ECONOMIC MANAGEMENT IN THE OECS : THE CASE OF ST. KITTS-NEVIS

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Abstract: This paper will examine the process of liberalisation aimed at reducing the role of the state in the economy of St. Kitts-Nevis between 1980-1992. The economic policy over that period was oriented to deregulating the public sector, expanding markets and internationalising the economy. The private sector was put in the role of the driver geared to motoring up the development process. We will note if the theoretical rationale, as distinct from the the ideological rationale, worked in the OECS, and specifically in St. Kitts-Nevis. We will also identify the lessons, if any, from the experience of the type of economic management that was practised in St. Kitts-Nevis between 1980-1992.

Economic Management in the OECS: The Case of St. Kitts-Nevis.

I INTRODUCTION:

Over the last several years, many commentators have been focussing on the Organization of Eastern Caribbean States (OECS) in a variety of forms and fashions. Within the last five years the comments have been decidedly positive, now that it is recognized that small states can be viable. The comments have taken the form of statements which indicate that the states of the OECS have found the elixir to motor up their own development process. In this respect, the OECS is now seen as the region that can offer some lessons in the development process for the wider Caribbean. It is important to know what the lessons of management are that carried the OECS to the now acceptable levels of growth and performance.

In this paper we will look at the OECS in terms of what some persons have said about the development process in the sub-region. Next we will focus on ideological statements of one country in the sub-region, namely, St. Kitts-Nevis, and see how the process of liberalization in that state was implemented. Third, we will analyze some macroeconomic indicators to get an insight of the performance of St. Kitts-Nevis. The objective is to look at some data between 1980-1992 to see if the economic developments matched political pronouncements. Finally, we will note if there are any lessons to be derived for the wider Caribbean, from the economic management of St. Kitts-Nevis between 1980-1992.

II. FOCUS ON THE OECS:

Since the Treaty of Basseterre that founded the OECS in 1981, the OECS as an entity has expanded in scope and scale. The political and the economic nature of the entity have moved hand in hand. The success of this coincident movement is due largely to the role that the Secretariat of the OECS (in St. Lucia) and the Economic Affairs Secretariat (in Antigua) have played in coordinating the political and economic arrangements that permitted the region to grow. In this respect, it is important to analyze a paper at a macroeconomic conference that deals with economic management at the level of political economy.

The OECS has survived and, in many respects, is seen as bringing collective benefits and individual benefits to the entity and to the individuals member states. As Vaughan Lewis, Director-General of the OECS notes, the success of the OECS "should be taken as no mean achievement in a context in which in the developing world as a whole, few of the integration efforts which were started after independence have survived in a meaningful form." (Lewis, 1991:2).

Towards the end of the 1980's, the OECS was the largest market for trade in CARICOM. Efforts were made at intra-regional trade in the Eastern Caribbean Common Market,(ECCM). Trade liberalization regimes were set up, among which were the removal of non-tariff barriers, licenses, among others. These moves were very appropriate because they afforded the OECS the opportunity to prepare for the implementation of the Common External Tariff (CET) at the wider CARICOM level. In 1991, the Economic Affairs Secretariat introduced for Ministers consideration, a proposal "to fully open among OECS countries, a so-called single market, liberalizing, in effect, the movement of all factors of production." (Lewis, 1991: 4).

In the 1980's, too, Ministers of the OECS realized that they had to do something to ensure that the OECS compete on some levels with the larger countries of the CARICOM region. Hence, a decision was made to establish, collectively, the Eastern Caribbean Investment Promotion Services (ECIPS). The primary thrust for establishing ECIPS was that "in the competition between the ECCM countries and their larger partners, certain infra-structural capabilities were lacking and could only be protected and sustained in each country with some difficulty." (Lewis, 1991:4).

In addition to ECIPS, there is an effort in the Eastern Caribbean Drug Service (ECDS), in the area of Natural Resources Development and Management, specifically the Agricultural Diversification Coordinating Unit (ADCU), OECS Fisheries Unit, among others management objectives.

The ECDS is geared to minimizing the cost of legal drugs in the region. In purchasing drugs in bulk, the hope of the decision-makers is that the reduced cost could be passed on to the member countries. To the extent that there is a link between good health and economic development, this move of the OECS through ECDS is seen as a very positive one.

The objective of the ADCU is to induce "(m)ore balanced growth, in terms of a variety of agricultural commodities...to encourage a movement away from ...mono-crop...and to encourage more regional import substitution of food production." (Lewis, 1991:6)

Other commentators commented on a variety of areas of the benefits of the management system in the OECS. In the case of the building sector, Liburd noted that "there is still a lot of construction going on, but the general feeling is that the (Construction) sector would not be as buoyant in the 1990's as in the previous years."[1] In the 1980's, construction activity in the OECS ranged between 15 and 21 percent. Public sector activities as expressed through Public Sector Investment Programs (PSIP) were at their peak.

In recognizing what Europe 1992 may mean for agricultural products, particularly bananas, the OECS moved to diversify its agricultural programs. This diversification was across the board. The countries started to develop mechanisms to seek value-added through down-stream processing of their agricultural products.

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[1]For a discussion of this issue, see "OECS: slower but building," in a citation in CANABUSINE$$, (1991:12).

Agro-processing is now seen as the wave of the future. With this in focus, the OECS developed the East Caribbean States Export Development Agency, (ECSEDA). ECSEDA is seen as a forced organization of traditional agriculture. OECS officials hope that out of this forced situation, benefits will spring. According to ECSEDA data, the agro-industry is making a significant contribution to the GDP of the OECS. Between 1987-1990, the agro-industry grew "an average of 13.6% per annum...with approximately EC$187 million...with 14 companies accounting for 80% of this (amount). Domestic export was valued at EC$120.3 million with the same 14 companies accounting for 86.%."(**CANABUSINE$$,** May 1991:5).

At the level of macroeconomic issues, Samuel(1991:18) notes that there was a slow down in the growth of the OECS economies. No doubt this was linked in part to the global economic slow down. Internal to the economies was the slow growth rate in the tourist sector, the mixed agricultural production picture, the fall in bananas volume, among others issues. All of this showed that there was a low level of growth of the order of about 4.0% According to Samuel (1991:23) "the OECS economies have entered a period of slower growth...(This year) 1992 will be a year of slower growth, (averaging) about 3% to 4%. It will require careful fiscal management to guide the economies through the trying times ahead."

The OECS officials are well aware of the effects stemming from liberalizations and regionalization. As they continue to press for agricultural diversification, they have to contend with the payment difficulties in their trade with the wider CARICOM region. With 40% of the OECS trade moving to CARICOM, it is imperative that their mechanisms of trade liberalization be beneficial to them in the long run.

In the final analysis, as we evaluate the OECS between 1980 and 1992 we note that a variety of comments were made on the OECS. In the large, these comments were positive. They reflected a management style of the OECS directorate. That style was one that was cognizant of the need to have a collective thrust towards economic development of the region. Many programs were put in place that sought to have positive repercussions on the lives of the people in the collective and individual countries.

If we are to believe the commentators, positive benefits have been derived. The 1990's are on a slower rate of growth versus the development of the 1980's. However, the performance in the OECS is still commendable when that performance is compared with the anemic performance and the negative growth rates of some of the larger countries in the CARICOM region.

III. FOCUS ON ST. KITTS-NEVIS:

A chain is as strong as its weakest link. We now turn to one member state of the OECS to determine, from a macroeconomic perspective, if the global policies of the OECS found their way to the level of the individual state of St. Kitts-Nevis. We will consider some political and ideological statements and try to note if the policy thrust of the political, ideological statements were translated into economic reality at the level of positive benefits for the entire state.

1980 was selected as the starting point because a new government was sworn into office. Ostensibly that government was oriented to reducing the role of the sate, increasing the awareness and activities of the private sector, diversifying the economy and, in general, improving the overall welfare of the people of St. Kitts-Nevis.[2] A second reason 1980 was chosen was because 1981 was the year that the Treaty of Basseterre was signed in Basseterre, St. Kitts, to usher in the OECS. The purpose of the paper is to determine if the Treaty has made any significant impacts in the land in which it was signed. The assumption is that the benefits introduced at the macro-level of the OECS will find their way to individual level of the state.

In this section we will focus on the political statements as they were pronounced. In the subsequent section we will look at some macroeconomic data in terms of trends and some preliminary analysis to determine if the reality of the pronouncements matched the rhetoric of the pronouncements.

In February, 1980, when the People's Action Movement (PAM) and the Nevis Reformation Party (NRP) joined forces in a coalition government to oust the St. Kitts-Nevis Labor Party, the coalition government pledged to pursue policies to speed

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[2] The official name of the State is St. Christopher and Nevis (St. Kitts and Nevis). We have chosen to call the state, St. Kitts-Nevis.

development of the twin-island state. Among the many economic initiatives undertaken was the abolition of the personal income tax from essential items such as food and drugs, and the thrust for better housing conditions.

The 1981 **Budget Address** presented by the then Minister of Finance, Simeon Daniel, noted, among other things, that the abolition of income tax was one of the bold initiatives of government. Daniel noted that "The services provided by the Government are for the benefit of all of us and we should all be wiling to contribute towards this." [sic], (Daniel, 1981: 18).

In that 1981 **Budget Address** the following series of taxes were introduced:

1. a 50% increase on wheel tax;
2. increases in drivers licenses as follows:
   motor cycle drivers, private drivers, and
   chauffeurs, all up 100% from $5 to $10.00
3. learners' permits up 100% from $3.00 to $6.00
4. an increase of 5% on cigarette, cigars and tobacco
5. a increase of 10% on all spirituous liquors, except
   rum and still wines...

Daniel ended his comments with the view: "Mr. Speaker, I have not proposed any major increases in our basic taxes and I expect that our general improvement in the economy which we have seen in the past will continue during the coming year." (Daniel, 1981:18).

On the 21st and 22nd of March, 1983, the **Draft Estimates of Revenue and Expenditure** were laid before the House of Assembly. The government proposed taxes to the tune of $11.21 million. Among the increases were taxes on import duties ($1.76m); house tax ($1.45m); consumption tax ($1.5m); taxes from the Philatelic Bureau ($3m) and electricity tax ($3m). A wheel tax, an income tax, death tax and currency tax were also designed to raise revenue from $.2 million to $.5 million in the new increases that year.

When the **1985 Budget** was presented on December 12, 1984, a new series of taxes were proposed. This time there was a "10% increase on Import Duties and on Alcoholic Liquors." (Simmonds, 1984: 23). In addition, there were increases in vehicle taxes based on the weight and cost of the vehicle.

There were charges for registration and change of registration. Ordinary driver's licenses were increased; travel tax was increased and Bank license were increased. There is nothing wrong in increasing taxes. In the case of the increases mentioned above, the tax increases were generally on the order of over 100 percent. That was the hardest part of the tax burden for many of the tax-paying citizens. Taxes are designed to raise revenues. This pattern of increases in taxes was clearly designed to replace the monies lost in the wake of the abolition of the income tax. The burden of the tax increases fell, inevitably, on those who were least able to bear the burden, as we have shown elsewhere.

Philosophically, the government's position can be summed up from paragraphs 81 through 85 of the **1985 Budget:**

"... the government intends to pursue its (program) of economic development with vigor, so that our people cam make higher incomes and be able to contribute their fair share to the public purse." (Simmonds, 1984:24).

Simmonds said he wanted the people to paddle their own canoe. There is a need for "every citizen to shoulder his or her responsibility in the efforts of national development.." and finally, the Simmonds asked that the citizens must move to the "challenge which must motivate us to greater productivity,... , creativity and sacrifice." (Simmonds, 1984:25).

In 1989 the government was trying to reconcile some of its fiscal moves. Among other things, the government paid over $4.4 million for sugar lands nationalized by a previous government. This commitment to the private sector interests to pay for the sugar lands was eventually to be over $22 million. Back pay of $4.9 million was paid to Civil Servants, Pensioners and Non-Established workers **(Budget, 1989)**.

In 1988 and also in 1989 the corporation tax was reduced. Other efforts were made to assist small businesses. The company tax rate went from 50% to 45% and then to a further 40%. The assumption here was a system like an Laffer curve. If taxes are reduced, in a kind of Reaganomics effect, then the benefits will trickle down in the economy. Needless to say, some businesses benefited, but all did not.

The **1989 Budget** showed some increases which may have put the government in some precarious positions. For example, salaries to civil servants were given a 20% across the board hike. It is to be noted that 1989 was an election year. The rationale for the 20% increase was couched in the following: "I should point out," said the Simmonds, "that my Government has proven that it is interested in the welfare of its employes not only by the terms and conditions of service but also by the comparatively high rates of pay..." (Simmonds, 1989:6).

Several points are worthy of note. In Head E5, **Prime Minister,** there was total expenditure of $3.4 and a net increase of $429,217. Of this increase, 82.29% or $353,213 was the cost of salaries increase. (Simmonds, 1989: 23; 27).

Head E8, **POLICE,** had a total expenditure of $7.4 million. There was an increase of $1.15 million. Of that amount, salaries increase was $1.14 million. There was a 99.11% increase in salaries. Head E9, **PRISONS,** had total expenditure of $805,307. This was an increase of $123,222 over 1988. Of this increase, salaries increase was $110,505 or 89.7%. These representative figures show a distortion as they relate to salaries increases in 1989 when there was an election year.

Over this entire period, the government continued to note that it was a government of the people whereby one should put country above self.

In closing the **1989 Budget**, Simmonds quoted President Warren Harding of the USA and noted that he, Simmonds, was speaking as:

" one who believes (that) the highest function of Government is to give its citizens the security of peace, the opportunity to achieve, and the pursuit of happiness." (Simmonds, 1988: 29; 89).

In the **1990 Budget Address** presented on December 5, 1989, Simmonds noted (Simmonds, 1989:2; 2):

> The people of St. Kitts and Nevis have endorsed the policies and programmes of my Government in no uncertain terms. They have provided us with a clear and unequivocal mandate to continue to build on the solid economic foundation we have created over the past ten years.

He went on to state that the government is: (Simmonds, 1989:2; 3):

> committed to the advancement of the social and economic well being of the people of our Federation...Many of the plans and programmes we have introduced since we assumed office in 1980, have been designed to improve the quality of life of our people and to alleviate much of the hardships and difficulties encountered by so many of our nationals in the plantation-based, sugar dominated economy that existed prior to the 1980's.

TABLE ONE: BOT, BCA, PER CAP GDP, REV. AND EXPEND. EFFORT

YEAR	BOT($M)	BCA($M)	Y*($T)	R*	E*	LA*
1980	-55.90	5.60	2.41	.42	.36	
1981	-63.60	-2.40	2.82	.39	.40	.81
1982	-67.20	-11.60	3.23	.37	.45	.89
1983	-89.10	-8.80	3.17	.35	.41	1.08
1984	-85.70	-5.10	3.71	.32	.35	1.04
1985	-83.60	-7.50	3.99	.29	.33	1.07
1986	-106.40	.90	4.98	.28	.27	.93
1987	-140.20	3.40	5.58	.30	.29	.67
1988	-174.10	-2.50	5.82	.32	.33	.90
1989	-194.20	-1.20	6.06	.33	.33	1.13
1990	-204.10	5.70	6.34	.36	.34	1.19
1991	-222.60	1.10	6.58	.34	.33	1.24
1992	-238.50	-2.50	6.77	.35	.36	1.27

Source: Derived from Table A1

BOT= Balance of Trade; BCA = Balance on Current Account

Y* = Per Capita GDP; R* = Revenue to GDP (Revenue Effort)

E* = Expenditure to GDP (Expenditure Performance)

LA* = Loans and Advances to Government and Statutory Bodies to GDP.

TABLE TWO:LOANS AND ADVANCES TO GOVERNMENT AND STATUTORY BODIES RELATIVE TO TOTAL LOANS FROM COMMERCIAL BANKS (DATA IN %)

YEAR	SKN	ANT	DOM	GRE	STL	STV	MON
1981	35.90	13.60	24.60	10.30	7.90	10.10	14.10
1982	34.20	13.60	20.40	13.80	7.90	14.30	12.60
1983	38.70	13.50	15.10	15.40	8.40	10.10	10.10
1984	39.90	13.60	17.10	9.70	8.60	8.70	13.50
1985	47.40	11.10	20.30	9.70	12.10	7.50	11.90
1986	45.70	14.10	21.10	11.90	11.40	17.60	7.60
1987	20.90	11.30	10.30	7.10	11.60	15.40	6.80
1988	20.10	12.50	6.30	5.60	7.90	11.50	3.20
1989	16.20	10.50	5.80	4.60	5.80	10.10	1.10
1990	16.70	9.01	13.40	4.50	5.90	10.40	.20
1991	18.60	8.60	14.80	5.20	5.60	7.50	.50
1992	19.10	7.50	12.80	5.40	5.90	7.10	.90

Source: Derived from Table A2

TABLE THREE: INDICES OF REVENUE AND EXPENDITURE

YEAR	RIN	EXIN	PPIN	PPLOSS EC($m)
1980	100	100	100	$0.00
1981	108	130	83	$7.40
1982	118	166	71	12.60
1983	110	150	73	11.70
1984	116	147	79	9.10
1985	113	150	75	10.90
1986	136	154	88	5.20
1987	168	184	91	3.90
1988	185	220	84	6.90
1989	197	229	86	6.10
1990	228	247	92	3.50
1991	221	251	88	5.20
1992	235	277	85	6.50

Source: Derived from Table A1.

RIN = Revenue Index; EXIN = Expenditure Index; PPIN = Purchasing Power Index, that is the Revenue Index divided by the Expenditure Index. The PPLOSS = the Purchasing Power Loss. P LOSS = (1980 Revenue) x (1- Purchasing Power Index divided by 100).

TABLE THREE: SOME MONETARY INDICES

YEAR	TLA*	V1	V2
1981	.81	na	na
1982	.89	7.50	.90
1983	1.08	6.70	.80
1984	1.04	6.00	.80
1985	1.07	7.20	.80
1986	.93	5.30	.90
1987	.67	5.30	1.10
1988	.90	4.10	.90
1989	1.13	3.20	.80
1990	1.19	2.90	.80
1991	1.24	2.70	.80
1992	1.27	2.50	.80

Source: Derived from Table A1 and A2

TLA* = Total Loans and Advances to Government from Commercial Banks.

V1 = GDP to Demand Deposit. This is a narrow velocity definition.

V2 = GDP to Demand, Time and Saving Deposits.

IV. A FIRST LOOK AT SOME DATA:

Over the period 1980-1992, the state of St. Kitts-Nevis made a decided thrust in the area of tourism. This was only one of the new moves that the country made. Manufacturing was also actively courted. The idea was to down play sugar and boost tourism, manufacturing, and service-related industries. The state offers a variety of tax concessions, including lengthy tax holidays, the right to repatriate profits, relatively free foreign exchange regulations, among other business-inducing programs. According to Kenrick Clifton, speaking on behalf of the Investment Promotion Agency (IPA) of the state, St. Kitts and Nevis could be "considered the Silicon Valley of the sub-region. We have more electronic assembling than all of the other OECS members together." (**CANABUSINE$$**, 1990:3).

Can it be said that all of the developments in the state of St. Kitts-Nevis were, economically, redounding to the people of the state?

In an answer to this question and others, we will look at some macroeconomic data series to determine what may be inferred from the policies of the state over the period 1980-1992.

In Table One we present data on the balance of trade (BOT), and the balance on current account (BCA) in millions of dollars. We also present data on per capita GDP in thousand of dollars. No allowance was made for inflation for the series, given the "unreliability" of the inflation series. In Table One, also, we present the revenue effort, R*; the expenditure performance, E* and the loans and advances to government and statutory bodies, LA*. These data are derived from Table A1, in the appendix, where we have data on GDP, Revenue, Expenditure, Exports, Imports, and the Money Supply, M1 (demand deposits).

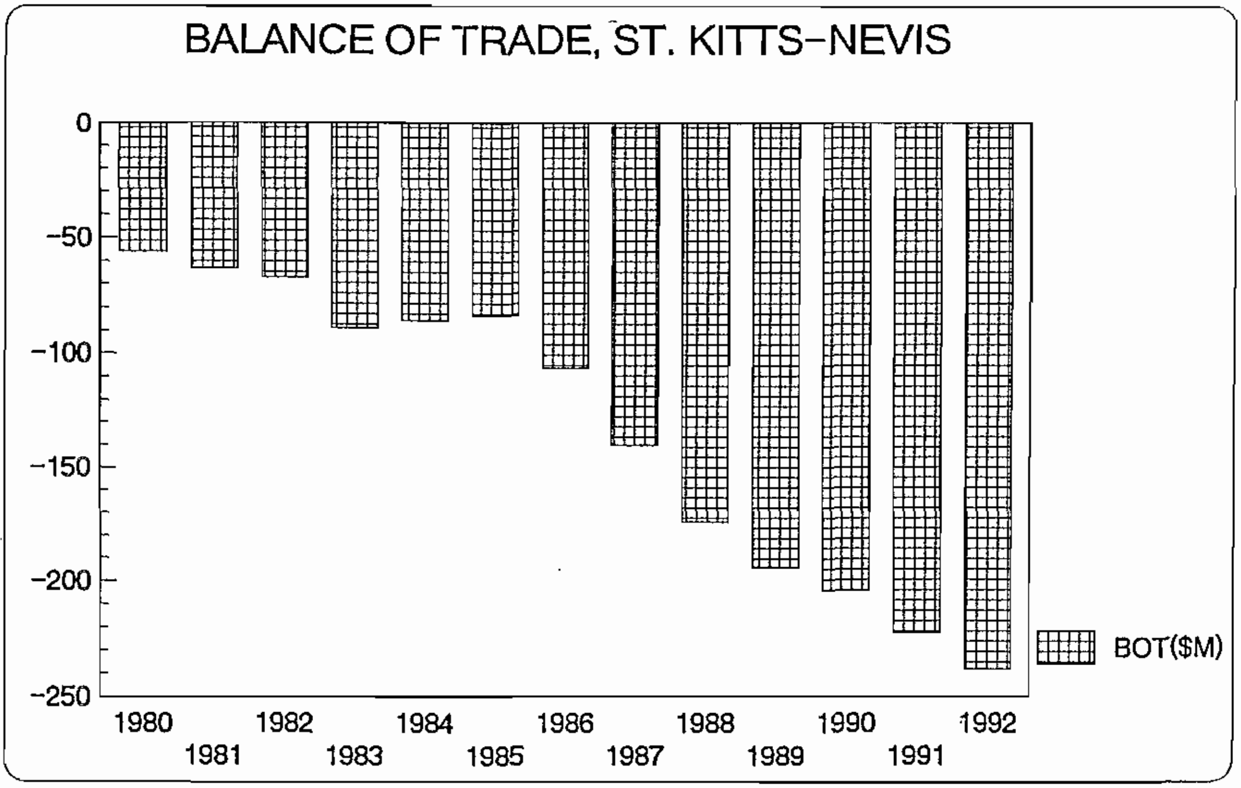
In Table Two we present data on loans and advances to government and statutory bodies to total loans from Commercial Banks. The data are in percentages. These data are derived from Tables A2 and A3 in the appendix. There we show data on loans and advances to government and statutory bodies from commercial banks for the individual states and also the total loans made to the states.

In Table Three we present data on the revenue index (RIN), the expenditure index (EXIN), the purchasing power index (PPIN) and the purchasing power loss (PPLOSS). The revenue and expenditure indices are indices of revenue and expenditure based on 1980. The purchasing power index is the revenue index divided by the expenditure index. The purchasing power loss is the purchasing power loss based on 1980 revenue. The PPLOSS is: (1980 Revenue) x (1- Purchasing Power index divided by 100).

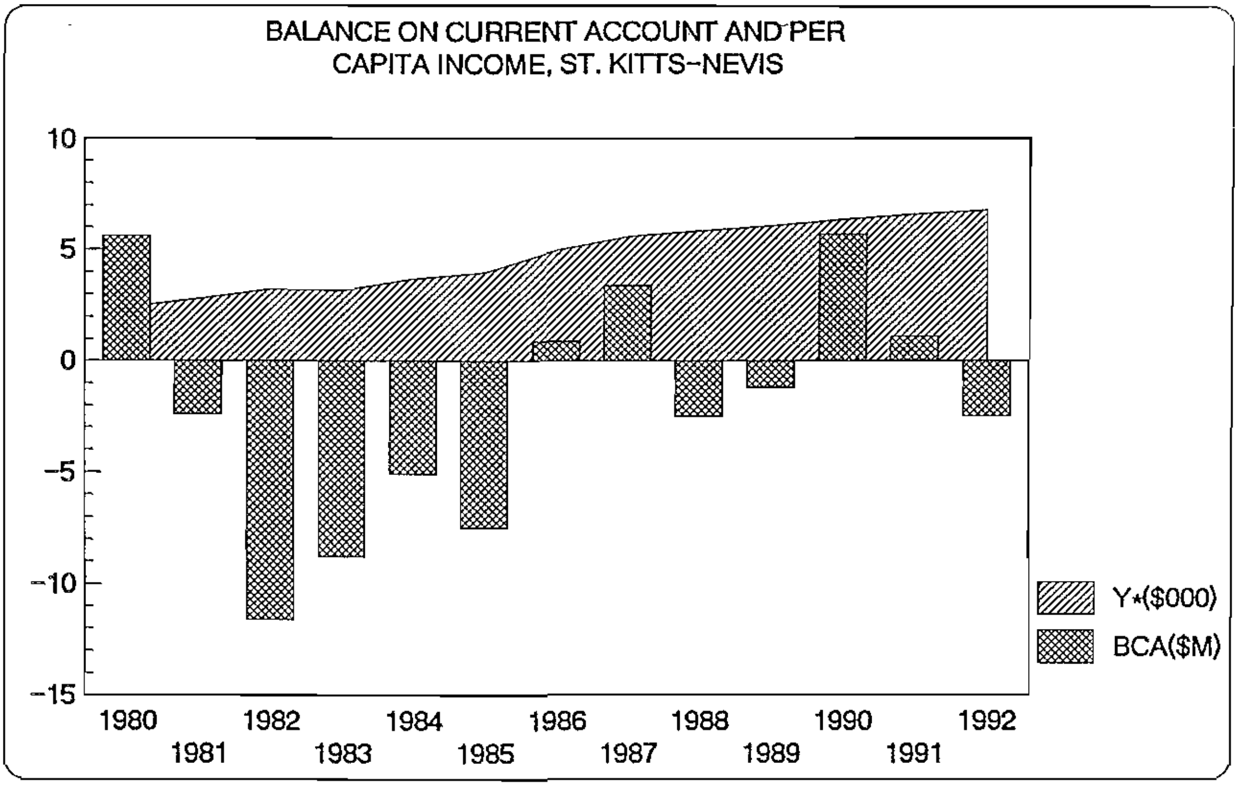
Table Four has data on total loans and advances to government and statutory bodies relative GDP (TLA*); demand deposits relative to GDP (V1) and demand, time and saving deposits relative to GDP (V2).

Finally we present eight graphs to give more detailed insights of the terms of the performance of the state over between 1980-1992. Graph One illustrates the BOT for the period, 1980-1992. Estimates were made for the years 1989-1992. In Graph Two the balance on current account and per capita income are shown. Graph Three is a histogram of per capita income and Graph Four is the second trend in per capita income. Graph Five shows revenue to GDP (R*) and Expenditure to GDP (E*) from 1980 to 1992. Graph Six is the first trend in R* and E*. R* and E* are sometimes called "revenue effort" and "expenditure performance" in the language of public finance.

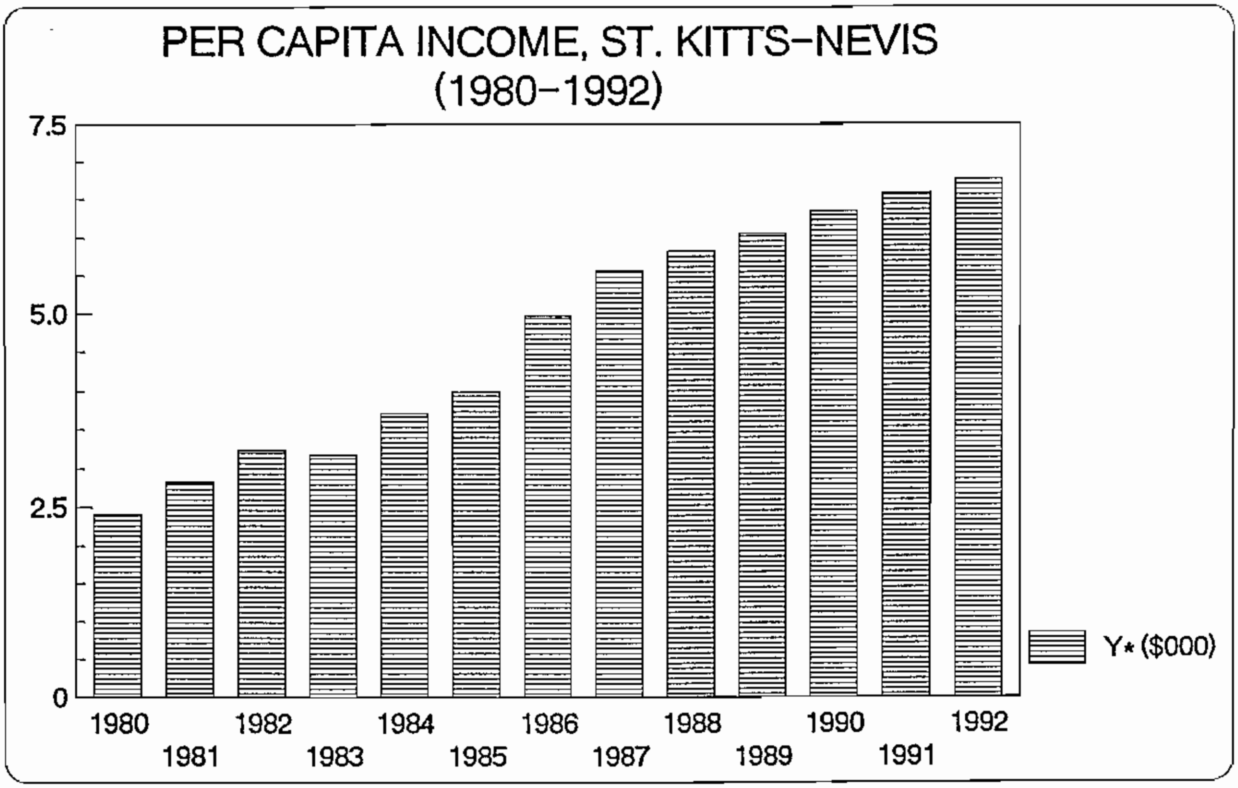
Graph Seven shows the indices for revenue, expenditure and loans and advances to GDP. Finally Graph Eight shows the revenue, expenditure and purchasing power indices.



Graph-in-the-Box EXECUTIVE



Graph-in-the-Box EXECUTIVE



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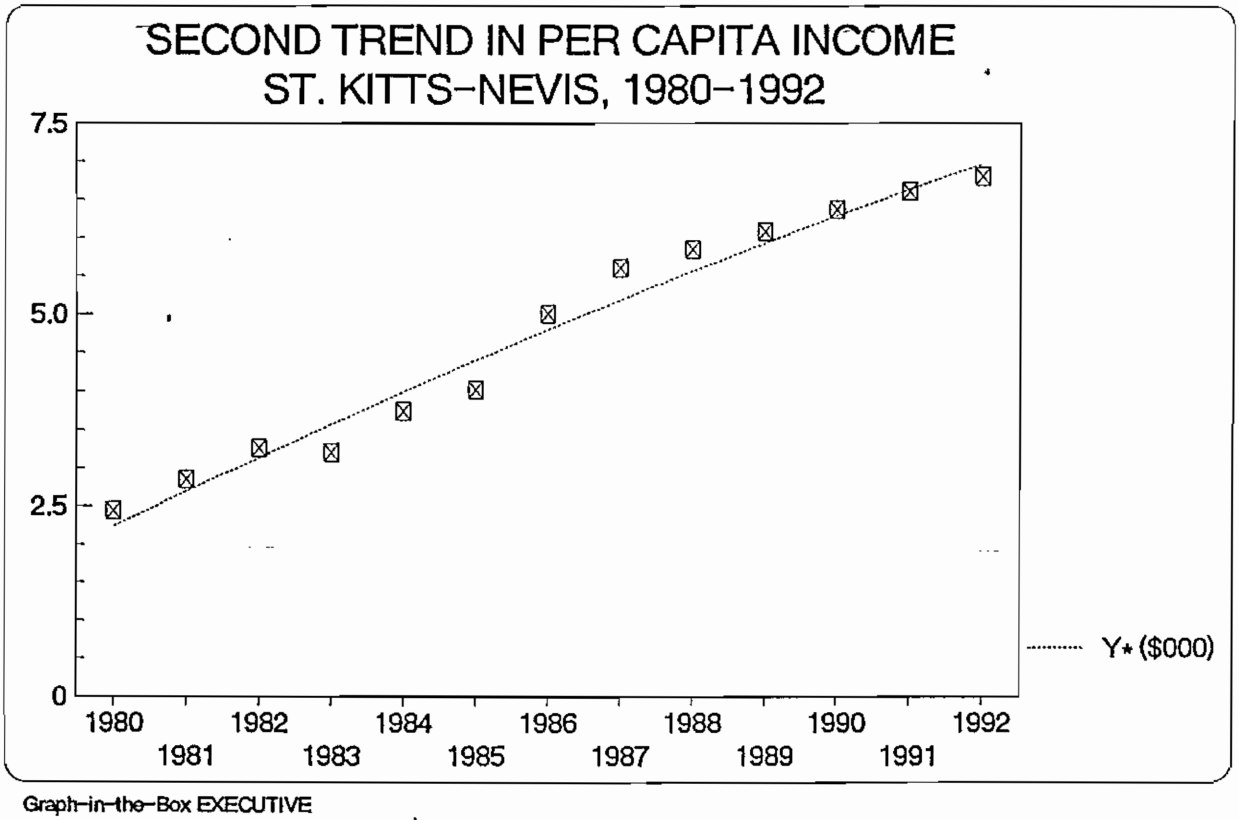
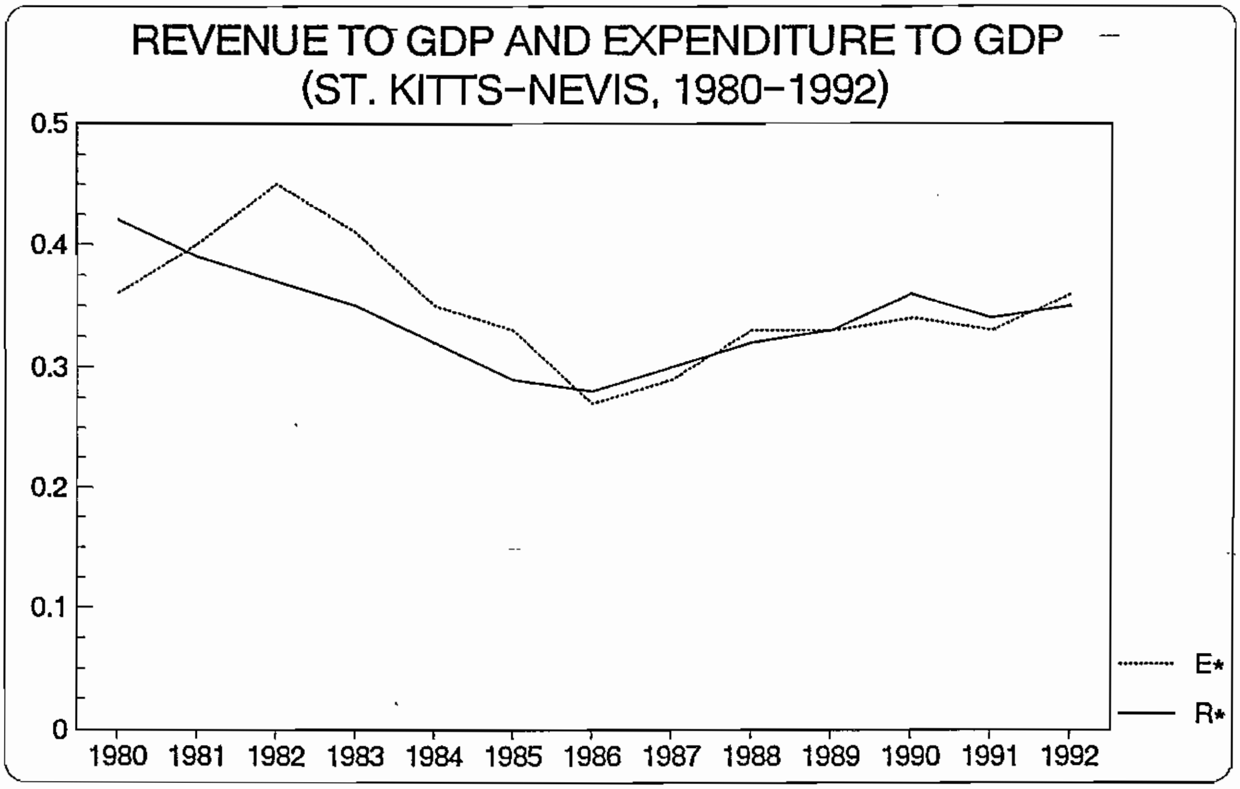

SECOND TREND IN PER CAPITA INCOME
ST. KITTS-NEVIS, 1980-1992
7.5
5.0
2.5
0
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
Y* ($000)
Graph-in-the-Box EXECUTIVE



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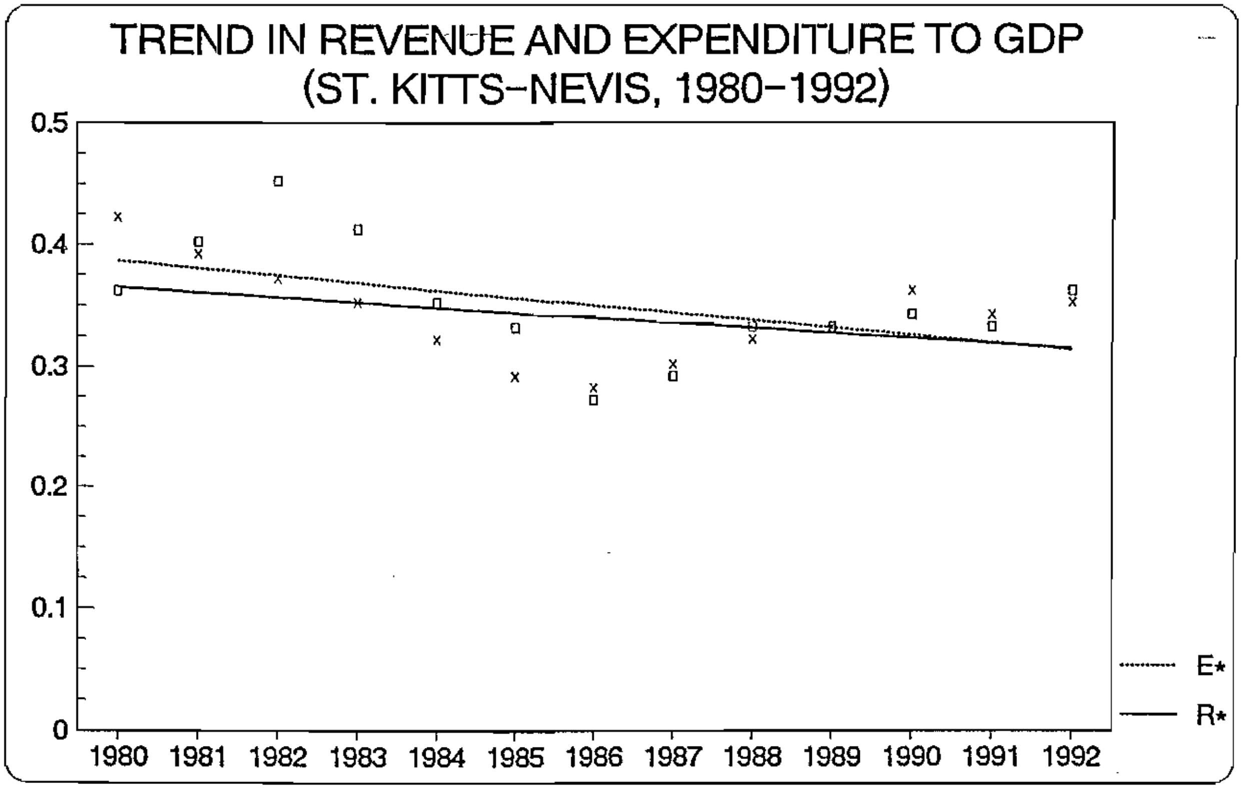
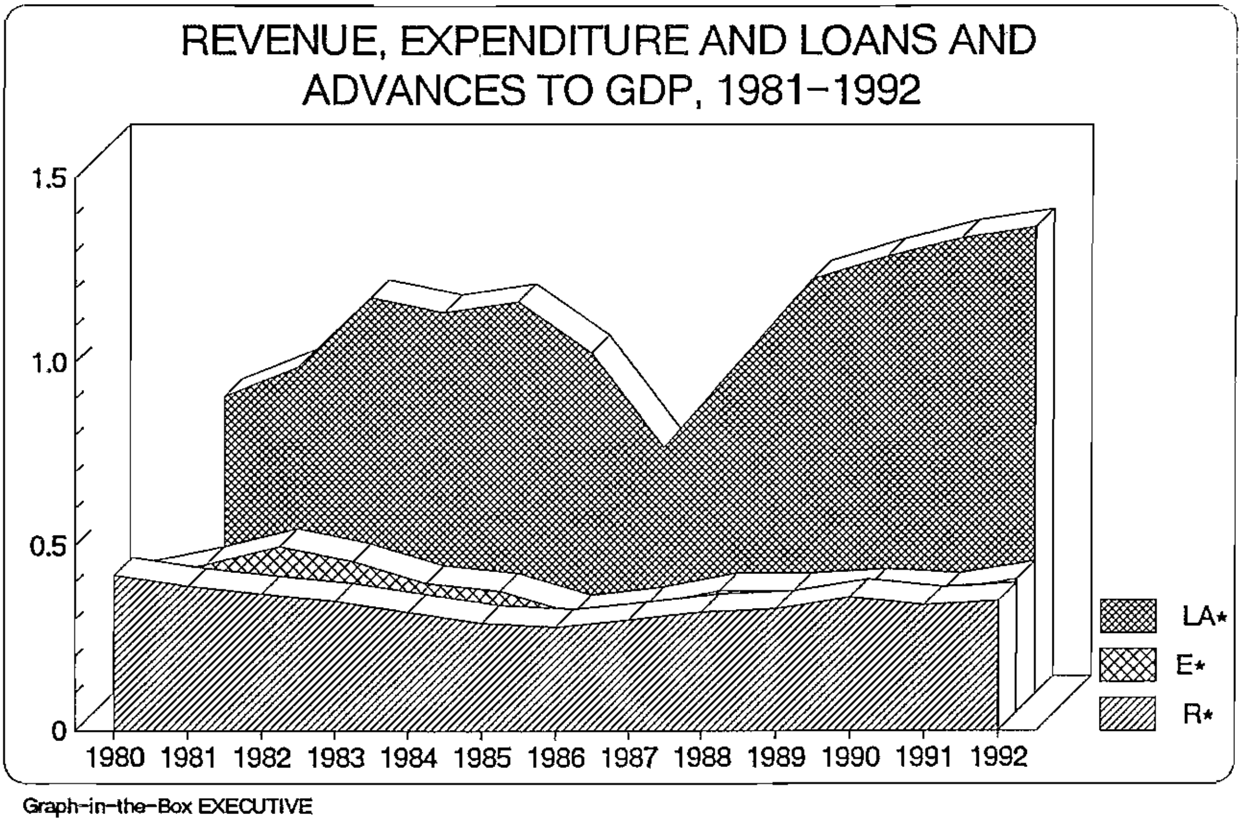
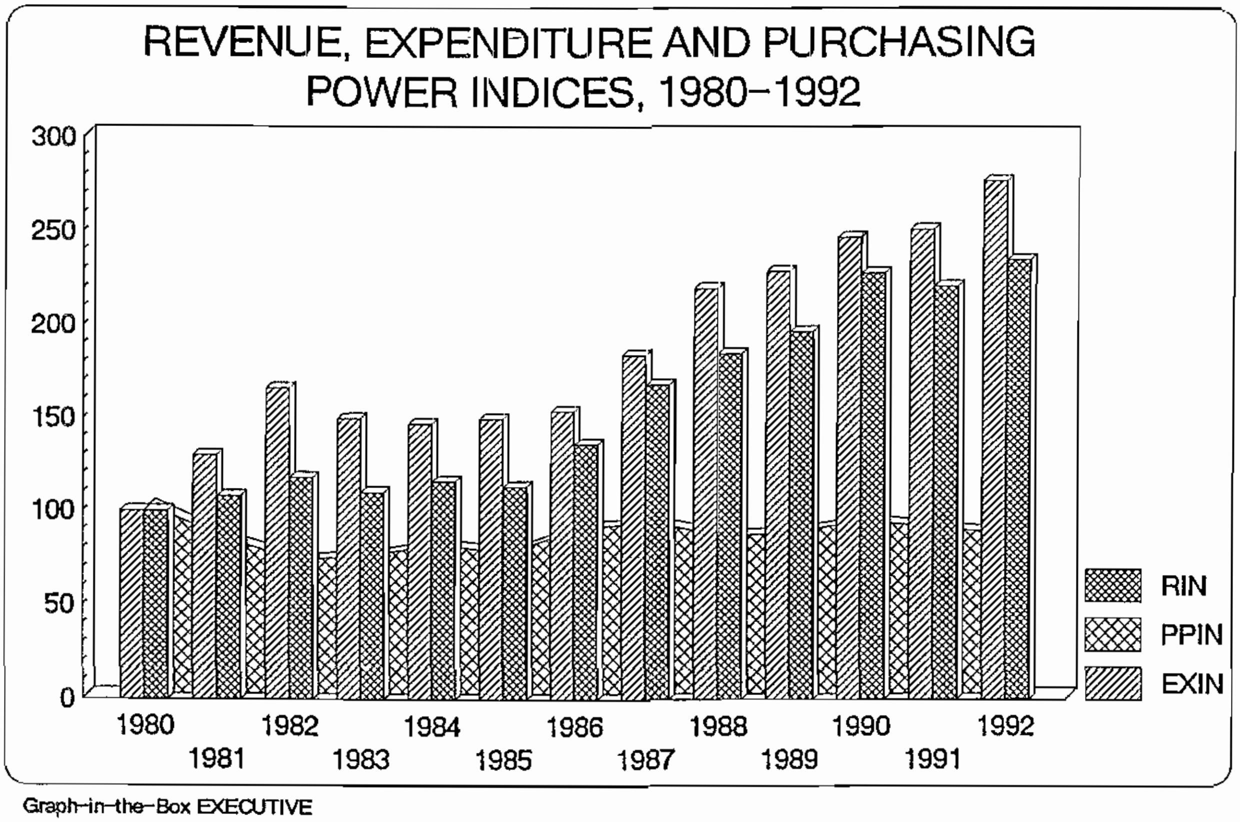


Graph-in-the-Box EXECUTIVE


REVENUE, EXPENDITURE AND LOANS AND ADVANCES TO GDP, 1981-1992
1.5
1.0
0.5
0
1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992
LA*
E*
R*
Graph-in-the-Box EXECUTIVE


REVENUE, EXPENDITURE AND PURCHASING POWER INDICES, 1980-1992
300
250
200
150
100
50
0
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
RIN
PPIN
EXIN
Graph-in-the-Box EXECUTIVE

V COMMENTARY ON THE DATA AND THE GRAPHS:[3]

Economic liberalization requires that a state reduces its role in the economic affairs of a country and empower the private sector to be the engine of growth. It means, also, that the state must be in a position to have its economic house in order, in a complementary and synergistic manner, so that benefits of liberalization and privatization could redound to the citizens of the state.

The data for St. Kitts-Nevis over the period 1980-1992 shows a pronounced case of balance of trade deficits. While the state has made some economic progress, the persistent balance of trade deficits can have "distortionary" effects on both the balance of payments and on the complimentary that would normally develop as a result of positive balance of trade regime. The BOT, as is illustrated in Graph One has been decreasing at an increasing rate.

The balance on current account, that is current revenues minus current expenditure, has been erratic over the last thirteen years. Over the period, eight of the times the balance on current account was negative, as is demonstrated in Graph Two. A rising per capita GDP is being "sustained" by an erratic balance on current accounts. This erratic behavior in the BCA is

[3]The usual comment on data is very appropriate in this paper. We gathered data from a variety of sources. Many of the data had conflicting information. We have to use what we have. Caution is advisable in using the data in their finest forms of purity.

problematic from a long-term planning scenario. If St. Kitts-Nevis is to maintain a positive growth trajectory, the erratic behavior of the BCA will hamper the growth trajectory. The capital account and assistance from abroad are not considered. These two categories are "transitory income" in the budget space. Amounts in these areas cannot be guaranteed with any degree of certainty.

Per capita income was approximately EC$2,400 (rounded to the nearest hundred) in 1980. The 1992 estimate is EC$6,770. This nominal increase is commendable. Graph Two and the histogram of Graph Three show the upward trend of per cxapita GDP. The second trend, Graph Four, shows that while there is an upward trend, the speed with the per capita GDP has been trending upwards is not a sustained one. Since 1988 there is a new slow, downward drift. This downward drift could suggest problems for the state if no corrective actions are taken. No allowance has been made for inflation in the per capita GDP. An estimated Inflation rate of 5 per cent to 8 percent has to be considered when the per capita GDP is analyzed over the period 1980-1992. Population growth rate should also be considered. In this case the population rate has been marginal. This is one of the positive impacts on the per capita GDP. The small increase in population growth rate is positive. A small population base is limiting in terms of the requisite labor force size to be derived from the population.

The Revenue Effort (R*) and the Expenditure Performance (E*) almost mirror each other. The gap that was evident between 1981 and 1986, that is where expenditure performance exceeded revenue was closed from 1986. Since that time, the effort and the performance have been intertwining, as is shown in Graph Five. In Graph Six the reality behind this apparent effort equals performance is showing that there is a downward trend in both revenue effort and expenditure. The state, therefore, is not pulling its weight from a revenue effort and expenditure performance. Benefits from other sources must, therefore, be the glue that is holding together the fiscal ship of state.

The loans and advances to GDP column in Table One shows the level of dependence of the government and statutory bodies relative to the overall macroeconomic performance of the economy. In seven of the thirteen years, the state was borrowing more that its capacity to generate. Its exhaustive utilization of funds was above its GDP capacity.

Table Two illustrates that St. Kitts-Nevis is the biggest borrower of funds from the Commercial banks in the OECS. The National Bank of St. Kitts-Nevis has been a major lender to government. In every year St. Kitts-Nevis has been borrowing on the order of over three hundred percent more than every other state in the OECS. While this may show the capacity of the state to borrow, this capacity to borrow has links to state's viability to generate investment opportunities, and its ability to repay debt. Ultimately, the ability of the sate to pay is expressed in terms of the debt burden of the state. The preliminary data we have on debt of the state indicate that the debt burden is cause for concern. Comparatively the debt burden is not as horrific as some other states in CARICOM, but St. Kitts-Nevis's capacity to repay its debt has to be of central concern as that debt generates an intergenerational burden.

This capacity to repay is highlighted in Graph Seven where revenue to GDP, expenditure to GDP and loans and advances to GDP are compared. The revenue effort (R*) and the expenditure performance (E*) are almost in tandem. Reference was made earlier to the situation where the expenditure performance is outstripping the revenue effort. The loans and advances to GDP feature shows its far higher level in the financial scheme of the state. Borrowing is not a problem if the state is able to repay. St. Kitts-Nevis can continue to perform on the basis of external funds. But, as was noted earlier, external funds are best categorized as "transitory income" in the public finance space.

In Table Three the key column is the purchasing power loss (PPLOSS). Purchasing power loss is a measure which relates the revenue index to the expenditure and makes adjustment relative to a base. Column five shows that in 1980 when the PPLOSS was zero, the revenue index and expenditure were set equal to 100. Since then the state has been in the loss as far as its capacity to sustain itself on its own-account resources. Objectively, what the column is showing is that, on average, there state has been falling behind at the rate of about $7 million a year. That is, in terms of own-revenue generated versus expenditures on those revenues, the state has been demanding about $7 more per annum than it is producing of its own accord. In the context of St. Kitts-Nevis, this is an amount that should not be easily dismissed.

Graph Eight illustrates the state's revenue index, expenditure index and purchasing power index. This graph is another way of showing that the expenditure index is clearly outstripping the revenue index. This, too, must be a cause for concern. Couple this with the declining purchasing power index, and the issue of internal resources to offset demand on the state becomes an even greater issue of concern for long-term planning.

Finally, in Table Four data are presented on two definitions of the velocity of money as contrasted with total loans and advances to government and statutory bodies. "Velocity One" which is GDP divided by Demand Deposits is that velocity notion associated with the quantity theory of money. The data show that total spending on goods and services has ranged from 7.5 times to 2.5 times the stock of money. The trend is decidedly downwards. Between 1980 and 1987 each dollar of money turned over, that is was spent, between 8 an 5 times. Since 1987 the velocity has ranged from 4 to about 2.5 times.

Velocity Two which is here defined as GDP divided by demand deposits, time deposits and saving deposits, has been "constant" at around .8 over the period. This constancy seems to be in line with traditional debates about the "constancy" of V2.

The variability in GDP has some connection with the variability of the stock of money. What determines V1 can be discussed in terms of the cash-balance form of the equation of exchange. Cambridge K which is the inverse of V gives some insights about what determines V. In 1982, for instance, with V1 equal to 7.5, K was equal to .1333. In other words, the money stock in that year was equal to 13.33 percent of the EC$103.5 million GDP.

The cash-balance approach of the equation of exchange is a shift from the turn-over of money to the amount of money held in cash balances. What determines velocity, therefore, is similar to asking what determines the proportion of K of expenditures on GDP that the public wants to hold in cash balances. In the case of St. Kitts-Nevis, a rather peculiar phenomenon is taking place. In 1982 K was 13.33 percent. In 1992 the estimated K is 40 percent. It is clear, from the literature, that interest rates, on alternative assets, represent the costs of holding money. It would seem that declining interest rates in St. Kitts-Nevis or some other perceived obstruction to cash-balances are now inducing the public to hold more transaction balances relative to GDP. The lower V, the higher K. Velocity varies directly with interest rates. K varies inversely with interest rates.

It is to be noted, in addition, that changes in income expectations can lead to changes in the demand for money. To this must be added the wealth in the community. Wealth in the community can affect V and K. There is some skepticism about the links between K and wealth in the community. Detailed statistical analysis will have to be performed before one can use this short time series to indicate the K would vary directly with wealth and that V would vary inversely with wealth in St. Kitts-Nevis.

Finally, the fall in V and the rise in K may be a reflection of the situation in St. Kitts-Nevis where there are no new liquid substitutes for money. Since there are no new liquid assets there is an increase in the demand for cash balances, that is a rise in K and a fall in V. Presumably as monetary innovations such as credit card, instant credit, and other money-market related instruments become more pervasive in the state, K will decline and V will rise .

A variety of factors can affect a declining V and a rising K. Among these could be interest rates as Bourne, Ramsarran, Joefield-Napier and others, have shown over the years. Inflation expectations, income and unemployment uncertainties can also affect V an K. The point is to note what factors which influence K and V. If it is not known what factors clearly make make K fall (rise) and V rise (fall), and hence impact on the relationship between money and GDP, then it would be difficult to assess how changes in money will impact on GDP or how GDP will impact on money. In sum, the falling V (rising K) in St. Kitts-Nevis should be cause for concern from a long-run planning perspective.

VII LESSONS DERIVED:

What lessons can be derived from the economic management of the state of St. Kitts-Nevis over the period 1980-1992? In the analysis of statements and data relative to the period it is possible to note that St. Kitts-Nevis achieved some levels of nominal growth. The government needs to stimulate more productivity, however, such that the revenue effort does not lag the expenditure performance. This suggests that there must be a concerted effort to try and enhance the rate of economic growth in both nominal and real terms. The diversification program that is talked about needs to be firmly institutionalized such that the state can minimized the deadly impact of the ever downward spiralling negative balance of trade. As more goods and services are produced and the domestic market is satisfied, the export component of BOT will be enhanced. The state's heavy reliance on borrowing has to be reined in ~~such that~~ the capacity of the state to repay is not so dependent on "transitory income." Greater effort should be made to generate more local revenue.

The dramatic downsizing of the sugar industry from a high of high of 40,800 tonnes in 1977 to about 20,000 in 1992, hurricane Hugo, notwitstanding, seems to have been a case of throwing out the baby with the bath water. Sugar was a dominant component of GDP. Its rapid demise without adequate replacement in the revenue portfolio, is a lesson that should not be lost in the wider Caribbean.

OECS to the "micro-level" of St. Kitts-Nevis. Finally, an institutional framework must be in place such that the state can deal with obvious economic issues which could have long-term budgetary, financial or debt-inducing problems. Massive increases in salaries, as worthy as salary increases may be, the abolition of income tax, as politically expedient as that may be, and obvious downsizing of a major revenue generator (sugar, in this case) as politically correct as that may be, are actions that have limited St. Kitts-Nevis in terms of its achieving the level of dexterity and flexibility it could have in responding to external perturbations in the economic and political arena. Small states cannot afford to minimize the degrees of freedom to attain sustained economic growth. While St. Kitts-Nevis has achieved some levels of economic growth over the period 1980-1992, it appears that the level of growth was more due to economic **muddling through rather than through economics of managing.**

The economics of managing, to which we subscribe is defined in the word of Roy Radner who states:

> By the **economics of managing** I shall mean the consideration of the resources that go into the activity of managing, and the ways in which different organizations of managing do a better or worse job of economizing the resources and producing good results. (Radner, 1992:1389)

If decision-makers in small states forget the boundaries of rationality as they plan or not plan they may be get benefits by muddling through. But, if they fully accept the reality of the circumstances in which the states operate, the art of muddling through can be replaced with the science of effective planning. In sum, what is true at the general level need not be true at the specific level. What is globally correct at the macro-level may need some degrees of clarification at the individual level. What has been true in a positive sense at the OECS level over the period 1980-1992, is not all true in all respects at the individual state level of St. Kitts-Nevis.

TABLE A1

MACRO ECONOMIC INDICATORS FOR ST. KITTS-NEVIS ($M)

YEAR	GDP	REV	EXP	X	M	M1
1980	103.5	43.4	37.8	65.1	121.1	na
1981	121.4	46.8	49.2	60.5	128.8	na
1982	138.7	51.0	62.6	50.9	118.2	18.4
1983	136.5	47.8	56.6	49.7	138.7	20.5
1984	159.3	50.5	55.6	54.4	140.1	26.7
1985	171.8	49.1	56.6	55.0	138.6	23.7
1986	214.2	59.2	58.3	67.9	174.3	40.8
1987	239.8	72.9	69.5	75.6	215.7	45.6
1988	250.4	80.5	83.0	81.7	255.7	60.7
1989	260.7	85.3	86.5	65.2	259.4	81.3
1990	272.5	98.9	93.2	71.3	275.3	92.7
1991	282.8	95.8	94.7	84.2	306.8	104.7
1992	291.3	102.1	104.6	86.7	325.2	116.8

Source: GDP at Factor Cost: National Account Estimates, OECS Secretariat, ECLAC Estimates and ECCB Estimates. Exports, Digest of Trade Statistics, various years. Economic Affairs Secretariat, OECS. Imports, Statistical Digest, OECS and also ECLAC. ECLAC data from "Selected Statistical Indicators of Caribbean Countries," LC/CAR/G.345, vol. iv, 1991, UN ECLAC, CDCC. Monetary Data from ECCB Reports and Statements of Acounts, various years. Monetary data also from Quarterly Commercial Banking Statistics, various years.

GDP = Gross Domestic Product; Rev. = Current Revenue; Exp = Current Expenditure = Exports; M = Imports and M1 is money one, demand deposits.

TABLE A3

LOANS AND ADVANCES TO GOVERNMENT AND STATUTORY BODIES FROM COMMERCIAL BANKS (EC$M)

YEAR	SKN	ANT	DOM	GRE	STL	STV	MON
1981	$35.1	22.6	19.1	9.1	15.5	9.2	3.9
1982	42.4	26.6	17.1	13.3	15.9	18.3	3.9
1983	57.0	28.8	14.4	15.0	19.3	14.0	3.1
1984	66.2	33.7	18.7	9.8	22.7	13.6	4.4
1985	86.9	33.3	24.1	12.7	34.9	12.0	3.9
1986	90.7	49.3	24.3	20.9	36.6	29.1	2.6
1987	33.5	54.1	11.3	15.1	41.3	28.3	2.4
1988	45.3	62.0	9.0	13.8	35.2	24.6	1.3
1989	48.0	59.6	11.1	14.4	32.7	24.5	.6
1990	54.2	54.0	33.5	13.8	38.1	28.2	.2
1991	65.4	54.1	40.9	16.6	36.9	21.8	.5
1992	70.7	48.7	37.3	17.9	40.3	21.6	.9

Source: Quarterly Commercial Banking Statistics, ECCB, various years.

TABLE A4
LOANS AND ADVANCES

(EC$M)

YEAR	SKN	ANT	DOM	GRE	STL	STV	MON
1981	97.8	166.1	77.8	88.4	196.0	91.0	27.5
1982	124.1	196.3	83.7	96.3	206.6	128.3	31.0
1983	147.4	212.7	96.3	97.6	230.2	141.8	30.8
1984	166.1	248.3	109.5	100.8	264.0	156.6	32.6
1985	83.4	300.4	118.6	131.2	288.2	160.8	32.7
1986	198.6	351.6	115.7	175.5	320.4	165.7	34.2
1987	160.6	477.6	109.8	214.2	356.8	183.2	35.5
1988	226.4	495.7	143.5	246.9	445.1	213.6	40.9
1989	295.8	565.2	190.1	310.0	567.8	245.0	52.4
1990	325.5	602.3	250.7	369.8	643.3	271.1	88.5
1991	351.6	626.2	276.0	318.2	658.6	291.6	97.5
1992	370.4	649.3	291.4	328.5	685.4	307.7	104

Source: Quarterly Commercial Banking Statistics, ECCB, various years.

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