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INFLATION IN FOUR INDEPENDENT COUNTRIES OF THE COMMONWEALTH CARIBBEAN

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Introduction

The purpose of this introductory paper is to pave the way for more indepth analyses of the causes of inflation and of prescription for its cure. I shall therefore limit myself to the definition of inflation and the documentation of the pace of inflation in the four independent Commonwealth Caribbean countries of Barbados, Guyana, Jamaica and Trinidad and Tobago.

The Nature and Characteristics of Inflation

Inflation may be defined as a self-sustaining upward movement of prices caused by an excess of aggregate demand over the capacity to supply. It is therefore a dynamic process which is observed over a rather lengthy period of time and is not to be confused with the high cost of living which is a rather static motion. The important aspect of inflation is that prices rise persistently whether or not they start from a low base or a high one.

I have ignored the notion of a "general level of prices" as unuseful in the analytical sense, because prices never rise uniformly in the real world. Certain price rises spread throughout the economy and increase aggregate demand which in turn causes further price rises. This is true of both a relatively self-sufficient economy and the interdependent international economic system of which the Caribbean is an integral part.

No attempt will be made in this paper to distinguish once-and-for-all price rises of certain key commodities from the inflationary process;

not only because it is difficult but more importantly because it is unnecessary. Recent world events have demonstrated how once-and-for-all price rises of key commodities such as grains and oil act as initial boosters to the inflationary spiral.

Inflation is a phenomenon that occurs in economic systems where the price mechanism operates as the allocator of scarce resources. When goods and services are scarce their prices rise in order to reflect their relative scarcities provided that there is no interference in the automatic adjustment process. The rise in the price of wheat in 1972 reflected a short-fall in output relative to current world demand. The recent quadrupling of oil prices reflected not only the Jewish-Arab conflict, but more important, the long-run scarcity of petroleum reserves which was obscured by the "short-sightedness" of multi-national petroleum corporations and the unequal apportionment of bargaining power between highly industrialised countries and primary producing countries.

On the demand side of the equation three main factors affect the level of demand. First of all an increase in the level of money income increases the demand for all countries. Secondly, a redistribution of money income from the rich to the poor increases the demand for certain commodities that were hitherto out of the reach of the poor. Thirdly, contact with foreign societies brings with it a change in consumer tastes and so an increase in demand for new goods and services. In other words, economic and social "progress" on the national and international level brings with it rising prices if the rate of output remains unchanged or slows down.

Inflation, if it is at all a problem, is a political one and less an economic one, since rising prices reflect the efforts of the economic system in reconciling a rising demand for goods and services with a declining or stagnant supply. Economic relationships between domestic groups and international groupings offer a more meaningful explanation of the current inflation problem.

In the brief survey of the countries which follows, the events which cause the recent inflation are of two main categories; those of a global nature and domestic economic policies. The first looms large because the Commonwealth Caribbean countries are dependent on the developed industrial countries for food staples and manufactures. The second is the welding onto a capitalist system socialist notions of redistribution of income and state ownership.

Inflationary Trends, 1960-1970

In the first half of the 1960's the Commonwealth Caribbean countries experienced a comparatively mild form of inflation. The rate of price increases hardly exceeded 2.5% per annum for those countries for which data is available (see Table I). The annual average rate of price increases were 2.4%, 2.0%, 2.8% and 2.0% for Barbados, Guyana, Jamaica and Trinidad and Tobago.

The rate of inflation, although not yet galloping, began to increase in the Commonwealth Caribbean during the latter half of the 1960's. This was mainly the result of events occurring in the world at large, although they were aggravated by local policies and events. The rates of price increases in the period 1965 to 1970 were on average 5.5%, 2.6%, 5.3% and 3.9% for Barbados, Guyana, Jamaica and Trinidad and Tobago respectively.

Barbados' above average rate of inflation during the latter half of the 1960's was a result of the 1967 devaluation of the pound sterling, to which the E.C. dollar was tied. This had the effect of raising the price index by 7.5% in 1968 and a further 5.5% in 1969.

In 1970 the Retail Price Index registered an upward movement of 7.8%. Food prices which make up 59% of the consumer's weekly expenditure rose by 8% and medical and personal care; transportation and education and recreation, which together constitute 17% of consumer outlay, rose by 26%, 18% and 14% respectively. The world export prices of food and manufactures had risen by 6.7% and 6.4% respectively and could explain to a large extent the upward movement in the prices of the above indicator items. (Please see Table II - World Export Prices, 1963 and 1968-1973).

To a large extent these two factors, (simultaneous devaluation with the pound sterling and imported inflation) also explain the high rate in Jamaica and Trinidad and Tobago. In Jamaica the more significant rise in the Index may be attributed to the fact that the controlled prices of some commodities were increased, while others were decontrolled entirely.

One other important item, that of transport cost, is omitted from Table II, but during the period the freight rates between the Commonwealth Caribbean and her main trading partners rose considerably.

Guyana and Trinidad (except for 1968) exhibited lower rates of price increases and this could be a reflection of greater self-sufficiency in food items in the former and larger subsidies in the latter country.

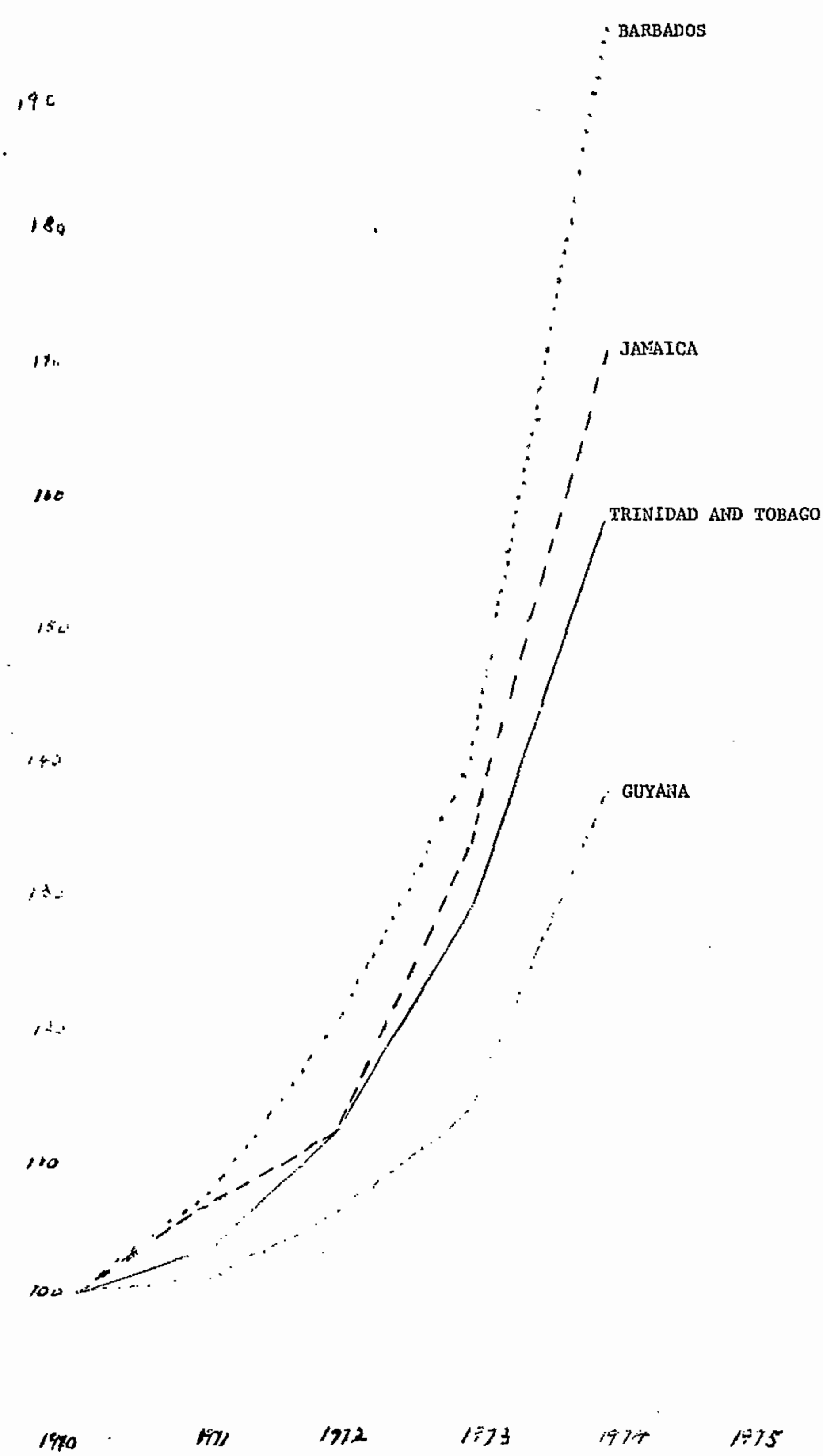
The Inflation Record Since 1970

The last four years have been characterised by the highest rate of inflation to be experienced in the four independent Commonwealth Caribbean countries since World War II. The average annual rates of inflation for the period were 18.8% in Barbados, 8.2% in Guyana, 15% in Jamaica and 12.4% in Trinidad and Tobago. Differences in economic structure, domestic economic policies and the various weights attached to sectional items explain the variations in the rates of growth. The overall galloping rate of inflation may however be explained by certain world-wide economic events and developments.

The main international events which influenced the pace of domestic price rises were the shortage of grain due to the failure of the Russian crop during 1971. This caused subsequent hikes in the world price of wheat and wheaten products. The effects of floods on the rice crop in Guyana during 1971 contributed in no small measure to the cost of this commodity to the Caribbean consumer during 1972 and 1973. The oil embargo in the third quarter of 1973 and the subsequent quadrupling of the cost of petroleum products took its toll on fuels, household operations and transport. The reduced catch of the Peruvian anchovies also affected the production of fertilizer and so world agricultural output.

A development very much ignored in standard studies of inflation has been the phenomenal growth in international liquidity and its effects on world aggregate demand for goods and services. From December 1970 to December 1974 the level of world reserves of gold and foreign exchange increased by

INFLATIONARY TRENDS IN FOUR INDEPENDENT COUNTRIES OF THE COMMONWEALTH CARIBBEAN, 1970 - 1974.



136%. This far exceeds the rate of growth of internationally traded goods and services.

The major contributor to inflation in the four countries under review was the sub-group food and drink. The weights of food and drink in the Retail Price Indices are 58.7%, 42.5%, 47.5% and 56.7% for Barbados, Guyana, Jamaica and Trinidad and Tobago respectively.

Table II shows the percentage change in the Retail Price Indices of food for the four countries during the period. In almost all cases the rate of price increases accelerated, culminating in 1974 in rates of 44.4%, 26.4%, 33.8% and 30.0% for Barbados, Guyana, Jamaica and Trinidad and Tobago.

An exception to this trend was an increase of only 3.2% in 1972 for Jamaica. This was brought about by a temporary reduction in the price of foodstuffs from the U.S.A., which had devalued its currency in the previous December. The U.S.A. is Jamaica's main source of imported foodstuffs.

The cause of food price increases is traceable directly to the world market conditions. Table III demonstrates the fact that the world export price for food almost doubled between 1968 and 1973 and that most of this increase took place since 1971.

Given the extreme dependence of the Commonwealth Caribbean on imported foodstuffs the fundamental cause of the inflation problem is the inability to get agriculture moving. Indeed Guyana, the country with the best potential for agricultural development, has registered the lowest rate of overall inflation. Barbados, on the other hand, with domestic food production contributing less than 5% to the GDP, has the highest rate of inflation for the period. It has been estimated that 75% of the food consumed in the tourist sector is imported. There is little evidence to suggest that the local population differs from this pattern of consumption.

The second most important sub-group on which the Caribbean consumer spends his income is housing. (See Table IV). This sub-index registered phenomenal growth in 1973 and 1974 in most countries except Guyana and was therefore a major contributor to the overall rise in the rate of inflation. In Barbados the growth rates for 1973 and 1974 were 19.2% and 32.1% respectively. For Jamaica the rates were 14.2% and 16.2% and for Trinidad and Tobago 14.5% and 25.2%. The major causes of these price increases were the shortage of portland cement and structural steel on the world market and the increased wages of artisans. Guyana's lower rate of price increase was due to the use of different building materials - local wood.

Household operations and furnishings including fuel and light was also one of the growth points of inflation in the Caribbean. It constitutes an average 8.6% of consumer expenditure in the Caribbean. Again although experiencing rates of growth of over 5% up to 1972, in the last two years under review, the rate accelerated to 56.2% in Barbados, 26.0% in Jamaica, and 14.0% in Trinidad and Tobago. (Separate data for Guyana is not available.) The source of these price increases is to be found in the higher price of petroleum products, the increased costs of imported manufactured goods and increased taxes on non-food items. The other sub-items although together they contributed to the high rates of increase in the Retail Price Indices, individually registered little significant change in the overall Price Index. In most cases their increases may be attributed to sympathetic increases in costs of production due to wage settlements and fuel.

High aggregate demand and speculative buying of commodities on the world market aggravated by shortages of agricultural and petroleum products in 1972 and 1973, led to internal economic adjustments in the four countries under review. Greater demands for increased wages were made in the public and private sectors of these economies leading to rises in indirect taxes and higher markups for final consumer goods and services, respectively.

Indirect taxes took the form of increased hospital charges, higher registration fees for professionals and increased duties, consumption taxes and package tax on items ranging from cosmetic items to motor vehicles. In Barbados, for example, indirect taxes were raised by 20.5% and 66.7% in the 1972 and 1973 budgetary measures; apparently to implement the Common External Tariff arrangement of CARICOM, but in fact, to pay for the increased costs of government operations. The taxes fell more heavily on household appliances and motor vehicles. Four hundred and forty items were affected; sixty-four items in 1972 and three hundred and seventy-six items in 1973. Furthermore, in December of 1974 as new corporation tax and sales tax on non-food items were imposed.

These Draconian measures were imposed because of a higher wage bill agreement concluded in 1971, higher costs of materials and the reluctance of government to borrow from abroad to finance its capital works programme. A side effect of the latter was competition with the private sector for scarce loanable funds which aggravated the inflationary situation by raising the costs of investment.

Naturally a three corner struggle for the available goods and services in the four countries ensued. Income earners, the public sector and the business sector waged and internecine war, with higher wages following increased prices and indirect taxes. Tables VIIA and VIIB presents the rate of growth of wage increases in 1972 and 1973 for Jamaica and Trinidad. Although data is sketchy for the other two countries, there are indications that income earners strove to maintain their standard of living, but each time adding to production costs, prices and taxes.

With the exception of Jamaica (post February, 1973) the exchange rate of domestic currencies were pegged to the pound sterling, which was depreciating during the period under review. Between December 1971 and April 1975 the pound sterling had a _de facto_ devaluation of 22% against ten major trading currencies. This factor, although it did help in encouraging the export of manufactures, contributed to the high costs of imported food, raw materials and capital equipment from Non-sterling Area countries. Thus leading to reduced domestic output and higher consumer prices.

Conclusion

The inflation syndrome in the Commonwealth Caribbean had its beginning in the middle 1960's, but accelerated during the first half of the 1970's. The events which triggered off the inflationary spirals were global in nature. There were two significant events; unfavourable weather conditions in Russia, Guyana and the Indian Sub-Continent and the Arab oil embargo and the subsequent quadrupling of the price of crude oil.

These international phenomena were aggravated by domestic economic policies. Excessive tariff barriers which added to price rises without concommitant increases in domestic output and employment, and monetary policies which pegged the currencies of three countries to a depreciating reserve currency. Faulty financial programming on the part of at least one government which competed with the private sector for scarce loanable funds instead of financing its capital projects out of external funds.

Indications are that the present world climatological conditions will persist to at least 1985. This suggest a continuance of the world's shortage of grain, although the famine in Bangladesh and India has been reduced. The international beef market is at present over-supplied by grass-fed cattle - at least in the U.S.A. - and there has been a recent fall in the price of this commodity. The price of sugar, due to over-stocking, is also much reduced from its peak at the beginning of 1975. The Peruvian anchovies are back and the fish meal prices at the end of April 1975 has reverted to a price of $362 per ton, about half of what it was in 1973. Synthetic nitrogenous fertilizers are still in very short supply and is likely to be short so long as the price of petroleum products remain high. In any case, recent studies indicate that fertilizer application is reaping diminishing returns. The most therefore that one can expect is a stabilization of the food prices.

With regard to manufactured goods, raw materials and petroleum, there is little indication that the price of these will fall in the near future, given the state of technology and the present scarcity of resources. Given the present rate of growth of the world's population and the spread of capitalist development across the globe, greater demands will be made on non-renewable resources leading to a long-run upward movement in prices. As long as the Commonwealth Caribbean remains part of the international economy, it will be affected by price movements in internationally traded goods.

TABLE I: Average Annual Percent Increases In Retail Prices

Year	Barbados	Guyana	Jamaica	Trinidad and Tobago
1960-1965	1.8	1.9	2.8	2.1
1965-1970	5.5	2.6	5.3	3.8
1966	2.4	2.0	2.3	3.9
1967	3.6	2.9	3.7	1.9
1968	7.5	3.0	6.0	8.3
1969	5.3	1.4	5.6	2.4
1970	7.8	3.4*	10.1	2.6
1971	7.5	2.0	6.9	3.5
1972*	11.9	4.6	5.9	9.3
1973	16.9	8.8	19.9	14.8
1974	38.9	17.5	27.2	22.0

* New indices.

Sources: Based on Data provided by Government Statistical Offices and Central Banks.

TABLE II: % Change In Food Price Index, 1971-1974

	1971	1972	1973	1974
Barbados	8.2	16.7	17.8	44.4
Guyana	1.2	8.8	12.0	26.4
Jamaica	7.9	3.2	25.8	33.8
Trinidad	4.6	11.5	19.0	30.0

Source: Based on data provided by Government Statistical Offices and Central Banks.

TABLE III: World Export Price Indices, 1963 and 1968-1973

	Food	Raw Materials	Minerals	Petroleum	Manu-factures
1963	100	100	100	100	100
1968	100	96	102	100	107
1969	104	101	104	100	110
1970	111	101	111	100	117
1971	117	105	127	118	124
1972	132	120	141	135	134
1973	194	184	181	182	156

Source: International Financial Statistics.

TABLE IV: Weights of Items in Average "Consumer Basket"

	Barbados	Guyana	Jamaica	Trinidad & Tobago
	%	%	%	%
Food and Beverages	58.7	42.5	47.5	56.7
Housing	9.1	21.5	12.4	7.7
Household Furnishings, etc.	8.9	8.2	7.7	9.6
Clothing and Accessories	6.9	9.6	8.8	9.9
Medical and Personal Care	5.3	7.2	9.8	2.0
Transportation	5.5	4.2	3.2)	14.2
Education, Recreation, etc.	5.6	7.0	10.7)	

Source: Statistical data supplied by Government Statistical Offices.

TABLE V : Indices of Export Prices of Main Trading Partners

Year	U.S.A.	Canada	U.K.
1966	88.6	88.0	95.9
1967	90.3	89.8	96.3
1968	91.6	92.0	90.1
1969	94.6	94.2	93.0
1970	100.0	100.0	100.0
1971	103.3	103.3	106.2
1972	106.6	106.3	114.8
1973	123.9	123.4	127.2
1974	158.6	170.7	156.6

Source: International Financial Statistics

TABLE VI: Whole-sale Prices of World Traded Commodities
(Expressed in US$)

Year	Beef per 100 lbs. U.S.A.	Butter per 100 lbs. N.Z.	Corn per bushell U.S.A.	Wheat per bushell U.S.A.	Petroleum per barrel Venezuela	Lamb per 100 lbs. N.Z.
1967	35.70	32.14	1.30	1.67	2.80	34.70
1968	36.04	32.14	1.14	1.47	2.80	29.07
1969	38.93	32.14	1.24	1.39	2.80	33.53
1970	41.32	33.48	1.37	1.48	2.80	32.99
1971	42.51	47.13	1.40	1.58	2.80	35.08
1972	49.76	54.28	1.31	1.84	3.21	48.12
1973	63.67	44.28	2.30	3.58	4.40	63.62
1974	53.19	43.09	3.22	4.68	11.22	-

Source: International Financial Statistics

TABLE VIIA: Average Wage Increases in Major Sectors in Jamaica

Sectors	1970	1971	1972	1973
Manufacturing	16.4	16.4	17.6	26.1
Mining	-	21.8	-	50.0
Building Construction	-	20.0	-	25.0
Transport, Storage and Communication	15.7	11.7	17.9	21.5
Electricity, Gas & Water	-	15.0	-	25.0
Commerce	17.8	14.9	15.9	20.8

Source: Bank of Jamaica Reports.

TABLE V IIB: Changes in Minimum Wage Rates for Manual Workers in Trinidad And Tobago

Industry	1972	1973
Food and Drink	7.5	6.4
Wearing Apparel	15.9	8.1
Other Manufacturing	7.0	14.1
Building and Construction	5.0	0.5
Services	2.0	6.0
Transport, Storage and Communication	21.7	10.3
Public Services	0.3	37.0
Mining and Refining Oil	19.3	4.6
Sugar	14.9	3.4
All Industries	10.7	12.0

Source: Annual Report of Central Bank of Trinidad and Tobago, 1972 and 1973.