XXX Annual Monetary Studies Conference

The Central Bank of The Bahamas

In conjunction with

Caribbean Centre for Monetary Studies

Stabilization and Financial Adjustment in the Caribbean: A Thirty-Year Perspective

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Paradise Island, THE BAHAMAS

October 26 – 30, 1998

THE XXX ANNUAL CONFERENCE OF MONETARY STUDIES

Caribbean Centre for Monetary Studies

Co-host:

Central Bank of Bahamas

STABILIZATION AND FINANCIAL ADJUSTMENT IN THE CARIBBEAN: A RETROSPECTIVE

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Nassau, Bahamas, October 26th -30th, 1998

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Abstract:

Stabilization and Financial Adjustment in the Caribbean presuppose that the region was an active participant in the policy options derivable from stabilization and the resultant impact of the financial adjustment. We contend, in this retrospective, that the region was, in many respects, a reactive participant as opposed to an active participant.

The thrust of the paper is not a mere historical overview of stabilization and financial adjustment. This paper will discuss and evaluate the twin issues of stabilization and financial adjustment in a set-theoretic framework. The framework will: (a) permit us to review the developments over the last thirty-years; (b) evaluate those developments in terms of their practical impact on the region, and (c) assess the relevance of the developments on the core of theoretical issues, as the issues pertain to stabilization and financial adjustments. A final aspect of the paper will be a focus on the critical moments of policy adjustments in the Caribbean, given the present era of internationalization, liberalization and globalization.

STABILIZATION AND FINANCIAL ADJUSTMENT IN THE CARIBBEAN: A RETROSPECTIVE

The noun stabilization derives from the Latin *stabilitas*, the word for stability. Of five possible definitions, the one that is particular relevant in the context of this paper is the capacity of an object to return to equilibrium or to its original position after having being displaced. In a theoretical sense, financial adjustment is really a move towards equilibrium. "An equilibrium is *stable* if a disturbance results in a return to equilibrium, and *unstable* if it does not."(James Henderson and Richard Quandt, 1980:160). Of course, this is only one definition of stability, as Paul Samuelson (1948: 260-262) notes.

Stabilization could be static (in the *Hicksian* sense, a la J. R. Hicks), dynamic with lagged adjustment, and dynamic with continuous adjustments. It is imperative that we consider dynamic stability in that we have to view movements of price over time. "Equilibrium is stable in the dynamic sense if price converges to (or approaches) the equilibrium price over time; it is unstable if the price change is away from equilibrium." (Henderson and Quandt, 1980: 162). Dynamic adjustment is important because it takes into account the strength of the reactions to disturbances. In the case of dynamic stability with continuous adjustment, price approaches equilibrium price as time approaches infinity; that is, $p \rightarrow p_e$ as time $\rightarrow\infty$. Equilibrium is "*locally stable* if the system returns to it, given a small deviation from equilibrium. It is *globally stable* if the system returns to it for any initial deviation from equilibrium." (Henderson and Quandt, 1980:165). Hence, in the economic context, stabilize would mean to keep from fluctuating or radically changing, as in the case of prices.

Adjustment, meanwhile, refers to, among other things, a mechanism of change so as to fit conformity. It is a resolution to bring back conditions or features in line with established protocols, to correct a plan than went awry, or to set a situation that approximates the ***status quo, ante***.

In this paper, therefore, stabilization and financial adjustment will center on the capacity of countries in the Caribbean, narrowly defined as the English-speaking Caribbean, to make the necessary changes and operational thrusts in their economies. The

changes and operational thrusts were such that the decision-makers were attempting to bring back the economies to some level of stable equilibrium, when the economies fell out of equilibrium. When the razor's edge of growth became a hindrance to predicable planning, the countries attempted to stabilize to dampen or minimize the erratic macroeconomic perturbations. We will comment on the attempts of some of the countries use of specific financial instruments to get back to some levels of stability. We will also comment on those aberrations that may have been causal in the drift away from stability, in spite of the variety of financial experiments that were tried.

We will focus on *global stability*. Local stability does not guarantee global stability. Global stability, in our view, is more relevant in the Caribbean's issue of stabilization and financial adjustment. "***A system is globally stable if it will return to equilibrium following a disturbance of any magnitude.***" (Henderson and Quandt, 1980: 273 .Our emphasis). The emphasis on global stability also includes the endemic features that relate to stability at the state-level and at the regional level in the Caribbean context. This is important to bear in mind since much of the instability of one country had contagion-like effects on the other countries, in a real and perceived sense.

Pragmatically, our retrospective will not be a historical chanting of the mantras of stabilization and financial adjustments. We will make selected references to some developments where they buttress our points of the efficacy of stabilization and financial adjustments. In offering a retrospective on stabilization and financial adjustment in the Caribbean, we have to be cognizant of the fact that much of what was done from a policy perspective was reaction, not pro-action. This salient point has to be remembered in light of the genesis of the economic relations in the Caribbean, from a one-to-one correspondence of countries and states, from a region with multiple-links to Europe and, latterly, from the region to the International Financial Institutions (IFIs).

Thirty years ago, when financial institutions in the Caribbean were appendages of metropolitan institutions, financial stability as it pertained to stabilization had a different connotation than what obtains today. At that time the nascent issue of stabilization was couched in the context of balance, namely balanced economic growth. The financial imperatives were not fully delineated but the structural rigidities were clearly part of the economic genre of the times. It was a time when "balanced growth" meant, in the words

of Morris Singer (1967:156), a suggestion of "an equality of supply and demand over time, and it (was) employed to indicate diversification." At that time most theorists were concerned with the imbalance, hence instability, between the "warranted and natural rates of growth" in the schema of the vaunted Harrod-Domar (H-D) models. Even though Harrod and Domar are linked in their theoretical views, some economists argued that the "Harrod problem of an imbalance between the warranted and natural rates of growth is, in all probability, a more serious problem for poorer countries than Domar's warnings about unmatched advances in demand and capacity."(Singer, 1967:156).

For the Caribbean, the diversification component of the H-D model as it is anchored in a balance stability perspective, suggests that agriculture, industry, and services had to be in focus. The efforts devoted to ensure balances in all three sectors were clearly not always geared to stability. Agriculture, by its very nature, was not a stable sector. The region depended on environmental factors and external markets. Competition and protected markets went hand in hand. This was not a scenario for balance or stability. In addition, the financial exigency associated with the diversification of the economies was of varying magnitudes. "Balanced growth... suggests an interdependence within which mutually interacting variables contribute smoothly to the advance of the economy as a whole." (Singer, 1956:16)

If we are permitted to construe balance in the 1960's context to mean what was later imputed as stability, then we will argue that the *Holy Grail* of balanced economic growth had to accommodate some unbalanced economic growth, hence some instability. Indeed, Sir W. Arthur Lewis's well-known approach to economic growth could be said to be imbued with short-run levels of unbalanced growth. Hence there is some recognition of instability in the Lewis model. In the Lewis scenario (Lewis, 1954: 139-191), per capita income differentials are permitted to rise relatively and absolutely, whereas the value of the average product in the rural sector is permitted to remain stable.

The core arguments of the 1960s were on balanced growth, structural transformation and stabilization. Economists and policy-makers were seized with these ideas. Much of the theorizing in the Caribbean, at this time, was a "seat-of-the pants" theorizing. In the metropolitan countries some models were in nascent stages of development. The models were designed to give us a firmer grip on understanding the

dynamics of Caribbean economies. Early pioneers in econometric models included Jan Tinbergen (1939) and Laurence Klein (1955), to name two. In the Caribbean, M. Dutta and V. Su (1969) wrote a Puerto Rico; Huntley Manhertz (1971) outlined a macroeconomic model of Jamaica. There were other types of models that sought to capture the essence and relevance of Caribbean economies. Lloyd Best (1968) focussed on "Outlines of A Model of Pure Plantation Economy". P. L. Hein (1968) discussed "A Model of an Export-Propelled Economy". Dudley Seers (1964) and C. J. Bruce (1972) analyzed petroleum-type economy models. C. Y. Thomas (1968) commented on the plantation model; Steve DeCastro (1968) evaluated the export-propelled model. Havelock Brewster (1965) presented some very pertinent criticism of the Seers open petroleum model. In the presentation of the models and the comments on the models, it was clear that there was serious thinking relative to the importance of the models that sought to capture, and relative to what the models sought to orchestrate.

It was widely assumed that "The general framework of econometric models, when properly specified and estimated, may be particularly helpful for planning, forecasting and stabilization purposes". (Manhertz, 1971:198). The Manhertz movement did not take off with the kind of vim and vigor that was anticipated. There were some theorists, Compton Bourne (1974) on money, Wallace Joefield-Napier (1978) on trade and Al Francis (1969) on growth in enclavism who were working on some sub-sectoral models. While they provided good information, there was still no comprehensive overview of how the region could tackle the problem of instability. Much was written about impediments arising from the structural rigidities in the system. George Beckford, to his everlasting credit, continuously stressed the point of the need for models that accommodated structural changes. Nevertheless, it appeared as if the theory was running away from the insufficiency in data, the inadequacy in meaningful theorizing, and the many political caveats of ***Third-worldism*** that were prevalent in the region at that time.

By the 1970s, stabilization policies were concerned with a triple threat. In a ***Beckfordian synthesis***, there were *persistent problems* in output growth, *persistent unemployment* among some sectors of the population, and *persistent balance of payments problems* among some countries. Beckford's (1972) ***magnus opus, Persistent Poverty,*** chronicled many of the problems of the region in a set-theoretic approach from the

center-periphery plantation thesis. There were trade imbalance and balance of payments (BOP) problems. The BOP balances from, an accounting sense, and from what we have long called echo-economics, but the trade imbalances and the BOP problems were exacerbated by "rising tide of expectations" of the Caribbean people and frustrated those leaders who genuinely wanted to plan development.

Many attempts were made to stabilize the economies. Some of these attempts were fraught with adversity in the output and employment space. For one, output of the variety of goods in the Caribbean was, and still is, output that is in the ambit of preferential treatment. The region's large money-earners (sugar, bananas, and bauxite) are at the mercies of the recipient countries. The uncertainty and fickleness of tourism, the fragility in the small and microstate economic systems, and the apparent penchant for mismanagement in domestic fiscal affairs, all coalesced to put the region of the 1970s in a precarious economic situation.

The secular growth in the region, except for Guyana which was in a chronic underdevelopment trap, meant that policies of stability had to be given short shrift, even though those policies were required for sustainability in the economy. Fine-tuning of aggregate demand was the order of the day. The control of inflation was on everybody's list. Concurrently, interest rates, in all of their manifestations, were worked on to hold them within some acceptable bands so as not to affect real economic growth of the economies.

When the region started the move to have an interest-rate policy that was conducive to regional economic growth, international capital flows were somewhat disruptive. Where low interest rates were pervasive, like in Jamaica, the competitiveness of savings institution was negatively impacted vis-a-vis institutions in the international arena. There was a need for policies geared to facilitate low and high rates at the same time. The rates had to be low enough relative to the cost of capital, high enough to attract savings, but not perverse to encourage capital flight. A hodge-podge of reactions was clearly in evidence. Interest rate seemed not to cause the kind of response that accords with economic reality. In the case of Trinidad, and Tobago, there was evidence that the interest rate was problematic in terms of understanding it to institute an appropriate policy. The works of Bourne (1979), Ramkissoon (1982), Watson and Ramkissoon

(1987) and Watson (1990) all indicate that the interest rate variable is a problem for policy making. The evidence is from Trinidad and Tobago, but there are lessons for the wider Caribbean.

It is intriguing to note that the 1970s problems were mainly the **tail end** of international circumstances twinned with the concept of ***industrialization by invitation***. Foreign capital flowed into the region. The regional theorists and policy-makers attempted to deal with these issues. Links were established between the balance of payments and income and the resultant impact of those links on the population. Economists like Nicholas Carter (1970), Don Harris (1970), Manhertz (1970) and Leroy Taylor (1972) sought, through economic modeling, to put a perspective on what policies were appropriate in the real and monetary sectors of the economy. Carter and Harris focussed on the real side; Manhertz, but more so Taylor, focussed on the money side. Owen Jefferson (1972) gave detailed prescriptions of what to do in the Post-War Development of Jamaica. In Jones-Hendrickson (1976), there were similar views of the developments in Jamaica between 1962-1976, with emphasis on the role of the public sector over the 1972-1976 period.

Serious, in-depth, work was being done. Policies were easily derivable from the work. Taylor's (1972: 179) conclusions are instructive. He concluded that:

> In so far as the monetary authorities are willing to vary the money supply independently of autonomous movements in the balance of payments, they can expect to influence in a real way the subsequent behavior of income, imports and the level of reserves, since "v"(income velocity = Y/M) and "m" (marginal propensity to import), are well defined. At the same time (he continued), **the close association between government expenditure and balance-of-payment items should be a warning that monetary and fiscal action should be harmonised if the 'real' effect of a monetary policy is to take place.** (Emphasis added)

Taylor's admonitions were amplified in Jones-Hendrickson (1976) in "The Role of the Public Sector in Promoting the Economic Development of Jamaica." The theme was further expanded in Jones-Hendrickson (1985). Fundamentally, the point was that there is a need to integrate fiscal and monetary policies such that the transformation of the Caribbean economies could be a reality. Fiscal policies and monetary policies, acting integratively, are necessary and sufficient for economic transformation.

In the work of Marshall Hall (1968) there is a pre-Taylor useful policy with models insights into an analysis of the determinants of money wage changes in Jamaica between 1958 and 1964. In other models such as those of Bourne (1974 and 1975) the prescriptions were also centered on the established themes of income, the wage sector, price uncertainty and interest rates. These ideas were crucial in the economies at the time.

Given the nature of the political order at the time, namely the late 1970s, many of the issues of instability were couched in a matrix of structural issues. Hence, when Jones-Hendrickson (1985:36) discussed ***the integrative fiscal and monetary policy***, the setting was as follows.

> *The objectives of fiscal and monetary policy are assumed to be economic transformation. Economic transformation is defined as total change in social, political and economic system of a given country such that the changes are beneficial to all strata in the country at the same time. Fiscal policy is that policy which facilitates structural transformation of an economy, while monetary policy is geared towards increasing the availability of funds and/or reducing the cost of economic ventures through the provision of capital.*

By the time the world economy was buffeted by the first oil shock of 1973, the Caribbean region was going through a series of instabilities. There were political instabilities in the region due to structural and financial changes that governments had to make. There was talk of controlling the commanding heights of the economy as in Jamaica and Guyana.

In Jamaica, this controlling the commanding heights of the economy was best exemplified during the period 1972-1976 in Jamaica's control of the bauxite and alumina segment of the economy. There is no doubt that the political directorates of Jamaica had their own plans in mind. However, it is equally reasonably to state that the works of economists like Norman Girvan and George Beckford played roles in the decisions made by the political directorates. In Girvan (1971, 1972), he outlined the "rules of the game" between the Jamaican public sector and the bauxite/alumina companies.

Effective in January, 1974, the Government of Jamaica *imposed a production levy of 7.5 percent of the realized price of alumina ingot.* Royalty was increased to a new rate of 50 percent per ton. The objective of this initiative of the public sector was summed in

the words of David Core (1974), Minister of Finance and Deputy Prime Minister, (1972-1976):

> ***Jamaica's aim must be nothing less than a substantial share in this resource (bauxite) at every stage of exploitation - from the moment the raw ore is extracted...until the finished aluminum artifact is placed on the market.*** (Se also, Jones-Hendrickson, 1976:71).

This idea of controlling the commanding heights of the economy, allegedly, scared away foreign capital and placed the small economies on a capital flight watch. This was a bitter blow. Girvan (1972), among others, had cogently established the view that development in Jamaica seriously depended on foreign capital. Girvan, however, sought to demonstrate that the foreign capital underdeveloped Jamaica, as opposed to develop Jamaica. In a stability scenario, the bauxite revenues must have led to some of the inherent instability in Jamaica. A variety of tax reforms and proposals were set in place but the oil import bill quadruped in many instances. With the exception of Trinidad and Tobago, all of the other countries had serious financial problems. The issue of stabilization was thought of, but it was hard to attain.

In the microstates of the OECS (Organization of East Caribbean States), while size was not a constraint to the survival of that sub-region, size was definitely a constraint to the countries' viability. Vulnerability was the order of the day in the region. The region's terms of trade were persistently worsening their growth trajectories. The BOPs continued to get worse. Capital inflows dwindled, except for some concessionary funds. Unemployment was savaging many persons in the region. Many persons were being marginalized. To compound the issue, the World Bank and specifically the International Development Agency, the soft-window arm of the World Bank, was strongly encouraging the region to graduate from soft loans and concessionary loans to market-derived loans at market established interest rates. Jones-Hendrickson (1985a) gives a detailed analysis of this rather intriguing set of external conditions and their imposition on the region. Objectively, the idea behind the graduation was to institute some levels of stability. Pragmatically what it did was to create unease and instability among the political directorates and the people in the region of the OECS.

The latter half of the 1970s was a very traumatic period for the Caribbean. The larger countries such as Jamaica and Guyana were creating a pall of gloom for the rest of the region. It was not easy for other countries to ***delink*** from this chronic atmosphere of gloom and doom. Fortunately, ***there was no excessive use of seigniorage*** in all of the Central Banks operations of the region. Regional policy makers, in government and in the Central Banks, realized that fiscal stability was required as a condition for structural financial support. International Financial Institutions that were to come to the rescue of the region in the period of the late 1970s were operating under the vaunted theses of the Cagan hypothesis and the Polak (1957) models.

Phillip Cagan (1956) provided a classic study of hyperinflation in the 1920's and 1940's. While it seemingly did not have any relevance for the period under discussion, it was seminal in that it provided classic links between deficits and inflation

In large measure the region was reacting to the fiscal situation. Stabilization was a hoped for idea. Financial adjustments were desired to minimally, put the countries on some level trajectory for economic growth. Yet, when budgetary decisions had to be made, the first external condition that had to be considered was the need to cut the budgets. The countries had to trim the fat; had to reduce fiscal waste; had to develop greater fiscal responsibility.

As Courtney Blackman (1980: 37-39) noted, Jamaica and Guyana benefited from heavy foreign exchange inflows in 1975 from their favorable positions in bauxite and sugar, at that time. Jamaica was able to get considerable amounts of money from the North American bauxite companies. Barbados benefited from high sugar prices in 1974. The effect of this was to put its foreign exchange payments in balance, while the sugar prices of 1975 afforded Barbados a surplus of BDS$37 million (US$18.5 million).

In 1976 Guyana and Jamaica, particularly Jamaica, undertook massive borrowings on the Euro-dollar market. Jamaica and Guyana had drawn money from the Oil Facility and the Compensatory Financing Facility (CFF) of the International Monetary Fund (IMF). The Oil Facility was a specially designed fund to assist countries that were seriously impacted by the oil crisis. The CFF is a normal facility of the IMF geared to assist countries that are negatively impacted by a fall in their traditional commodity earnings. The Caribbean was eligible to access the CFF because of the sharp

fall in the price of sugar and bauxite in 1976. On the regional scene, Trinidad was like the IMF for the region. Its oil surplus permitted "Guyana, Jamaica and Barbados (to negotiate) balance-of-payments support from oil-rich Trinidad and Tobago, although Barbados made no drawings until 1977." (Blackman, 1980:37).

In September, 1976, Guyana negotiated a "standby-agreement" with the IMF. It had to follow a set of rules and conditions. Later that year it drew on its gold *tranche.* This move meant that any further borrowings would have stringent conditions: the dreaded conditionalities. By June 1977, Jamaica had also drawn on all of the so-called loans from the IMF and from a variety of other international sources. OPEC was approached. COMECOM was approached. The political rhetoric permitted a search to OPEC and COMECOM, but the financial reality was that they were not as forthcoming as Michael Manley was, then Prime Minister of Jamaica, had hoped.

By 1977, Jamaica was "forced" to seek IMF assistance in terms of a standby-agreement. The country adopted a two-part currency arrangement, which, pragmatically, was a devaluation of the currency. Before the end of 1977, Jamaica failed to satisfy the terms of the 1977 IMF agreement. In 1978 new negotiations were entered into and a US$240 million loan under the Extended Fund Facility was concluded. The terms of the 1978 agreement were severe, stringent, and heart-rending. The massive devaluation of the Jamaica dollar was imposed, mini-devaluations (more about this later) was imposed, wage settlements and commercial bank credit could not increase beyond stipulated percentages, imports and the government budget deficit had to be maintained within prescribed ranges. The 1978 fiscal support was suspended after Jamaica, again, failed the **performance tests**. The conditions imposed on the country might have been too severe, but the "bitter medicine" was brought on Jamaica by its political directorate and economic decision-makers. The "bitter medicine" of the IMF and the subsequent manifestations are detailed in George Beckford and Michael Witter (1980*), **Small Garden, Bitter Weed.***

The IMF was seen as the **B**^{3} in the region. It was the **Big, Bad, Brother** in a George Orwellian 1984 schema. In Jamaica the IMF had a political connotation. IMF meant ***Is Manley Fault***. What was not very clear in the heat of the battle for survival, in the search for the *Holy Grail* of stabilization and financial adjustment, was the fact that

budgetary cuts had carrying costs that tended to exacerbate the chronic situation in the economies. Fiscal austerity, in areas where there are clear links between inflation and deficits, is not an appropriate tool for stabilization and financial adjustment. When countries fail performance tests, they ultimately go to ***seinorage*** as Jamaica and Guyana did in the last part of the 1970. (See Blackman (1989:226). Of course this flight to seignorage develops an accompanying heightened inflation and BOP problems, as was true in Jamaica (Kirton, 1992:17).

The logic of how the budgetary process was supposed to have worked in line with deficits did not work in the region during the later part of the 1970's. If we are to believe Thomas Sargeant and Neil Wallace (1981) and Guieppe Bertoloi and Alan Drazer (1993), we can assume that: (1) a rationale expectations process could be used to explain inflation and deficits; and that (2) deficits evolve in a stochastic process until they are checked by stabilization in a stylized budgetary process. In the first instance, there are some serious questions whether rationale expectations were ever practiced in the Caribbean in the generic nature as was discussed in the USA. Furthermore, in the context of stabilization and the financial process, rationale expectations did not appear on the political agenda. [See Jones-Hendrickson (1981) "Rational Expectations, Causality and Integrative Fiscal-Monetary Policy in the Caribbean."].

Marcus Miller and Lei Zhang (1997: 441-454) note that there is a stochastic feature to the budgetary process. In "Hyperinflation and Stabilization: Cagan Revisited", they note that "When budgetary deficits are stochastic, we find that they exceed the maximum steady-state yield of inflation taxation without necessarily triggering currency collapse. This is because when inflation is expected for sure, things begin to change before the budget is in fact stabilized; (that is), there are anti-inflationary benefits coming ahead of inflation." Here, again, the practical aspects of the impact of stabilization did not follow the theoretical ramifications of stabilization in a stochastic process. The concept of stochastic is being used in the same sense that it is used in econometrics, namely that it is a random variable whose value is determined by the outcome of an experiment.

At this period, mid-1970s, in the region's history, one of the many concerns of decision-makers was the political cost of financial adjustments in the context of stabilization. Foremost among the political costs of financial adjustments were the costs

associated with discretionary policies of the governments in seeking to attain financial stability or to avoid fiscal instability. The role of the IMF was always of primordial concern. (See Adlith Brown, *SES*, 1981:1-51 on "Economic Policy and the IMF in Jamaica).

Apart from the political fall-out of the actual IMF role in the region, there was also the fall-out from the perceived role of the IMF. Instinctively, the governments in the region saw the Central Banks as their savior. The Central Banks, true to their code, did not permit themselves to be stretched beyond the degrees of freedom that they wanted to have, and were capable of tolerating. A few political observers and decision-makers flirted with the issue of the independence of the central Banks. Some of us in the region also discussed the Central Banks' independence in light of the prevailing theories. Some people blasted the Central Banks for their perceived failure to be around when the region needed them. (See Frank Rampersaud, 1988). Blackman (1989) deals, admirably, with Rampersaud's views on the failure of Central Banks to assist the region.

By and large, as Prakesh Lougani and Nathan Sheets (1995) showed in "Central Banks Independence, Inflation and Growth in Transition Economies," the issue of stabilization, and the IMF's promotion of such stabilization, has to be analyzed in terms of the nature of the economies". In the region, the two economies with a severe case of ***IMFitis*** were Guyana and Jamaica. It is our view that these two countries' attempts to marshal the forces to institute stabilization may have had more to do with their understanding of the fundamentals of the policies and less to do with the architecture of the policies to be instituted.

Miller and Zhang (1997: 444-454) note that money plays a key role in the stabilization process, and that key role links to financing of deficits. In actual fact, they noted, the change in money over time with respect to the change in prices equals the real deficit in the economies. In other word it could be said, with some degree of confidence that:

$$dMt/dP_t = S_t d_t$$

where M_t = the money supply

P_t = the price level

S_t = the real deficit.

Specifically, the real deficit in the economy follows a geometric Brownian motion. The Brownian motion or movement (Robert Weast, 1989) "is the situation where there is a continuous random movement of microscopic solid particles when suspended in a fluid medium." In the Brownian motion sense, as it is applied to Economics, the ratio of the change in the real deficit to the real deficit is:

$$dS_t/S_t = \sigma dW$$

where W_t is a standard Brownian motion, σ^2 is the variance of the deficit per unit of time. (Miller and Zhang, 1997: 443). This idea of the Brownian motion is akin, in an approximate sense, to Taylor's (1972:171-183) notion of the somewhat implicit stability of the velocity of money. It is our view, however, that the central issue was not so much the relationships of money to deficits but the questions of the management of the foreign reserves and development. Many regional authors have focussed on the critical role of the foreign exchange reserves in development. Among these are Blackman (1981:156-171) from the Central Banks' perspective; Dorla Humes (1981-187-200) in the context of Belize; Karl Bennet (1989: 95-114) in the case of Jamaica, to name a few.

Given that this idea is true relative to reserves and deficits, then the stabilization process in the region had to experience some problems. The stabilization process had to go through a series of stresses and strains. Those stresses and strains were permutations of the IMF policies, or the perceived IMF policies. It appears as if the policies were metamorphosing at each stage of the development process. In the limit it was as if the governments had little control over what was happening. Where there were exceptional economies, namely in the OECS, the Bahamas and Barbados, the application of some of the principles of stabilization were not fully operationalized.

Overall, the costs of adjustments of some variables imply that all influences on the variables should have instantaneous impact. This could not be true one hundred percent. The gem of this idea is that the architecture of stabilization and financial

adjustment is operationalized when conditionalities are imposed from external agencies and when domestic economic operatives react rather than act. There is no luxury to experiment. Stabilization and financial adjustment are equivalent to a medical straightjacket applied to someone who is mentally unbalanced. Countries which are economically unbalanced, or which are in a disequilibrium mode, are subject to stabilization policies. The policies are aimed to bring about the requisite change in financial adjustment. Too often, however, external agencies use a measure, a straightjacket or belt-tightening mechanism, that is designed to fit all of the subjects. Like ***Nike, Adidas*** or ***Reebok*** economies, one size is prescribed to fit all wearers. The problematique of this principle is that there is sometimes statistical fuzziness which obscures the underlying parameters of the countries, and hence undermines the essence of the adjustment process. Parallel to this fact is that sometimes the belt of adjustment is mistakenly applied to the metaphorical throat of the economy, instead of the waist. Hence what was designed to be belt-tightening ends up as economic strangulation.

It is important to note the following: stabilization and financial adjustment in the Caribbean during the 1970s, presented a problem for the International Financial Institutions (IFI's). The IFIs were not always aware of the algorithms that were necessary to apply to a region that was always seemingly poised to take off but which was handicapped by a number of imperceptible problems. Hence, in the IFIs attempt to ensure that the region attained stabilization and financial adjustment, many wrong algorithms were applied. Many times, the wrong algorithms, combined with poor domestic managerial approaches in the region, denied the region the very stabilization that was sought. Adjustments sometimes mean tinkering with the economies in a partial equilibrium sense, or fine-tuning in a macroeconomic sense. But, to a large extent, the perceived tinkering was more than fine-tuning. The tinkering was a mistake for what was in many respects major economic surgery.

The critical issue was whether the IMF policies were capable of being responsive to economic disequilibria in small economic systems which were off a given price and budgetary trajectory. Some authors believe this to be the case. Christopher A. Sims (1986) believes that "monetary policy cannot respond contemporaneously to disturbance in the general price level or the level of GNP". These assumptions are merely working

hypotheses. Policy-makers may have other information on which to make decisions and on which they could base changes in the economies, given their perception of the gravity of the instability and the needed financial adjustment. Problems develop when there is a great deal of informational asymmetry. When this is the case, some groups monopolize information and some other groups are unable to make the appropriate decision. This informational asymmetry tends to exacerbate instability.

What then can we say at this stage, the end of the 1970s, in terms of stabilization and financial adjustment?

The analyses of stabilization and financial adjustment in the Caribbean were part of the many topical issues of many members of the political directorates and the other decision-makers. Theoretical models were advanced and practical country-specific models were promulgated on the basis of how the external-lending agency wanted to promote economic development, and not always in line with how the country was in a position promote its own economic development". Hence, stabilization models were not always congruent with the underlying data of the region, the country, and with the given the circumstances. The internal domestic manifestation was in many respects different from the external presentation.

In the Caribbean, and this is true for many other parts of the world, the adjustment processes as they related to stabilization and financial adjustment were very often structured along the lines of ***fiscal adjustment***. Financial adjustment was orchestrated in terms of stabilization and structural reform. This twin approach formed the core of the supported "IMF-and-the-IMF-type programs". As Sanjeev Gupta, a senior economist in the IMF Fiscal Affairs Department, and Karim Nashashibi, Assistant Director of the IMF's Fiscal Affairs Department note (1992: 36):

> A key objective of all adjustment programs has been to strengthen public sector savings, with the twin aims of making additional domestic and foreign resources available to develop the private sector and supporting productive public investments (particularly in infrastructure and human capital).

The problem with this view is that it is not always practical to follow these dictates of the IMF. Countries own perspectives may not be in line with the IMF's thrust. This is where the difficulty comes in for Caribbean countries. Decision-makers in the

Caribbean recognized that the main aim of the fiscal adjustment programs is to foster sustained economic growth. But, given that the countries in the region have all had some kinds of fiscal imbalance, domestic financial instability, the trajectory from which they had to move to attain the stability and the financial adjustment were perforce actions between "a rock and a hard place". In the disequilibria that the region experienced over the last 30 years, for example, and particularly over the last twenty years, the type of fiscal policies that were suggested to the region were policies designed to have "a substantial reduction in the size of budget deficit. (as)... the core of the adjustment process." (George Makenzie and David Orsmond, 1996: 21). It is instructive to note, however, that how a country goes about making the adjustments in the stability sphere, and the adjustments in the financial space can have long-term impact on the growth of the country. Gupta and Nashashibi (1992: 36) note, in potent terms, points that many of us have made in the Caribbean over the years:

> How a government reduces the budget deficit and how it finances the overall deficit is just as important as the magnitude of the adjustment. A reduction in the fiscal deficit achieved through cutting investments for productive infrastructure or trimming expenditures on operations and maintenance, for example, may not be sustainable over time. It may even be counterproductive, if the cuts lead to a deterioration of infrastructure, education, and health.

The complexity of stabilization is that it means many different things to many different people. There is almost a need to have what Simon Wren-Lewis, Julia Darby, Johnathan Ireland and Ottavio Ricchi (1996:543-559) called a "theoretical deconstruction". In other words, in analyzing stabilization and financial adjustment, there is a need to breakdown the theoretical links of the issues and then reestablish those links in a more meaningful way to fit the economic platform of the countries in question.

In sum, to locate stabilization in the theoretical and practical architecture of financial adjustment, we have to be cognizant of the need to be parsimonious. If domestic economic decision-makers and external arbiters are not parsimonious, there can be overkill or specifically overindentification in the system. Overidentification is just as problematic as underindentification. Sometimes the logic of financial adjustment may appeal to some, but the theoretical imperatives in terms of specifications endemic to the economies, or the misspecifications unique to the models, could themselves cause

destabilization in the limit. The misspecifications are behind the view put forth in Jones-Hendrickson (1983: 37-54). He notes that the problems of the so-called Third World, including the Caribbean, in their stance of the New International economic Order, are nothing more than a "Sisyphean Fable." The Caribbean, in particular, was forced to adopt policies of the IFIs but the region seemed almost doomed to failure. Like Sisyphus of Greek mythology, the region had to push a stone up a mountain of economic reform to achieve stabilization and financial adjustment, but the stone came crashing back down the hill, after each attempt to push it up the hill.

The late 1970s, as defined in this paper, dramatically impacted conditions in nearly all of the Caribbean countries. The conditions impacted with low or negative growth rates. Balance of trade positions were consistently in the red, and BOPs were in crisis modes, for the most part. Net Foreign Reserves were under pressure, and changes in the reserve position in the BOPs were very erratic.

In the case of Jamaica, the red in the reserves started around 1976 on its marked downward escalating trend. Private capital inflows that were needed to offset capital outflows ultimately led to severe debt problems. By 1978 Jamaica's official debt was J$267 million inflows. This was about 28% of the total foreign exchange receipts. The instability in Jamaica's BOP is noted by the movement of current account from **minus** US$167.3 million in 1974 to plus US$28 million in1977 and then to **minus** US$387.9 in 1982. This was to move to US$32.1 in 1988. Clearly this scenario did not lead to stable growth of stable planning.

In Table One below we show data to demonstrate the specifics of the points we have just made. First we consider the Current Account and the Change in Reserves for Jamaica, Trinidad, Barbados and Guyana. As Gupta and Nashashibi (1992:36) note, "a key objective of all adjustment programs (of the IMF) has been to strengthen public sector savings...One way of measuring public sector saving is to examine the current balance of government operations - that is, the difference between total current revenue, excluding external grants, and current expenditure."

First we observe that in terms of movements of the data for Jamaica, the current account deficit went from **minus US$167.3** in 1974 to **minus US$255.1** in 1995. In that twenty-two year span, there were only two years, 1988 and 1992, when there were

positive current accounts. In the case of the change of the reserves, eleven of the twenty-two years the change in reserves went in favor of Jamaica. **It is to be remembered that a negative is a favorable case and a positive is an unfavorable case.**

In the case of Trinidad, its current account went from US$288 in 1974 to US$193.1 in 1995. Over that period they were eleven years with positive current accounts. In 1983 there was a massive **minus** US$969.6 million in the current accounts. The change in reserves for Trinidad was favorable in 13 of the 22 years.

For Barbados, its current account was **minus** US$49.7 in 1974 and that moved to plus US$107.9 in 1995. Barbados had 13 years of negative current accounts. In the case of its change in reserves, 15 of its 22 years were favorable.

Guyana's current accounts were negative all 22 years. The change in reserves for Guyana was favorable in three years, namely, 1974, 1975 and 1978.

On the basis of this preliminary picture, the instability should be clear. Even if we do not capture the data relative to GDP, we can still note that the performance of the Jamaica and Guyana were very problematic, as many commentators have demonstrated. Systematic changes were being imposed, but systemic changes were required.

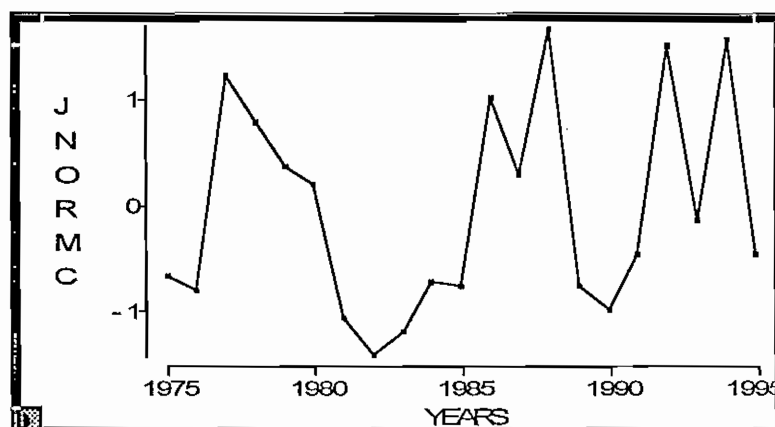
This is not to minimize the role that the political directorate played in managing or mismanaging the economies. They cannot be absolved from their part. Hindsight is twenty-twenty. The best game of tennis is played in the stands. The political directorate were responsible for some of the outcomes of the instability, but it is also reasonable to state that some of the instability were linked to the kind of the economic medicine that was prescribed for the region. But, then again, the age-old problem of the chicken or the egg comes into play.

TABLE ONE: CURRENT ACCOUNTS AND CHANGE IN RESERVES: JAMAICA, TRINIDAD, BARBADOS AND GUYANA, 1974-1995 (US$M)

STATE	JAMAICA		TRINIDAD		BARBADOS		GUYANA	
Year	Current Account	Change in Reserve	Current Account	Change in Reserve	Current Account	Change in Reserve	Current Account	Change in Reserve
1974	-167.3	-59.6	288	-301.3	-49.7	-3.9	-7.8	-40.4
1975	-284.0	81.4	355.1	-455.4	-41.9	-17.4	-13.8	-39.7
1976	-302.7	261.9	255.0	-232.2	-64.2	17.9	-13.7	90.7
1977	-28.0	13.0	214.9	-446.7	-51.6	-14.6	-96.3	67.0
1978	-86.7	77.5	36.1	-323.6	-31.5	-29.1	-23.7	-22.3
1979	-142.6	140.9	-36.2	-369.6	-34.5	-9.1	-86.6	39.9
1980	-166.3	50.2	393.6	-624.3	-16.7	-19.9	-100.4	86.6
1981	-336.8	90.5	313.0	-562.7	-115.5	5.8	-169.9	39.3
1982	-387.9	-83.3	-883.3	219.6	-32.7	1.8	-125.3	95.3
1983	-355.0	-289.1	-969.6	900.7	-35.6	-6.6	-132.1	172.5
1984	-291.5	-225.7	-557.1	895.2	26.8	16.3	-97.1	222.7
1985	-295.8	52.8	-108.3	296.4	62.9	-21.9	-130.5	158.3
1986	-55.6	50.9	-632.1	-670.5	18.0	-20.5	-141.1	139.9
1987	-153.8	-213.0	-247.3	-249.7	-16.3	-0.3	-109.5	137.3
1988	32.1	-180.0	-117.8	-84.7	48.1	-37.6	-93.6	105.7
1989	-297.5	161.2	-66.7	107.8	28.2	42.3	-113.3	181.2
1990	-328.0	-59.6	430	85.3	-7.8	38.7	-147.7	193.7
1991	-255.8	105.2	-20.7	-184.1	-23.6	40.3	-118.0	66.0
1992	10.9	-337.2	56.6	-34.8	143.4	-29.4	-146.7	39.3
1993	-212.2	-98.1	-84.9	158.7	70.3	-21.1	-136.4	49.7
1994	18.3	-385.4	238.7	186.5	134.7	-58.8	-100.8	63.9
1995	-255.1	-23.4	193.1	40.6	107.9	-39.9	-94.9	89.3

Sources: ***Annual Statistical Digest***, Central Bank of Barbados, 1986-1996
Bank of Jamaica: ***Statement of Accounts;*** BOJ ***Statistical Digest.*** Bank of Guyana ***Annual Report***; Bank of Guyana ***Economic Bulletin No. 12.*** Central Bank of Trinidad and Tobago ***Annual Report, 1977-1985***

GRAPH ONE: JAMAICA'S NORMALIZED CURRENT ACCOUNT, 1975-1995



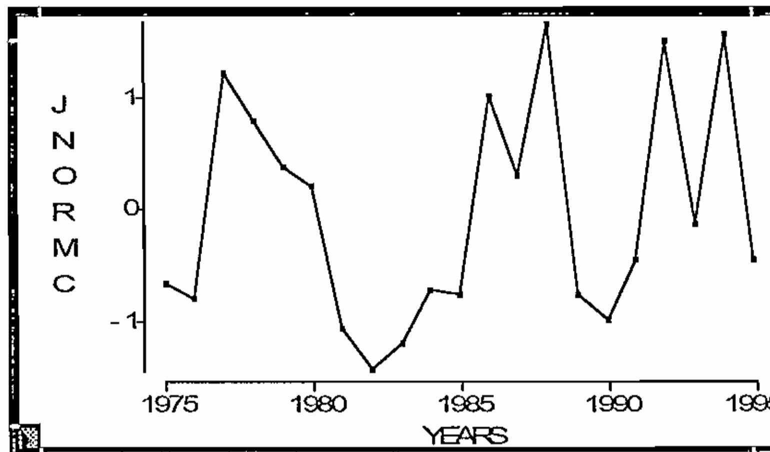
The above graph shows the normalized data for the current account of Jamaica over the period 1975-1995. The normalized current accounts **(JNORMC)** are as follows:

$$(C_A - \mu_{CA})/\sigma C_A$$

where C_A represents the current account, μ is the mean of the C_A, and σ is the standard deviation. Stability in the system would have shown data that shadow the zero line, in the limit. It is clear that that is not the case. In a pragmatic sense Jamaica's performance over the 21- year period was almost doomed given the inherent instability of the data.

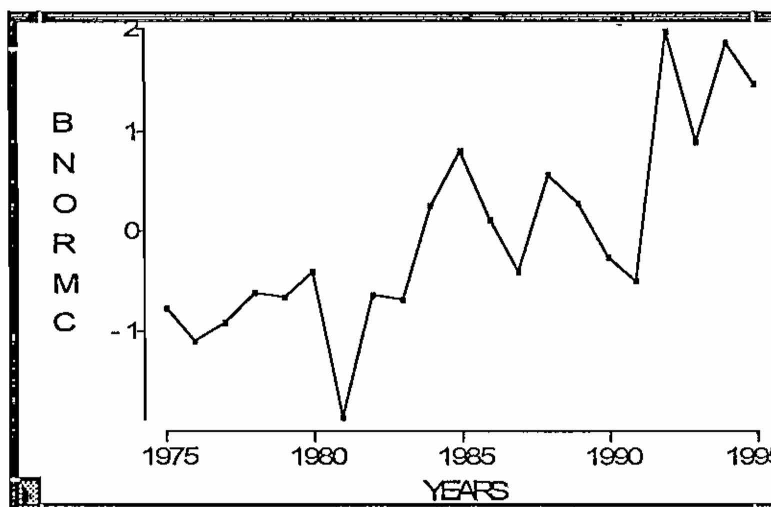
We follow a similar illustration for the case of Trinidad and Tobago. Graph Two below shows that in Trinidad and Tobago's the normalized current accounts have 13 instances above the zero norm. This suggests a greater degree of stability than if the instances were below zero, as in the case of Jamaica. But like Jamaica, there is that massive downward movement in 1981. This again reflects that impact of oil and the adjustments that that had to make to oil. In the case of Trinidad and Tobago, the concern was not the deficit impact, it was **the surplus impact**. In instances, such as these, the end result amounts to the same. If the issue is a deficit or a surplus, there can still be distortions in the impacts on the economy relative to the stability of the economy. The graph for Trinidad showed that there was some stability, but then again, the internal dynamics of the stability was questionable.

GRAPH TWO: TRINIDAD AND TOBAGO'S NORMALIZED CURRENT ACCOUNT, 1975-1995



We now turn to Barbados and there we see, as in Graph Three that the normalized current account had nine instances above or around zero and with an upward trend.

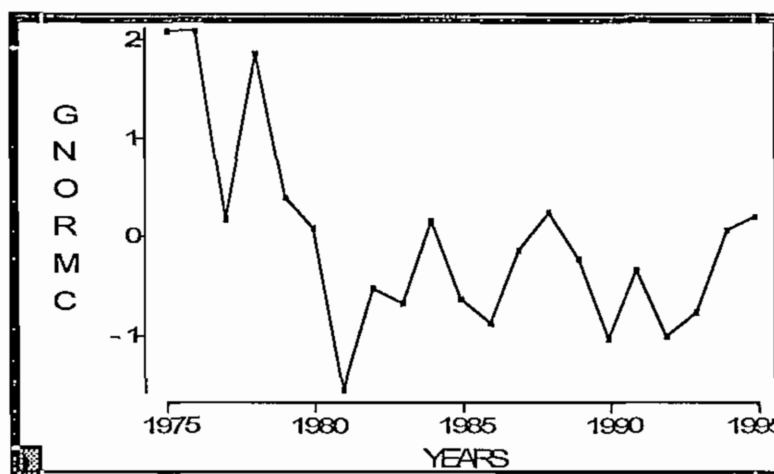
GRAPH THREE: BARBADOS NORMALIZED CURRENT ACCCOUNTS, 1975-1995



Finally in the case of the larger countries we turn to Guyana. There we note that its normalized current account has 11 instances of being below zero, and furthermore, the

trend is downwards. This is to be contrasted with an economy like Barbados above with the nine instances above or around zero.

GRAPH FOUR: GUYANA'S NORMALIZED CURRENT ACCOUNT, 1975-1995

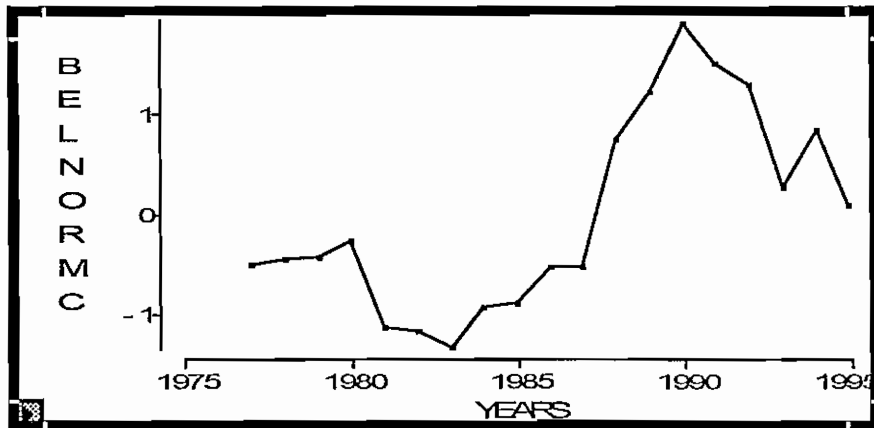


In the appendix we illustrate the movements of the changes in reserves for all of the countries in questions. It is to be noted that a positive change is a decrease and a negative change is an increase; or if you will, a positive change is favorable and a negative change is unfavorable. (See Appendix One for Graphs).

We next turn our attention to the Bahamas, the OECS and Belize. We focus on the current accounts for the Bahamas and Belize and show the current account and change in reserves for the OECS. We note in Table Two that the current account deficit in the OECS moved from minus US$44.9 million in 1977 to minus US$221.1 in 1995, for an over three hundred percent increase in the deficit. This figure masks the reality of some of the individual countries. Nevertheless, the point is obvious that the current account, or the debt problem, which we could have also shown, is of major concern in the OECS, as far as stability is concerned. This situation could have gotten worse were it not for the very active role of the ECCB, and the excellent degrees of "independence" that the ECCB has in pursuing its monetary policy. Furthermore, it is our view that the excellent working relationships at the level of the Monetary Council which is Central Bank Officials and Ministers of Finance or their designees, has led to solid working relationships from a Bank's perspective as it impacts monetary policy on fiscal policy.

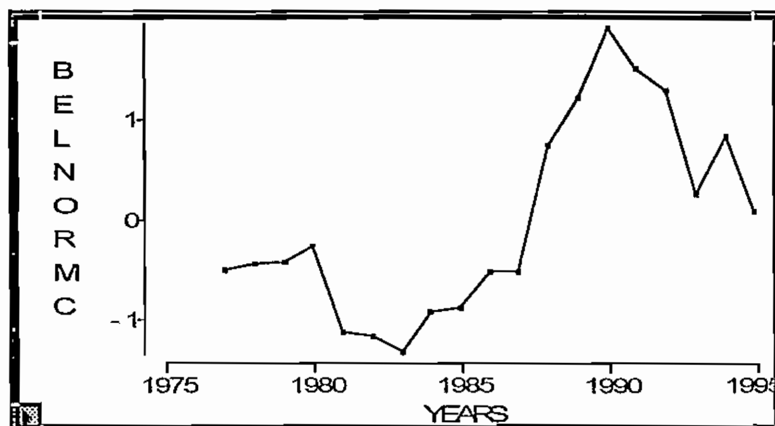
In Graph Five we show the normalized current account for the OECS. There we note that the trend in the normalized is downward away from the zero norm.

GRAPH FIVE: OECS NORMALIZED CURRENT ACCOUNT, 1977-95



We present below in Graph Six the situation of Belize. There we note that the economy has an upward trend in its normalized stability orientation. This is to be noted in comparison with Barbados case as is illustrated in Graph Three.

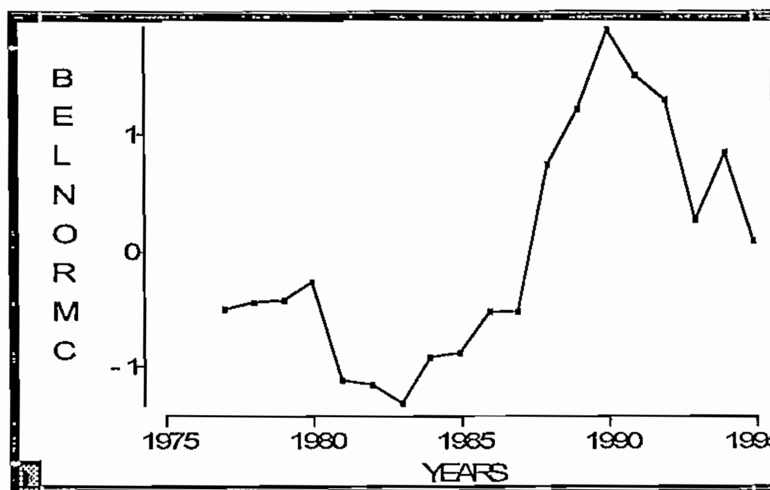
GRAPH SIX: BELIZE NORMALIZED CURRENT ACCOUNT, 1977-1995



Next we consider the case of the Bahamas's normalized current account for the period 1980to 1995. There will note, also, that there is some level of instability since

1980. In the specific instances, there are about half of the observations around or above the zero norm. This suggests that even though the situation is cause for some policy concern, the data are not on a downward trend in any significant way.

GRAPH SEVEN: BAHAMAS' NORMALIZED CURRENT ACCOUNT, 1980-1995



A CLOSER LOOK AT THE EXCHANGE RATE ISSUES

Whatever databases one uses in reviewing the 1970's and 1980's eras, there were problems of stability and financial adjustment in the region. The institutional issues span the gamut. First let's consider Jamaica, the country with the largest production economic platform in the CARICOM region. Prior to September 8, 1969, the Jamaica currency was the J pound. It was equal to the British pound sterling of $4.80. In 1969 the J$ was introduced at a rate of J$1 to about $1.20 US. On January 16, 1973, the J$ was pegged in terms of the US $ at a rate of J$ to US $1.10. This rate held under pressure until April 22, 1977 when worldwide economic affected the Caribbean following the first oil shock of 1975 and when , as we noted above, Jamaica had to adopt a dual exchange. There were the "basic rate" of JA$1 to $1.10 and a "special rate" of J $1 to US 0.80. Why was this done? The basic rate was applicable to:

(1) payments for imports of basic food item, petroleum products, essential drugs, fertilizers and annual feed.

(2) Receipts and payment on Government accounts; and
(3) Receipts and payments to the many sector.

All other transactions were at special rate. Jamaica introduced a new special rate on October 21, 1977, adopted a new rate on January 13, 1978, abolished the dual exchange on May 9, 1978 and at the same time entered into an agreement with the IMF on the use of resources from the Extended Fund Facility. There were monthly revaluations of the Jamaica dollar.

The saga went on and on through another dual exchange rate in January 10, 1983, with an official rate and a parallel rate. By May, 1984, there were the twice weekly auctions by the Central Bank. Finally on November 1, 1989 the auction was suspended. There were even private initiatives to "rescue" the Jamaica dollar. By September 1990 a new initiative was introduced whereby interbank foreign exchange was determined by each bank setting its own rate. Technically this system is still in place. (Central Bank of Barbados, ***Annual Statistical Digest, 1996:*** 249-219)

Jamaica's series of devaluation and the resultant impact on its economy and people were very disruptive. For one, this strategy may have exacerbated the problem of capital flight, an issue that Karl Bennett (1991) and a host of others have discussed over the years.

By the 1970's and early 1980's, it seems that everyone was writing on Jamaica. Everybody had a solution to its problems and everybody knew what it had to do about its relationship with the IMF, and other things. But the question of stability was no where in sight. Financial adjustment was a hope. Bourne looked at the role of government foreign debt in its capacity to contribute to domestic capital formation and economic growth by the closing of foreign gaps. (Bourne, 1981: 57). This was a take-off from Hollis B. Chennery and A. M. Strout (1966). In his application of the thesis to Jamaica Bourne (1981:70) concluded that:

> though government foreign borrowing (appeared) to have contributed to government fixed investment, the investment additionality of the debt was less than the rapid growth of the debt may imply. (Furthermore, he noted) some debt proceeds were allocated to government consumption. Government foreign borrowing also led to lower levels of government savings and to lower levels of private savings. The government foreign borrowing depressed domestic saving.

This was powerful stuff. This was a time in Jamaica when the IMF was in full swing. When the Jamaican Government had negotiated two-year agreement with the IMF, it had seen the IMF as the helper of the last resort. The IMF's mandate was to get Jamaica back to creditworthiness, back to balance of payments stability and back to levels of financial stability. The IMF thrust in Jamaica, according to the late Adlith Brown (1981:44), was a program "based on (an) exports-led strategy in which low wages (were) important to induce foreign capital and markets to maintain the competitiveness of exports goods abroad." It must be remembered that the region was a student of the lessons of "the invitation to invest." This IMF strategy was, therefore, old wine in new bottles. Nevertheless, the IMF program "had the effect of inhibiting local investment while hoping that external balance fixed and unified exchange rates and a low ratio of wages to profits would induce foreign capital." (Brown, 1981: 44). But, as Brown and many others noted, the IMF program was counterproductive. The International Institution may have had the right economic algorithm but it was being applied to the wrong social architecture.

This was a time in Jamaica when the social consciousness of the Peoples National Party was on the rise. Economic reality should have prevailed, but political expediency was put ahead of the economic strategies. It was no surprise, therefore, when Jamaica failed the so-called IMF tests. It was not Jamaica and Guyana alone that were feeling the effects of conditionalities. Even Barbados that was fairly well off fell under the IMF conditionalities when, in 1982-84, it followed a program of an eighteen-month Stand-By agreement. It might have been more precaution than anything else, but it served to demonstrate that no country was safe, and no safety net was available to the region. The Jamaica case was almost tragic as it sought to come to grips with stability. The data in Table Three illustrate the movement of the devaluation of the Jamaica currency between 1973 and the present.

TABLE THREE: DEVALUATIONS OF THE JAMAICAN CURRENCY, 1973-1996

PERIOD	JAMAICA $	USA $	JA$/USA $
January 16,1973	$1.10	$1.00	0.91
April 22, 1977	1.25	1.00	0.80
October 21, 1977	1.28	1.00	0.78
January 13, 1978	1.05	1.00	0.95 (basic)
January 13,1978	1.35	1.00	0.74 (special)
May 9, 1978	1.47	1.00	0.68 (central)
January 10, 1983	1.75	1.00	0.57
May 18, 1983	2.22	1.00	0.45
November 24, 1983	3.05	1.00	0.33
May 15, 1984	Twice weekly auction bids for annual foreign exchange		0.05
October 25, 1989	Weekly auction		0.05
November 1, 1989	Auction suspended		0.04*
September 17, 1990	New interbank foreign exchange and Bank sets own exchange rate		0.03*
Sept 17, 1990-1995	35.00-36.00	1.00	0.028*

Source: ***Data from several BOJ publications*** and the ***Central Bank of Barbados***
Starred values are estimates.

In the context of Guyana, it had a first devaluation on December 22, 1971. By October 9, 1975, the Guyanese currency was linked to the US dollar at a rate of G$2.25 to one US dollar. A market basket of currencies was selected based on the US dollar, the pound sterling, the Deutsche Mark, the Japanese Yen and the Trinidad and Tobago dollar. The market basket was a reflection of the importance of those currencies in Guyana's economy. Shortly thereafter, the exchange was fixed at G$3.00 to the US$1. On July11, 1984, the market basket of currencies was change. Guyana, like Jamaica, started on its

road to devaluations, ostensibly to move to some level of stability and financial adjustment. Guyana's move was a hint to the world community that its leaders were attempting to do something to regularize its economy and bring it back to a level of stability. Carl Greenidge, the then Minister of Finance and his other decision-makers tried, but the series of pegging to international currencies and the other movements of the currency introduced a slide in the Guyanese dollar, a slide from which it has not recovered.

Table Four shows some of the movements in the currency, and hence some of the instabilities that obtained as far as the Guyana currency was concerned. There is no doubt that the country was attempting to conduct some kind of economic policy geared towards stabilization and financial adjustments. But, the increasing levels of devaluation of the currency drove greater fear in the hearts of the policy-makers, planners and ordinary citizens, a point that C.Y. Thomas and others have made repeatedly. (See Thomas, 1998). There was always a moving target as far as the currency was concerned. Hence, as Guyana tried to develop some mechanisms whereby there was an equilibrium rate, the economic system was apparently operating outside the bounds of the regular economic system. There was no clearing of the market in the normal ***Walraissian, tatonnement*** process. In fact, even when the country had two systems of currency, the "normal" regular market and the parallel market, the economy seemed to have been adjusting more to the parallel rate that to the "normal" rate. This is a classic case of instability in the system. Under such conditions, the imposition of IMF conditionalities or any other type of conditonalities, would only serve to exacerbate an already precarious and chronic situation.

This is not to let Guyana and its political directorate off the hook of responsibility. There was enough information, theory, and policy in the region that could have been used to form the backdrop for better decision making. While we are mindful of the harsh external conditions, internal conditions were also critical in Guyana not achieving the level of stability that was requisite to accommodate the type of needed financial adjustment.

The data below are only partially symptomatic of the internal conditions that were endemic in the Guyanese economy. While it seems as if it were only a Guyanese

problem, the entire Caribbean felt the issue in terms of how the outside world perceived the region's decision-makers, how other Caribbean people perceived Guyanese nationals who, perforce, had to leave their country, and so on. So, the stability issue was clothed in both financial terms and human terms.

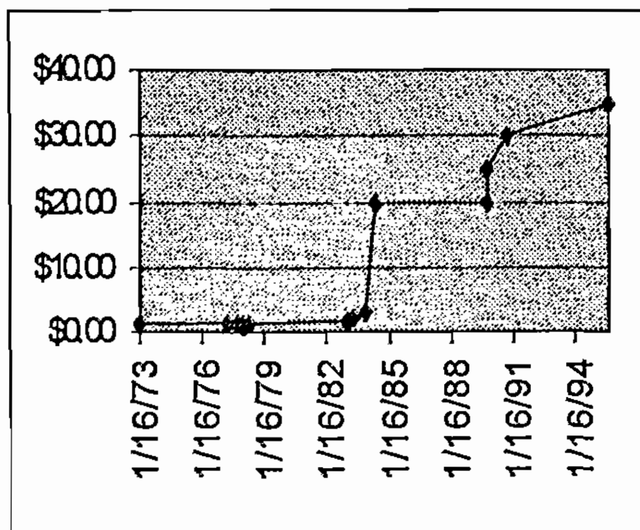
TABLE FOUR: DEVALUATION OF THE GUYANESE DOLLAR, 1987-1998

PERIOD	GUYANA $	USA $	GUY$/USA $
January 19, 1987	$10.00	$1.00	0.1000
February 1, 1987	21.00	1.00	0.0476
April 3, 1987	33.00	1.00	0.0303
March 12, 1990	CAMBIO	1.00	OPEN
June 15, 1990	60.00	1.00	0.0167
June 25, 1990	65.00	1.00	0.0154
July 30, 190	70.00	1.00	0.0143
August 27, 1990	75.00	1.00	0.0133
September 3, 1990	81.50	1.00	0.0123
September 10, 1990	83.50	1.00	0.0120
October 1,1990	87.00	1.00	0.0115
October 15, 1995	89.00	1.00	0.0112
October 29, 1990	98.00	1.00	0.0102
November 26, 1990	91.00	1.00	0.0110
December 3, 1990	98.00	1.00	0.0102
February 21, 1991	FLOATING	1.00	FLOATING
September 30, 1991	Weekly Broker Dealer rate	FLOATING	FLOATING
1992? to Present	150 .00?	1.00	0.0067

Source: Bank of Guyana ***Annual Reports/Statistical Reports***
Annual Statistical Digest, Central Bank of Barbados (various years)

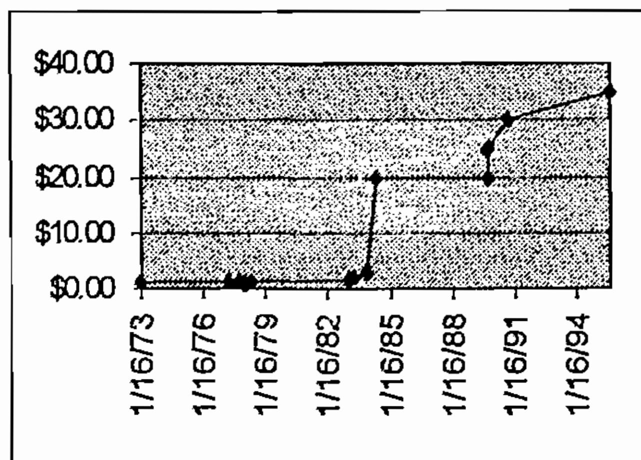
We now turn to a graphic representation of the devaluations of the case of Jamaica and Guyana. In Graph Eight we present the Jamaican case. We show the devaluation scenario, and we follow this with a illustration of the value of the dollar over time.

GRAPH EIGHT: DEVALUATION OF THE JAMAICAN DOLLAR



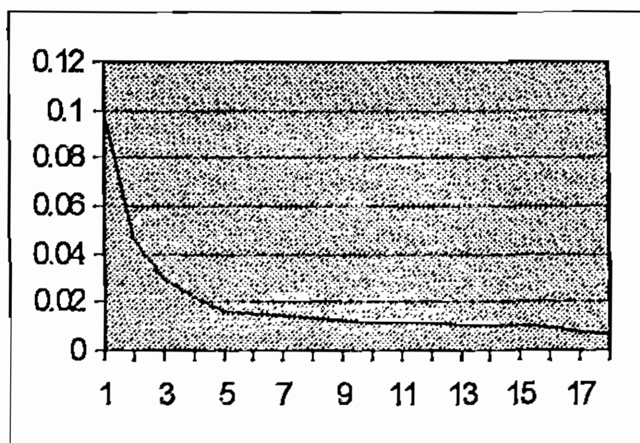
The value of the Jamaica dollar over time is also instructive from the above Graph in terms of instability. Note the explosive movement of the dollar from 1983 onwards. Below, in Graph Nine, we show the value of the Jamaican dollar over time. There, too, we get an insight in the level of instability of the currency, even accounting for the unusal spike in the basic rate of 1978.

GRAPH NINE: VALUE OF THE JAMAICAN DOLLAR



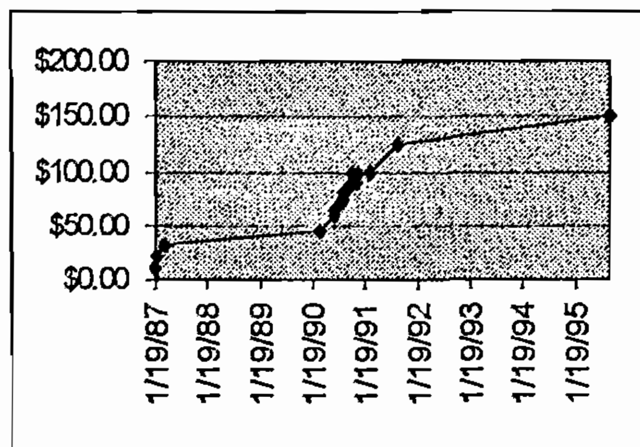
In terms of the value of the Guyanese dollar we note that it varied from 10 cents US in 1987 to .0067 cents US in 1996. This is an approximate figure since, as we noted above, the market rate was approximating the parallel rate.

GRAPH TEN: DEVALUATION OF THE GUYANA DOLLAR



In Graph Eleven we illustrate the value of the Guyana dollar. Note that it sandwiched between 0.01 and 0.005 US cents. Given this scenario, the issue of stability must take second order of importance. The issue of finding the value of the currency has to be top priority.

GRAPH ELEVEN: VALUE OF GUYANA DOLLAR



We can also discuss instances of devaluation for Trinidad and Tobago. In 1976, the TT dollar was pegged to the US$ (Central Bank of Trinidad and Tobago, 1989:x-xii). In 1968 AMOCO discovered oil on the East Coast of Trinidad. Along the way the Trinidad and Tobago scene benefited from the first oil shock of 1973. Trinidad got externalities from a genuine system of a floating exchange rate. The externalities were positive for the country but disruptive in terms of planning, stabilization and the requisite financial adjustments that Trinidad and Tobago had to undergo. There was a time when Trinidad had a multitude of financial funds, set up ostensibly, with a precautionary view in mind. This prompted the calypsonians and wits to say that ***Trinidad had funds for fun***.

The 1977 CARICOM Multilateral Clearing Facility (CMCF) that came into being that year was designed with good intentions; the end result was destabilizing for Trinidad and Tobago. By the time the second oil shock impacted in1979, Trinidad and Tobago had a problem in terms of money. Here again policy makers succumbed to the calypsonians wit: ***the problem was not money; money was the problem***. The CMCF was suspended in1983 given that some of the regional debtors failed to abide by their fiduciary obligation to repay. On December 18, 1985, TT$3.60 were equivalent to US$1.00. There were dual exchange rates, like the case of Jamaica. By April 17, 1988, the value moved down to TT$4.25 to US$1.00. These two devaluations created some instabilities in the economy. In 1986 there was a third oil shock. This did not help the country in terms of stability. By 1987 there was a unification of the exchange rates. From about 1988 to the present, the TT dollar has experienced some slide in value and now it stands at approximately TT$5.74 to US$1.00. This clearly shows that in establishing goals for stability and financial adjustments, it is imperative that the nature of the economies is taken into consideration. One economic shoe of conditionality cannot fit all economies, in the manner that International Financial Institutions like to operate.

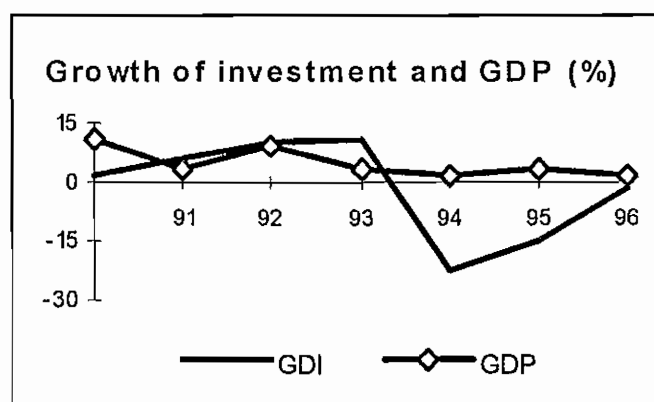
Adjustments in the cases of the OECS, Belize and Bahamas mirrored, in a sympathetic sense, what was happening in the larger economies. The one saving grace for the OECS, Belize and Bahamas is the fixed relationship of their dollars to the US dollar. They were buffeted by the oil price crises, mounting debt, and the premature graduation that was being forced on them from the International Development Agency in

the case of the OECS and from the World Bank soft loan window to hard loan window, for other countries in the Caribbean.

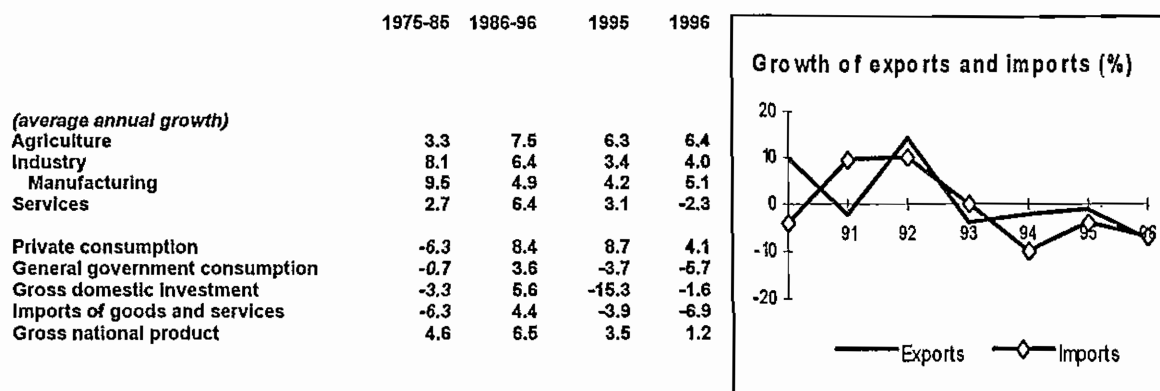
It is safe to say that when we consider the situation in the OECS namely that of fixing of the EC dollar to the US dollar in 1983, the sub-region's economy, by and large, has maintained its integrity. Liburd and Bain (1989: 214-215) recognized the role of foreign capital inflows to the region and estimated that over the period 1980-1986 foreign capital inflows to the OECS accounted for about two-thirds of the GDP. In their conclusion they noted "Economic growth in the OECS seems to have been propelled by developments in the international economy. In addition, due to the financial demands for infrastructural development, the economies obtained funds from abroad in considerable magnitudes for investment in productive sectors which assisted economic growth to a great degree." A similar point was made over a decade earlier by Jones-Hendrickson (1978) for the then state of St. Kitts-Nevis and Anguilla. The idea was that development in St. Kitts-Nevis and Anguilla was disassociated from the revenue development in the state. The **disassociation factor** in revenue development of the state is similar to a displacement effect in the literature of public finance.

While Belize seems to be on a more stable trajectory than Jamaica or Guyana, for instance, there are still concerns in terms of its Gross Domestic Investment and its Gross Domestic Product in the 1990's (See Graphs 12 and 13, below, obtained from the ***1998 World Bank Indicators, CD ROM)***

GRAPH 12: GDI AND GDP OF BELIZE, 1991-96



Some additional instability can be observed from the Exports/Imports, BOT.



	1975-85	1986-96	1995	1996
(average annual growth)				
Agriculture	3.3	7.5	6.3	6.4
Industry	8.1	6.4	3.4	4.0
Manufacturing	9.5	4.9	4.2	5.1
Services	2.7	6.4	3.1	-2.3
Private consumption	-6.3	8.4	8.7	4.1
General government consumption	-0.7	3.6	-3.7	-5.7
Gross domestic investment	-3.3	5.6	-15.3	-1.6
Imports of goods and services	-6.3	4.4	-3.9	-6.9
Gross national product	4.6	6.5	3.5	1.2

GRAPH 13: BELIZE DATA

In assessing the many changes of currency devaluations and sought-after modes of stability and financial adjustments, it is still reasonable to contend that there is a need for an integrative role for monetary and fiscal policy. It is imperative that it be understood that if the monetary sector is pursuing one policy and the goods sector is pursuing another policy, it does not matter what external conditionalities are imposed on the countries in question, there will still be a tendency to instability in the limit. When there is a multitude of financial instruments in place and there is no careful evaluation of the instruments, the body economy is not guaranteed to follow a path of stabilization. In fact stabilization could easily be thrown off course by any small departure from plan procedures. This brings us to our ***axiom of small: in small economies, a small thing is big***.

The question that might be asked at this point is, what should countries do if they are circumstanced as the Caribbean was? Blackman 's (1989:23) words are appropriate in this regard. He speaks to the twin issues of money and fiscal policy, a theme which we first brought to the agenda as the integrative policy of money and fiscal policy in the 1975 then Regional Program of Monetary Studies Meeting in Georgetown, Guyana. Then Forbes Burnham, President of Guyana, *wanted to miniaturize the role of foreign banks in* the Caribbean. But Blackman has other ideas. When it comes to the role of Central Banks, regional decision-makers, and international policy making, as it is sometimes meant to be applied in the region, Blackman, (1989:238) notes that it would be good

"(If) we could discover an arrangement which removes from Caribbean governments both the temptation and the option of runaway fiscal deficits, loose monetary policies, and unwarranted wage settlements..." Blackman correctly and justifiably cites the Eastern Caribbean Central Bank as that stellar institution that has encouraged and disciplined the sub-region in following policies that lead to stability. It must be admitted that globally the OECS may be stable but there are some instabilities in some of the countries. If it were not for the pivotal role of the ECCB in persuasion, the level of stability that is perceived in the OECS could also have gone off target. In buttressing this point, Jones-Hendrickson (1989:91) noted:

> The growth-oriented system that we perceive (in the OECS) does not depend on own resources...As a consequence, the region depends on foreign markets for a significant proportion of the necessary capital to drive the engine of growth. It is (our) view that if the domestic economic policies are to succeed, and lead to long-term structural change and transformation, then OECS member states will have to do more to marshal their own-effort resources and minimize the heavy reliance on external resources. (He continued) The traditional financial structures have a built-in tendency to crisis, in the limit. That crisis must first be locally stabilized and then globally stabilized.

LOOKING TO THE FUTURE

Kenloy Peart (1995: 6), in assessing financial reform and financial sector development in Jamaica over the 1970's and 1980's, argued that the program of structural adjustment in Jamaica over that period was designed to be a macroeconomic structural adjustment "aimed primarily at creating a more efficient market-oriented economy that was export-driven and in which the private sector was the main engine of economic growth." [One never knew that one would be around to see this standard economic policy applied to Jamaica]. Peart (1995: 6-7) continued, the main objectives of financial aspect of the reform program were: "***separation of monetary and fiscal policies***, the elimination of distortions in the financial market and the creation of a fiscal and institutional environment which would strengthen the capital market." Here again, with all that we and others have written about the need to have integrative monetary and fiscal policies, Jamaica in the 1990s is going away from such a policy. But Jamaica had to try that policy. Peart (1995: 7) is clear about the genesis of the problem in Jamaica:

> *The need for the disentanglement of monetary and fiscal policies arose in a context where high statutory reserve requirements applicable to commercial banks and near bank institutions served as a captive market for the financing of fiscal deficits. The use of the reserve requirement and Central Bank overdraft facility to finance excessive fiscal deficits adversely affected the ability of the Bank of Jamaica to achieve the objectives of price stability, sustained balance of payments, and a realistic exchange rate.*

It seems clear at this stage, therefore, that as far as Jamaica is concerned it has a problem of its own making and one way of trying to establish stability and making the requisite financial adjustments is to disentangle its monetary policy from its fiscal policy. Given the recent (1995 to the present) financial turmoil in Jamaica, there may be something to be said about this model for Jamaica. But having made the case for the disentanglement, Peart concludes on a curious note.

> Against the background of a rapidly changing global environment and the accompanying need to strengthen the capacity of the financial system and the economy to function more efficiently, further efforts must be directed at completing the process of financial and macroeconomic reform. This includes the removal of the secondary cash reserves requirement along with the gradual reduction in the cash reserve ratio. However, to be ***successful this must be done within the context of a more vibrant financial market and a strong commitment to fiscal prudence.*** (Emphasis added).

Some may argue that we are back to square one in terms of an integrative fiscal and monetary policy. This idea brings us back to the concept of a "theoretical deconstruction". We sometimes have to break down a theory to get a meaningful policy. Having broken down the theory, we may go back where we started but, hopefully, with a better, more profound understanding of what to do, the second time around.

In the case of Trinidad and Tobago, Watson (1990: 68) addresses the issue of the balance of payments problems from the monetary approach and the components approach. While he did not favor any one, he concluded that for the period 1965-1985, a key period in Trinidad and Tobago's economic history, "the monetary approach masks some of the complicated relationships which link together other economic variables with the balance of payments."

Eric St. Cyr and A. Charles (1992) also modeled the period 1965-1985 in Trinidad and Tobago with a view of studying the impact of public policy on the exchange rate, public sector investment and foreign exchange inflows on growth and unemployment. Among other points, the authors concluded: "Constraining the foreign reserve position tends to depress economic performance but gives a measure of protection to both the payments and the fiscal balances." (St. Cyr and Charles, 1992: 201). Here we note the implicit concerns with stability; the problems that the model identified, however, would lead us to believe that there will be instability in the system, no matter what.

As we look to the future, we see a region that will be buffeted by instabilites, and region that will fall under a variety of models, both from local decision-makers and theorists and from external decision-makers and theorists. This juxtaposition of ideas in a wold that is increaingly being called the global village means that the Caribbean will have to expect perturbations from the international arena.

Traditional financial structures in the region seem to have built-in tendencies to crises. Econometric models can tract the economies from an ex-post perspective, but the models seem silent as to the cogency of stability issues in the context of financial adjustment. The larger countries of the region have greater production platforms to develop, and have taken greater risks in their development trajectories. The smaller countries, particularly those in the OECS, recognize that they have to work in accordance with the mandates of their policy. The fact that no one country in the OECS can monitize debt from the trough of the Central Bank may be at the core of the perceived stability in the sub-region. The fact that their national income, the own resources and whatever they get from abroad provide the parameters under which they have to spend, may also have built-in moments of stability. We should not be fooled, however, to think that global stability is in the entire OECS. There is some local instability which, given the wrong algorithm, may set the countries along the wrong economic path. If the discipline of the Eastern Caribbean Bank, which is no longer a money changer, were not in place, some members of the OECS would have devalued their currency.

Such a move would have come because the OECS is impacted from the contagion effects of the wider Caribbean, and certainly some countries would have thought that inflation is the elixir of financial salvation. Like so many other things in the

region, ideas abound but we tend to go our own way and sometimes forget the ideas. In a time when countries are devaluing their countries, one would have thought that Delisle Worrell had not written. In 1981, Delisle reflected on "External Influences and Domestic Policies: The Economies of Barbados and Jamaica in the 1970's" and concluded that:

> Devaluation is highly suspect as an adjustment policy because of its inflationary consequences. Devaluation is not expected to have much effect by way of price elasticity of demand or short run changes in the structure of domestic demand ('expenditure switching'). Devaluation, (he noted) is very inflationary in the small open economy; where there is no money illusion, inflation triggers domestic factors prices when erode relative price advantages of traded goods. If it is to have any effects, at all, devaluation must be accompanies by indexation methods designed to conceal part of the resulting inflation. Even then, the economy has to suffer a great deal of inflation for relatively small shits in relative prices (Worrell, 1981: 147).

Given this clear and unequivocal statement, regional countries have devalued and will continue to devalue. While one shoe does not fit all, there is something to be said about a region that has policy-makers who are imbued with the desire to create a new wheel whenever they enter office. Some regional decision-makers act as if nothing happens until they enter office. Life begins and ends with their term of office.

The logic of the kind of stability and financial adjustment that may have to be practiced in the Caribbean today, in this era of globalization, liberalization, and yes, contagion, is a logic that must put stabilization in the ambit of a steady-state version of structural adjustment. That idea is paradoxical. But, such is the tenor of the times. Today's stability represents structural adjustments in a new paradigmatic sense. The savings and loans crises of the USA, the yesteryear crises of Chile and Mexico, and the current crises in Asia, Russia, and the looming crisis in Latin America, particularly Brazil, are crises that have momentum that are not confined to domestic borders. In the past economic shocks could have been controlled and localize within some limits. Today that is not the case, as Joe Peek and Eric Rosengren (1997) have demonstrated in the looking at "The International Transmission of Financial Shocks: The Case of Japan." The crises of BCCI, the crisis of Barrings, the financial crises in some sections of the banking sector in Jamaica, currently, all highlight instabilities in the systems. In each of these

cases systematic polices may have been applied, but indeed systemic policies were required. One of the many paradoxes of the new mantra of liberalization and globalization, is that those who advocate globalization and liberalization in trade, do not advocate laissez-faire principle in financial institutions. This is not to suggest that monetary controls are the ways to go. Marion Williams (1996: xvii) has argued, that "monetary controls impact on commercial banking performance and on banks' market share, and that the simultaneous implementation of monetary and prudential regulation can undermine the objectives of monetary stability and the growth of the banking system." Her arguments were for Barbados, Jamaica, and Trinidad and Tobago, but they have substance for the entire region.

It is not for the want of policies that the region has not benefited fully from the liberal doses of stability and financial adjustment. If a policy were possible to be tried, somewhere in the Caribbean our institutions and decision-makers would have tried it. Sometimes the new caveats or new experiments are tried long after they are not in vogue elsewhere. Sometimes the economic policies are in sync. Sometimes the economic policies are not in sync. But, all things being equal, today's Caribbean is facing a different set of parameters when it comes to stability and financial adjustment. Many regional economists have discussed the variety of financial instruments used in the region and financial orientations of regional decision-makers. A small sample includes David Marston (1995) for Jamaica; Augustine, Sandiford and Samuel (1995) for the OECS; Latetitia Solis (1996) for Belize; Kelvin Sargeant (1996) for Trinidad and Tobago; Wendy Craigg (1997) for the Bahamas and Mary Zephirin and Dave Seerattan (1997) for the entire Caribbean. There is information, but the question is, to what is extent is the information is being used to address regional issues in a fundamental way? What are the pivotal principles that are addressed in terms of stability and financial adjustment?

Transactions are at the heart of everything these days. Money is still king, but money in the stability space has a new dimension. Our grandparents conducted their transactions with cash, defined in many ways. Today we flash the credit cards as the new elixir of progress. Our level of financial sophistication is directly linked to our involvement in the financial system. Cash is still at the heart of many transactions in the Caribbean, but increasingly we are considered A+ creditworthy if we have gold or

platinum cards. If our checks are automatically routed to the bank from our place of work, if our utility bills are paid through the internet, if we buy books via a website, in sum if we do all of our **e-transactions** via **e-commercial** outlets, we are showing levels of financial sophistication.

Credit cards, debits card abound everywhere. Money, today, is information that moves from computer to computer, from website to website, based on a time frequency that determine its value. The shorter it takes to move from Bank A to Bank B, the more intrusive value it has. The longer it takes, the less value it has. This massive development has encouraged some banks to forget the fundamentals of banking LPS: **liquidity, profitability and safety**. Banks over exposure has meant that financial instability has become the norm, and financial adjustment has become the stuff of which yarns are spun. The case of the Jamaican financial sector is worthy of note as a public sector agency assumes control of troubled financial agencies. While it may appear as if the public sector is using a big stick approach to regulation, the long-term impact seemed geared at introducing a view that global stability of the financial system endemic to Jamaica, is critical. By the same token, the speed with which the public sector moved in Jamaica is of importance to the wider Caribbean. The integrity of the process is important from a stability point of view and from an appreciation that financial adjustments will have institutional rigidities but that they need not be disruptive.

Excessive monetary regulation stifles creative financial performance. In the region there have been instances of arbitrage, derivatives, factoring, credit swaps, premium financing, and the rest. (See Daniel Boamah, 1990, "Debt-Equity conversions and other Swaps: Experience and Prospects for the Caribbean." Many Caribbean studies have focussed on the effectiveness of monetary regulation in achieving macroeconomic goals and objectives while bearing in mind the effectiveness of the regulations of monetary policy. Within recent times a number of studies have gone back to the rudiments of monetary policy, fiscal policy links, as they pertain to reserves and balance of payments.

Carlos Holder and Oral Williams (1995) note, in the context of Trinidad and Tobago that in TT,

> the generous granting of subsidies, duty concessions and increases in the money supply all combined to fuel consumption beyond a level that was sustainable given the rate of investment and productivity and uncompetitiveness of the non-oil tradeable sector. The rapid decline of the reserves after the second (oil) windfall suggested that immediate compression of demand was necessary to bring about internal and external balance. The appreciation of the real exchange rate through terms of trade effects and excess purchasing power also stymied productivity and indicated some need to to implement policies to slow appreciation of the real exchange rate. This might have been accomplished through an incomes policy in conjunction addition (sic) to fiscal and monetary restraint.

Financial crises (banks plus others) "are caused by the over-entry to the industry attracted by booming profits resulting from government controls." (Marion Williams, 1996: 2-3; See also, C.R. Barclay (1978). Stabilization is really macroeconomic regulation implemented to achieve some goal or objective, some policy outcome that ultimately has the objective of enhancing welfare without excessive cost to the body economy. When the system goes out of kilter, there is a need to have some financial adjustment. Financial adjustment is, euphemistically, regulations designed to give movement to the monetary system, to share up the currency system, and to mitigate any financial crises from the money side that will feed or seep into the goods side of the economy. Hence, we are looking at a systemic issue as financial adjustment links to stabilization. The very notion of adjustment presupposes that we are merely tinkering with a system that is smoothly running. We are adjusting. In many respects, as in Jamaica, Guyana, and Trinidad and Tobago, this was not adjustment. With their exchange floating, stability was *more radical financial surgery* than *mere localized surgery* to adjustment. It was the difference between a superficial scratch and a life-threatening tumor.

Financial adjustment in its weak-axiomatic sense has a major impact from a structural adjustment perspective. Indeed, financial adjustment as it is instituted in the region, is primarily structural regulation. Marion Williams (1996: 6) notes that "Structural regulation aims to prevent excessive market power, to limit the potential for conflict of interest, and to discourage financial institutions from assuming excessive risks by expanding into areas that are remote from the main focus of operations and expertise"

Balance on the external account has always been the major concern of Caribbean economies. Fundamentally, the political directorates are encouraged to assume control of the economies and to direct economic development in a macro-management perspective and along structural lines. Today, however, liberalization puts the political directorates at bay and requires that the market place be allowed to make the necessary adjustments or clearing a la the ***Walrassian tatonnement*** process.

Credit rating and control were used at one time or the other in all f the region as part of the financial adjustment of controlling the economies. The manipulation of interest rates. The manipulation of reserve requirements, selective credit controls, selective sectoral credit, shadowing of the interest rate on the low side, liquid asset ratios, as they apply to treasury bills, government bonds, and the attendant conditions have all been used in the region.

In the final analysis, as we consider the pivotal issues involved in stability and financial adjustment, it is important to understand the topic in the context of those internationalization, globalization and liberalization features than now are reality. In its May 12, 1998 Press Release, No. 4/98. The Caribbean Development notes:

"The Management reasoning (is) that the world's financial markets are rapidly integrating into a single global marketplace, which is occurring in parallel with trade liberalisation, a financial phenomenon which the countries of the Caribbean could ill afford to disregard." (CDB, 1998:2). The CDB did not specifically mention stability and financial adjustments but the thrust of the discussion indicated that they were cognizant of the stabilization and financial adjustments in the region.

In retrospect, therefore, all of the key personnel in the region, from the Central Bankers, Development Bankers, theorists and members of he political directorate are fully aware that the twin issues of stabilization adjustment must be high on the agenda. A variety of economic developments in the region and around the world have put the spotlight of attention on the topic of stability financial adjustment. There has been an explosive growth in financial transactions; the complexity of the transactions have become mind-boggling tote ordinary banker and client. Costs associated with the new financial instruments are rising at exponential rates. Those costs are normally passed on the customers in explicit and, too often in implicit ways. The massive growth of financial

transactions, both horizontally and vertically, has meant that financial institutions are now prey to systemic risks and systemic meltdown. In the Caribbean we have long depended on international capital flows. Indeed, it has been convincingly demonstrated that development in the region is linked with foreign capital. Today, however, more so than in the past, "**International capital flows, though generally beneficial for the efficient allocation of savings and investment, now have the power in unstable conditions to undermine national economic policies and destabilize financial systems.**" (Andrew Crockett, 1997:5. Emphasis added).

The multitude of crises for explain of problems in Mexico and the peso problem, Chile and its peso problem, Japan, Russia and the now toothless tigers of the Far East, all serve to show that the systemic links between and among countries are deeper than once was anticipated. The financial meltdown at Drexel Burnham , Proctor and Gamble, Orange County of California, Mettallgesellschaft, Barings, Daiwa, and Sumitomo, provide ample evidence that systemic risks can bring down the mighty and the micro. Financial stability is to be distinguished from monetary stability. Financial stability is the stability of key institutions and markets that comprise the financial system. Monetary stability is stability of the general price level, a la the outlines of Henderson and Quandt that we presented at the beginning of this work. These two types of stability are divisable for intellectual purposes, but pragmatically the linkages between them are pivotal if a country is to maintain some level economic trajectory. Today, contagion is crucial to the survival of institutions and countries. That is why we made the point that when we discuss stability we are concerned with local as well as global stability. Stability is a public goods type of concept. "Confidence in the financial system (of a country) benefits individual participants without imposing costs on others. If the failure of one institution (or one country) causes a contagious loss of confidence elsewhere, the adverse consequences to the system (or region) as a whole may be much greater than those resulting from the initial disruption." (Crockett, 1997:11-12). In the region macroeconomic instability has bi-directional Granger-causal mode into the regional economies. It is imperative therefore, that the macroeconomy be stable, if the financial stability and adjustments are to be achieved. The Caribbean is no loner exotic places on the periphery of nowhere. The region is just as central to the economic risk management

in a Chicago Futures market as a London Interbank rate decision. To review is to remember, to do is to learn. This retrospective is knowledge sharing. It is designed to remember and to learn. But is is also designed to permit some levels of action among decision-makers in the region. In the final analysis, some instability is necessary and desirable. If there is no instability, there is no growth. If there are no risks, there are no rewards. By the same token, too much instability can become systemic risks and increase the chances that countries and institutions get caught in a instability trap from which there is no easy escape.

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OECS CHANGES IN RESERVES (US$M)

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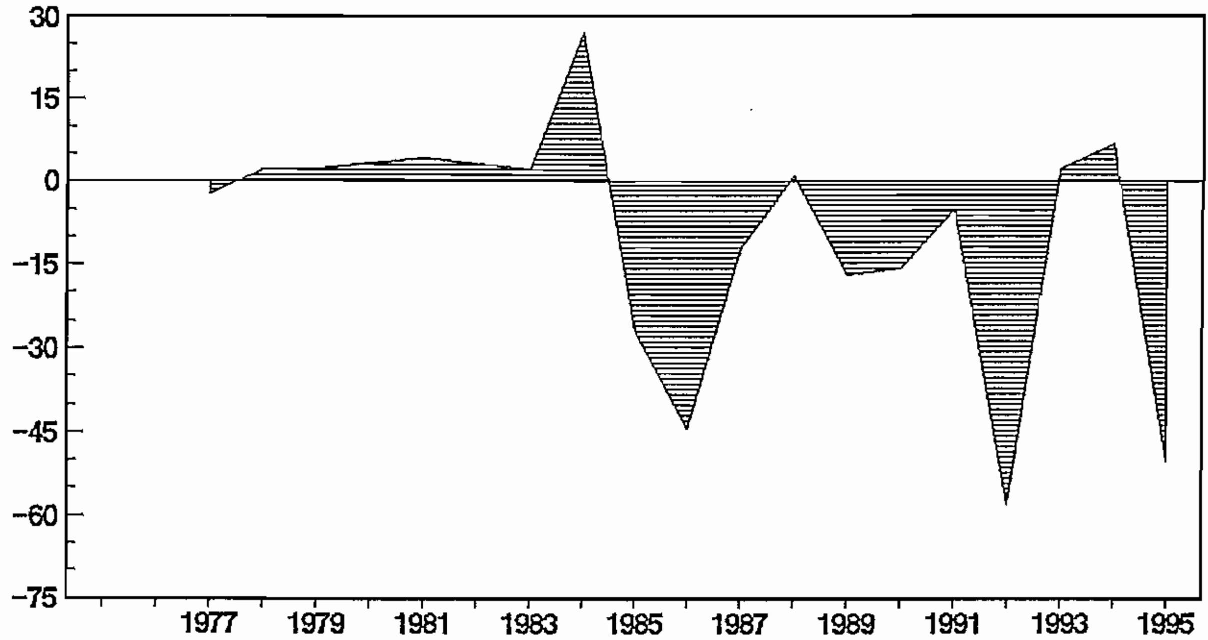

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BARBADOS CHANGES IN RESERVES (US$M)

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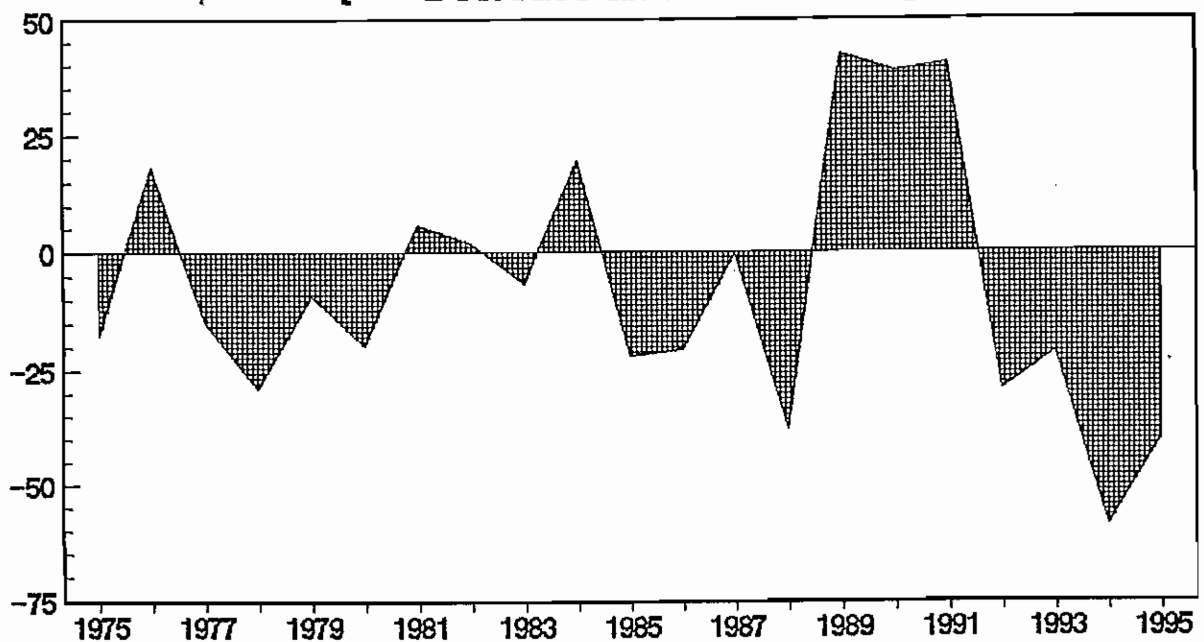

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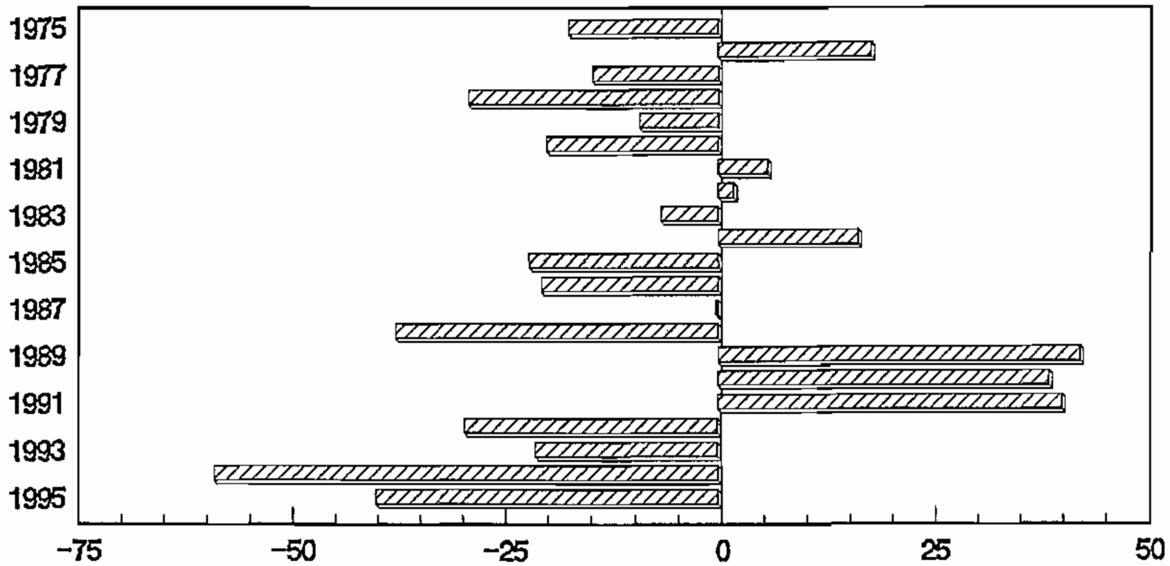

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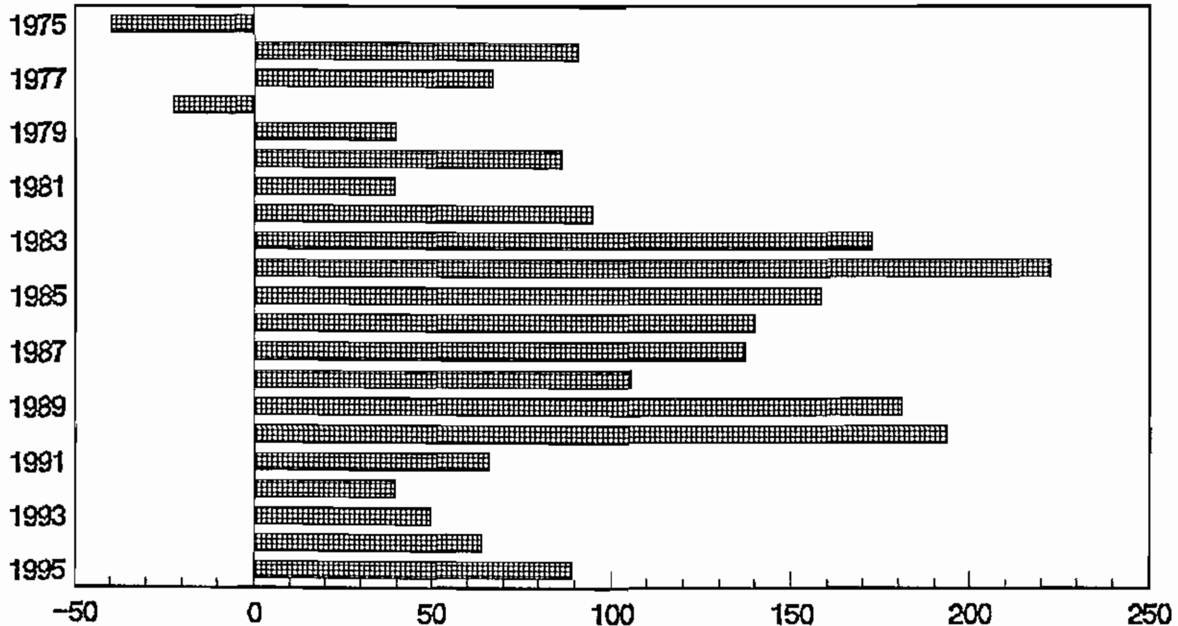

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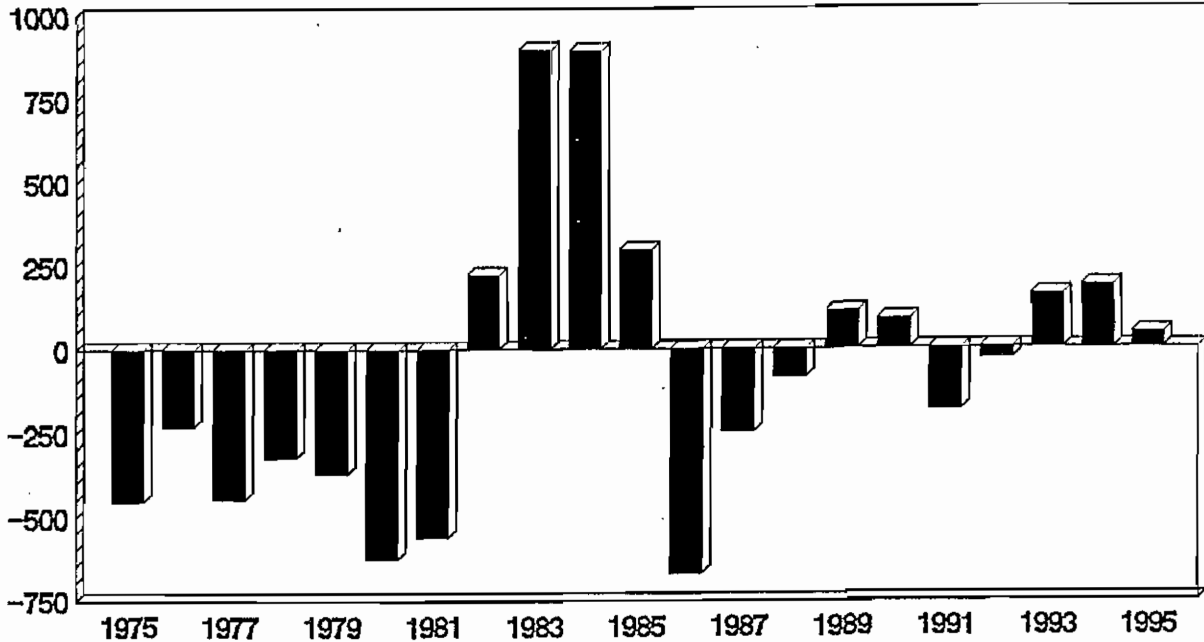
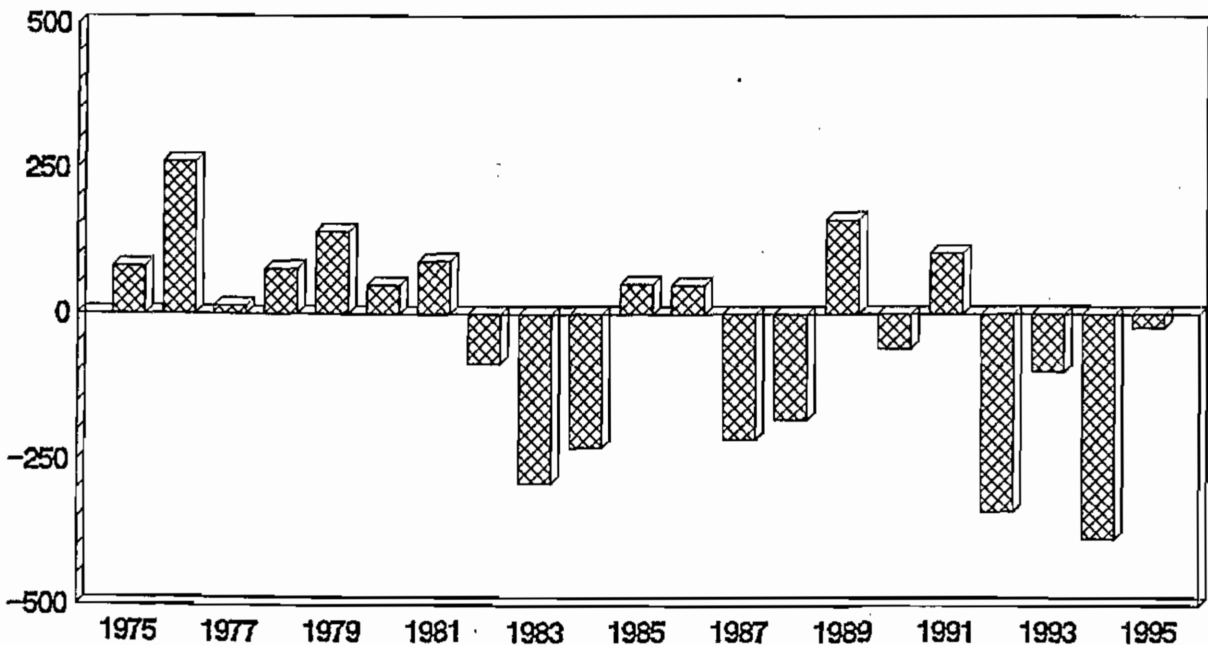

TRINIDAD–TOBAGO CHANGES IN RESERVES
[+ = Decrease and – = Increase] (US$M)
1000
750
500
250
0
–250
–500
–750
1975
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
Source: Table One
10-25-98


JAMAICA CHANGES IN RESERVES (US$M)
[+ = Decrease and – = Increase]
500
250
0
–250
–500
1975
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
Source: Table One
10-24-98