USAID and its own issuance of bonding in March 1983.

In the case of the Leeward Islands, the period 1974-1984 had elements of nearly all of the major problems of the other countries in the region. Blanace of payments problems were evident; agriculture, where it existed, as in St. Kitts-Nevis, was in trouble. Foreign exchange shortages were problematic; inflation and unemployment problems were also barriers to development and transformation. These islands are still relatively underdeveloped. Their dependence on foreign aid is extreme. While tourism revenues and substantial remittances mitigated some of the otherwise negative features of the economies, the islands were still operating on a razor's edge in terms of fiscal systems.

Traditionally, Britain was the main source of foreign aid. Over the period of analysis aid was being sought from a variety of sources. These sources included the USA through USAID and other agencies; Canada; the European Economic Community (EEC); the Organization of Petroleum Exporting Countries (OPEC); Venezuela; other CARICOM partners and the ever present Caribbean Development Bank. The long and short of this development was a fiscal orientation which had to be in train with directives from external decision-makers.

In the case of Antigua, the IMF review teams made several recommendations to that country's directorate relative to the persistent budgetary deficits. Some of the strong IMF suggestions were: a reduction of the civil service; an elimination of the so-called "non-establishment workers" (make-work) program;

and a freeze of wages in the public sector. The implementation of these fiscal measures in Antigua would spell political disaster for the present political directorate. Antigua has not sought financial assistance from the IMF. It is not eligible for soft loans from the IDA since its per capita income is well above the graduation level. In fact Antigua graduated even before it entered the class of fund seekers. Since Antigua did not request any IMF assistance, the political directorare did not pay attention to the IMF suggestions. Instead, it chose to follow its own path along fiscal manipulations. The objective of the fiscal directorate is to control the revenue-expenditure, try to enhance the tax capacity and evaluate fiscal capacity of revenue from investment - particularly in the area of small-scale manufacturing. The jury is still out on Antigua's efforts on fiscal response. To date the country's leaders seem more bent on muddling through than falling under the fiscal dictates of the IMF or the World Bank.

St. Kitts-Nevis could be categorized over two phases between 1974-1984. Phase one was the 1974-1979 overt state driven era; phase two is the 1980-1984 rhetorically private-sector led era. Between 1974-1979 the country's performance was, in some respects, similar to its partners in the OECS. It suffered from a chronic trade deficit. But, it managed to have a moderating force in its current account. In a few years surpluses were registered. Sugar, the main crop, continued to be the pricical foreign

exchange earner. Manufacturing played a significant role in the GDP picture. Inflation tended to mirror what was true elsewhere in the region.

The dominance of sugar in the economy is easily observable. About 25 percent of GDP comes from sugar; over 50 percent of the cultivable land is devoted to sugar and over 25 percent of the labor force is employed by sugar. Given the erratic world price for sugar over the period, the high cost of sugar, the still traditiona; approach to harvesting, all of these meant that that as sugar went, so went St. Kitts and Nevis.

In 1980 a new government came into office. This government claimed to be private-sector oriented. It was willing to follow the dictates of all and sundry. It was keenly geared up to tow the line of Reaganomics, the IMF, the World Bank or any other type of dictate that was clothed in private-sector garb. As the government shifted its policy objectives away from those of the previous government, many new and novel fiscal manipulations were put on line.

The government made many overtures to implementing aspects of the CBI. But, on average, the impact has been slight. The private sector was resuscitated with assistance from USAID. Tourism started to make a meaningful contribution, relatively to its low base of prior years. In this regard, Trinidad and Tobago used its Caribbean Aid Facility to assist St. Kitts-Nevis in tourism. A sum of EC $20 million were earmarked for the improve-

ment of tourism infrastructure. The manufacturing sector bloom and burst. Many firms came and many left.

By 1984, one year after independence, St. Kitts-Nevis was not on any clearly defined sustained growth path. Private sector initiative, privatization of the economy and overall laissez-faire seemed to be the thrust of the public sector. On the level of rhetoric, this was true. On the plain of reality, the scenario was something different. The reality was that by 1984 there was a steady decline in growth in the economy from 1980-1981 to 1984. In 1980-1981, GDP grew by six percent. By 1982 this was two percent. In 1983, real GDP decreased by three percent and by 1984, our estimates were a fall in real GDP of over five percent.

Inflation decreased from the highs of the 1970's to around five percent in 1984. But, the budgetary deficits seemed to have been institutionalized in the economy. St. Kitts' infrastructure is fairly well developed. The economy could attract investments. The primary problem is the retention of those investments beyond their initial tax holidays. St. Kitts-Nevis, however, is one economy that will tow the line in terms of fiscal dictates from abroad. It made some questionable decisions in this view. We will turn to these in the next section.

Finally we consider Montserrat. This British Crown Colony has been enjoying the best of both worlds for some time now. Its small population (13,000 in 1980) makes its problems manageable.

This does not mean that the problems disappear. Montserrat is fortunate in that it depends on a tremendous amount of remittances. Added to the remittances is the contribution of wealthy retirees. The colony also has a good trade in some agricultural products. It gets technical assistance from a variety of sources. Montserrat has been experiencing recurrent budgetary surpluses for some time now. It has the highest per capita income in the OECS member states. It has fairly good infrastructure for its size. Custom duties and personal income tax provide the bulk of the revenues. Montserrat , practically, need not follow the dictates of international decision-makers. But it is a colony. The current political directorate has no intention of seeking independence. This colony will continue to depend on tourist revenues, development grants and remittances for some time to come. It will continue to piggy-back the economy scenarios played out in the region. Its unemployed is about five percent (1984). This is high for Montserrat - but it is manageable. The country moved off of British aid in 1980. It has handled its fiscal sector reasonably well since that time. It receives grants and concessionary loans in the form of Official Development Assistance from the member countries of the OECD. Other regional countries get assistance; in Montserrat's case the per capita assistance has been substantial. The 1984 CBI has more hope than reality for the fiscal sector of Montserrat.

Response of Region to External Fiscal Developments

The response of the regional decision-makers to fiscal developments in the international arena was outlined in the previous section. We now turn to actual programs which were instituted in the regional economies; in essence we will cite some of the many fiscal measures which were implemented as mechanisms to assist the countries in augmenting their fiscal capacity and performance. Given the catalog of responses, we will have to be selective. We will cite those responses which were pervasive impact or which were designed to be pervasive in impact.

The response in the regional economies was still Keynesian or demand-side fiscal policies, even though some of the intention was to respond to Reaganomics and supply-side artifacts. We suggest that this response was natural in light of the fact that Reaganomics and its presumption. Reaganomics presumes that the private sector is the agent of change and development. In the Caribbean, between 1974-1984, the agent of change, the engine of growth if you will, was the public sector.

First, in the case of Trinidad and Tobago, we note that the economy was attempting to manage surplus for a period during the years under review. Towards the end of the period, the government was involved in foreign borrowing of over TT $700 million. In complementary terms the government introduced new taxes designed

to raise between TT $1.5 billion to TT $2 billion. The taxes included: a 50 percent increase in levies on motor vehicles, cigarettes and alcoholic beverages; a 12 percent stamp duty on all imports outside of food and drugs; a 10 percent like in betting levies and a 10 percent tax on the sale of foreign currency for travel. When these measures are assessed, on balance, they were tradition-bound in design and scope.

Trinidad and Tobago was now putting itself at the mercies of tradition in terms of new fiscal measures and in terms of the foreign financial markets. St. Cyr (1986) notes that by 1969-1973, the Third Five-Year Plan and the well known Public Sector Investment Program, "it was evident that financing would be a major problem." The surpluses were under pressure. The Public Sector Investment Program "was left with an uncovered financing gap of (TT$19.5 million) even after assuming unrealistically high levels of local and foreign borrowing" (St.Cyr, 1986:4). Trinidad and Tobago did not have any clear-cut need to articulate new tax regimes. Between 1974-1984 its debt profile changed markedly, as a result of the petroleum windfall. The key development in this period was the growth of the depth profile "and the increased prominence of government guaranteed debt to statutory bodies (mainly public utilities) and state enterprises." (St.Cyr, 1986:9). Private financial institutions assumed greater leverage in the fiscal schemes beginning in 1984. And in 194, too, the World

Bank announced its objective of graduate Trinidad and Tobago from conessionary financial assistance. When, in 1983 and 1984 Trinidad and Tobago's percentage growth in real GDP were minus 3.8 for both years, compared to a positive 3.5 real growth in 1974, it was clear that the economy need some fiscal stimulus to put it back on a real growth trajectory.

Second, the case of Barbados demonstrated that it followed traditional lines in terms of public financing. According to Worrel (1982:33) "Before the Central Bank of Barbados began operations in 1973 foreign borrowing and foreign grants were the main source of finance. Grants and soft loans obtained on a bilateral basis from Canada and the UK supplemented these funds. Domestic sources contributed less than five percent of Government during this period."

With the advent of the Central Bank of Barbados, there were some noticeable fiscal policy shifts in public finance structures. Over the 1974-1984 period, some notable public finance features were Barbados' tapping of major international sources for funds. The World Bank, the International Development and the European market provided supplementary financing to the resources that the government marshalled in the Barbadian economy. In the 1977 and 1978 budgeta, a number of taxes, fees and duties were introduced. Strict fiscal control was practised then, too. By 1981-1982, the public sector's strong financial position was evident. The tax burden was reduced or eliminated for an estimated 10,000

taxpayers. Statutory changes were altered for a host of transactions and an unemployment insurance scheme was instituted.

Planned fiscal proposals for 1983-1984 centered on the imposition of taxes to the tune of BDS$31 million. Foreign financing was still playing a key role. Domestic borrowing, primarily from the banking system and other financial intermediaries was also tapped. The 1982-1985 period was almost of the same fiscal strategy as the earlier years. There was a clearly defined financing system. In 1982 outstanding credits from the CARICOM Multilateral Clearing Facility (CMCF) were so denominated that more than 50 percent of Barbados' international reserves were caught in this fiscal vice. The government was confronted with a latent liquidity crisis. To avert this problem, the government responded by negotiation, in October 1982, a standby credit of US$34.4 million from the IMF. This was to expire in May 1984. A further US$13.6 million was negotiated from the Compensatory Financing Facilty of the IMF. This was to be used to cover shortages in sugar and tourism earnings. Even though Barbados was a well managed economy over the period, it still found itself in the cluthces of the IMF.

At the end of 1985, Barbados borrowed over US$40 million in a private yen bond placement. It also borrowed $50 million in London on the Eurodollar market. The government was borrowing heavily abroad to <u>protect</u> its balance of payments position. Meanwhile, the government borrowed from the domestic banking

system. The National Insurance Scheme and other private non-bank financial intermediaries also provided financing. The public seemed, on par, to be maintaining its traditional financing positions. Now the fiscal developments were more structured than pre-1974. Of significance, as a new fiscal development, was the Barbados-USA double taxation agreement. It was signed at the end of 1985. The government was now bent on pursuing the vision that Barbados was a good place to locate "offshore" financial centers. Emphasis was on placed on establishing Barbados as a center for Foreign Sales Corporations. This attraction was pitched to USA firms which wanted to set up in Barbados to benefit from the Barbados-USA double taxation and Foreign Sales Corporation agreements.

Barbados' response at the end of the period was one of cautious optimism. Fiscal initiatives were keyed to balancing domestic and foreign financing. Barbados' economy, however, was precisely poised. In some respects it was growing on the proverbial razor's edge of a Harrod-Domar style warranted growth path.

Bahamas is the third case. The public sector fiscal responses were also traditional. The policies were keyed to an encouragement and promotion of private sector investments in the tourist industry. Domestice and foreign capital sources were tapped. The Bahamas was advertised as the Switzerland of the West. This gave it the filip of being the leading offshore

banking heaven side of Switzerland. Ramsarran (1984) have some serious reservations about the full impact of this banking haven; in general, it seems that the Bahamian public sector counted some benefits from the banking haven status over the 1974-1984. These benefits were clearly useful in supplementing the public sector's fiscal resources.

Over the period 1974-1984 some new tax measures were introduced. Notable ones were new business licenses in September, 1980; there were also higher taxes on tourism and customs duties, also in 1980. In 1984, the public sector attempted to raise revenues by 20 percent and 25 percent. This was to be effectuated through increases in custom duties on wines, beer, cigarettes, oil and petroleum. An increase in stamp duties and one or two miscellaneous increases were all targetted to achieve the increase in revenues.

The Bahamas is a non-direct taxation economy. This has attracted a great deal of financial and other services. But, the Bahamas is an economy of many islands. Hence, what is true is Nassau and Freeport, may not be true in the Family Islands. The emphasis on sumptary taxes and customs duties, licenses and fees are clearly understandable - given Bahamas' tax posture. The reality, however, is seen "over the hill," in the Bahamian parlance. Social programs and enterprise zones were the concern of the government; these were in addition to the massive construction of tourims plant on Nassau, namely the Cable Beach complex. The

enterprise zone concept was introduced in the redevelopment of Grants Town. Special incentives to encourage investment were also introduced to lure businesses to the Family Islands.

Over the period under review, the Bahamas' public sector revenue expectations were contingent upon beefed-up enforcement of revenue collections, tightening of administrative procedures and compliance in tax collections. As the Bahamas more towards greater fiscal discipline and fiscal responsibility, the political directorate anticipated that the economy would also share in the fruits of the Caribbean Basin Initiative. As of July 1984, the Bahamas' position in CBI preferential allocation was still in doubt. Like Barbados, the Bahamas was tradition-bound in its response to fiscal development between 1974-1984.

Belize's fiscal key fiscal developments between 1974-1984 provides in the fourth case. Over this period, Belize tried a few taxes to augment its revenue picture. In 1983 it promoted a land tax reform measure aimed at discouraging the use of idle agricultural land. This was done to achieve two purposes: (a) to minimize land speculation and (b) to promote greater agricultural development. A few indirect taxes were also introduced to assist the public sector raising revenues; although, for the most part these revenue-raising measures were fundamentally government-expenditure cutting measures.

Between 1980-1984, the central goverment finances deteriorated markedly. The primary cause of the fall was due to a sharp

reduction of taxed on income, foreign trade and foreign grants. The devaluation of the Mexican peso was decisive in the reduction of revenue from import duties in 1984. The government faced a deficit of about eight percent of GDP in 1983-1984, up from one percent in 1978-1979.

Two lines of fiscal departures were put into effect. By June 1984 the 1983 and 1984 economic picture was not a healthy one. Export performance as poor; external financing was down; a balance of payments deficit was becoming worrisome. External payments were falling behind. At this stage, the fiscal authorities introduced a structural adjustment progam backed by a 16-month IMF stand-by facility of US$7 million. Objectively, the aim of the program was to reduce the public sector deficit such that it could be financed, in its entirety, from bilateral aid and multilateral funds. The usual IMF-type contitionalities were imposed.

The second line of departure was on the domestic front. By the first quarter of 1986, central government deficit was BZ$42.4 million. A package of fiscal measures was introduced. These measures, in our view, codify the fiscal departures that were symptomatic of others over the periof of analysis. Stamp duties were increased from 10 percent to 12 percent; there was a 10 percent surcharge on company income taxes; a tax was introduced on non-residents income; there was an increase in the vehicle licensing fees; there was a revenue replacement duty on

gasolene and motor spirits, and there was an increase in the excise duties on beer and soft drinks.

In the case of Belize, too, it is evident that its thrust was along fiscal lines and fiscal initiatives which were traditional. The government sought to regularize those taxes which were identifiable and easily levied. But, like the other countries discussed thus far, the question of tax compliance, tax bouyancy and yield were important. Belize's economic capacity to perform was pressured during 1974-1984 by the widening of the Central Government expenditures and higher debt service payments. It is difficult to say if the tax base in Belize can obsorb the burden of broad-based taxes. For the time being, the public sector may have to follow tradition in its tax measures.

The sixth case is that of Jamaica. A multitude of tax strategies, responses and departures were tried by Jamaica over the period 1974-1984. These developments were instituted because Jamaica managed itself into precarious economic dilemmas and, as a consequence, the politicsl directorate tried an assortment of fiscal measures and manipulations to pull the economy out of theeconomic doldrums. In addition to the fiscal measures that were occasioned by the dictates of IMF conditionalities, Jamaica introduced some key measures; we give a few.

First novel measure was the introduction of 1974 bauxite levy. The levy was universally set at 7.5 percent of the average North American aluminium ingot price in 1974. This followed the

breakdown in negotiations between the aluminium companies and the political directorate at that time. In 1974 this production levy raised an estimated US$200 million in 1974 compared with US$25 million from bauxite in 1973. The levy was effective for a time. Its impact was short circuited both by the companies and the international demand for bauxite.

On August w8 1975, an anti-inflation package (Phase One) was introduced in the Jamaica Parliament by Prime Minister Michael Manley. On October 8, 1985 he introduced Phase Two. In Phase One, the government included a series of incentives directed at enhancing the productive capacity of the private sector and also, geared to assuaging the doubts in the private sector about the nature of the Democratic Socialist thrust of that time. The Phase One measures included, inter alia:

(a) accelerated depreciation rates for companies which introduced a second or third work shift;

(b) $10 per new worker per week, tax free. This also applied to the Impact (Crash) Program workers;

(c) consolidation of firms profits and losses across groups of firms;

(d) an increase in the subsidized export credit scheme to provide working capital to exporters and, in turn, allow them to offer more reasonable credit terms to foreign buyers.

(e) a guaranteed export credit scheme;

(f) rebates of excise duty charged on raw materials in finished products for export; and

(g) hotel assistance loans.

These far reaching fiscal measures met with little success primarily because the private sector had little faith in the public sector's capacity to deliver on its promises.

The 1976-1977 Jamaican Expenditure Budget was a "Holding Budget. (The)..Budget (had) a positive qualitative thrust. The emphasis (was) on labour improvements and labour absorptive techniques..." (Jones-Hendrickson, 1976a). On April 29, 1976, the then Minister of Finance, David Coore, introduced part of a program of tax reform. The tax reform was keyed into a schema of restructuring income tax and allowances. "A proposal was outlined whereby there (was) a reexamination of the basis on which personal income allowances (were) granted - that is, of an adjustment of taxable income with the 'appropriate tax' levied subsequently." (Jones-Hendrickson, 1976b).

"Basically, 'persons entitled to the various allowances, instead of deducting the amount of the allowance from their income and paying the tax on the balance, (would calculate the theoretical amount payable on the whole income and then deduct from the tax the amount of credits as are appropriate to each category of relied for which they qualify.'" (Jones-Hendrickson, 1976b). This was one of these fiscal departures that was sound. It was geared to an improvement in administrative capacity, the minimization of equity-eroding features and the maximization of benefits to a wider cross section of people. This was 1976. The Jamaica system was feeling the pangs of too many reforms.

In the 1980-1984 period fiscal policy departures or developments in Jamaica were keenly linked to the fiscal dictates of the IMF. In our view, there were tradition-laden fiscal departures. No new novel approaches were introduced. This was the era of the eroding dollar. This was the time of a crisis of confidence in the economy precariously poised on an allusion of financial wizardry. In the end, the traditional was accepted over the novel.

In the case of Guyana over the period 1974-1984, we do not observe any major departure from the norm in terms of fiscal developments. Guyana was trapped in an economic doldrum of its own making, this was tuttressed, however, by the vagaries of the international economic system. Guyana, like Jamaica rhetovisized a form socialism. Because the local and foreign private sectos were not clear about the demarcations of the system, they seemd to have work in conjunction to undermise the economy even further than the regime in Guyana had put the economy.

Deficits, over the period, were financed by internal and external sources. The banking system provided a tremendous amount of inflation credit. Multilateral lending agencies were the principal agents of credit. Guyana has been following a path of severe fiscal ousterity for years. It does not appear as if it can pull itself out of the economic quaquire. Some commentators, including sources in Guyana, suggest that Guyana's debts should be forgiven and forgotten. We do not believe this will solve Guyana's fiscal problems in the long run.

Finally, we turn to the OECS countries. All of the countries, except Grenada between 1979-1983 tinkered with fiscal departures from the norm between 1974-1984. Most of the new taxes were really consolidation of well-established taxes, well identified taxes in terms of revenue generation, and well organized taxes in terms of compliance costs. Hence, custom duties, excise taxes and personal and corporate income taxes, where they existed, still were the work horses with regards to revenue generations.

In Dominica the focus was on the raising of taxes on income, property, capital transactions, commodities and some domestic fees and licenses. All traditional. Grenada, under the leader of Maurice Bishop, sought to depart from the norm both in terms of funding sources and taxes institution. Assistance was negotiated from the IMF; US$4 million stand-by facility was negotiated in June, 1981. The United States of America blocked a US $$7.6 million Extended Fund Facility and a US$19 million Compensatory Financing Facility in 1981. These funds were aimed at structural adjustments of the Grenadian economy. Grenada chose not to tow the political and economic dictates of the USA. Consequently its experiment in alternative fiscal structures were radically exercised.

St. Lucia's 1983-1984 recurrent budget was targetted balance. The basis of this assumption was on the austerity measures with which the government and the IMF had agreed to under the US$10.5 million loan package. The package expired in

February, 1984. Other taxes such as a foreign currency tax and custom duties were also increased. Here, too, St. Lucia was following the norm.

St. Vincent followed the norn too. It increased import taxes from five percent to seven percent, suspended wage increases for a time and refrained from introducing any increase in indirect taxes. This was a Union Concession. It was following an austerity measure, albeit not too rigid. The measures stemmed from the conditionalities agreed to by St. Lucia and the IMF. The IMF granted St. Lucia a US$1.3 million grant under the Compensatory Financing Facility in 1984. An additional US$0.5 million was also earmarked to assist urgent import needs - if St. Lucia wanted it.

In the case of Antigua nad St. Kitts-Nevis, they too followed the traditional well - travelled path of fiscal initiatives. But, in these two countries we find one major departure. Both countries abolished personal income taxes - as political tools. Antigua introduced some tax measures such as 25 percent tax on the profit of small businesses, after the deduction for legitimate expenses and a "fair" salary. Self-employed individuals were required to pay a license. These were introduced in the 1982-1983 budget package. Antigua continued to follow the same revenue sources upt to 1984.

St. Kitts-Nevis has traditionally imposed a host of taxes, indirect and otherwise. The 1974-1980 taxes were of the normal

variety in the OECS countries. Many of taxes were low revenue generators; they were also difficult to police. The compliance and administrative costs were high. When the government was changed in 1980, it deviated by eliminating personal income tax. But it reintroduced versions of many types of taxes. Among some that it introduced or reintroduced were higher vehicle registration fees; higher fees for drivers' permits; a 25 percent tax on alcohol; a 2.5 percent tax on bank loans to non-nationals; taxes on condominiums, anf a 200 percent tax on the income of non-nationals. Bank license fees were substantially increased; property rental values; the cost of gasolene etc. By and large, the main source of revenues are still custom duties, income taxes, stamp duties, postal fees, license fees and a wide assortment of duties, levies and licenses. By far, however, the only significant departure was the abolition of personal income tax in 1980. The government has sought funding from Venezuela reputedly from Taiwan and from Middle Eastern sources. All of these, however, have not placed St. Kitts-Nevis on any stable path of growth deriving from fiscal developments. St. Kitts-Nevis development still continues to be "disassociated" (Jones-Hendrickson, 1978) from its internal resources.

Montserrat has followed the traditional lines of dependence on the UK, the EEC, and revenues from personal income tax and custom duties.

In the final analysis if when we consider the response of the Caribbean to fiscal developments between 1974-1984, they all, for the most part, followed the traditional path in terms of fiscal initiatives. Except for Jamaica, St. Kitts and Nevis, Antigua, and Grenada, for a brief period, the countries all depended on financing of the traditional donors. They all operated according to the dictates of the international lending agencies and they all attempted to anticipate what Carternomics and Reaganomics would mean in their respective economies. This posture reflects the extremely open nature of these economies. It also reflects the fact that the fiscal policy in the region is still Keynesian orientation - supply-side rhetoric, to the contrary.

V. A Look to the Future

Our look to the future in the Caribbean's fical scene must, of necessity, look back over the 1974-1984 and specifically over the last two years, 1984-1985. Traditional regional exports went through a slump. Tourism was sluggish, except in the OECS member states. The growth in foreign exchange earnings was limited and, as a consequence, balance of payments problems were exacerbated. Economic growth was moderate, low, zero and negative in some respects. Jamaica and Guyana were under severe austerity measures. Trinidad and Tobago strengthened its restrictive fiscal policies. Banana prices and sugar prices were in the doldrums. Guyana continued to be the anemic man of the Caribbean. And the litany goes on.

The countries first battled inflation. Today the talk is about deflation and disinflation - the latter is the speed with which inflation is deflating. As we look to the future, we envision a region whose political directorate must move beyond one- year balancing of budgets. Multi-year plans and projects ought to be in place. The changes in the fiscal system should not be crash-program type approaches to fiscal reform. They have to be fiscal reform that would stand the test of time: reforms that would outlive the four-year/five-year time horizon of the political directorate.

Budget deficits should be derailed and, ultimately eliminated, if the economies are to have meaningful economic transformation. Transform must be meaningful integration of monetary and fiscal policies as we have outlined, elsewhere. Fiscal policy should not operate as if catastrophe theory is the norm in the region. Fiscal policy should not operate as if the second law of thermodynamics must always be played out in the region. The regional political directorate through their fiscal advisors and technicians have to seek to impose fiscal discipline and responsibility before the IMF and other such institutions imposed them on the region. The region's directorate have to strive for fiscal maturity as a real fact of life and not illusory excursions into fiscal manipulations. Self-discipline in running the economies must stem from self imposed discipline not from externally-imposed discipline. The regional economies cannot continue to give the impression that this is a parasitic region. The region could take but it must also give. For many members of the political directorate, the rude awakening of the deficits and other crises of 1974-1984, may have forced them to the reality of why they were elected to office in the first place. However, the regional directorate cannot continue to use old, traditional methods to solve new problems. In the days of budgetary nuclear catastrophes, the political directorate cannot continue to use the age-old approaches of budgetary hurricanes. New methods have to be found; new solutions have to be devised; new systems have to be instituted.

Here we wish to offer two new approaches which may be considered the first step along the road of fiscal reform. The first we call "Budgetary Essential Review". The second we call an "Imitative Effect".

Budgetary Essential Review (BER) is, in some respects, akin to the concept of Zero-Based Budgeting. We already contend that there is a "disassociation factor" in the Caribbean. So, we have to move beyond this situation. BER requires that all departments give detail accounts of what they do prior to a budget cycle. They may require weeks or months to prepare. This is one of the reasons why the budget cycle should not be limited to one year.

Once a body of analytical information has been put together, the political directorate and the employees in each department should have a tete-a-tete to sift out those programs that are expandable; to shift to other areas those programs that could be moved; to eliminate programs, where expedient, and so on. In the implications of the economies of BER and the economies of deficit derailment, we have to be mindful of the politics of deficit derailment. The BER is a laborious, tedious one. But, if there is a need for change in the region, and we believe there is such a need certainly in the fiscal sphere, we ought to ensure that that change is implemented in a meaningful manner. We believe that BER will force decision-makers to critically assess all programs and determine if they are needed. This is a call for a complete restructuring of the system of fiscal operations.

The imitation effect refers to a scenario which will force our decision-makers to be more cognizant of these positive things that are happening in countries around the world. Our leaders have to broaden their awareness and information base relative to the running of the countries. We imitate in the region. But we tend to imitate nearly all of the wrong things, styles, customs, mores. Our suggestion is a need to increase the informational base of our decision-makers so that they can make more informed decisions. We need to know what others are doing so that we can equal or excel them. The challenge and objective should be to find out what is being done, how it is being done, and try to do it as good or better. The regional political directorate must have a higher degree of discipline. They cannot continue to believe that each one in his own island fiefdom is going to create a new wheel every time. However, they must be seen to be running on the cutting edge of change, innovation and information flow. They have assessed risks carefully. They have to work on strengths and minimize weaks or eliminate weaknesses. The region has to show greater degree of cooperation and coordination. Our perspective holds for fiscal change as for all other changes. We can swim collectively or drown, separately.

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