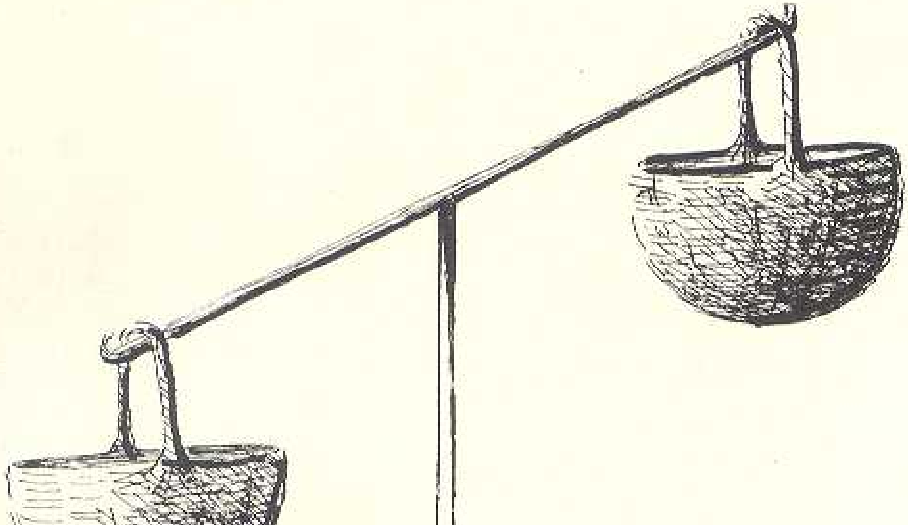
PUBLIC FINANCE AND MONETARY POLICY IN OPEN ECONOMIES



SIMON B. JONES - HENDRICKSON

REGIONAL PROGRAMME OF MONETARY STUDIES

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He has also published a number of articles in academic and professional journals in the Caribbean and North America.

PUBLIC FINANCE AND MONETARY POLICY IN OPEN ECONOMIES: A CARIBBEAN PERSPECTIVE

Addressing the inequalities which exist between classes in Third World capitalist economic systems and, in particular, those in the Caribbean, Jones-Hendrickson suggests, in this valuable and original work, a new approach to public finance and planning in the region. The main thrust of this approach is to be found in the integration of fiscal and monetary policies with the public sector playing "a very active role". The creation of a Revenue Diffusion Fund to provide funds for regional governments is also suggested. Such an approach is necessary, Jones-Hendrickson contends, if economic change and transformation are to benefit also all strata of Caribbean societies simultaneously.

INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH

UNIVERSITY OF THE WEST INDIES, JAMAICA.

To Cora, Emily, Nesha and Marcus —
the visible strength and support in my life.

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A CARIBBEAN PERSPECTIVE

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Preface

The research of this work is the end result of four years of reflection, discussion, teaching and living the topic of fiscal and monetary policy in small countries. When I consider the problems of the very small economies in the Caribbean, the "microstate economies" as we call them at the Caribbean Research Institute, I see a gamut of problems. In this respect, the issue of maximization of the benefits of two salient policy options looms large. The idea of really using fiscal and monetary policy to obliterate at most and minimize at least, some of the inherent problems in the Caribbean systems came as a result of my reflections on developments in the Caribbean between 1973-75. With the era of destabilization tactics, a thought that the region needs to take a closer look at the policies opened to it and to try to determine its own destiny was triggered in my mind. I, therefore, considered the idea of an integrative fiscal and monetary policy in the Caribbean. The idea, I am sure, is certainly not new. But, few scholars have articulated the concerns that we have developed in this work.

The purpose of the work is manifold. However, only three will be mentioned. Firstly, we intend to shed some light on the nature of fiscal and monetary policy performance from 1955 to 1979. Secondly, we hope to galvanize a new awareness among Caribbean bureaucrats and technocrats regarding the need to reassess the potential and power of using fiscal and monetary policies for the various strata of society. And, thirdly, we hope to open dialogue with the political directorate, on the urgency in coming to grips with the inequities in the present Caribbean economies. We believe that many of the inherent problems are attributed to the lack of coordination of forces or policy options.

Implicity, the work is addressed to a Caribbean audience: the civil servants, the bankers, the political directorate and the academician. The work may be a useful text which complements those books on public finance which are now emerging in the Caribbean. Finally, this work is written as a thought provoker for those technocrats who have to labour to translate economic suggestions into political realities, policies and possibilities.

Economists and political economists, by and large, do not run the affairs of State in the Caribbean (or elsewhere for that matter). That task has been in the hands of civil servants. The civil servants are sometimes perceived as an amorphous mass of people who obtained their original groundings in British related systems. As a result, they tend to be sympathetic to the accepted British norms or perceived mores of that European society. Herein lie the problems. What is good for Britain need not be good for the Caribbean. Too often, however, the view was fostered that if it is done in the "Mother country", it must be done in the colony; it must be good for the colony. The civil servants and the political directorate were the translators of this "Mother country" syndrome.

Conditions have changed, but some of the changes are cosmetic. Economic and politico-economic analyses are integral to the types of policies which take place in the region. Nevertheless, there seems to be a desperate need to maintain the *status quo, vis-a-vis* certain institutional arrangements. I am suggesting a line of departure which seeks to put into effect a novel development geared to generating more benefits for more people.

The political directorate are fundamentally the ones who direct policies. They make decisions. Civil servants implement decisions. Economists and political economists make suggestions. Our suggestions are pinned to the idea of minimizing the inherent weaknesses of Caribbean economic systems. The integrative fiscal and monetary approach is normative. I do not have any apologies for this approach, primarily because I believe there is a place for normative ideas within the political and economic arrangements of the Caribbean.

There is a need for urgent transformation of the Caribbean economies. There is a need for greater militancy on the part of the political directorate to put into effect programmes which would have substantial benefits for more people than currently share in the region's wealth. The region's decision makers have to try and steer clear of reformist policies which placate the rising tide of expectations, but which do not solve the underlying problems of inequities and inequalities in the region.

We are suggesting a new approach to change and transformation in the Caribbean. Fiscal policies are necessary but they are not sufficient. Monetary policies are crucial to the transformation process. Both sets of policies should be in concert if the maximum benefits are to be derived from their coordinated implementation. Their integrative effect is critical in the transformation process. We are not here suggesting instant solutions to the problems of the Caribbean or any other Third World country. We are merely presenting a set of options which have the potential of providing greater benefits to more people than currently obtains. How do we know the options will work? We have no way of pinpointing the exact specifics. Given the nature of the economic system, and given the centralization in State activity being suggested, it may be inferred that the options have a strong possibility of generating the requisite benefits.

If at times the work seems critical of other types of economic arrangements, I have recognized the problem. My view of this criticism rests on one main premise. Public finance in the industrial Centre capitalist countries has, as its spine, individual consumer choice. I do not believe that the individual consumer choice model is fully applicable to regions such as the Caribbean.

Empirical evidence abounds in the literature to substantiate this view. My suggestion of the State as the centralizing force stems from my view that the public sector is the one agent that can perform the necessary and sufficient roles of generating benefits for most of the people, most of the times. The private sector's philosophy does not gear it to such a predisposition. On the other hand, the public sector could be forced to carry out this mandate on behalf of the people. Public finance and monetary tools could be instrumental in the necessary change. For too long the peripheral capitalist economies have operated according to the 'invisible hand'. That 'invisible hand' has been the hand of wrath for many low income strata in these peripheral capitalist economies.

The integrative fiscal and monetary policy approach takes off from what is and moves to what ought to be. One weakness of this approach lies in the carry-over problems the present situation may generate in the new approach. This is one problem that the political economists would have to tackle head on. Change for change sake is useless. Change to advance and enhance a people's welfare is certainly worthy of obtaining. Our work suggests a mechanism for change that attempts to enhance the welfare of more people in the Caribbean.

The work raises many more questions than it seeks to answer. I sincerely hope that other economists and political economists who find the questions interesting, intriguing, thought provoking and worthy of pursuit, will link forces with me in the articulation of a dynamic theory integrating fiscal and monetary policy options for peripheral capitalist countries.

Many persons influenced my thinking in the formulation of the ideas in this work. George Beckford, Compton Bourne, Al Francis, Claremont Kirton, Dwight Venner and Adlith Brown of the Mona campus of the University of the West Indies (UWI) were instrumental in shaping some of my ideas. Compton read and made extensive comments on the manuscript. Jerome McElroy of the Caribbean Research Institute (CRI) read and made comments on the first five chapters. Along the line, I tested ideas on some of my colleagues at the College of the Virgin Islands, among them Frank Mills and Malcolm Kirwan. My public finance students at the University of the West Indies between 1973-75 had to suffer through some of the present conceptual problems in the work. During 1975-79, my students at the College of the Virgin Islands had to endure a similar ordeal.

The data in this document were collected and collated by Andrea Watson-James who was a graduate student at UWI. At the College of the Virgin Islands, Richard Skerrit continued the task of data collection and

organization. My colleague and friend, Frank Mills, gave a tremendous amount of his time in running the computer programmes for the empirical sections. Ronald Joseph, Director of our College's Computer Centre was also very generous with his time.

The typists are at the backbone of this work. Corinne Halyard, my wife's secretary, did a considerable amount of the first drafts of Chapters One through Four. Sandra Testamark, Linda Molyneaux and Romanella Henry of our Caribbean Research Institute staff were instrumental in getting out the final document. A big thank you to all of them.

My most sincere thanks is to my wife, Cora Christian, who stuck with me, prodded me and questioned me about this work until it was completed. Her patience is remarkable.

Finally, I would like to thank the Regional Programme of Monetary Studies and its Director, Compton Bourne, for making this work possible.

The errors which will be found are my own.

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CHAPTER 1

THE NATURE OF THE SUBJECT

Within recent years, the issue of public finance[1] has assumed an increasing degree of importance in the Caribbean. While several Caribbean works[2] provide descriptive information regarding the nature of the subject, none of these works have explicitly taken the component of monetary policy into consideration in a formulation of public finance policy. Given the state of the arts in the region, as it relates to monetary policy, it is surprising that there has been no systemic treatment of the interaction of public finance and monetary policy in these open, dependent economies.[3].

In the region, the lack of a concrete and unified coordination of monetary and fiscal policies stems from a series of interrelated factors culminating in a nontreatment of the subject matter.[4] This work proposes to demonstrate that there ought to be an integrated treatment of public finance and monetary policy in the Commonwealth Caribbean, and also to examine their impact and incidence on the economies under consideration.

Public Finance is restrictively defined as fiscal policy. This restrictive definition permits an understanding of the forces underpinning monetary policies in the Caribbean. The orientation of the definition is towards a general equilibrium view, as opposed to the partial equilibrium view.[5]

By definition, fiscal policy is used here as that component of economic policy which is specifically geared to the inflow of revenues (R) and the outflow of expenditures (E) of the public sector.[6] In addition to the inflow and outflow, there is also concern about the interaction between the flows and the socio-economic impact on the inflows and outflows on the sum total of public sector operations currently obtaining and what may obtain.[7]

Our concept of the fiscal policy model is based on the diffusion process[8] where *inflow of Revenues* (R) into the public sector fisc (F) from other fiscs during fiscal year $\triangle y$, minus outflow of Expenditures (E) from the public fisc (F) during fiscal year $\triangle y$ *equal a net accumulation of revenues in the public fisc. The revenues are assumed to be some* "welfare pool" which is at the disposal of the public sector. In the context of this diffusion process, we are viewing the movement of revenues in and expenditures out of the system in a dynamic framework. (Appendix 1 provides a mathematical outline of the diffusion process under discussion).

PUBLIC FINANCE AND MONETARY POLICY

Due to the open nature of the Caribbean economies, the socio-economic development of monetary policies in the region[9] and the benign neglect of public finance, the Caribbean economies have found that public finance was thrusted upon them in a state of unpreparedness. In other words, the Caribbean countries have a high preponderance of imports *vis-a-vis* exports. Many economic decisions regarding trade and aid are made outside of the system and fiscal policies were linked to the Mother country as the territories of the region were not operating full policies of their own making. By the same token, monetary policy, such as what existed, was reflective of the situation which obtains between a branch plant and its headquarters. No definite efforts seemed to have been made to change these conditions more favourably in the interest of the territories concerned.

Basic to this work is an assessment of the developmental impact of public finance and monetary policy in the Caribbean. In other words, the work seeks to determine how public finance has assisted or hindered development in the region; and how those policies stemming from the nonintegrative nature of the two have enhanced or retarded development in the region. The policies will be viewed as exogeneous and endogeneous in a simultaneous ordering of the economic system.

Purpose of the Study

The main purpose of the study is to discover the impact and incidence of public financing on monetary policies and to evaluate the operations of public financing in open, dependent economies. Specifically, the study intends to:

(i) determine the "integrative" effect of public finance and monetary policies in the Caribbean economies;

(ii) evaluate the disequilibrium mechanisms inherent in the policies, either (a) as arguments in the policy options or (b) as constraints on the policy options;

(iii) ascertain the degree of importance of public finance in these partially developed monetary markets;

(iv) determine the expenditure effects/incidence attainable in the Caribbean economies from a public finance/monetary view;

(v) compare, contrast and assess the strengths and weaknesses of fiscal policies in the Caribbean economies; and

(vi) analyze factors which impinge on the operations of public finance and monetary policies as a result of the external decision making.

It is instructive to detail the six components which underline the study.

(i) By determining the "integrative" effect of public finance and monetary policies in the Caribbean economies, we mean an analysis which seeks to discover how the two sets of policies have or have not worked: why they have not worked and what are the identifiable constraints.

(ii) The evaluation of the disequilibrium mechanisms, inherent in the policies, seeks to come to grips with those problems which were peculiar to the type of public finance and monetary policies practised in the region. In other words, what was it in the nature of the public finance and monetary policies that seemed to hinder as opposed to helping the unfettered development of the Caribbean region? How did the arguments or the substance of the policies act as constraints on development?

(iii) By ascertaining the degree of importance of public finance in the region, we are interested in focussing implicitly on the role of the state in the production and the provision of public goods and services. Specifically, the issue is one of defining the real scope of public finance in the region, as opposed to the mythical scope.

(iv) The determination of expenditure and incidence effects logically follows from purpose number (iii). If we can determine the scope of public finance then we may be able to identify (a) which income strata are benefitting from the public finance policies, and (b) how and why monetary policies aided or could aid in any adjustment process, that is, from the point of view of equity.

(v) The strengths and weaknesses of fiscal policies and their monetary implications are to be assessed primarily because of our working hypothesis. We are dealing with two sets of policies which have been operationalized along seemingly distant lines. What we are suggesting and attempting is a method that compares, contrasts and assesses the two sets of policies from a systemic whole.

(vi) Finally, the sixth component of the purposes seek to crystalize the factors of external decision making on the two sets of policies. The question that we seek to answer is, what were the external factors from Britain and elsewhere that manifested themselves in public finance/monetary policies? How did those factors help/hurt the Caribbean economies?

Background to the Study

The primary thrust of this study is to present public finance as a means whereby the public fisc seeks to (a) redress inequalities in the economic system; (b) aid in the redistribution of income and wealth; (c) enhance the countries' "economic absorptive capacity"; and (d) implement selective policies aimed at improving the "conditions" of target strata in the societies.

Public finance is defined as a deviation from the strict interpretation of Keynes' fiscal policy prescriptions. The fundamental tenets of these prescriptions require that the public sector coordinate its revenues and expenditures according to the primary objective of specific taxes and expenditures and manage aggregate taxation and expenditure policies. The pursuit of the latter objective enhances the promotion of desired macroeconomic prescriptions. That is to say, the balancing of budgets preserves stability to a great extent, but there is no guarantee that benefits would reach all strata of society. While stabilization policy is an important tool of public finance, this study assigns it a second order priority. The assignment is based on a subjective view of the priorities of public finance in the Caribbean open, dependent economies, where policy prescriptions of a structural nature are of greater functional fiscal priority than pure public finance, as currently obtains in metropolitan economies.

For the purposes of this study, fiscal policy may be defined as any policy aimed at facilitating structural transformation in the macro/micro impact of public receipts and expenditures. Likewise, monetary policy may be defined as any policy geared towards increasing or reducing the cost and availability of funds for economic ventures. These decisions hinge on the possible effects or influences on variables such as wages, prices, employment and income.

The literature on fiscal and monetary policy in the metropole attests to the difficulty in isolating the fiscal effects from the monetary effects of a given policy, once the policy has been implemented. In the Caribbean, it is extremely difficult, if not impossible, to separate the public finance-monetary effects of many economic policies. Perhaps, there is no need to do so. It would seem that an arbitrary designation of policy instruments and exact designation of the impact of those instruments may be more beneficial to the Caribbean economies. Specific agencies of policies may be seen as fiscal agencies sometimes, monetary agencies at other times and also as dual agencies.

Specific Aims

Inherently, the study seeks to deal with two ideas in the Commonwealth Caribbean (CC). The first is that public finance may be a weak policy prescription in the structural reorganization of economic activities and, secondly, that the dynamics of monetary policy seem to be a constraint, and not a companion tool, of public finance.

The first idea seeks to analyze the situation wherein Britain fostered a politico-economic climate in the Caribbean economies where public finance was not given the same prominence as it was given in Britain itself. The analysis will be done in the context of the Keynesian system that was permitted to develop, the studies which demonstrated that this system is useful in the region, and the welfare issues associated with the British oversight functions and the budgetary process. Our main contention in the second idea is to demonstrate that monetary policy could not have developed into a dynamic policy because of the nature of banking in the region since multinational banks performed on their own and miniaturization has been a failure. This failure meant that the central banks were unable to control banking policy and money supply in the region. In this respect, monetary policy was not a very powerful tool, as the central banks claim. The problems within the banking system and the problems generated by the multinational banks made it impossible for the central banks to have an effective monetary policy. It will be argued that this ineffectiveness of monetary policy also meant that fiscal policy impacts were ineffective. This point has to be appreciated in light of the stated view regarding the integrative nature of monetary and fiscal policies.

Scope and Significance of the Work

The systems covered in this work centre on the Commonwealth Caribbean . At times, however, references will be made to other countries in the region which are critical to the analysis. The period under study is 1950 to 1975. Time series analysis for the individual economic units and cross section analysis for all of the CC units will form the substantive basis of analysis.

This work will lend itself to the development of the integrative aspects of public finance and monetary policies in the Caribbean as current literature on Caribbean public finance is almost exclusively concerned with tax and fiscal harmonization policies. Given the all pervasive nature of public finance and monetary policy and the highly conflicting policy options which seem to arise from their uncoordinated implementation, this study seeks to understand these conflicts.

It is vital that the work be viewed as one seeking to define the "precise" impact of public finance and monetary prescriptions in open, dependent Caribbean economies. The definition of such a prescription is necessary due to (a) the current economic organization of the Caribbean; (b) the need for coordinated public finance policies; and (c) an *urgent* need for minimizing the contractionary forces resulting from a seriatim implementation of fiscal and monetary policies, as opposed to a simultaneous implementation of these policies. Undoubtedly, the "harmonizing" of these seemingly discordant and divergent policies will offer more effective control of the Caribbean economic macro-system.

Methodology

This work begins with a few simplifying questions. From the body of those questions certain inherent relationships are derived. Our focus is on the conclusion emanating from these relationships. Finally, the conclusions are put in view to establish some "truths". Placed in a proper perspective, the aim of the work is to develop a set of theses which adhere to (a) operationality, (b) validity, (c) scope, and (d) significance. Central to the presentation is the precept that a core of meaningful propositions may be developed from the work, even though there are some hazy definitions of monetary and fiscal policies in the Caribbean. Minimizing the haziness is to be seen as maximizing the usefulness of the propositions to be developed.[10]

In the integration of theory and real world phenomenon, a normative approach will be used. The rationale rests on our interpretation of the characteristics of the economies in question. A substantial quantum of normative features operates in the system, hence, our rationale appears expedient. Such an approach may permit margins of error in judgement.

Nonetheless, we believe the approach is a useful one in that it represents some of the salient thresholds in the Caribbean society, and could be vital not as as an end in itself, but as a means of coming to grips with socio-economic policies within a framework of "unified alternatives".[11]

There are seven chapters to this work. Following this introductory chapter, the past and prologue of public policies in the region is the focus of Chapter 2. Chapter 3 establishes the theoretical framework of the "integrative" nature of public finance and monetary policy. This chapter is followed by a discussion of public finance in the open, dependent economies of the Caribbean. Factually, the views presented in this chapter are a positivist view of the operations of public finance in the region. Chapter 5 is the normative variant[12] of Chapter 4. Here, the ideas regarding what ought to be done in the public finance sphere are outlined. Chapter 6 expands on the specific aims of the study and some public sector relationships with the aim of illustrating the scope of some of the characteristics of Caribbean economies. Finally, Chapter 7 establishes a set of ideas in the coordination of public finance and monetary policy in the Caribbean economies.

The fundamental task of the work is the study of those objective relations between public finance and monetary propositions which will condition the validity of the inferences by which the analysis purports to move from premises, suggestions and assumptions to some sound conclusions. The succeeding chapter addresses the weaknesses of the Keynesian framework. Dissatisfaction with Keynesian analysis is certainly not new and, for purposes of our perspective, this is a logical point of departure. In many ways, Keynesian analysis in the region is ideographic as opposed to a sound nonsymbolic system.

NOTES

1. Technically, one should think in terms of micro-public finance and macro-public finance. For an exposition, see Shoup [1969] and Peacock and Shaw [1971]. The latter gives a theoretical approach to the two concepts.
2. See Andic and Andic [1968]; Andic and Andic [1973]; Odle (1976].
3. On the issue of fiscal policies and the open economy case, see Odle [1976] and Ramjesingh [1974].
4. Jones-Hendrickson [1976] discusses this issue for the case of Jamaica. This lack of adequate treatment of public finance in the region mirrors the fact that Caribbean economists are of the Anglo-Saxon world. It ought to be recalled that since 1880, public finance was a hot debate among French, German, Austrian, Swedish and Italian scholars. The Anglo-Saxon world and its "derivatives" picked up that train of thought very late. Musgrave and Peacock [1967] provides some insights into the development of public finance thoughts.
5. Burkhead and Miner [1971] present one of the better analyses of general equilibrium concepts as opposed to the partial equilibrium cases.
6. Jones-Hendrickson [1976]presents some views on the general concept of the public sector. This case is for Jamaica but it has a Caribbean-wide frame of reference.
7. For a very broad definition of fiscal policy, see Shaw [1972]; Shoup [1969] also provides a useful definition.

8. Jones-Hendrickson [1976] discusses a similar model in terms of the diffusion of nursing services.

9. Reference is being made to the class structure of banks, the foreign domination of the banking sector and so on.

10. For an interesting discussion of this perspective, see Bertrand Russel [1956: 321]. He states, "a body of propositions such as those of pure mathematics, or theoretical physics (or theoretical economics) can be deduced from a certain apparatus of initial assumptions concerning initial undefined terms. A reduction in the number of undefined terms and unproven premises is an improvement since it diminishes the range of possible errors and provides a smaller assemblage of hostages for the truth of the whole system."

11. By this we mean those features of fiscal and monetary policies which are used in a combined effort to tackle the systemic problems.

12. This normative variant of the public sector has an active counterpart in Musgrave [1961].

APPENDIX I

In terms of illustration, our concept of fiscal policy and the diffusion process is such that there is an inflow of revenues (R) into the public sector fisc (F) from other fiscs during the fiscal year $\triangle y$ minus outflow of expenditures (E) from the public fisc (F) during the fiscal year $\triangle y$

$$= \int_{y_i \emptyset}^{y'} [Rf(y) - R'f(y)]\, dy \qquad (1.1)$$

where $Y'_i = Y_i + \triangle Y$ and R' + Expenditures. The "accumulation of revenues" in the public fisc during the fiscal period $\triangle y$

$$= W_f R_f(y) \Big|\, y'_i - W_f R_f(y) \Big|\, y_i \qquad (1.2)$$

where W represents the "welfare pool" at the disposal of the public fisc.

CHAPTER 2

THE PAST AND PROLOGUE

This chapter is devoted to the past and prologue of public finance policies in the Caribbean. Monetary policy has been usefully discussed elsewhere and as such, it will not be discussed here.[1] The static view of public finance policy will be discussed followed by a discussion of Keynesian fiscal policy in the region. In the next section, constraints of Keynesian fiscal policies will be detailed and this will be followed by a discussion of concerns of regional fiscal policies. The chapter concludes with a reassessment of the ideas developed and a reiteration of some of the points regarding the weaknesses of the present fiscal system.

Static System

Smith and Keynes may be attributed the honour of formulating the public finance precepts as they are practised in capitalist economies. Smith's role of the state is well documented in *The Wealth of Nations*. He perceived the role of the state as being a godfather in the production and provision of public works to benefit societal needs. His rationale rested on the grounds that although the citizens may benefit, they may not be able to pay for the services that are being provided for them [Smith 1776: 681].

Of striking importance and similarity is the Keynesian "Agenda of the State". Keynes saw the role of the state as fulfillling those activities which the private sector was not fulfilling, as well as doing those things which no one else would do, due to the lack of a profit motive inherent in the activity.[2]

This similarity between Smith's and Keynes' role of the state is reflective of the liberalism inherent in classical and Keynesian economics pertaining to the so-called positivist orientation of the linkages between the role of the state and the expressions of the subject. As Robins intoned, it would be a paradoxical perspective to present Smith as an "enlightened interventionist"; the perspective may be better portrayed of Smith as one reducing the "functions of the state to those of a night watchman". [Robins 1962: 100].

Keynesian oriented public finance mushroomed, despite early critical analyses of the classical thesis which Keynes sought to overthrow, but which formed an integral part of his public sector exposition. As early as

1847-48, Senior, in a set of lectures at Oxford University, demoted the classical notion of *laissez faire*. Essentially, Senior conceived of the role of the state (and the companion "duty" of the individual) as one whereby the general benefit of the community is maximized. Whatever lies within the power of the state to enhance the benefits of the people must be undertaken and followed through. The frustrations of "power" should be the only constraint preventing the state from enhancing the general welfare of the people.[3]

Despite this early attack by Senior, modern proponents of capitalist dogma have persisted in arguing that competitive capitalism is a necessary (and perhaps a sufficient condition) for political freedom. The government's role should be one of leaving well alone. The greatest modern day exponent of this conservative view is Milton Friedman.[4] In his *Capitalism and Freedom*, he defines the role of the state as that of maintaining freedom in a capitalist society.

Many of the academic ideas in Western economic literature have entered the politico-economic sinews of Caribbean economies. Hence, it is not surprising that tenets of the Keynesian and Friedman views of public finance and public sector activities are prevalent in Caribbean countries as well as other countries of the Third World. By and large, the type of public finance practised in the Caribben is closer to that of the Keynesian preconditions, than to the Friedman non-interventionist position.[5]

One final point is worth noting before Keynesian fiscal policies are considered. Keynes' view on the role of the state left him open for attack. Although Keynes pointed out that the state should do these things which were not being done, he fundamentally failed to visualize that the private sector, in many developing countries were imbued with a kind of "destiny of operations". In other words, their performance is motive oriented. What they do may be inefficiently done, poorly implemented, or when effectuated, leaves nothing to be instituted by the state. The Caribbean offers a sound example of the last point. In the case of mineral and other exhaustible resources, the state can ill afford to permit the private sector and transnational firms to exhaust the region's resources. Active fiscal policies would seem to be an appropriate line of departure, but expediency would dictate the relevant public policy thrust or decisional matrix to be pursued.

Keynesian Fiscal Policy in the Caribbean

In capitalist, capitalist-oriented and peripheral capitalist systems, the principal view of fiscal policy and economic growth and development is that fiscal policy should be geared towards sustaining continuously high employment levels at stable prices. Such a policy would lead to the maximization of growth. This view holds that potential output has a tendency to grow more rapidly when there is constant pressure on actual output.[6]

The preceding view is of doubtful validity in the Caribbean where structural factors underpin employment in the labour market. It is very difficult to conceive of pressure on actual output when unemployment militates against the output growth and when other socio-political factors limit the economies from attaining the output of which they are capable. These factors will be discussed later.

In the Caribbean, fiscal policy as practised by the governments of the region, is basically one of balancing expenditures and revenues.[7] Like most developing, dependent, peripheral countries in the capitalist sphere of influence, these economies adopted fiscal policies which are heavily overlaid with Keynesian preconditions.[8] Basically, the Keynesian preconditions undergirded the notion that underemployment was solvable by adequate doses of public sector expenditures which would impact, positively, on private sector investments and individual household consumption. Crucial to the lessons learnt from the Keynesian precondition was the disposition of excess savings. The excess savings do not result in higher levels of investment and accelerated growth. Instead, unemployment and lower levels of aggregate income occur. As is well known, this is emphasised in Keynesian economics where *ex ante* savings/ investment need not be in equilibrium, and specifically, *ex ante* saving may be greater than *ex ante* investment.

In the Caribbean, the evidence points to the adoption of Keynesian public finance policies *in toto*. The most telling aspect of the Keynesian dogma in the region is the prescription which mandates that public sector expenditures be utilized as catalysts to stimulate aggregate demand within the local economies.

The point must be acceded to that public sector expenditures do have some positive short run impact on aggregate demand in peripheral capitalist and capitalist countries, as Heller [1968] and Andic [1968] have argued. A number of American economists have attested to that fact in the case of the United States of America. In a very simplistic schema, public sector expenditures injected in roads and other public works increase employment which lead to a rise in income, which, in turn, leads to an increase in consumption and so on. Constraining all changing factors to a constant path, the initial public sector injection will make it possible for secondary, tertiary and n^{th} order effects in the economic system such that the public sector can capture, *via* an efficient "tax dragnet", some revenues from the increases in the national product.

Constraints to Keynesian Fiscal Policies in the Caribbean

The whole scale adoption of Keynesian fiscal policies was constrained by several factors. Some of the factors were inherent in the nature of the theory while others obviated themselves in terms of the fiscal policy model that was being followed in the region. A few comments on the latter are in order. The model of fiscal policy practised in the Caribbean was supposed to be related to that practised in Britain. It has never been clear, however, which detailed specifications were being followed. Was the region following Britain's overall "kingdom", local government, borough or county public finance? The evidence is not clear as to what angles were being pursued. An outcome of this uncertainty in methodology was a hodge-podge schema of public finance that entails aspects of almost all of the types of public finance as practised in Britain. The basis of this procedure was embedded in the fact that the Caribbean public finance had a built-in lag *vis-a-vis* the method in operation in Britain.[9]

Another peculiarity of the fiscal policy model that developed (or was perrmitted to develop) in the Caribbean was indirectly related to the *laissez-faire* principle and the policy of philanthropy. Serious economic history of the region highlights the inadequate social welfare position of the islands. The low level welfare had *some* weaknesses pinned to (a) the low level of finance that was retained in the islands; (b) the inadequate marshalling of capital for further reinvestment in the region; and (c) the theoretical and policy underpinnings of the *laissez-faire* system. Public finance was further constrained and, as a consequence, failed to attain a dynamic role in the economies of the island due to the concomittant philosophy of philanthropy.

This "philanthropic syndrome" undermined the need for fiscal development, maturity and responsibility[10]. Missionaries, religious and charitable institutions attempted to carry out the work of the state.[11] For example, it was a general custom in many of the islands for the poverty stricken, the mentally ill and other wards of the state, to be given assistance through parochial contributions. These parochial aids were, in turn, partially underwritten by legislative appropriations and subventions. In retrospect, the state was "freed" of its duties of the provision of goods and services for its people.

The advent of Friendly Societies in the Caribbean owes much of their importance to the policy of benign neglect that the state followed *vis-a-vis* improvement of the communal welfare. This dereliction of the role of the state, hence the underdevelopment of the public sector's fiscal dynamism, stimulated the Friendly Societies to cater for the needs of the people. Monetary aid, in times of sickness and death, was provided by these societies to large numbers of people. 'Partner-hand,' 'pardner,' 'sou sou' and 'box' may also be seen as another mechanism of providing the wherewithal of social services to a significant number of persons in the region. The latter social organizations were examples of short run attempts at coming to grips with the inadequacies of weak fiscal policies.

The overriding thesis which ought to be gleamed at this conjuncture is this: *the theoretical tenets of laissez-faire was a signal barrier to the development of the role of the State in early Caribbean development. Laissez-faire* did not permit an active role of the state or active development of public policies.

A third factor regarding the fiscal policy model that was followed revolves around the bureaucrats of the colonial office both in London and in the Caribbean. It seems to have been a policy of the Exchequer's office to send third rate government officers to the colonies to advise the state on its fiscal policies. In too many instances the only experience these officials had was their sojourn in some "overseas this" or "foreign office that."[12] In other cases, the British resorted to amalgamation of the colonies with the implicit aim of reducing the flows of grants-in-aid to the colonies. The many groupings and regroupings of the islands over the years point to some fiscal manoeuvres on the part of the British[13].

Of *major concern,* however, is not the colonial adoption of public finance as the colonies had few choices and policy options. Since a significant quantum of funds was entering the region from the Colonial Welfare and Development Office and since the British Colonial Office imposed very stringent fiscal requirements on budgetary balances in the colonies, the manoeuvreability of the islands was severely constrained. Therefore, this concern is related to the factors of constraint which are inherent in Keynesian fiscal theory and policy prescriptions. These constraining factors cover both substantive logical application of the theory and the prior questions relating to the implementation of the policy. Substantively, Keynesian fiscal analysis was never intended to be operable in open, dependent economies[14]. Indeed, neither the economics nor politics of Keynes were intended to be applicable in economies such as those obtaining in the region.[15]

Recent economic developments have demonstrated that Keynesian economics cannot deal with the issues of unemployment and inflation.[16] No satisfactory explanation has been given by the analysis for the permanently increasing army of unemployed who constitute the bulk of the lumpen proletariat of Caribbean societies and the so-called Third World. As Turnham and Jaeger [1970] have noted, even the Keynesian long run solution to the employment problem in developing countries is not operable. In addition, the acceptable short run solution to the deficiency in aggregate demand leaves much to be desired.

Of salience, also, is the lines of demarcation between households and firms which, in the case of the Caribbean, are blurry. In Jamaica, Guyana and Trinidad, *many of the households are the firms.* The upshot of this "di-unital" schema[17] introduces a phenomenon that what is saved is, in essence, a transference into capital accumulation.[18] If we are to stretch the analysis of the households, the evidence seems supportive of the case that the household savings are low.[19] In the capital starved economies of the region, the monetary sector is constantly bombarded with requests for loans, advances, overdrafts, as well as other credits, (witness the case in Jamaica in 1973-74 before the Bank of Jamaica curtailed the overdraft privileges). The resulting impact of this situation is that *ex ante* saving has a general tendency to lag *ex ante* investment, thereby propelling the economy into inflationary situations, coupled with pervasive unemployment that has never fallen below 20 per cent on average over the past three generations of economic planning in the Caribbean.[20]

A fourth factor is the effectiveness of a taxing system to capture the increments in National Product resulting from public sector stimulus. (The point is well taken that tax policy for economic transformation is a useful line of operation). From a macroview, the thrust of the tax policy will be on aggregate demand and its impact on the quantum of public sector expenditure for transformation. On the micro-side, the orientation is on the weight of the public sector expenditure, on household decision-making with the resultant impingement on the transformation process.[21]

In the Caribbean, however, the tax system seems to be failure prone.[22] This tax system, as a failure prone mechanism of capturing revenues, puts undue burden on the state to adopt policies of debt financing which eventually worsen the fiscal situation and forces the regional governments into accommodating policies with the multinational aid-lending agencies.[23] In many instances the regional governments have had to adopt "about-face" policies because the fiscal and money policies failed to generate the requisite financing.

Central to the weak tax system in the region is the corollary of revenue allocation and income redistribution. Given the relatively low levels of public sector investments over time, the regional governments have been consistently faced with the nature of *who* benefits, *when* and *from what* type of public sector expenditures. Francis [1977] has detailed some of the inherent weaknesses from an historical point of view. His focus was the Eastern Caribbean where *laissez-faire* was used as a mechanism of non-intervention. Added to this, the private sector was not receptive to governmental intervention. The outcome of these conflicting structural *versus macro* considerations was a paper taxing system, ostensibly designed to fit the peculiarities of the Caribbean.[24] A close assessment, however, shows that the tax mechanism was merely a series of taxes which were low revenue generators with associated high compliance costs.

Core issues in this tax problem were essentially the features surrounding the political economy of tax reform.[25] These features can be examined at two levels. One level pertains to the capability of the public sector in effectuating policy options which is functionally related to the strength of the public sector, the mechanisms, machinery, autonomy and independence inherent in the political structure of the government. Phillips [1974] has demonstrated that in the case of Jamaica, the modern day situation has not changed regarding who benefits in the society and why politicians ascribe public sector benefits to financiers.[26] At the second level is the desire of the public sector in implementing requisite changes.[27]

An Evidenciary Level of the Past and Prologue

It would be naive to suggest that the political directorate in the region possess an ignorance curve *vis-a-vis* the fiscal prerequisites of the kind of transformation that ought to take place in the Caribbean. But, laudable as positive assessment of their ideas may be, the fiscal officers have to face the evidence regarding the inadequate fiscal capacity and performance in most of these economies.

The historical evidence substantiates a view which states that the intractible episodes of the fiscal system may not be solved unless it is brought home that the following ought to change (a) the antiquated tax system; (b) the multiplicity of low yielding high compliance cost taxes; (c) the loopholes in the tax structure; (d) the resistance to tax reform from the middle and upper strata; (e) the uncritical usage of a type of Keynesian fiscal prescription[28] in economies which were not meant to be the recipients of such prescriptions in the first instance; and (f) the naivety that a banking structure exists in the open Caribbean economies.

In reflection, as Shaw [1971: 160] has argued, "all Keynesian policy recommendations are concerned with influencing the volume of monetary expenditures". This may be seen as a critical problem in the region. This is so because the region has operated and is operating as if there is a genuine monetary sector and as if the central banks are genuinely *controlling* money and credit. The fact that these views are not concretely established in the banking sector and that the fiscal and banking sectors do not engage in the kind of vital *policy relation* makes the uncritical usage of Keynesian fiscal prescriptions weak in nature.

The issue at stake is not a dissection or post-mortem of Keynes. Clower [1965], Leijonhufvud [1968] and others have already done that job. Our contention is not that Keynesian economics should be discarded (Leijonhufvud's position). Rather our view is that there is a need for rethinking and "reappraisal of Keynes" along the lines suggested by Hines [1971].

The Keynesian policy prescriptions suggest that if the Caribbean is to reduce the high rate of unemployment, if the maldistribution of income is to be more equitable and if income earning opportunities are to be made accessible to the lumpen proletariat, then a massive public effort must be made to marshall resources, to provide income producing and (where necessary) welfare opportunities for the neglected strata of the society.

Given the present budgetary limitations impinging on the region's economies, the requisite public sector outlays may be obtainable by resorting to deficit financing. Two subfactors are of import here. Resorting to deficit financing means that the distributional result of inflation may impact on the middle and lower income strata with an unintended severity. In this case, who owns the debt is as important as the composition of the debt.

The second subfactor concerns the obstacles associated with attracting needed capital. This could be compounded by the nature of the lender market. In other words, if the regional governments persist in borrowing from the traditional foreign capital markets, barriers may develop, forcing these governments to assume a new posture *vis-a-vis* the lenders. Naturally, this new posture would seem to be an outgrowth of the inevitable objectives that the lending market will assume. The problems Jamaica and Guyana faced in 1977 in their attempts to have an active public sector in their efforts to raise capital in the traditional lender markets as well as the multiplicity of strings attached to aid from the international aid-lending institutions, concretely testify to concerns that are being expressed here.[29]

In the transition process from the present peripheral capitalism to the self-sufficient, noncapitalist path, three stages may be outlined: (a) post-peripheral capitalism; (b) economic transformation; and (c) transition to Caribbean self-sufficiency *viz.*, the noncapitalist path. The conceptual underpinnings of these stages have some modified Keynesian analysis rooted in the theory and policy that are open to the nations of the region and to the Caribbean nation state.[30]

Fundamental to any revolutionary economic transformation and transition to self-sufficiency in the region must be a recognition that there are (and will be for some time to come) several disparate levels of economic stratification in the Caribbean. If there is to be a conscious sequencing of events culminating in unified policy options for a unified nation state, it must be accepted as a *fait accompli* that different levels of ideological postures must coexist until such time as the dynamic ordering of the socio-economic system fosters the general equilibrium that is necessary. In other words, the reality must be faced that for a long time to come there will be socialist oriented, capitalist, socialist rhetoric, opportunistic and pragmatic states in the region [Jones-Hendrickson, 1977]. Since the empirical base of all of the countries is still capitalistic, albeit peripheral capitalism, and since the fiscal and monetary policies are still Keynesian, the "mutation" of Keynes which is being suggested at this conjuncture is not far-fetched, farcical or frivolous.

Despite what Farrel [1977] and others may say pertaining to the inadequacies of the Caribbean nation state, the benefits to be obtained from the nation state outweigh the costs of the individualized operations of the states. In spite of an imposing array of problems, the implicit thrust of our prescriptions is not necessarily incompatible for an individualized development of states and collective development of the nation state.

Of far reaching importance to the new thrust in the Caribbean is that whatever policy option is operationalized in the region hinges functionally and fundamentally on the empirical prior questions arising out of the peculiarity of the region. Some of the views of Farrell [1977] and Thomas [1974; 1977] may be beneficial. Keynesian policy prescriptions were not panaceas for the region's ill and post-Keynesian, neo-Keynesian, ultra-Keynesian, mutated-Keynesian or any other modified Keynesian analysis need not be necessary and sufficient for economic transformation and transition to self-sufficiency. Alternative measures, mechanisms, methods and systems of development have to be grounded in the historic reality of the Caribbean.

Summary

This chapter on the past and prologue of public finance in the Caribbean presents an ontological approach to the subject. But, in studying what is meant for public finance to exist in the Caribbean, several points of view were presented to highlight what ought to be considered for public finance to operate on the two levels under discussion, i.e. the level pertaining to the individual state, and that pertaining to the Caribbean nation state.

Implicit in the chapter is a dissection of what happened to public finance in the region, why it happened and what it ought to be in the future to prevent the weaker aspects from recurring.

Our focus was on Keynesian fiscal policies. Our views were that the policy prescriptions were weak. However, implicit in the chapter was a deeper thought. Keynesian economics, as applied in the region, dichotomizes the economy into *micro* and *macro* features. But, the Keynesian analysis is addressed to a static economy, Marshallian short period analysis couched in terms of output and employment parameters. Due to the restriction of the Keynesian analysis to a closed economic system, the open economies of the region are obvious barriers to the general validity of Keynesian analysis. Operational validity of the analysis has to be in terms of an open system *vis-a-vis* finance and international trade. Rader [1971] in a theoretical article, has demonstrated the substance of our view.

Given the nature of the open, dependent, Caribbean economies, expansionary fiscal policies are constrained by the negative impact on the balance of payments as well as other aspects of effective demand. Of course, these will stimulate a crisis in the employment sphere. The 1974–76 fiscal activities of Guyana and Jamaica, especially the latter, highlight this point.

Eltis [1976] went a step further and pointed out that inherent in the Keynesian analysis for full employment is a time bomb, an inevitable balance of payments crisis. For large nations acting in concert, there will be a few problems, but for small weak countries acting individually (essentially what has been happening in the Caribbean) the policies are a disaster.

In essence, this chapter questioned the fiscal policy prescriptions of Keynesian analysis in the region. It has been argued by Lichtheim [1977] that Keynes' social vision was constrained to the England of his times "but he had an answer to the problem of unemployment".[31] In our discussion, that point was conceded. However, the intention of the chapter was not to discuss the sins of Keynesians *versus* Keynes or the "Keynesian transmogrification of Keynes" [Weintraub 1977: 93] rather, the analysis intended to anchor the discussion in a set of relations which would throw some light on the perspectives of fiscal policies as practised in the Caribbean.

One of the central points of the discussion was the uncritical adoption of theories and policies into the polity of the region without adequate thought and, even after the policies were discarded in the land of the originators. For example, in 1968 Joan Robinson [1968: 19] argued that whereas Keynes' notion, which centred on government's policy and the provision of a high and stable level of employment, was integrated into the received doctrines in England long before 1945 while the second notion, which revolved around wages and prices, was resisted for a long time. In the land of Keynes, there were misgivings about Keynes; but in the "derivatives" of the land of Keynes (the Caribbean), there is a tenacity regarding Keynesian policies.

Robinson's work was in 1968, but in 1952, before many Caribbean countries moved into the independence stream and long enough for local decision-makers to have adopted an alternative position relative to fiscal policies in their states and the region, Rao [1952] argued, convincingly, that the Keynesian multiplier mechanism is inadequate, inapplicable and inappropriate in developing countries. As a result, the application of the system in the fiscal policy of developing countries is a weak stimulator of employment and output. This powerful point of Rao[32] has been given little emphasis in the literature. Rao's point is well taken, despite the work of Richard Kahn [1978] in rectifying some of the inherent weaknesses of Keynesian economic theory and the International Labour Office's [1972] useful outlining of fiscal policies for promoting employment in developing countries according to a modified Keynesian view.

NOTES

1. [1]For some useful reference and seminal pieces on monetary policy in the region see Thomas [1963; 1974]; McClean [1975]; Bourne [1974]; and Odle [1976].
2. [2]Robbins [1962: 99] in Phelps [123] quotes Keynes as saying "The important thing for Government is not to do things which individuals are doing already, and to do them a little better or a little worse; but to do those things which at present are not being done at all."
3. Robbins [1962: 103] cites Senior in S. Leon Levy (no date) on this issue.
4. Friedman [1953] is symbolic of a multitude of others too timid to depart from the conservative path, even though they recognise the ineffectiveness of their path.
5. This view of nonintervention is forcefully supported in Jamaica by a capitalistic group known as the *Private Sector Organization of Jamaica* (PSOJ).
6. For an amplification of this view, see Bangs [1968] Dernburg and McDougal [1976]; and Shoup [1969].
7. Keynes [1936] presents the relevant discussion.
8. Citations to substantiate this view abound in the many *Estimates*, *Annual Reports*, *Statistical Reports*, and other official government publications in the region.
9. Prest [1958] in Cumper [1960] questions the relevance of adopting British-type public finance in the colonies.
10. The philanthropic syndrome was primarily a gap plugging aspect of public finance in the region. This developed as a result of (a) weak fiscal policies of the governments

and (b) rising demand for social services in response to the government's inability to provide adequate services.

11. The many examples of missionary and religious schools in the Caribbean attest to the case that a portion of the role of the states was being siphoned-off to the private sector.

12. Bird [1975] gives some valuable suggestions that developing countries must seek to come to grips with moving from the muddle created by the third rate expatriate advisors. Bird is dealing with Columbia but the lessons are useful in most developing countries. The fiscal muddle that many third rate expatriate advisors created (aided and abetted by local indigenous officials) emanated from peculiar situations. In too many instances the expatriate was not schooled in the economics of development, and many of the "planners" were woefully unprepared in terms of the basic theories of fiscal policy.

13. A graphic case to substantiate this "amalgamation thesis" is the Nigerian case. In 1914 Nigeria was forced into becoming one fiscal unit primarily because Britain saw this as a means of reducing the Grants-In-Aid from the Exchequer to the unproductive Northern Nigeria. As one fiscal unit, affluent Southern Nigeria would have taken up the fiscal responsibilities of Britain, thus reducing its support to Northern Nigeria. For a useful discussion on this thesis, see Adebayo [1969].

14. In terms of Caribbean fiscal analysis, three factors may be accorded importance: capital accumulation, debt financing and public sector expenditure impact on employment. Like Shaw [1971: 158] we argue that the aspects of "Keynesian economics *might be applicable to the question of capital accumulation* but the short term analysis of employment creation (is) really irrelevant". (Emphasis and word in parentheses are added by the author).

15. For a seminal treatise on the politics of Keynes, see Buchanan and Wagner [1977].

16. The phenomenon of stagflation is causing concern among Keynesian and Keynesian oriented economists. The so-called "revolution" is incapable of dealing with the phenomenon. Brofenbrenner [1976] makes a weak attempt at rebutting the established fact that Keynesian economics cannot explain the phenomenon of stagflation. He concedes that there is no general concensus on economic policy *vis-a-vis* stagflation, but he resorts to proving his rebuttal by textbook aggregate demand and supply figures. This is a failure, in our estimation.

17. Our usage of the term "di-unital" is different from the more fundamental usage employed by Vernon Dixon [1970]; and Wilfred David [1975: 1975].

18. It is important to note this difference between saving and capital accumulation. It is to be recalled that one of the key tenets of Keynesian national income analysis is that aggregate real consumption of an economy is determined essentially by the quantum of real disposable income. This tenet is not fully substantiated in the Caribbean. Since saving is a residual, the point should be clear.

19. Little evidence exists for the wider Caribbean on the extent of household savings patterns. In the "organic capitalist" economy of the United States Virgin Islands, McElroy [1976] found average household saving to be a residual of 10 per cent. His evidence is only indicative and he admits that additional empirical analysis is required.

20. Another way of viewing the household *versus* firm argument is to see it in terms of technological and institutional factors in the region which inhibit employment. These include (a) capital intensity, hence any increment in demand is not transformed into greater labour demand; (b) foreign orientation and exogeneous demand over which fiscal policies have little control; (c) nonspecialization, hence the "aggregate" in aggregate demand is really a misnomer; and (d) a relatively high proportion of agricultural employment. In other words, a Keynesian policy which is more appropriate to urban economies. (This note is due to Jerome McElroy, Caribbean Research Institute).

21. For some works relating to the usefulness of the tax system with modification, see Odle [1976] and Bird and Oldman [1975]; the latter has some insightful pieces especially in Parts Three, Four and Eight.

22. Views on the reasons for the failure prone system in the region are outlined in Jones-Hendrickson and Bourne [1977].

23. Kirton [1974] provides a useful critique of imperialist penetration and debt policy in the Jamaican context.

24. An expository article which deals with fiscal policies and macroeconomic objectives is that by Levin [1975] in Bird and Oldman [1975].

25. A useful insight into the problems of the political economy of tax reform can be found in Bird and Oldman [1975] Ch. 7.

26. Phillips [1974: 115] provides a particularly lucid contention that, in Jamaica, the "elite, while not monopolizing legitimate or executive office . . . does, by virtue of a number of largely informal mechanisms of control over the party machinery, exercise considerable and often decisive influence over national decision-making proces. . . (The elite's) . . .pre-eminence as against other groups, rests, however, on its tightly cohesive form, its massive control over financial resources and its critical role as the financier of the parties". This is not atypical in the region as a whole.

27. Using evidence from Columbia, Bird [1967: 75] maintains that many "efforts at tax reform. . .have amounted to nothing, simply because the reforms were not the real policy of those in power".

28. Throughout the work, Keynesian prescription is used instead of the celebrated Keynesian revolution for as Garvey [1967]; Hansen [1952]; Murdal [1973]; and Neisser [1946] argued, Keynes was inadequate as far as the work of his contemporary economists were concerned. If the works did not appear in the *Economic Journal*, he failed to accord them any importance. This may be a bit harsh, but it serves to underscore the fundamental point that had Keynes gone deeper, he might have come up with a theory more powerfully efficient in terms of its applicability in the *open economic system*. In this way, we would have viewed his ideas as revolutionary. On a companion score, Joan Robinson [1968] stated, "I did not regard the Keynesian revolution as a great intellectual triumph. On the contrary, it was a tragedy because it came so late". Robinson's turn around was late too, since she was an early exponent of Keynes.

29. In June, 1977, the Jamaican government made an about turn and signed an agreement with the International Monetary Fund. The amount was not disclosed. Added to the unstated amount from the IMF, J$63 million were secured from a group of international finance agencies, headed by the International Bank for Reconstruction and Development (World Bank), See Gleaner Political Reporter, "IMF Loan Secured: Coore Mum on Exact Figures", *The Sunday Gleaner*, Sunday, July 3, 1977,

30. For an amplification of the transition processes, see Odle [1977]. His work deals with the critical issue of tax structure development and the transition to a noncapitalist path.

31. Lichtheim [1977: 39] argues that "Keynesian economies are (sic) morally neutral and can be employed in the service of capitalism, socialism or anything else". This statement possesses connexity in that it is a classification inclusive of *all* systems but, concretely, it is fallacious.

32. Rao was a student of Keynes.

CHAPTER 3

THE INTEGRATIVE NATURE OF PUBLIC FINANCE AND MONETARY POLICIES

Problems of Public Finance — Monetary Policies

The policy of the integrative nature of public finance and monetary analysis may best be understood as the normative variant of the theory of fiscal and monetary analysis. By the theory of fiscal and monetary analysis, we mean the concern with a reconciliation of the two extreme views of the *fiscalists and monetarists,* the so-called *Keynesian and anti-Keynesian* debate that were pervasive in the 1960s.

In the view of the monetarists, only money matters, and to the fiscalists, money does not matter at all. These views may be linked to the outgrowth of *classical economics* and the summary concepts of that system. The system, as is well known, was presumed to have a *self-equilibrating* mechanism (with the aid of the two adjustment mechanisms) of flexible interest rates and flexible wages and prices and guaranteed equilibrium in the money, labour and goods and service markets.

The Keynesian view that succeeded this self-equilibrating concept developed in the capitalist centre countries with its variants in the peripheral capitalist economies. This new system focused on (a) no guarantee of full employment; (b) the nonexistence of Say's Law; and (c) the possibility that in a market economy equilibrium, goods and services may be insufficient to generate full employment of the labour force. The Keynesian system, as we saw in Chapter 2, advocated the direct intervention of the public sector.

The practical, and perhaps inevitable, outcome of the monetarist-fiscal dichotomy was the option open to the policymakers to combine both sets of ideas and select those parts which were pertinent for decision-making. In a sense, the Hicks-Hansen IS/LM analysis provided decision-makers with the ready tools for evaluating the impact of monetary-fiscal adjustments in the economic system.

The IS/LM analysis as depicted by Dernburg and McDougall [1976]; McKenna [1969]; and Shapiro [1970], for example, incorporates the theory of Keynesian income determination. Several sets of qualifications are noteworthy.[1] The first set of qualifications is pointed out by Shaw [1971].[2]

He argues that the IS/LM analysis is a weak mechanism for the analysis of policy options. It is weak also for two additional reasons. First, it has an overriding perspective of the aggregate economy as a mechanical system. Second, its concern with the simultaneous determination of interest rates and real Gross National Product (GNP) is particularly unsuited to the study of prices and inflation. In addition to these weaknesses, the closed economy conventional analysis of IS/LM circumvents the realities of the systems of economic organization in the dependent, developing, open economies. This latter weakness is of great import, given that the balance of payments issue is vital to open economies.

There are other drawbacks to the IS/LM attempt at measuring the impact of monetary-fiscal policy. In the attempt "to do a Galbraith"[3] on Keynesian economic theory, the result was a discriminatory factor against the policy options of the monetarist school of thought. However, the monetarist-fiscal extreme views were, as Branson [1972] has also argued, an incorrect analysis of the static Keynesian economic model. It is, at best, a comparative static view of the economic system. While the IS/LM analysis has some merits as a classificatory device of the various policy options open to policymakers, it can highlight the impact of monetary-fiscal policies, and may be meaningfully expanded to include the foreign sector. But as Peacock and Shaw [1971]; Wrightsman [1970]; and Shoup [1969] have demonstrated, the analysis has other inherent failures in its application in open economies.

In Chapter 2, we argued that the Keynesian economic system has had a poor record in the Caribbean although some aspects of that system were useful. However, the uneasiness stems from a more fundamental problem. Keynesian policy prescriptions have an inadequate analysis relative to the microeconomic features which are useful if one is to have a full understanding of the prescriptions.[4] More than this, is the issue of applicability of the system and implementation of the policy options in Caribbean-type open economies.

Implicit in the concept of the fiscal-monetary mechanisms which were established in the Caribbean, was the transplanting of Euro-American institutions in the region. Thomas [1965] argued that the paradoxical nature of this transplant centred on the fact that the institutions were not grounded in the socioeconomic milieu of the Caribbean, and as a consequence, they were hopelessly ineffective in promoting the "process of economic development and structural transformation of the region". In fact, the rigidity, skewedness and structural characteristics, of which both the money and fiscal systems engendered, were conducive to impotent manifestations of transformation in the Caribbean economies.[5]

On another level, the historico-economic forces which underpinned the structural inadequacies of the Caribbean economies caused a counter productive development in the monetary-fiscal mechanisms of a transformation in the economies proper. The monetary system, fiscal system and the monetary-fiscal policy options were operable on the assumption that some metropolitan model was being pursued. A series of stringent monetary-fiscal relationships interlocked the peripheral economies into the centre countries, despite the fact that the relationship was weak theoretically, paradoxical in substance and countervailing in procedural development.

The root of the monetary-fiscal policy that was in operation in the region was embedded in a set of relations cementing the monetary-fiscal dependence of the region on the metropolitan countries.[6] Of salience, was the issue that the metropolitan centre did not anticipate or genuinely desire the level of dependence existing at that time. The local fiscal systems were organic components of the metropolitan system. This contradiction persisted, although it remained a fact that changes in export values (X) over time were a function of income (Y) and employment (N).[7]

$$X = X(Y,N) \tag{3.1}$$

where X = changes in export values over time
Y = income
N = employment

The contradiction and paradox of Equation (3.1) should be apparent. In the first instance, the theory of monetary-fiscal policy was in a closed economic system. It was not adequate for the region, even though efforts were made to extend it and incorporate the external trade sector. However, the contradiction goes further than the issue of a closed *versus* an open economic system. It is assumed by the central banking authorities in the region that a genuine central banking system is in operation. This assumption leads to the belief that fiscal prescriptions of the Keynesian variant are applicable. But, as Thomas [1972] has noted, the situation was an abstraction from the fundamental realities of the region.[8]

Integrative Nature of Public Finance-Monetary Policy: A Definition

From the preceeding discussion, it is now possible for us to define what is meant by the integrative nature of public finance and monetary policy. Integrative nature or integrative effect in the present context refers to a coordination of fiscal and monetary policies in the individual Caribbean economies, and an aggregative unification and coordination of the fiscal and monetary policies in the entire Caribbean, the Caribbean nation state.

Total and effective operations of public finance require that monetary policies be an integral part of economic policies and the policy options emanating from comprehensive public sector planning.[9] If monetary policies are used as the initial catalyst of economic transformation, their use should be in concert with specific parameters arising out of the planning process.

The definition of integrative public finance and monetary policy may appear to be closely related to the standard monetarist-fiscalist debate, monetary-fiscal policy mix or the Hicks-Hansen IS/LM thesis. It is precisely because such a view is untenable and does disservice to our definition that time was spent in the introductory pages to pinpoint the structural and practical problems of the monetary-fiscal policy options as currently obtained. Linked to the rationale of pointing out the weaknesses, is the thesis that the policy of integrative fiscal-monetary or public finance-monetary analysis is the normative variant of the theory of public finance-monetary or fiscal monetary analysis. In a nutshell, although there are some discernable features of the conventional system in our suggested integrative system, it is more by design than by desire not to change. The frank adjustment is simple. The suggested integrative system is attempting to accommodate the various levels of economic systems in the region. But, it is sufficiently flexible to incorporate other concepts. It is a mechanism for transformation.

Our focus will now centre on (a) the rationale of policy over theory; (b) the theoretical formulation of the integrative fiscal-monetary policy; and (c) some concluding thoughts regarding the politicoeconomic aspects of the model.

Policy *versus* Theory

Conceptually, the theory of monetary-fiscal analysis is concerned with the interaction of monetary-fiscal policy formulations of macroeconomic models. The concern is merely a determination of the mechanistic linkages of the two theoretical approaches. The integrative nature of public finance-monetary policy analyzes the socioeconomic realities of the economies, pinpoints the theoretical, structural and institutional weaknesses under which the economies operate and suggests ways and means by which the economies' performance can be improved. Implicit in this improved performance of the economies is the underlying stipulation that the public sector would be a guarantor of a more equitble distribution of income in the society than if the system were left to the general mechanisms of the market.[10]

This line of departure from the sphere of explaining the fiscal-monetary aspects of the economies, to suggesting models of operation to transform the socioeconomic parameters currently obtaining, puts the discussion into the perspective of policy options. Thus, value judgements are being codified regarding the acceptability or nonacceptability; suitability or nonsuitability; and operationality or nonoperationality of alternative measures. The issue confronting the decision-makers will be one pertaining to whose welfare should the integrative policy represent.

Given the current political orientation in the Caribbean and given the nature of the political process and the political directorate, the contention may be that the political process ought to be ascribed the role of selecting the welfare function for the economies. The process is not perfect. It is to counteract this imperfection that decision-making should involve input from all strata in society. A great deal of public accountability will have to be linked to this system to ensure the necessary checks and balances in the system.

A plethora of difficulties attend such a process even if little weighting is accorded to (a) Arrow's *Impossibility Theorem*; (b) the claim that individuals tend to understate their preferences and overstate their costs when the public sector is involved in the provision/production of goods and services; and (c) the criticism of welfare economies by Little [1950].[11]

This work assumes an optimistic view, primarily because the political directorate seem to be bent on a path of greater political involvement in the economy, a noncapitalist path, ostensibly for the socioeconomic transformation of the open, dependent economies of the region. It is not critical, therefore, how the policy options are determined. That is merely a mechanistic, logical point. On the grounds that a democratic consensus codifies the objectives and targets, the integrative nature of the fiscal-monetary policy will be focused on (a) the fundamental features of the policy which are requisite for effectuating the policies; (b) the nature and social relation of the policy options; and (c) the constraints, conflicts and barriers that may prevent, direct or destabilize the realization of the policy. To say that there would not (or should not) be any difference of opinion regarding the normative integrative policy would be a naive statement. Differences of opinion should be permitted, but not at the expense of the economic system.

Theoretical Formulation of Integrative Public Finance-Monetary Policy

A series of monetary demand functions characterise the literature. Since the Commonwealth Caribbean was a colony of Britain, the monetary link was, of necessity, rigidly linked to the pound sterling. In the following pages some of the more relevant models which give explicit points of view that Keynesian models are relevant to the Caribbean open economic system will be cited. In addition, the conclusions of the authors will be illustrated as they cannot be taken as given. Some adjustments must also be made in terms of the applicability of their models to the Caribbean. This suggested integrative public finance-monetary policy model has a greater potential as far as economic transformational policies in the Caribbean economies are concerned.

Shaw's Models

Although there are central banks in the region today, Shaw's [1973: 184] formulation of the colonial monetary integration is a point of departure. He perceived of two regional demand functions for money:

$$Md = P(y, i, \underline{d}) \qquad (3.2)$$

where Md = money demand

PL = price level

Y = real income

i = loan or "bond" rate of interest

$\underline{d}$ = nominal deposit rate of interest

The behavioural characteristics are:

(1) M'_d (PL) › o; (2) M'_d (Y) › o

(3) M'_d (i) ‹ o; (4) M'_d (d) › o

shaw also pictured two money supply functions, each as:

$$Ms = Pm(\underline{R}, i, \underline{d}, q)$$

where Ms = nominal money supply (3.3)

R = nominal high powered money

i = loan rate of interest

$\underline{d}$ = deposit rate of interest

q = reserve requirement

The behavioural characteristics are:

(1) M'_s ($\underline{R}$) › o; (2) M'_s (i) › o

(3) M'_s (d) ‹ o; (4) M'_s (q) ‹ o

In this system, aggregate liabilities of the central banks in terms of currency and reserve balances of commercial banks (R), depend on the centre's monetary authority. Monetary equilibrium in the system occurs when the centre and the periphery desire to hold the quantity of $\underline{R}$ that was supplied, and when Md = Ms in both centre and periphery collectively, and in each separately.

On the assumption that money can be demanded at a moment's notice, Shaw [1973: 62–74] highlighted the "instantaneous demand" for money which may be capsuled as:

Dm = f(Yp, re, r, dn, rm, L) (3.4)

Dm = instantaneous demand for real money

Yp = wealth or permanent income

rc = consumer rate of time preference

r = real rates of return[12]

dn = rate of return or non-monetary indirect financial assets

rm = own rate of return

t = technological improvement in the money industry

The behavioural characteristics are:

(1) Dm(Yp) › o; (2) Dm(rc, r, dn) ? ;

(3) Dm(rm) › o; (4) Dm(t) › o

The question mark for instantaneous demand relative to rc, r, and dm implies that the sign can go both ways (positive/negative) depending on the state of the economy or depending on the fiscal stimulus for economic growth that is instituted.

The corresponding real money supply function is represented by:

$$\underline{M} = \frac{M}{P} = q\ (i, \underline{d}, p^*, w, e, g, t) \qquad (3.5)$$

where $\frac{M}{P}$ = real money supply

i = primary rate of interest

$\underline{d}$ = deposit rate of interest

p* = expected rate of inflation

w = real wage costs

e = real user cost of physical assets

g = the supply price of risk of the state or private enterprise

t = technological improvements

In Equation (3.5), the behavioural characteristics can be assigned also, although Shaw [1971: 64] did not indicate any in his presentation.

The Models of Bourne

Bourne [1975] has demonstrated the practical usage of several monetary models geared to incorporate the "open economy features" of Caribbean economies. However, many of his models are basically variants of established monetary models. For example, in his article carried in the journal *Social and Economic Studies* (Vol. 23 No. 3 September 1974), Bourne utilizes the neoclassical production function and included money in a manner similar to that of Levhari and Patinkin [1968].

$$F(Q, N, K, M) = O \qquad (3.6)$$

where Q = supply vector of output
N = labour services
K = the flow of capital services
M = the services of real money balances

From Equation (3.6) Bourne used a Nadirian [1969] model to establish profits relation in this model of the demand for money by business firms. While the subsequent analysis was useful, the system had a "guaranteed" solution by a simple invoking of the implicit function theorem.

The basic empirical model that Bourne tested was:

$$M^D = b_o + b_1 \, RTSD + b_2 p^e + U \qquad (3.7)$$

where M^D = desired real money balances
RTSD = weighted average of interest rate on time and savings deposits
p^e = the expected rate of price inflation
GNP^e = expected income
U = a stochastic term

In his article, "The Determination of Jamaican Money Stock: 1961—1971" in *Social and Economic Studies* (Vol. 24 No. 4, 1976) Bourne also used two traditional money supply models:

$$NM = CP + DD \qquad (3.8)$$
$$BM = CP + D \qquad (3.9)$$

where NM = narrow money
BM = broad money
CP = currency held by non-economical bank public
DD = demand deposits
D = total deposit liabilities of commercial banks

Bourne enters into several standard discussions pertaining to "orthodox multiplier models," stability and predictive efficiency of the orthodox money multiplier," and so on. His most important empirically testable model is:[13]

$$NM \text{ (or } BM) = f\,(B, JTBR, BLR, BLT/DEP, RTSD, P, GDPT) \qquad (3.10)$$

where B = the monetary base
JTBR = The Jamaica Treasury Bill rate

BLR	=	the prime rate
BLT/DEP	=	ratio total bank loans to deposits
RTSD	=	the weighted average "on" time and savings deposits
P	=	the rate of inflation
GDPT	=	total GDP

In 1977, Bourne analysed 'bank portfolio behaviour in Jamaica'. The bank is represented as an intertemporal utility maximiser. Ten equations were tested empirically.[14]

The general format was:

ERC, JTB, FA, BL, FL) = F (DEP; BAL; JTBR; UKBR; BLR; DUMRISK; DUMSELC) (3.11)

where

ECR	=	excess cash revenues
JTB	=	Jamaica Treasury Bills
FA	=	foreign assets
BL	=	bank loans
FL	=	foreign liabilities
DEP	=	deposit liabilities
BAL	=	a balancing item
JTBR	=	Jamaica Treasury Bill rate
UKBR	=	United Kingdom bank rate
BLR	=	the prime rate[15]
DUMRISK	=	dummy variable for exchange risk
DUMSELC	=	dummy variable for selective credit control

Bourne also considered the interest rates of these institutions in Trinidad and Tobago where there appears to be an exception to the norm of interest sensitivity in the economic system. The main thrust of this work is the "statistical estimation of interest rate functions" Bourne [1977: 2].

The commercial banking industry comprises the bank credit market and the bank deposit market. The markets are further disaggregated into equations with the principal orientation of establishing general equilibrium conditions in both markets.

Two principal empirical models were tested:

BLR = f(X, PCP, RD) (3.12)

RD = f(X, PCP, BLR) (3.13)

where

BLR	=	the weighted average of nominal interest rates on bank loans
PCP	=	the expected rate of price inflation
X	=	total exports (substitute for national income)
RD	=	the rate of interest on deposits

Comments on Shaw's and Bourne's Models

The models of Shaw as depicted by Equation (3.2) through (3.4) were developed based on established orthodox economics. No empirical evidence was presented to verify the behavioural characteristics of those models which incorporated additional arguments in the equations, (and about whose sign the author was unsure). However, the models showed no major instances of general departure from standard traditional classical and neoclassical models. The excursion into building monetary models, while acutely aware of the fiscal component, was not executed as forcefully as could have been done. Hence, the conclusion that the "theme of (his) book is that the financial sector of an economy does matter in economic development" is merely a laudable argument. Shaw contends that "shallow finance and distorted trade" go hand in hand, and "fiscal effort and financial deepening are beneficiaries of foreign exchange liberalization". While these arguments are plausible, the lack of empirically verifiable evidence leaves much to be desired. His recognition of fiscal-monetary links is useful, but he could have gone beyond a mere recognition.

Bourne's models (Equations 3.7; 3.10; 3.11; 3.12; 3.13) serve to empiricalize some pertinent forces, features and characteristics of the Caribbean economies. These models are more pertinent to the study in question. The findings augment our contention that the integrative fiscal-monetary effect ought to be accorded importance in the open, dependent economies in question.

From the model outlined in Equation (3.7), Bourne concludes that in the dynamic utility maximizing demand for money by the household and business sector, "income", the "wage rate" and "price uncertainty" must be ascribed importance. Bourne argues that the theoretical strength of this model is meritorious in that it has the potential of capturing "a cardinal facet of Caribbean economic life". Specifically, the model predicted results which suggested (a) "a relatively unimportant role for interest rates and price inflation; and (b) "an important role for income in the analysis of demand for money in the Caribbean". It may be concluded from this model then, that Bourne "predicted" the established fact that given real money demand, $\left(\frac{Md}{P}\right)$ is a function or real income $\left(\frac{Y}{P}\right)$ and real interest rate $\left(\frac{r}{P}\right)$.

There is a positive relationship between real money demand and real income, $f'(Y^*) > o$.

$$\frac{Md}{P} = f\left(\frac{Y}{P}, \frac{r}{P}\right)$$

or

$$M^* = f(Y^*, r^*)$$

$$f'(Y^*) > o, f'(r^*) < o$$

This interpretation of Bourne's conclusion is useful, but it has to be evaluated in relation to the works of Tobin [1965]; Johnson [1967]; Sidrauski [1967]; Levhari and Patinkin [1968]; and Stein [1969). In this case, it is no different from them. In essence, as Hansen [1970: 224] pointed out, the general consensus from these works is that "the opportunity costs of holding cash balances are influenced by the rate of change of the price level". Furthermore, since "a change in the rate of change of the price level will lead to substitution between real capital and cash balances", the signs of the arguments in the model depend on the specification of the model. In general, the signs are difficult to predict. For example, Bourne [1977:442] states that his findings are tentative due to sensitivity of the results and specification problems of the model.

With respect to model Equation (3.10), Bourne makes a detailed analysis of the behaviour of the Jamaican money supply over the period of the first quarter of 1962 to the fourth quarter of 1971. Empirically, Bourne concludes that there is a theoretical inadequacy in the orthodox money multiplier, an inadequacy which surfaces in the work of Thomas [1965]. Thomas' work is empirically inferior to the simple Friedman/Schwartz [1963] formulations.

In addition, Bourne states that "the Friedman/Schwartz multipliers are not only stable, but have good forecasting properties". From an empirical analysis, the criticisms of the instability of the bank reserve and currency ratio are unfounded. Bank ratios, he continues, are determined by the prime rate and the Jamaican Treasury Bill rate, but the public's deposit to currency ratio seemed to be more responsive to the total gross domestic production and the rate of inflation. Again the standard "quantity/theory" related features were "verified" in the open economy context.

Of far reaching importance is the Bourne model in Equation (3.11). Whereas the other models skirt the issue of the fiscal sector, some attempts were made to incorporate it here. Bourne states that the examination of bank portfolio is of importance for three crucial reasons.

(i) "The allocation of the portfolio among several assets had a bearing on the uses to which bank funds are put. In particular, *the allocation determines the amount of bank funds which are at the disposal of government . . .*" (my emphasis)

(ii) "Banks are the main institutional lenders between the Jamaican economy and Euro-America . . . changes in the scale of foreign transactions and asset (liability) holdings will therefore *influence the degree of financial dependence on metropolitan economies*". (my emphasis)

(iii) " . . . appropriate formulation of financial policy by governmental authorities requires a clear understanding and quantification of the main influences on bank portfolio behaviour".

He continues that "the strong neo-classical genre of profit maximising models and the qualitative predictions also provide means of evaluating the applicability of neo-classical concepts to the analysis of banking firms in the Caribbean". Bourne is well aware that the banking system in the region is integrally linked to metropolitan parent banks. He also knows that "the theoretical plausibility of a model must depend on its approximation to the reality of the system it is designed to analyse". In this respect, his models speak volumes for the neo-classical models he uses.

The conclusion of Bourne's (3.11) model is particularly revealing given its neo-classical frame of reference. The conclusions were based on the structural features of the Jamaican economy and the "partial integration of the banks in the United Kingdom money market". Deposit liabilities are the primary determinant of short term changes in bank portfolios. But for the primary rate of interest which has a positively strong "substitution effect on bank asset portfolios, changes in rates of interest are not quantitatively significant influences on portfolio allocation". It must also be noted that the rate of interest has minimal short run implications for portfolio options of the banks. Bourne [1976: 21] also argues that "the profit maximising model appropriately formulated to reflect the specifics of the Jamaican environment is seen to be an *adequate theoretical and empirical construct for the analysis of commercial bank portfolio in Jamaica*". (my emphasis)

Finally, Bourne's models (3.11) and (3.12) are predicted on strong neo-classical, Keynesian tenets. He claims that the structural and institutional milieu of the region is such that "it is not possible to examine the movements of bank rates of interest as a reaction to underlying economic forces, nor as the outcome of volitional behaviour by the commercial banks".[16] Bourne is in familiar territory here, for he points out in his 1977 study [p. 19] that "commercial banks loan capacities are practically independent of interest rates. Altogether, interest rate policy is largely irrelevant to commercial bank credit supply functions".

In conclusion, Bourne [1977a: 13] makes the following points.

(i) income and the rate of price inflation are the primary explanatory variables in the banking system of Trinidad and Tobago;
(ii) there is no interdependency between the loan rate and the deposit rate of interest; and
(iii) the deposit rate of interest is positively correlated with "loan capacity utilization".

In sum, the empirical results "suggest that as a generalization, the loan rate of interest in Trinidad and Tobago *is primarily influenced by the behaviour of incomes and prices*". By and large, all of the preceding models were basically variations on the theme of money, supply/demand functionally related to prices, income and the interest rate. The implicit and explicit equilibrium conditions were no different from the standard treatment of monetary policy within the Keynesian analytical framework.

Branson [1972] demonstrates a useful elementary analysis of the point we are making about the similarity in models.

Branson's Analysis[17]

Branson's presentation begins from the elementary Keynesian notion within the closed economy framework. He outlines the fiscalist or what we will call the K-Model (for Keynesian) and the monetarists (or what we will call the Q-Model for Quantity Theorists).

The K-Model

$$Y = c(y-t(y), a) + i + g \qquad (3.14)$$

$$S(y-t(y),a) + t(y) = i + g$$

where all variables are in real values, such that:

y = income
s = saving
c = consumption
t = taxes
a = household net worth
i = investment
g = government expenditure

The behavioural characteristics are standard. In this K-Model, given the arguments in Equation (3.14), real income could be determined independently of the Q-Model as is seen in Figure 3.1. Given a fixed price level p*, the saving function is fixed at s(a), leading to an equilibrium income y*. If the economy is experiencing an inflationary trend, real net worth will be decreasing, *ceteris paribus*. The impact of this will be a rise in desired saving, given a stipulated income level, and an upward shift in the saving function, *pari passu*, and a concomitant lower real income level.

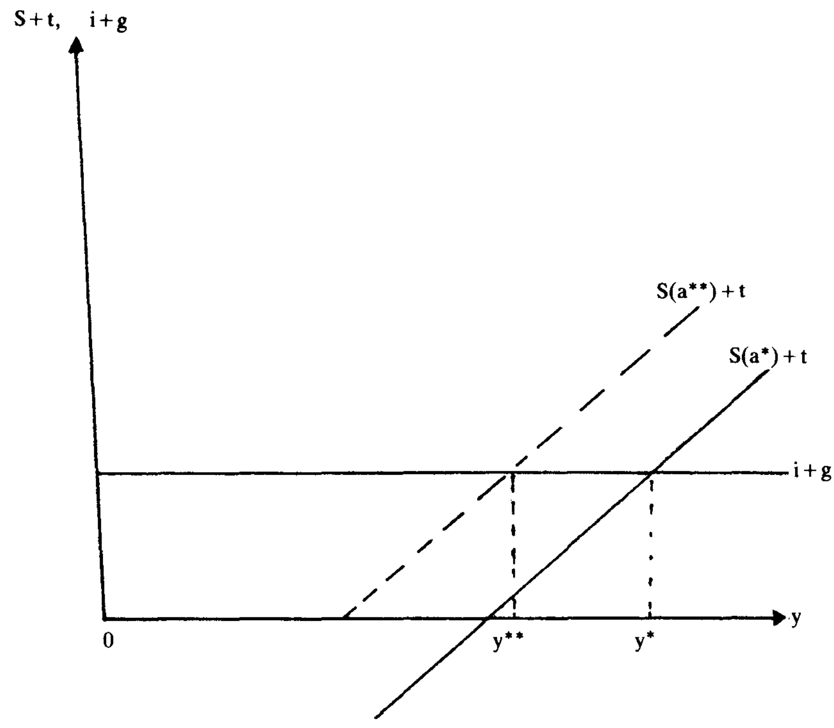


FIGURE 3.1 Determination of Income in K-Model

Interpreting the information of Figure 3.1 the r-y space highlights the Hicks-Hansen IS/LM analysis, mentioned earlier. Given a price level, the interest rate (r) turns out to be noneffective in the attainment of equilibrium income. It follows that if P=P*, y=y* (r*) where r* is any given interest rate. In this case, the IS assumes the shape as in Figure 3.2

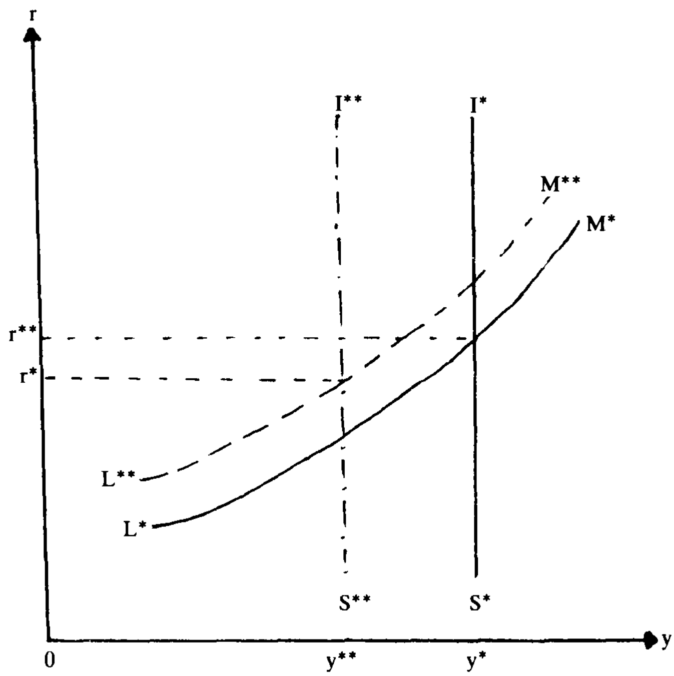


FIGURE 3.2 The Hicks-Hansen IS/LM in the K-Model

The K-Model could be closed by incorporating the money market equilibrium condition. All values are real.

$$m(r) = m(r,y) \qquad (3.15)$$

where m = money demand
r = interest rate
y = income

It is this money market demand which assisted in the determination of L*M* at p* in Figure 3.2.

The outcome of this analysis is that equilibrium y* at p* is determined in the goods/services market Equation (3.14) and the initial interest rate, r*, is determined in the money market, Equation (3.15). If there are inflationary trends in the economy, the IS curve will be induced to shift towards the origin, thereby mapping out IS** at y** in Figures 3.1 and 3.2. Simultaneously, the inflationary situation will cause the LM curve to move upwards to the north, mapping out L** M** at r**.

Using both figures, the economy's demand curve can be derived for this K-Model in the traditional static formulation. Superimposing an aggregate supply curve on the static model or a classical real wage supply, equilibrium p*, y* can be determined.

In general, the policy implications of the K-Model is that *investment demand is insensitive to changes in the rate of interest.* It seems plausible that the K-Model has some merits where (a) there are depressed economic conditions; (b) the expected investment is low; (c) a fall in capital cost may not impact on the investment portfolio; and (d) high levels of unemployment obtain. The empirical evidence for the closed economic systems tends to go against the conclusions of the K-Model. Given the fact that characteristics (a) – (d), previously enumerated, are symptomatic of Caribbean open economies, it may be a peculiar twist that the conclusion of the K-Model may not be too far-fetched in the region. Substantively, Bourne's works would have accepted this conclusion.

The Q-Model

Whereas in the K-Model investment demand is deduced as insensitive to changes in the rate of interest, thereby implying an infinitely elastic IS curve, in the Q-Model the deduction is that "money demand is insensitive to changes in the rate of interest". Let the money demand function be:

$$Md = Pm(r,y) \tag{3.16}$$

P.m = nominal money/price relationship
r = interest rate
y = income

The usual behavioural characteristics obtain. Given the condition that "money demand is insensitive to changes in the rate of interest", the money demand function may be rearranged as:

$$Md = Pv^{-1}.y \text{ or } Py^* \tag{3.17}$$

We considered that the elasticity of demand with respect to real money may be approximated to unity. This permitted us to express Equation (3.16) according to the quantity theory format of Friedman [1956]. We also considered that the income velocity of money, V(r), which is the inverse of K(r), was incorporated in the quantity/theory expression. Using the 'money insensitivity' argument, it followed that K(r) and V, the income velocity, are not truly dependent on the interest rate. Hence, Equation (3.17) follows directly.

With an exogenously determined money supply, Ms = M*, equilibrium condition in the Q-Model can be expressed as:

$$P^*y = M^* \tag{3.18}$$

In this Q-Model, equilibrium real income (y*) is determined as a function of the real money supply (m*), given some original price (P). This case is similar to the K-Model in that there is no dependence on the equilibrium in the goods and services market. The situation is depicted in Figure 3.3. Equilibrium in the P*y, y* space is determined for some initial price and, given inflationary conditions in the economy, a new equilibrium demand income space, P**y, y**, is determined where P**y developed as a result of an increase in P, and as a consequence, a decrease in y to y**.

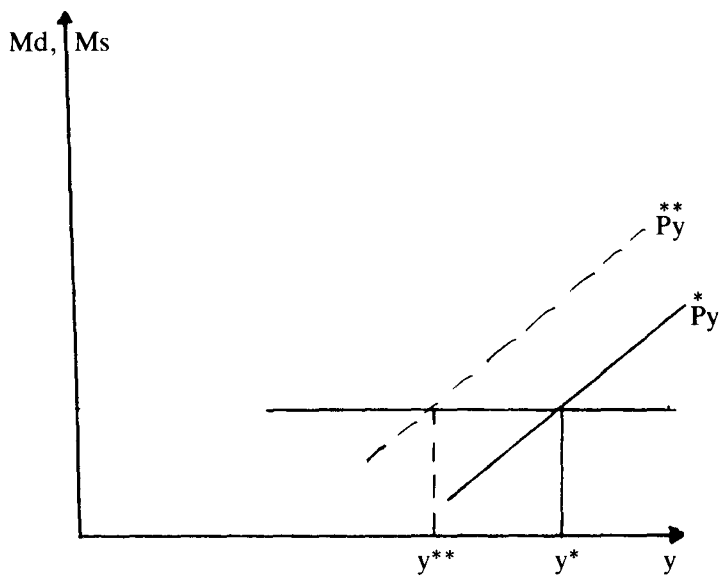


FIGURE 3.3 The Determination of Income in the Q-Model

When Figure 3.3 is mapped into the r, y space, for an initial P, y = y* at any specified rate of interest. In this regard, the LM curve is vertical. Incorporating the IS curve, given the initial price P, the interest, r*, will be mapped out with a mixed y* in the money market, as is depicted in Figure 3.4.

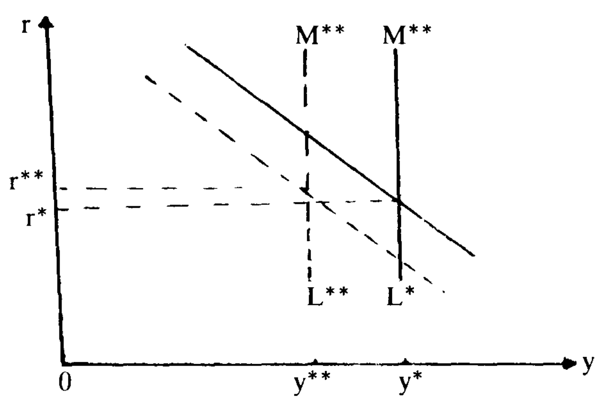


FIGURE 3.4 The Hicks-Hansen IS/LM in the Q-Model

In the Q-Model, the results are derivable by viewing them as a polar case of a static model with the interest elasticity of demand and supply money confined to zero. Empirically, as Bourne and others have illustrated, this extreme view is not fully correct, although there is some substance to it. The effectiveness of the K-Model and the Q-Model is contingent upon the *state* of the economies and the existing characteristic socioeconomic relations.

As a general point of departure, the K-Model seems appropriate as a predictive device when the economies are not fully utilized, low rates of interest obtain; and unemployment is high. When the reverse of the above conditions is in evidence, the Q-Model tends to be a useful predictive device. The analytical tools of the K-Model and the Q-Model have some applicability in the region. However, it should be recalled that in Chapter 2 it was argued that the Keynesian system has some fundamental weaknesses in terms of its operational thrust in the Caribbean. And, as was pointed out by Bourne's empirical work, the region, though steeped in the neoclassical tradition from a monetary sphere (Q-Model), is hampered by certain set specific institutional and structural impediments. Is there an alternative?

In my view, it was extremely critical to discuss the models of Shaw and, particularly, Bourne. Their models highlighted some of the thinking on monetary issues in the Caribbean and other open economies. The graphical illustration of the ideas from Branson also highlighted the vital point that the Bourne and Shaw analyses were nothing more than Keynesian systems in empirical forms. Bourne clearly recognizes the need to incorporate the fiscal aspects in the monetary sphere. However, most of his work only gave brief recognition of the problem. Against this background the theoretical formulation of the integrative model of fiscal/monetary policy will be outlined.

The Integrative Model[18]

The objective of fiscal and monetary policy is assumed to be economic transformation. Economic transformation is defined as total changes in the social, political and economic systems 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 costs of economic ventures through the provision of capital.

Economic transformation may, therefore, be viewed as related to, or the result of these two sets of policies. The latter on the one hand, is assumed to comprise a series of individual components, for example changing of the interest rates, changing mortgage rates and so on. The former, on the other hand comprises a series of components, such as changing a tax rate or tax base or introducing a new tax.

Technically, economic transformation is the composition of the monetary policy and fiscal policy. The domain of economic transformation policies is all policies, say X, in the "domain" of monetary policy which when related to the X policies are assumed to be in the domain of fiscal policy. The "domain" of the economic transformation, fiscal and monetary policies are as follows. Assume that we are given a process of economic transformation and X is a policy in its "domain", it will be argued that the policy is a *definite policy* which means that policy X has exact limits and scope in its impact on the transformation process. If economic transformation is seen as a set of policies, and a rule which assigns to each policy in the economic transformation some *definite policy* is set, then that rule can be termed "development". And the economic transformation process is called the "domain of that development".

When the transformation process is in operation, fiscal policy and monetary policy are no longer identifiable as individual entities. They are, in essence, transformation policies. The integrative nature of these two sets of policies results in the transformation process because of our assumption that the integrative nature of fiscal and monetary policies transforms the individual components of the policies over an income base process.

This is a critical point. It should be recalled that Keynes utilized the classical economics proposition which stipulated that "the real wages bear an inverse correlation to the volume of employment — that it declines, for instance, when employment decreases", [Largentaye, 1979: 7]. But, as many scholars have indicated, Keynes was misled in this proposition. The Caribbean fiscal framework adopted this same Keynesian concept, even though there were no strong theoretical grounds for its acceptance.

Public policies in the Caribbean followed directives which, like Keynesian policies failed to take into account the competitive nature of employers. The *General Theory* assumed that there was imperfect competition among wage earners. But, it failed to consider the imperfect competition among employers. In essence, by assuming that the real wage is determined by the marginal product of labour, Keynes mislaid the scope of the problem. According to Largentaye [1979: 8] real wage is determined by the imperfect deportment of the employer. This problem was implicit in the Keynesian policies of employment in the Caribbean.

Caribbean fiscal policymakers were oriented to full employment goals, using Keynesian tools. But, fundamentally, they failed to recognize that Keynes' *General Theory* prescription "contains some internal contradiction which prevents achievement of the full employment goal", [Largentaye, 1979: 12]. On monetary policy, the *General Theory* is concerned with "credit money". However, "there may be a limit to effectiveness of monetary policy expansion as a lever of employment" [Largentaye, 1979: 12].

Given the weaknesses of fiscal policy and the limitations of monetary policy by themselves, we offer the integrative nature of monetary-fiscal policy which assumes transformation of the economy over income policies as opposed to overemployment policies. Monetary expansion or control has not been able to effectively change interest rates in the Caribbean, and, thereby, make an impact on employment. This is so because of the nature of the interest rates which is tremendously affected by external rate regimes. The limitation of monetary policy has been a barrier to full employment and the ineffectiveness of fiscal policy has also been a barrier to full employment.

The advantages of the integrative nature of the fiscal-monetary policy lie in the linkages and interaction that the two sets of policies are geared to achieve. This model could be seen as a function of a function (composition of a function) or as two matrices which are multiplied to generate a third matrix. The danger inherent in the integrative fiscal-monetary policy model is the possible transference of weaknesses from one policy into weaknesses of the other and, subsequently, into the transformation process.

The model, however, assumes that the individual policies are not internally independent, as the integrative nature constrains the policies to an interdependent effect. All policies are geared to economic transformation. Independence of policies may mean that some policies may be external to the transformation process. Prior to the transformation process, a policy could be designated a monetary policy, a fiscal policy or a monetary/fiscal policy depending on its sectoral origin. These will be classificatory devices, since all policies will eventually be transformed into economic transformation policies.

Appendix II provides a simple illustration of the integrative fiscal-monetary model.

Conclusion

The basic purpose of this chapter was to review and explore the theoretical and empirical bases of monetary, fiscal and fiscal-monetary policies in the Caribbean and Caribbean-type economies. From the available literature, the evidence was developed that neoclassical monetary fiscal models are useful in the theoretical and empirical analyses in the region.

Models were cited from Shaw and Bourne. An extensive review of Bourne's models were made. His overwhelming conclusion is that the Keynesian models are applicable to Caribbean economies. While he recognizes the need to incorporate some fiscal policy prescriptions, he did not do so. Some simple models from Branson were also used to illustrate that the Caribbean models and policies were even more Keynesian than meets the eye.

Finally, the proposed integrative fiscal-monetary policy model was outlined. In essence, the model depicts a situation where the process of economic transformation, in a region such as the Caribbean, has to depend on the integrative nature of both fiscal and monetary policy components which are interdependent. The goal of the integrative process is economic transformation which is the total change in all of the social, political and economic systems of an economy such that the changes are beneficial to all strata of the economy, simultaneously.

NOTES

1. For some other qualifications relevant to the IS/LM analysis, See Laidler [1969].
2. See G.K. Shaw [1971], especially Chapter 7.
3. "To do a Galbraith" in our terminology means popularising economics.
4. For a conventional treatment of the microeconomics of the public sector, see Wintrey [1973], especially Chapters 9 — 14.
5. Fundamentally, the transformation did not take place because Keynesian prescriptions require a fully mobilized resource economy with middle-class welfare and income distribution patterns. The policies could then be used to pursue a specific growth path and or moderate the deviations from the same. This was not true in the case of Caribbean.
6. The critical point to consider is the following. Keynesian prescriptions assume a significant quantum of domestic and economic control, that is a large local market and local production sector. Where these features are absent, policy control is inadequate or non-existent since linkages are external to the system. In essence, the Caribbean policy became the effects of a metropolitan policy, filtering down through the crevices between the Caribbean and the metropole.
7. See Thomas [1972: 5] for a discussion on this point.
8. See Thomas [1972: 18] for a discussion of the 'idealized' aspect of monetary-fiscal policy.
9. We concur with Bangs [1968: 2] that "a comprehensive plan does not mean that a nation must plan all economic activities on a totalitarian basis but it does imply an intrusion of government into the private decision-making that would seem incongruous in the nineteenth century."
10. G. K. Shaw [1971: 2] gives a useful discussion of the "nature of macroeconomic policy."
11. However, as Little [1950: 3] noted, "welfare conclusions are important and influential, especially among economists, although few economists are clear as to what the work means, or what the theory is about."
12. See Feige and Parkin [1971: 335-349]; also Friedman (ed.) [1956: 3-24].
13. In Bourne [1976] Equation (VI.a) the argument ELR should be BLR.
14. Five equations are represented in Variant I, and five in Variant II. A constant is included in the latter set of equations. Bourne [1977: 16a, 16b].
15. BLR was not defined by Bourne — we assume it is similar to his earlier work.
16. Bourne does not point out that the Trinidad-Tobago case is an exception to the general rule.
17. The simple analysis of the fiscalist-monetarist model which follows can be found in most economic texts. The presentation here is useful in that it serves to highlight the non-departure from this case in the analyses in the Caribbean. See Branson [1972: 282-289] for an outline of the models.

18. This version of the integrative model is a simpler, more appealing model than the highly mathematical version of an earlier draft.

APPENDIX II

Let economic transformation (T) be viewed as a function composed of simpler functions, say F, for fiscal policy and M, for monetary policy. The links may be formally written as:

$$T(X) = T(F(M(X)))$$

Symbolically, we can write Fo M. Technically, we say that T is the composition of F and M. The domain of T is all policies X in the domain of M such that M(X) is in the domain of F.

Using matrix analysis, we may illustrate the model. Let F stand for fiscal policy, M for monetary policy and T for economic transformation policy.

The fiscal policy F, is a K x n matrix of observations on K independent variables at n sample points. Monetary policy (M) is an n x p matrix of observation on n independent variables on p sample points. Transformation policy (T) is K x p matrix of observations of K independent variables at p sample points. Formally, then, we have:

$$F = (f_1 \ldots f_n) = \begin{pmatrix} f_{11} \ldots f_{1n} \\ f_{Kl} \ldots {}^{f}Kn \end{pmatrix}$$

$$M = (m_l \ldots m_p) = \begin{pmatrix} m_{11} \ldots m_p \\ m_{nl} \ldots m_{np} \end{pmatrix}$$

$$T = (t_1 \ldots t_K) = \begin{pmatrix} t_{11} \ldots t_K \\ t_{K1} \ldots t_{Kp} \end{pmatrix}$$

Specifically

$${}^{T}K \times p = {}^{F}K \times n \cdot {}^{M}n \times p$$

In the generalized case

$${}^{T}n \times n = {}^{F}n \times n \cdot {}^{M}n \times n$$

in which case we can have F.M and M.F; that is fiscal policies entering monetary policies and monetary policies entering fiscal policies. All of them will be changed into economic transformation policies.

CHAPTER 4

PUBLIC FINANCE IN THE CARIBBEAN: ONE POSITIVIST VIEW

In several respects, the Keynesian policy prescriptions were "responsible" for a change in the thinking of economists regarding the role of the public sector in the private sector. Pre-Keynesian analysis proscribed the public sector to a passive state in terms of its impact on expenditure and taxation policies.[1] Aggregate levels of employment and expenditure were features best dealt with by, and in, the private sector. The public sector was to play that traditional role of the helper of the last resort.

Keynes' illustration that the downward inflexibility of wages could lead to persistent unemployment caused a rethinking on the part of many economists. The new focus was now on expenditure and taxation in the public sector. In the same vein, the general view was that the multiplier effects of government spending were vital in hiking the national incomes of countries. To some degree, the early view that public sector encroachment would "crowd out" private sector activity was relegated to a theory of the past.

While the preceding may be considered a summary of the Keynesian introduction of public finance and the resultant new thinking, the view was only confined to the "Mother countries". In the colonies, there was a recognition of Keynesian economics, but the reality and practice of the economics was basically of the old classical mould. In essence, the theory was Keynesian but the practice was not full fledged Keynesian, where the latter is used to define strong public sector activity.

Several views may be put forward for this lack of "forward movement" in economic development in the colonies and this chapter will discuss a particular view related to the nature and scope of the Caribbean countries. Perhaps, the main feature which was causal in the development of a 'special kind' of public finance in the Caribbean countries was the nature of the *openness* of the economies.

Here, *openness* is defined from the point of view of physical size and an external trade sector (importables, exportables and non-tradables) [Prachowny, 1975]. The theoretical analogy of the open economy is the parable of perfect competition. The open economy, and, specifically, the small, *mini* or *micro* open economy is an economy where the value of an internationally traded good or service is exogenously determined in the world market. Furthermore, the open economy, given its nature for survival, attempts to maximize its socioeconomic objective function subject to some constraints [Prachowny, 1975: 1].

Coupled with the economic aspects of *micro/mini*/small open economies is the politicoeconomic[2] definition of a microstate which, according to Norwell Harrigan [1972] is a ... "small state with limited land area, limited population and limited resources, which is politically independent or internally self-governing, having the determination to be recognized as a separate and distinct entity and the urge to move as far and as fast as possible into the category of a *developed* country".

Finally, the small, *mini*, microstate open economy is a *dependent* economy, as exemplified by its dependence on external markets for support, survival, trade, finance; in sum, its politicoeconomic existence.

The works of Caribbean economists, sociologists, political scientists, political sociologists and political economists have underscored the dependency syndrome among the plantation economies of the Caribbean in particular and the Third World in general.

In terms of optimization theory, the problem with which the open, dependent, microstate economy is confronted is that of maximizing its socioeconomic objective function subject to constraints of size, limited resources, limited population and so on. Implicit in the socioeconomic objective function is the issue of maximization of the benefits derivable from political independence, and the desire for the country to attain the level of 'developed' country status. Resource constraints are functions of functions which relate to funding, banking, structure, capacity and general resource endowment. In symbols, the typical microstate, dependent, open economy desires to maximize:

^{O}F s.t. $S, B_S\ C, R,$

where ^{O}F = Objective Function
S = Size
B_s = Banking structure; C = Capacity, and R = Overall resources.

Approximations to the planning parameters that will be requisite for development and transformation may be derivable by solving the objective function, either as a Lagrangian expression or optimization over time, since there may be a need to determine more about the stock-flow relationship of the constraints.

Since the crux of the issue in open, dependent economies centres on the public finance structure, it is important that the nature of public finance be identified, its scope be clearly demarcated and its constraints well established.

In this chapter, three major sections will be developed. Section One will focus on the constraints of public finance in the Caribbean. The key features in the analysis will centre on the ways in which size, the banking structure, fiscal capacity and the overall resource base in the Caribbean are constraints in the development process. All of the discussion will be concerned with how the factors were used to prevent a dynamic fiscal development.

The second section will review a conceptual role of the state and the public finance links to overall development in the region. The analysis will be treated from the point of view of the Caribbean nation state. Relationships between the states individually and collectively will be highlighted to the extent that they are perceived as limiting development *via* the fiscal system.

Analysis of the uses of revenue and the sources of revenue will be provided. The main purpose is to illustrate the nature of the social forces in the region and their impact and control of the states' public finance policies. Linked to these uses and sources of revenue is the development and welfare component of grants-in-aid from Britain. Using a specific period, it will be illustrated that the British grants portfolio was oriented to the larger islands, as well as to underdevelopment in the fiscal development of the region.

The chapter concludes with an analysis of the budget and the budgetary mechanism. Here the general theme will be an assessment of how the budget and the budgetary mechanism were used to maximize the socioeconomic objective function of the region. It will be shown, also, how the budgetary process is contingent upon the social forces in the society and how the states' policies had general tendencies to favour certain groups in the societies. To the extent that this is true, it will be concluded that this one positivist view of public finance in the Caribbean was a constraining force on the fiscal development process.

Constraints Of Public Finance In The Caribbean

Size

The issue of size and the fiscal structure of open, dependent economies is critical. Integral to the critical aspect are the policy options opened to the dependent economies. The variables opened to the countries in question are also of critical import as Andic and Peacock [1966: 620-42] have demonstrated.

If, as Ermisch [1974: 691-697] argues, "a model will generate implications which are not strictly in accord with observed reality but (which) still must ... generate ... implications that are not significantly contradicted by empirical evidence", then the size constraint in the context of the Caribbean fiscal structure does not pass the acid test.

Demas [1965] has demonstrated, in a very decisive manner, that size does feature as a constraint on the overall performance of the Caribbean economic system. However, his work attempted to distinguish between the so-called More Developed Countries (MDCs) and the Lesser Developed

Countries (LDCs) of the Caribbean — terms which were uncritically borrowed from metropolitan schema. The focus of size in this chapter treats the policy constraints on public finance as generally applicable to *all* of the Caribbean countries.

The problem of size was a constraint from the physical and psychological points of view. Size and openness went hand in hand and they were welded into the underdeveloped nature of the region. But, while size and openness may have aided the countries in some respects, size at the same time, served as a handicap in reducing the decisiveness of fiscal policies in the region [Odle, 1972]. From a broad frame of reference, the question of size was intimately woven into the interrelationship between money and fiscal policies and between factors which handicapped policy formation. Underpinning the handicaps were inaccurate models, poor identification of the problems in the Caribbean by the "Mother country" and an underestimation of the systemic issues involved.

Size featured as an internal constraint too, because, except for the larger islands, there were no local *versus* state governments. The lack of divisions in the system aided in the tendency for fiscal officers to misuse funds. There was always that temptation to do so because funds were available from internal and external sources and while the officers were under "strict discipline" for the external funds, the internal funds were under the direct supervision of the local fiscal officers.[3]

This issue of size and the internal attraction for the misuse of funds was a paradoxical one. For the record, the misuse of public funds is not monopolized by small countries, but there does seem to be a greater tendency for the misuse to develop in the small countries. This is where the paradox comes in. Pragmatically, small size should make it more difficult for the public finance policies to be misused and misinterpreted because the spotlight should always be on the countries in question. The fact that this view cannot be substantiated leads our argument into two salient points.

In the first instance, the Caribbean countries were viewed as small entities and from the "Mother country's" point of view, not too many things could have escaped the oversight duties. But clearly, this was not the case. The empirical evidence indicated developments to the contrary.

When the Caribbean countries moved from the state of colonisation to the threshold of *quasi* and full political independence, in the case of the so-called MDCs, the bureaucracy permitted and perhaps nurtured the development of a kind of civil servants who were no better (worse in some cases) than the overseers from the "Mother country". Hence, instead of there developing a management capability geared to dealing with sensitive issues in small countries, there was an anachronistic, borrowed system, judiciously implemented by Afro-Saxons, who, resolutely, contended that this is the way it was done. The works of G.E. Mills and Edwin Jones in various issues of *Social and Economic Studies* attest to the point that is being made.

Of a more critical nature, however, is a second point. Size was a constraint because the overseers from the British public sector viewed the Caribbean as a *quasi*-local government, but with a difference, as Chapter 2 pointed out. The development process that was taking place in Britain (in the eighteenth and nineteenth century) was dependent upon the model of development that was being worked out by Britain in her colonies. Size was seen in a psychological sphere, for even Canada, Australia, and the United States of America were comprehended from a size point of view — although the latter countries are physically larger than Britain. All of the colonies were given a diminutive role to play in terms of size and fiscal developments.

The change from strict overseer dominance to some semblance of autonomy in the region brought with it a quaint variant on size and fiscal interaction. To a large extent, the size issue seemed to have encouraged views in the region that led to policies which were in the interest of the affluent and not the poor. The administrators who came to the Caribbean outposts subscribed to general notions of macroeconomic conventions. From the historical documents which were sent back to Britain, it is very clear that the opinion shapers in the islands were able to convince the overseers in Britain that benefits accruing to the societies from grants-in-aid would eventually redound to all.[4] Again, an appeal to history demonstrates, in no uncertain terms, that this macroeconomic trickle down effect was not working in the Caribbean. There was, in fact, a trickle down to some members of the population. But, the scope of public finance was complex, hence, much of the trickle did not reach the desired strata of society.

In a sense, it seems as if there were a convention in Britain that was in accord with the view of R.E. Wagner [1976] that the scope of public finance tends to vary directly with the complexity of the revenue used to finance the public sector output. It was to Britain's advantage to view the region as Lilliputians in size and scope. Such a view minimized, in an apparent sense, the complexities in administration. But, such a posture was more apparent than real.

One of the puzzling aspects of this issue of size and fiscal policies is the problem that when the administrative mantle was passed over to the Caribbean bureaucrats in the twentieth century, no real change was implemented *vis-a-vis* the concept of size and fiscal development. By a series of incrementalist policies, (to be discussed later) the fiscal authorities continued the operations of the archaic public finance structure. To state, as we have said, that the Keynesian system which was in use was inappropriate, is only a partial analysis of the problem. Other fundamental factors have to be unearthed which emphasize, for example, the interrelationships between money and fiscal policy [Fisher, 1976]. Epitomizing the money aspect is the banking structure.

The Banking Structure

Banks have been part of the Commonwealth Caribbean since 1899. They started in Jamaica and moved to Cuba and their presence as branches of multinational banks meant that there were geared more to the policy dictates of the headquarters in the metropole than to the conditions and policy options in the local economy. The works of Thomas [1965]; Odle [1972]; Bourne [1975] and a series of other works have demonstrated, in convincing terms, that the nature of the banking structure in the Caribbean was a constraint to development. Not only is there an "open finance" policy by the non-bank financial intermediaries and the banks [Odle, 1972: 19], but the very structure of the banking system was and is a confining and constraining mechanism. To the extent that development in the region is closely related to public sector policies, passively or actively,[5] then the constraints that the banking structure imposed on the system, as a whole, are constraints on the public finance in particular.

Prest put it rather succintly when he said that "the territorial governments possess no direct control over the money supply or the volume of price and credit; and the markets for capital, either short or long term, are embryonic even when they exist at all", [Prest, 1960: 182]. In concrete terms, the banks in the region tended to ignore the public sector because they were operating to tunes played outside the Caribbean.

The fact that this independence on the part of the banking structure contained the development prospects of the region is unmistakably evident. In terms of their lending structure, the banks tended to orient their portfolio to safe, secure borrowers and avoided the riskier customers. In short, the banks were extreme in terms of their risk aversion. Such policies or portfolios in economies where there is profound imperfection in the market for capital and where, consequently, the price of capital has little or no relationship to the capital market mechanism, bring into action critical roles for fiscal policies. Since the capital market failed to stimulate the investment motive, the public sector, must, of necessity, assume a gargantuan role of promoting economic development.

Modifications to these fundamentals are observable in the region, but there is more than a strong suspicion that the entire invitation to invest syndrome was a reaction in the public sector domain to galvanize development in the region that was not forthcoming from the operatives of the local capitalist class. The scenario that should be recognisable is the following. In the Caribbean, the banks and the financial system were structured towards aiding affluence. The capital market was more in keeping with metropolitan centre countries and, perhaps, was even more stringent in the financial obligations. As an outcome of this aspect of being in the region, the banks constrained the public sector to play a role even larger than such roles normally ascribed to public sectors in capitalist countries. To stress the point, the mere fact that the banking structure was a metropolitan beach-head in the region meant that it was strategically placed to receive funds for the metropole, ration credit in the region and frustrate, actively or inactively, the plans of the public sectors. The banks, in essence, legitimized their existence in the region, much like central banks are now attempting to do.

The constraint imposed by the banking structure on the public sector arrives from the nature of the legitimacy that the banks ascribed to themselves. In concert with the multinational firms in the region, the banks perceive of their legitimacy as being given, accepted and not questioned. As Boulding [1969: 1] points out, the "more one looks at the dynamics of social systems, however, the more it becomes clear that the dynamics of legitimacy is one of the most important elements in the total long run dynamics of society". The banks viewed themselves as representatives of a system that (a) dictated, but were not dictated to, (b) planned for the region but did not accept the plans of the region, and (c) chartered development in their own image but refused to agree with the development plans of the public sector. Since the regional governments were invariably in fiscal problems, and since the Mother country was somewhat stringent in its fiscal oversight functions, the banks were basically in an unchallengeable position.

A penetrating analysis of the banking structure, however, will detail the facts that the banks were conduits for the outflow of a significant quantum of capital from what was called a "capital-scarce" region. While the region could legitimately be called a "grants-in-aid" economy, the region also aided the metropole in its development by the remittance of capital *via* the banking structure.[6]

One of the dilemmas of the banking structure of today, however, is the legitimizing effective that has been put forward in the Caribbean to justify the need for central banking systems. New states in the region contend that they must have central banks. A central bank is seen as "part of what every well-dresed country (must) wear" [Boulding, 1969: 15]. It is folly to argue against what is already a *fait accompli* in the banking system, namely, the central banks. By the same token, the evidence that they are effectively controlling the remaining branches of multinational banks is not indisputably clear. Neither is it unquestionably a fact that they are controlling the money supply in their respective domains. Until and unless these two functions are fully implemented, the nature of the banking structure will continue to be a constraint to the effective implementation of public sector policies. This issue is worthwhile expanding.

In the early Caribbean development there was one single currency, namely the pound sterling. Then in 1951, the British Caribbean Currency Board (BCCB) began to issue notes in the region, replacing, to a large extent, the commercial bank and governments' notes that were in circulation.

There were many branches of multinational banks and as unfavourable as this situation was, an implicit coordination of monetary and fiscal policies was practised. It was not a coordination of the countries choosing, rather it was a forced coordination. In other words, the metropolitan countries, *via* the banking structure, structured a kind of development that was in tune with their own policy dictates. Such policy dictates meant the minimizing of conflicts and the miniaturizing of constraints that were inherent in the collusive arrangements between the banking system and the metropolitan overseers. Hence, while the public sector was stymied in its developmental options, developmental public finance was not totally negated.

The development and introduction of currency boards, authorities and central banks in the region bring a trend of thought in line with the role of these institutions. It is not an oversimplification to say that they were intended to control the money supply in the respective currency areas; miniaturize the foreign national banks; and to act as the bankers for the banks and the public sector.

Let us look at the evidence. In the region, there are currently five central banks, two currency authorities, and eleven different denominations.[7] These institutions and currencies have failed to ensure that the money supply could be controlled in the region. Of course, there could be artificial controls of the money supply, such as (a) when the journal of the Central Bank of Trinidad and Tobago, *Review* [1977: 10] states that monetary expansion recorded a growth rate of 34 per cent in the first nine months of 1976, the same growth as the corresponding period in 1975"; or when the Bank of Guyana, in its 10th Annual Report, [1974: 27] claims that "in contrast with monetary developments in previous years, the narrow money supply (currency and demand deposits) accelerated more sharply than the growth of *quasi*-money (time and saving deposits)"; or the Central Bank of Barbados, in its *Balance of Payments of Barbados* [1976: 43] states that, "the foreign assets of the commercial banks are deemed to be under *the effective control* of monetary authorities through the exchange control relations ... "[8] (Emphasis added).

Our contention is this. It is very difficult, if not impossible, for the central banks and monetary authorities in the region to effectively control the money supply. That they are doing a worthwhile job is unquestionably a fact. That they cannot be implementing effective control is quite obvious from their reports. How, for instance, can the monetary authorities *effectively* control *direct investment capital, portfolio investment* and other capital such as transactions of non-residents with the commercial banking system in the region? What mechanisms are opened to the monetary authorities to effectively control the money supply when there are 11 currencies in the region? While the task is not insurmountable, it certainly is gargantuan.

Evidence of the problems faced by the monetary authorities is readily gleaned from the following review and action on the part of the Bank of Jamaica that "...the liquidity of the banks deteriorated in the succeeding months (following July 1973) as some of the large enterprises utilized their deposits with banks to make foreign payments and also as the higher deposit rates offered by non-financial institutions continued to attract funds away from the banks" [Bank of Jamaica, *Bulletin*, 1973: 10].

From November 1, 1973, the Bank of Jamaica instituted an order under the Banking Law 1960 (as amended by the Banking (Amendment) Act of 1973) "requiring commercial banks to maintain a minimum of 21 per cent of their deposit liabilities in domestic liquid assets..." and in "an effort to improve the liquidity of the banking system and to strengthen the effectiveness of the Central Bank monetary policy instruments", five measures were introduced on November 6, 1973 by the Bank of Jamaica. These measures ranged over restrictions on inter-bank commercial lending; a ceiling on inter-bank commercial deposits; an easing of interest rates control measures on inter-bank time deposits; restrictions on the prime rate; and incentives to the yield factor of the open market policy of the Banks *vis-a-vis* Treasury Bills [Bank of Jamaica *Bulletin*, 1973: 12-13].

Without too much penetration of the issues involved, it is evident that the monetary authorities in the Caribbean have failed to effectively control the money supply in the region. How could they? Like Prachowny [1975: 51-65] we believe that the forces of contraction in the wider capitalist world successfully institute contractionary monetary policies in small, open, dependent monetary economies, such as the Caribbean; and any kind of monetary policy that is in operation in Caribbean-type economies, specifically with fixed exchange rates, are doomed to be ineffective as a strong policy instrument.[9]

By and large, the impracticality of the central banks' attempt at controlling the money supply in the region forces the economies in question to operate in a constrained fiscal environment. Their inability to effectively control the money supply creates a situation wherein the nature of the fiscal system, and the attendant public finance relations are such that in these economies, there is a characteristic transition from indirect economic dependence ("market dominance") to direct economic dependence ("control of financial assistance") which finances the banking structure [Ashcraft, 1973: 79].

As far as the currency authorities go, the late Premier Robert L. Bradshaw of St. Kitts-Nevis-Anguilla captured the essence of our thoughts when he said:

> **The East Caribbean Currency Authority in its present form, structure and organization cannot make any significant contribution to efficient and effective control and direction of money and credit in the East Caribbean. The area (East Caribbean) continues to be the victim of a completely unregulated banking system and a fragmented and uncoordinated system of foreign exchange supervision, thus permitting profligacy in the use of foreign exchange and threatening the potential strength of the East Caribbean dollar [Honourable Robert L. Bradshaw, 1976: 7].**

If the *Caribbean* replaced the East Caribbean, the core of the late Premier's comments would be apropos to the entire Caribbean region. The many factors affecting the money supply in the region and the weaknesses inherent in the monetary arrangements are all constraining forces in the monetary authorities' attempts to control the money supply.

The process of miniaturizing foreign national banks in the region is a direct outgrowth of two factors. Firstly, the recognition of the inability of effectively controlling the banks and the financial system and, secondly, the political mileage that is possible from the successful implementation of such a policy. What is the evidence?

Thus far, Guyana, Trinidad and Tobago and Jamaica have been actively engaged in the process of miniaturization. On the level, however, the process of reducing the foreign banks and their presence in the local economies to miniature stature has been extremely ineffective. Odle, according to Davis, dismisses the "miniaturization [process as] being the least significant measure" in the economic transformation of the Caribbean.[10] Thomas contends, in the case of Guyana, that the process of miniaturization has increased the density of the banking structure in the urban areas, to the detriment of the rural areas.[11]

For Jamaica and Trinidad and Tobago, there is no clear cut evidence that miniaturization has worked. It has provided some tools of understanding and points of departure in the planning process of the countries involved, but the objective of containing the foreign multinational banks has not been achieved. If the process is considered in light of three indices namely the "share of fixed banking assets controlled by indigenous banks and (the) indigenous banks' contribution to net-worth or owner's equity in the banking sector"; (the) "indigenous banks' share of total deposits"; then the miniaturization process has been a failure.[12]

In other Caribbean countries there are examples of indigenous banks as well as development banks and other financial intermediaries[13] and there is no clear evidence that these financial institutions have positively augmented the process of miniaturization of the foreign multinational branch banks in the region. What is the problem? Which is the constraining factor? How has this non-miniaturization aided in establishing constraints in the public finance sphere?

Three sets of factors may be offered as explanations as to why the miniaturization process has not worked in the Caribbean. In the first instance, the process of miniaturization was not profoundly thought out, completely conceptualized or fully implemented. Despite the rhetoric to the contrary, the setting up of rival commercial banks, the establishment of workers savings banks and the "transformation" of Post Office Savings into banks fell short of the mark, primarily because of methods of operations, the *modus operandi*, was inappropriate.

A clear analysis of the failure points to several underpinning reasons which lead into the second set of factors. To have operated on the assumption that setting up rival banks would have drained funds from the multinational banks was naive on the part of the political directorate. The fact that the multinational branches were well established from a command of liquidity point of view; that the whole psychological frames of reference on many persons in the Caribbean, including many in the political directorate, are oriented to things foreign in the sense that because it is foreign, it is better, and that the banks had always demonstrated their intransigence to be controlled should have served notice on the decision-makers that miniaturization would have been a particularly difficult obstacle course with untold barriers to be penetrated by the indigenous banks.

However, the added fact that many of the indigenous banks were poorly organized, inefficiently run with no clear lines of public accountability created many avenues and temptations for malfeasance and misfeasance of the indigenous banks' funds. The records of workers savings banks in the region speak volumes on this score. Coupled with this inside problem was the lack of faith that the populace seemed to entertain for workers banks. The low esteem attributed to the banks was also casual in their failures, and in this respect, in the failure of miniaturization.

The third and final set of factors which may be attributed to the failure of miniaturization centres on the concepts of nationalization *versus* indigenization.

The process of nationalization must be seen as an integral part of the region's socioeconomic transformation in its struggles against the current historical formations. Wolf [1977: 7] has demonstrated that there is a positive relationship between the quantity and complexity of nationalized assets and the level of socioeconomic development in the states which implemented nationalization.

It is not clear, therefore, why countries such as Guyana, Trinidad and Tobago and Jamaica opted for miniaturization *via* indigenization as opposed to nationalization. Guyana's experience with nationalization would certainly have given the decision-makers, in that country, some concrete ideas on the processes and mechanisms opened to them in miniaturizing a multinational bank. The fact that up to 1975, the Prime Minister of Guyana, in an address to the Regional Programme of Monetary Studies held in Georgetown, Guyana, was sending unclear hints to the Governor of the Bank of Guyana regarding nationalization of the foreign banks, is very remarkable. But that four years later, no foreign banks were nationalized is extremely enigmatic.

The experiences of Trinidad and Tobago as well as Jamaica are no more enlightening with regards to the non-nationalization of foreign owned banks. It is true that these latter two countries instituted procedures whereby foreign-owned multinational banks were encouraged "to go local". However, these Jamaicanization and Trinidadianization processes were merely window dressing. No concrete structural changes occurred in the banking systems.

Stripped to the barest essentials, miniaturization failed in the Caribbean because of the lack of understanding of *Nationalisierung* and

Verstaatlichung [Wolf 1977: 5]. Translated, *Nationalisierung* means "the partial or complete transfer exclusively of foreign property into state property (normal case) or into the hands of national private capital (special case) in which case it is indigenisation...." On the other hand, *Verstaatlichung* is the partial or complete transfer of foreign or local private enterprises into state property". In the translation to English, these two processes were translated as "nationalization" but their origins are different. *Nationalisierung* has its origin in *nation*, and *Verstaatlichung* has its origin in *staat* or state.[14]

The nationalization processes that were conceptually in operation in the region was the *special case* of indigenisation. Transferring the assets into the hands of the local capitalist was a sound move, but, structurally, the banking system seemed not to have benefitted as was envisioned. As Wolf [1977: 9] states, "National sovereignty over the natural resources... is one of the decisive prerequisites for safeguarding the political and economic independence in general..." In the case of the banking system, the banks were indigenised, and, as such, the forces *via* the multinational banks, were able to maintain concrete holds on the general funding structure of the capital markets in the region.

Fiscal Capacity

Viewed from the point that fiscal capacity may be defined as the resources available to a government for the development and promotion of certain activities, then the public finance perspectives in the Caribbean were hampered. To a large extent, Britain perceived of the countries as having low fiscal capacities. This perception, in the public finance sphere, is allied with either a high tax effort or low spending levels, or both. However, the countries' heavy reliance on indirect taxes constrained the tax effort to a low level point of departure, but the spending levels were not low. Briefly, the situation was as follows. The Caribbean countries were organised in such a way that their fiscal capacity was underrated and there were inadequate levels of public services in the territories. The latter was a direct result of the inadequate public expenditure, given the internal situation of the countries and given the external oversight functions of Britain.

The fiscal residual, that is the difference between the benefits the countries received from and the tax revenues paid into the coffers of Britain was small, primarily because it was to the benefit of Britain to treat the islands as low revenue generators with concomitant low fiscal capacity. That this perception constrained the development of active fiscal policies in the islands is very clear from the nature and scope of today's fiscal sophistication. That this orthodox view of fiscal capacity further constrained the development prospects of the territories, is also obvious provided it is recognized that there is a definite link between fiscal capacity and performance on the one hand and economic development on the other.

It is not accurate to merely state that Britain perceived of the islands in a given manner and that because of such a perception the fiscal system was a constraining force. More substantively, however, were the problems associated with that perception. In the first instance, fiscal capacity can be operationalized as the maximum output of revenues that can be generated with given resource bases. Added to this, are institutional factors such as the administrative and compliance costs associated with ensuring that the optimum fiscal capacity is possible. From the historical evidence, the British gave a poor appraisal of the fiscal administrators in the Caribbean. In this respect, the model of fiscal organizational behaviour was predicted to, more or less, fail.

Linked to this administrative problem was the population issue. Since the population base can only give partial evidence, relative to the needs of the population, there seemed to have been a downplaying of the fundamental priorities of the islands. In other words, much of the public expenditure in the region was implemented on a *per capita* basis. However, *per capita* expenditure, as a measure, has some serious limitations because population is not a sound proxy for expenditure needs. In certain islands, and certain sections of certain islands, the expenditure needs differed. The treatment of the islands on a population basis from an expenditure needs point of view meant that the fiscal performance of Britain *vis-a-vis* the islands was a constraining and conflicting one.

In this fiscal capacity aspect, the time dimension is critical. Two points are crucial. First, the issue of the constraint and conflict stems from the peculiar relationship that Britain had with its dependencies. While there was a certain degree of political independence, the financial support from Britain determined, to a large extent, what programs were implemented and what projects stood the test of time. The picture is still very clear today in the microstate economies of the Eastern Caribbean. Subsequently, we will illustrate, using the grants-in-aid to the territories, how this constraint and conflict were implemented. Time, then, refers to the past historical relationship of all of the Commonwealth Caribbean countries, as well as the present situation in the non-independent microstates.

The second time related feature refers to the structural inadequacy and the administrative inefficiency that are present in today's fiscal systems. In an earlier chapter, it was noted that the islands inherited a system which was basically a concoction of British local government fiscal arrangements. That the systems today have not been able to generate public policies more geared to target strata in the societies is more reflective of administrative inertia and desire to maintain the *status quo*, rather than to maintain incompetence. That the decision-makers are not fully cognizant of the role of the fiscal system could play, is readily apparent. If we make a detailed assessment of the fiscal capacity of the economies of the Caribbean, several issues could be offered in summary.

These are:

(i) Public finance in the region was practised as if there were a colonial plan for it.

(ii) As a result of this colonial plan, the "Mother country" had a paternalistic attitude towards the region.

(iii) This paternalistic attitude benefitted, but more often than not, engendered weak non-self-sustaining economies. This is not to say that there were no cases of surplus in the regional economies. These were cases, but in many instances inadequate revenues were generated over long run periods.

(iv) The general tax structure in the region left much to be desired. Even though the system of taxation seemed relatively easy to administer, the benefits of the system went to privileged strata in the society.

(v) Many loopholes were inherent in the tax system. These loopholes were exploited by big businesses and the elite in the societies.

(vi) The distance of the Caribbean from Britain was also a factor of neglect.

In general, all of these factors were crucial in the low priority accorded the fiscal capacity of the islands. In the next section this role will be considered, but, first, let us consider the resource constraining effect on the public finance perspectives.

Resources

To appreciate the issue of resources within the context of a constraint on public finance, focus has to be centred not on the quantum of resources in the Caribbean, but rather on the utilization of resources in the region.

Recall that the classical economists were concerned with the problems of economic growth and the attendant issue of capital formation. Economic growth was seen as the critical aspect of the overall development process. While this kind of economic theory informed the bureaucrats in Britain, the decision-makers who "ruled" the Caribbean theoretically and practically were informed by a different set of views. The British were more concerned with maximising profits and minimizing outlay. While there was exploitation of the natural resources, there was adequate exploration of the resource base.

From a pragmatic viewpoint, this policy of exploitation and minimal exploration of the resources constrained the territories to the dependency syndrome. Were the resource bases of the territories fully explored, the possibility of economic independence would have loomed on the political horizon earlier than the 1960s in the region. Pragmatically, then, resources and the islands were undervalued. But, this does not support the contention that the resource bases of the islands were not exploited. Barring technology, the point is this. It was to Britain's advantage to down play the extent of the resource base in the Caribbean and obtain revenues from the obvious sources of agricultural products. Not only were the agricultural products subject to the vagaries of the weather, but Britain's monopoly of trade with the territories reinforced the dependency of the islands.

The overall scope of the resource issue hinges on a few factors. Britain subscribed to the notion that the islands were the classic poverty-stricken islands with low to no saving. Relative poverty in the region was more or less the cause and effect of inadequate capital formation. Caught in the Nurksean vicious circle of poverty [Nurkse, 1955], the island remained endowed with resources, but with inadequate capital to exploit the resource base. Capital had to come from the "Mother country" to assist in the exploitation of the resource base. The inflow of capital from Britain and the subsequent infusion of capital from private interests further exacerbated the fiscal dependency syndrome.

From a broad perspective, the limitations of the resource base were not limitations due to inadequate resources. Rather, they were limitations or constraints arising from the philosophical underpinnings of the Caribbean overlords. The monocrop economies of the region, and Britain's implicit/explicit discouragement not to diversify the economies served to further constrain the fiscal system.

Within recent years, the multinational corporations have assumed a similar role as that of Britain. They, too, have policies which have negative impact on the roles the resource base could play in the fiscal development of the region. To the extent that the resource bases are owned by external agents, to the degree that they are explored by multinational forces and, given the fact that the local public sectors are accorded minute roles in the decision-making process, to that extent the resource bases have been constraining factors on fiscal development. Full, adequate exploitation of the resources would have permitted the territories the latitude to mobilize surplus for the people. In this respect, the public fisc would have been operational on behalf of the people and not for a select strata.

In summary, the size, banking structure, capacity and resource bases were, by and large, constraining factors on the role of public finance in the region. From a traditionalist perspective, these features could serve as assets in the fiscal process. However, the perception and manipulation of the region's overlords and latter day capital financiers were such that they constrained, instead of aided, the fiscal development process. Yet, it would be ahistorical to apportion blame to Britain and the multinational corporations (MNCs) only. Within the region, inherent forces of maintenance of the *status quo* were at work. These forces served to turn the features of size, banking structure, capacity and resources into constraints on the public finance developments of the region.

What role did the state play?

In the next section we will devote attention to the role of the state and public finance in light of the constraints. Four areas will be covered.

These are (a) the traditional role of the state; (b) the revenues profile, (c) the use of revenues perspective; and (d) the welfare components of the revenues.

Our main concern is to identify the nature of the state apparatus in the Caribbean from the point of view of public financing. In other words, how did the state machinery allocate benefits, why did it allocate benefits and to whom did it allocate benefits?

The Role of the State and Public Finance[15]

The concept of the *state,* as used in the present context, refers to the government and other institutional mechanisms which interact sometimes as complementary, and other times as contradictory forces to form what may be termed the *state system.*[16] However, any systematic treatment of the role of the state must, of necessity, treat the "political economy of public expenditure" [Burkhead and Miner, 1971: 1]. The increasing role of the state demarcates a controversial role of public finance in all systems, but more so in systems which passed through or are in the spheres of dependent underdevelopment.

While the state may be seen as a force of and institutional arrangements, its scope and nature assume varying characteristics. In the framework of Lenin [1975: 11], "the state is a machine for maintaining the rule of one class over another". Summarising Engels, Lenin [1976: 9], contends: "The State is a product and manifestation of the *irreconcilability* of class contradictions".

The role of the state presents a rather acute controversy in those economies which may be termed mixed economies or peripheral capitalist economies in the Caribbean usage of the term. In this section, our analysis of the role of the state and public finance will consider the implicit/explicit features of the constraints discussed in the previous section, the class predispositions of the state, the manifestations of those features relative to the traditional role of the state, the sources of revenues, the uses of revenues and the welfare aspects of the revenues. The succeeding section will extend the role of the state and public finance by an examination of the budgets and the budgetary processes in the region.

The Traditional Role of the State

In the Caribbean, this role is best seen from three perspectives, (a) a "*quasi*-direct"[17] role; (b) an imitative role, and (c) a set specific role. In the case of the *quasi*-direct role, the state in the Caribbean seems to be caught up in the typical classical capitalist role. The provision of infrastructural developments, both from the human and physical spheres, are the main concerns of the state. These development expenditures are not provided for all of the people. Invariably, party interests and elite groups dictate the provision of the developments (as we have illustrated in the case of Jamaica).

This kind of traditionalist role of the state was in direct keeping with that role played by Britain in the islands. But, the nature of political independence changed the role somewhat. It is in this regard that the imitative role of the state has to be viewed. Although independence has various meanings in the region, the term is being used in this context to refer to any semblance of local autonomy as well as full autonomy in the case of the independent countries.

The state devoted public expenditures to factors which had to be placated, for example, the emergence of strong local political pressures; the politicisation of the masses, as a result of strong international opinion; the overtones of Third Worldism on the region's political directorate; and an awakening of the region's masses to the possibilities of socioeconomic transformation; and the effects of the demonstration syndrome.[18]

In a set specific nature, the state has (and still has) to develop considerable public expenditures to factors which develop as a result of the location and mode of production endemic to the region. Climatic and natural disorders have necessitated increases in expenditures in all of the region. This is factual, whether the situation of flooding is considered in Guyana or the ravages of hurricanes in the Eastern Caribbean and Belize.

On another level, the openness of the economies and the trading problems attendant with *mono*-and *duo*-crop economies, have also necessitated increasing public expenditures, implicitly an expanding role of the state. The state in the region has to protect the economies from the vagaries of the international market mechanism. The state does not carry out a very creditable job, due to external pressures and constraints. Added to these limitations, however, is internal bureaucracy and inertia in the state's administrative systems, as the works of Mills, Jones and Robertson attest *[Social and Economic Studies, Vol. 23 No. 2, June, 1974].*

The Caribbean state system, therefore, models the traditional activities which centre on what are conventionally termed the goals of the public sector in the literature of public finance. These goals are the promotion of economic growth, the stabilization of economic activity, the efficient allocation of resources, and an equitable distribution of income. In the ethos of public choice, however, the role of the state falls short of the actualization of the goals. The pursuit of the goals are not only handicapped by the nature of the goals themselves, but by the nature of the state, its class interests, its allegiance and its orientation to certain rules and power sources in the societies. Added to all of the above, the organizational characteristics of the state system, and the linkages it maintains with the "Mother country" have also constrained the system in its effective implementation of the listed goals. Nevertheless, the role of the state increased by incrementalist measures both from the view of the sources of revenues and the uses of revenues in the region.

Let us now turn to the sources of revenue and the constraints therein.[19]

Sources of Revenue

Both from a qualitative and quantitative nature, the region has been dominated by indirect taxes. These taxes include custom duties, sales taxes, excise taxes and an array of miscellaneous taxes such as licenses, stamp duties, dog taxes and other taxes or levies associated with domestic production.

The role of the state in the development of these revenue sources is basically a passive one. To a large extent, the role is reflective, more of tradition than any well thought out policy regarding tax planning and revenue mobilization. In some countries, notably Jamaica, Guyana and Trinidad, production taxes on their mineral bases served to highlight some small departure in revenue mobilization. However, as Girvan [1972] has demonstrated, the method used was a very weak one. The latter case of nationalization of the resource base in Guyana and the accommodation position of Trinidad provide no counter arguments to the general view of the lack of controlling the natural revenue sources in the states in question.

Within recent years, income taxes have begun to play an increasing role in the revenue picture of the region's economies. Whether it is the system in Jamaica as shown in Table I, Central Government Receipts or the Chart of the U.S. Virgin Islands revenue sources, (Chart I) the picture still points to the dominance of a select group of taxes, namely indirect taxes. The revenue sources seemed to be reflective of traditional models of operation which are in keeping with the development thrust of the region. The sources of revenue also seem to be reflective of the dominant political class formation, as well as of the lobbying interests of certain strata in the society. Couple these with the allowances and exemptions which certain members of the economies exercise, and it becomes sharply focussed that the revenue sources in the region are biased and discriminatory towards some strata of the societies.[20]

Similar biases are noticeable in all capitalist systems which have revenue structures similar to those highlighted in the preceding table and chart. It is vital to bear in mind, however, that the biases and discriminatory features of any public sector policies make the expenditure welfare enhancing effects more difficult. The very nature of such biases in the revenue profile constraints the effectiveness of the state. This point is observable from the notion that the state would find itself in a situation where it has to make deliberate attempts to remedy the impact of the biases and discriminatory features.

Since the region is operating under the auspices of traditional public finance perspectives, the clear neoclassical focus and classical idiosyncracies surface in the revenue structures. The taxes are, ostensibly, geared towards neutrality and equity in the revenue raising features. That they fall short of these features may be in accordance with the Keynesian

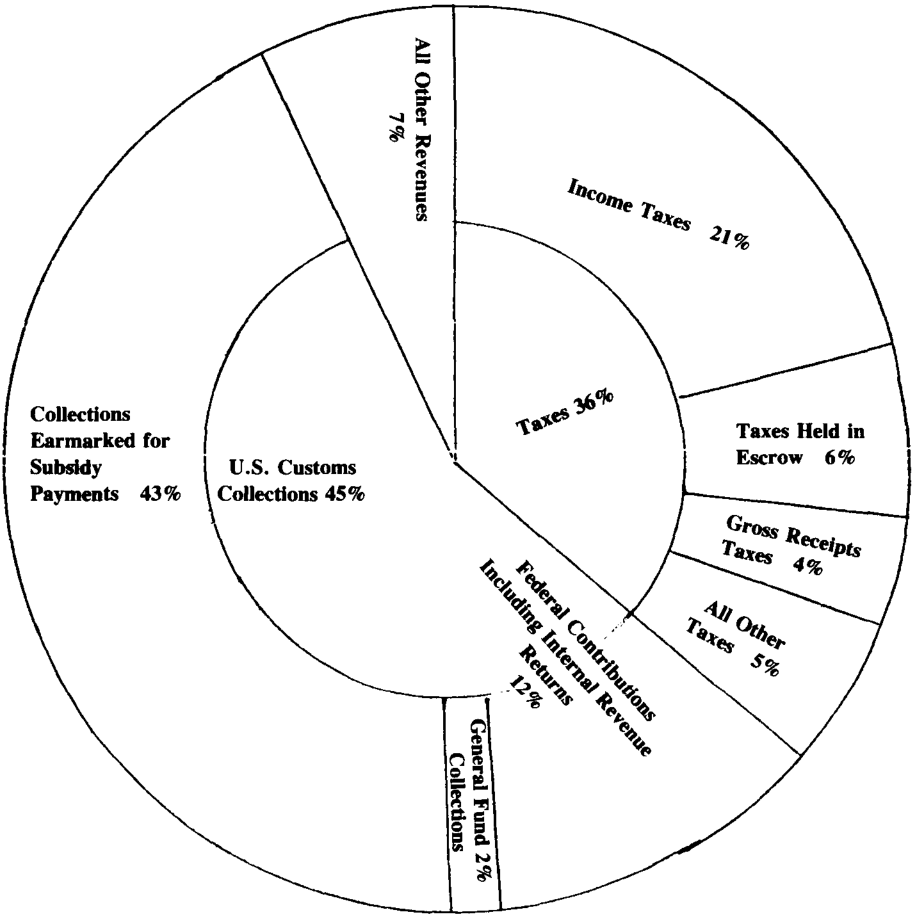
TABLE 1
CENTRAL GOVERNMENT RECEIPTS SOURCE OF FUNDS
REVISED ESTIMATES
(J$m)

YEAR	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75
RECURRENT REVENUE	107.6	111.2	126.2	144.3	175.8	212.8	244.4	280.7	344.9	506.6
TAX	98.6	103.6	115.2	130.9	161.0	194.0	228.8	260.1	324.4	394.5
Custom Duties	28.8	30.0	31.2	35.1	41.1	43.1	48.3	57.6	55.2	57.0
Excise Duties	23.8	26.6	30.0	34.7	38.9	44.4	48.8	56.5	56.1	56.2
Income Tax	38.8	38.2	44.2	46.9	64.9	87.6	109.3	115.7	147.4	187.6
Other Taxes	7.2	9.0	9.8	14.2	16.1	18.9	22.8	30.3	65.7	93.7
NON-TAX REVENUE	8.8	7.6	11.0	13.4	14.8	18.8	15.6	20.6	20.5	27.1
T/Fer from C.D.F.	—	—	—	—	—	—	—	—	—	85.0
Capital Revenue	4.0	3.0	4.0	4.2	4.2	4.4	4.6	5.0	4.7	10.5
Royalties	2.0	2.2	2.2	2.1	2.4	3.0	2.6	3.9	3.8	6.5
Other Revenue	2.0	0.8	1.8	2.1	1.8	1.4	2.0	1.1	.9	4.0
LOANS	19.8	22.0	25.6	35.5	32.4	26.5	44.2	81.7	99.0	158.2
Internal	7.6	15.2	17.4	26.4	32.4	20.5	20.3	48.3	47.9	87.4
External	12.2	6.8	8.2	9.1	9.0	6.0	23.9	33.4	51.1	70.8
OTHER RECEIPT	—	—	—	—	—	4.0	1.7	—	3.8	34.4
TOTAL	131.4	136.2	155.6	184.0	212.2	247.7	294.9	367.4	453.4	709.7

Source: Economic & Social Survey, Jamaica, various issues.
1974 Preliminary Estimates

CHART 4.1

Distribution of Revenues in the U.S. Virgin Islands, 1975



Source: Department of Finance, Government of the U.S. Virgin Islands. *Annual Report.* June 30, (1975: 30).

superstructure which informs the economic decision-making process in the region.

The Keynesian prescriptions, as we saw in Chapter 2, are more in line with full employment and stability overtones. In this respect, their major concern was not so much the structure of revenues or taxes, but the net contribution of the public sector to aggregate demand. But herein, lies the problem. The revenue structure was informed by classical dictates and articulated by Keynesian prescriptions. Given what we have contended before, about the relevance of the system in question, contradictions of the revenue structure manifest themselves in constraints on the public finance role of the state. Of course, this does not mean that the decision-makers in the region were unaware of the limitations of the system. There were trade-offs. Some of these surfaced in the uses of revenue but as we will observe, later on, some constraints were evident in uses of revenues also.

One overall source of revenue which has a direct constraining effect on the state and its public finance promotions, is external borrowing. This has been detailed in the works of Kirton [1974] and others. The evidence is overwhelming that this source of revenue is, undoubtedly, constraining. This issue will be given further amplification in a subsequent section. However, the recent role of the International Monetary Fund (IMF) and the stringent conditions that institution imposed on the borrowing capacity of Jamaica and Guyana drives home the point in sharp relief. "Traps" [Odle 1978] are the norm, as far as external financing and the state are concerned.

Uses of Revenues

The uses of revenues is readily viewed by observing the functional distribution of expenditures in any Caribbean state. Four international type categories are identifiable. They are general services, community services, social services and economic services. Under general services fall administration, law and order (internal), foreign service and external defence. In the case of the dependent microstate economies of the Eastern Caribbean, external defence and foreign service are provided by Britain.

Narrowly defined, roads, water supply and other infrastructural services come under community services. Health, education, basic welfare and other social services, broadly defined, are included in social services. Economic services include transportation, internal and external communication, storage and so forth. Finally, there is an omnibus residual category of other services. Here, charges on the public debt, welfare payments and other transfer payments are lodged.

These categories are merely accounting classifications since, in the long run, they are all geared to the overall development of the region's people. In terms of the importance of the various categories, social services have been the dominant user of revenues. A sufficient quantity of information now points to the fact that while education has been traditionally the largest absolute user of revenues, other components are now increasing their usage at an increasing rate. In the other service categories, expenditure on public debt has been showing a sharp rise over the years. Revenues devoted to law and order and defence have also shown an increasing profile.

Fundamentally, the uses of revenues are also constrained by the class interests and power bases of the states. To the extent that there are questionable degrees of regressitivity in the tax structure, there is no reason to argue that the revenue uses are benefitting those of the state's intent. It may be argued that expenditure in education has some factors of equality and excellence.[21] There are, however, some very vital questions about the full impact of the revenues on the entire educational system. Have the expenditures reduced functional illiteracy? Are the benefits impacting in the school system or are they shifted to the builders of the school, the capital providers for building the schools, and so on?

These questions and others underscore problems in the uses of revenues and public finance affairs of the economies of the region. Infrastructural development is part of the traditional approach to development. It is also of great importance in the centralization of decision-making, and *pari passu*, the implementation of specific degrees of control. The evidence indicates, nonetheless, that a great proportion of the region's infrastructural development is put on stream to cater to political alliances and allegiances. Jefferson [1972] has documented this point for Jamaica. However, the procedure holds for the region.

From a broad perspective, the question of the uses of revenue is tied to the tax capacity and financing aspects of the states in the region. External financing plays a great role in the production of infrastructure. While infrastructure can be viewed as aiding some target groups in society, there are some questionable features of the external financing of projects, be they the Rio Cobre water project in Jamaica or the Canadian built schools in the Eastern Caribbean. The point that is being made is that given the region's lack of capital to finance infrastructure and the need to use infrastructural development and some means of income equality, what are the constraints imposed on the public finance role of the state? Clearly, the constraints are severe because the state must conform to the terms of the financiers, in a sense further locking in the economies of the region into metropolitan dominance.

The state in the Caribbean faces questions regarding the sources of revenue from several angles, in addition to those already mentioned. Not only the constraints imposed by taxes, but the more fundamental questions as to what should be the criteria for the provision of certain services. Should consumer preferences, social preferences or dictatorial preferences inform the state in its decision-making? How should the uses of revenues be centralized in the growth oriented goals of the state? What should be the distributional ramifications of the uses of revenues? In sum, what should be the expenditure policy for development? Implicitly all of the evidence available points to the lack of well organized systems, clear policies and planning parameters that would deal with these questions. In this respect, the very nature of the questions identify the constraints to the role of public finance in the Caribbean nation state.[22]

One of the most critical features of the constraining impact of the uses of revenues in the role of the state and public finance, centres on a two-pronged feature, (a) tax reliefs and subsidies; and (b) allowances and the burden of taxes. Jones-Hendrickson and Bourne [1974: 4] have argued that "tax reliefs and subsidies to capital can, theoretically, satisfy the income growth objectives of development while not fulfilling the employment and the termination of economic dependence objectives ..." In cases where the system of tax reliefs/subsidies discriminates in favour of capital intensive sectors, there will be a tendency towards an increase in economy wide, capital intensity of production. Producers in the fiscally less privileged labour intensive industries shift resources to the capital intensive sectors. In such cases, therefore, the system of tax reliefs and subsidies has an adverse effect on employment.[23]

Most of the discussion of "who bears the tax burden" [Pechman and Okner, 1974] is focussed on the income tax. It is important in the Caribbean, however, to consider the allowances and the tax burden in light of the constraints of the uses of revenue. There are several views on the regressivity/progressivity features of taxes in the region. What is evident is that some degrees of progressivity obtain in the tax structure (in train the uses of revenue) but, given the nature of allowances, the tax and structure/use of revenues profile is a regressive one. As Jones-Hendrickson and Bourne [1977]: 10] point out, (the) "fiscal process is not readily attainable (in the Caribbean) primarily because high income recipients exercise myriad ways and means of mitigating the burden of their share of taxes. By utilizing the several exemptions and allowances, by knowing the areas of widening tax loopholes and by having access to tax consultants whose main function is to reduce the tax liabilities of their clients, they successfully minimise their contribution (to the public fisc)".

In essence, the uses of revenues in the Caribbean region have to be tradition bound. By this, we mean that there are no radical lines of departure from classical/Keynesian type methods of using revenues to aid the economies. Apart from the one salient feature of the relevance of the modes of operation, the other feature which is critical is the nature of the power structure in the allocative effects of revenues. While efforts were made to aid the masses, there were constraining forces which undermined the effectiveness of the state in the use of revenues.

While the listing of problems and constraints are now easily described, the wisdom of hindsight must be credited. The role of the state and the public finance features therein had constraining and compounding (expanding) impacts from the welfare side of revenues received in the region.

In the next section we will consider the welfare component of the revenues. A specific period will be identified, namely 1946–57. The rationale for citing this period rests on the keen insights that are obtainable from the interaction between development and welfare in the then West Indies.

Welfare Components of Revenues

In looking at the "patterns of government spending in developing countries", Lotz [1970: 119-44] identified the functional classifications of public expenditure for 37 developing countries, and found that intensive economic development is functionally related to incremental spending in welfare. If group welfare is perceived in the light of a traditional definition [Leftwich, 1976: 10], then the inevitable question regarding the concept of Pareto optimum arises. Our concern is not with that specific microtheoretic approach to welfare analysis but with revenues generated in the former colonies; the impact of these revenues on the societal welfare features of the populace; and the constraining effects these revenues from abroad had on public finance policies of the region.

From a welfare point of view, some credit has to be given to Britain for initiating the Development and Welfare Organization (DWO) in 1940. The Development and Welfare Organization was supposed to lay the foundation for "steady growth of regional cooperation and coordinated action in economic, social and technical matters, and ... the complementary development of facilities for all forms of interterritorial communication and consultation" [Luke, 1957: 5]. The organization also claimed that another of its general focus was on breaking down the insularity problems of the islands.

In specific terms, the Organization's primary functions were:

(i) assistance to the British Caribbean in the preparation of applications for grants under the Colonial Development and Welfare Acts;
(ii) the provision of technical assistance to (the) governments;
(iii) the provision of machinery for regional consultation and cooperation in economic and social matters; and
(iv) the allocation of grants from the money made available under the Colonial Development and Welfare Acts for regional purposes ... [Luke 1957: 5-6].

Reviewing the general and specific terms of reference of the DWO, it is clear that the region was seen as a "unified" state in our context. The Organization had far reaching policies which circumscribed the fiscal policies of the region. In this regard, the role of the state was one which had to be of a subservient nature to the financial dictates of Britain through its agency of fiscal oversight, namely the Devolopment and Welfare Organization.

The budgetary position of the British Caribbean in 1951, as recorded in the island's estimates, is given in Table 2.

TABLE 2
BRITISH CARIBBEAN TERRITORIES, 1951 BUDGETS
($ B.W.I. '000s)

(1) Territory	(2) True local recurrent revenue including land sales etc. (a)	(3) Total recurrent expenditure (b)	(4) Surplus (+) or deficit (—) on recurrent account (b)	(5) Public works non-recurrent and other Capital projects financed from current or accumulated revenues	(6) Expenditure from Development and Welfare grants, etc.
All Territories	151,421	144,860	+6,561	12,220	11,753
Barbados	10,576	10,025	+ 551	826	377
British Guiana*	23,277	21,718	+1,599	1,471	1,035
British Honduras*	3,200	3,709	– 509	199	1,628
Jamaica and Dependencies	50,976	48,984	+2,992	3,333	4,374
Jamaica				(net)	(net)
Dependencies	410	410	—	19	263
Leeward Islands Federal					
Government	97	97	—	—	—
Antigua	1,690	1,992	– 302	72	186
St. Kitts-Nevis-Anguilla	1,963	1,799	+ 164	236	240
Montserrat	364	466	– 102	6	260
Virgin Islands	132	261	– 129	20	—
Trinidad & Tobago	51,019	47,983	+3,036	5,654	1,246
Windward Islands					
Grenada	2,848	2,729	+ 119	98	184
St. Lucia	2,080	1,810	+ 270	127	453
St. Vincent	1,453	1,555	– 102	28	295
Dominica	1,336	1,322	+ 14	131	1,212

(a) It appears probable that, with the increased yield of Import Duties during the year, the actual revenues are likely to exceed the estimates in most countries.

(b) Not including recurrent expenditure financed from Development and Welfare grants.

*Now called Guyana and Belize, respectively.

Source: Luke [1951: 17]

From the table, it is clear that this was a year of high revenue. However, expenditure from the DWO and other external grants-in-aid were substantial relative to the revenues derived from taxation. Indirect taxes, as we have seen, have been of great importance in the revenue structure. In general, the territories raised about 33.3 per cent of their revenues from one such indirect tax, namely import duties. Relative to other rates, the rates were not that high. The problem, however, was the fact that in most of the territories a large proportion of the revenues was raised from duties which were levied "on essential foods such as flour and the cheaper types of clothing" [Luke, 1951: 17]. The duties were even more oppressive to the welfare of the poor, for in years of high prices, the governments did not exercise any fiscal measures to lower prices on essential goods and services.

The grants and loans profile of 1954/55-1955/56 was basically the same as that of 1951, as we observe from Table 2. While Britain did make allocations based on population, this procedure was not followed in a rigid manner. Evidence of this departure from the general principle is observable if a *per capita* estimation is made. In general, as Chart 4.1 demonstrates, population and grants and loan tended to rise together.

By 1956-57, one year before the Federal Government was slated to go into operation, grants and loans totaling £4,270,846 (W.I. $20,500,060) were given to the territories for welfare development. A bias was towards the larger territories, although it was not so definite. The Windward Islands, as a group, got a substantive amount. Table 4 shows the relevant appropriation for the region. Data for Trinidad and Tobago were not available.

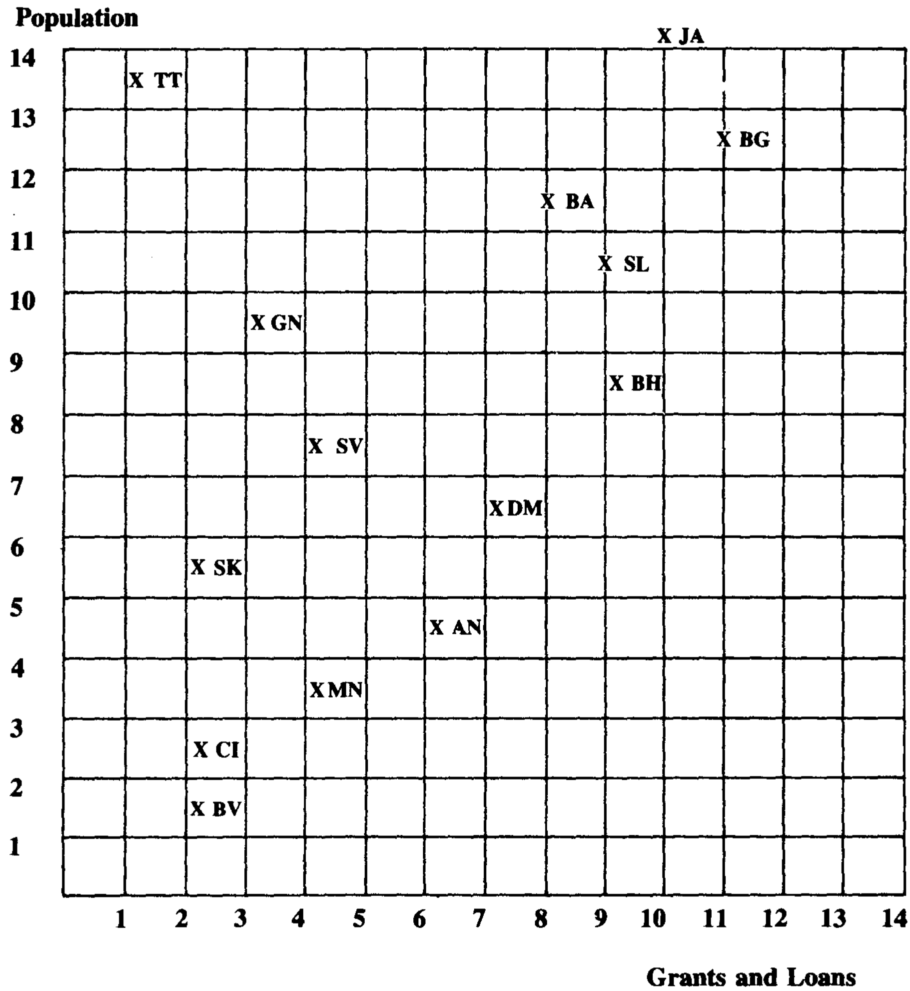
The full impact of the allocations, grants and loans to the Caribbean over the period 1946 to 1957 may be discerned from Table 5. Over that period, allocations of £33,900,300 (W.I. $162,687,540) and total loans and grants of £27,943,356 (W.I. $134,100,165) were made to the territories. Of these allocations, grants and loans, Jamaica secured the highest percentage, followed by British Guiana and British Honduras.

On the *per capita* basis, the territories were given aid in the amounts shown in Table 6. Three periods are cited, 1950, 1955-56, and 1957. The expenditure over the period April 1, 1946 to March 31, 1957, were £21,538,003 (W.I. $103,360,876). This represented 64 per cent of the total allocations and 77 per cent of the grants and loans.

In the 1951 fiscal year, British Honduras, Turks and Caicos Islands and Antigua were the top three in *per capita* grants and loans. By 1955-56, British Honduras, Dominica and Montserrat were the top three. Finally in 1957, St. Lucia, Antigua and British Honduras, respectively, were the main recipients. The bottom three were Jamaica, Grenada and Trinidad and Tobago in 1951; the same three in 1955-56, Turks and Caicos Islands, Jamaica and St. Kitts-Nevis-Anguilla in 1957. These dates illustrate that population played a role in the allocation of funds, but other emergencies (e.g. hurricanes in Belize) also were given priority.

CHART 4.2

COUNTRIES RANKED BY POPULATION AND LOANS AND GRANTS 1950 — 1957



Notes: The lowest scores are ranked 1.

AN = Antigua; BA = Barbados; BG = British Guiana; BH = British Honduras;
BV = British Virgin Islands; CI = Cayman Islands; DM = Dominica;
GN = Grenada; JA = Jamaica; MN = Montserrat; SK = St. Kitts;
SL = St. Lucia; SV = St. Vincent; TT = Trinidad & Tobago.

Source: Colonial Office Reports, various years.

TABLE 3

SUMMARY OF GROSS TOTALS OF GRANTS AND LOANS APPROVED FOR FINANCIAL YEARS 1954/55 — 1955/56

	£('000)
Barbados	219.9
British Guiana	2,414.5
British Honduras	743.4
Jamaica	910.6
Cayman Islands	—
Turks and Caicos Islands	40.3
Teaching Hospital (Jamaica)	.9
Leeward Islands	
Federal	15.9
Antigua	275.2
Montserrat	95.0
St. Kitts-Nevis-Anguilla	93.6
Virgin Islands	35.3
Trinidad	21.0
Windward Islands	
General	31.0
Dominica	465.9
Grenada	34.3
St. Lucia	410.1
St. Vincent	93.0
West Indies (general)	354.6
Total	6,254.5

Note: All percentage calculations in this table and others were done by the author.
Source: Luke [1955—56: 124] Table III A.

TABLE 4

SUMMARY OF GROSS TOTALS OF GRANTS AND LOANS APPROVED FOR FINANCIAL YEARS 1956/57

	£ ('000)
Barbados	459.7
British Guiana	834.8
British Honduras	384.8
Jamaica	699.4
Cayman Islands	6.0
Turks and Caicos Islands	5.1
Teaching Hospital (Jamaica)	—
Leeward Islands	
General	4.3
Antigua	285.5
Montserrat	47.7
St. Kitts-Nevis-Anguilla	4.4
Trinidad	n.a.
Windward Islands	
General	67.7
Dominica	157.5
Grenada	369.0
St. Lucia	477.1
St. Vincent	315.1
West Indies (general)	111.5
Total	4,229.6

Source: Luke [1957: 131] Table III A

TABLE 5

SUMMARY OF ALLOCATIONS, GRANTS AND LOANS
APRIL 1, 1946 to MARCH 31, 1957

Colony	Allocation	Per Cent	Total of Grants & Loans	Per Cent	Expenditure at 31/3/57	Per Cent
	£ ('000)		£ ('000)		£ ('000)	
Barbados	1,300.0	3.8	1,344.4	4.8	820.6	3.8
British Guiana	7,260.0	21.5	6,530.1	23.4	4,877.3	22.6
British Honduras	3,500.0	10.3	3,323.1	11.4	2,582.0	12.0
Jamaica	8,750.0	25.8	6,720.1	24.0	5,594.3	26.0
Cayman Islands	160.0	.5	104.6	3.6	96.1	.4
Turks & Caicos Islands	261.7	.7	179.5	.6	193.4	.8
Leeward Islands						
General	202.4	.6	181.1	.6	137.2	11.0
Antigua	1,389.0	4.1	1,075.7	3.8	811.0	3.8
Montserrat	386.4	1.1	296.9	1.1	242.7	1.1
St. Kitts-Nevis-Anguilla	727.8	2.1	353.9	1.3	282.1	1.3
Virgin Islands	206.6	.1	164.9	.6	139.6	.6
Trinidad	1,250.0	3.6	568.6	2.0	530.4	2.5
Windward Islands						
General	542.4	1.6	440.5	1.6	285.8	1.3
Dominica	1,594.1	4.7	1,427.8	5.1	1,028.0	4.8
Grenada	1,131.1	3.3	871.7	3.1	742.6	3.4
St. Lucia	2,486.2	7.3	2,199.3	7.9	1,621.4	.8
St. Vincent	1,025.8	3.0	838.0	3.0	544.7	.3
West Indies (general)	1,744.8	5.1	1,323.3	4.7	1,008.8	.5
Totals	33,918.3	100	27,943.5	100	21,538.0	100

*This total includes grants made in favour of governments from allocations other than the territorial allocation. Percentage figures may not add up to 100 due to rounding errors.

Source: Luke [1957: 129] Appendix III, Table I.

TABLE 6

PER CAPITA GRANTS AND LOANS TO THE BRITISH CARIBBEAN (SELECTED YEARS)*

Islands	1951[a]	1955—56[a]	1957[a]
Barbados	$ 4.96	$ 4.57	$ 9.56
British Guiana[b]	27.25	24.47	8.23
British Honduras	52.88	44.13	22.45
Jamaica	3.08	2.81	2.77
Cayman Islands			
Turks and Caicos Islands[c]	29.08	12.89	4.79
Antigua	28.93	25.16	25.32
Montserrat	33.68	31.66	16.11
St. Kitts-Nevis-Anguilla	9.20	8.22	.38
British Virgin Islands	23.65		
Trinidad & Tobago	.16	.14	n.a.
Dominica	41.35	35.37	11.85
Grenada	2.11	1.87	19.87
St. Lucia	24.75	22.34	25.47
St. Vincent	6.61	5.81	19.23
British Caribbean Area[d]	9.49	18.29	13.70

Notes : a — population lagged one year.
: b — population excludes Amerindians in remote areas of British Guiana.
: c — the population of the Turks and Caicos and Cayman Islands were not included in the 1954, 1955, 1956 data. Estimates for those years were 15,000, 17,000, and 18,000 respectively.
: d — the author's calculations.

Source: See Luke [1951: 114], Appendix IV; [1955-56: 59]; [1957: 82]; Table I.

From Table 7, we observe the proportion of expenditures to allocations and to grants and loans over the period of analysis, 1946-57. On average, the region spent six out of every ten dollars that were allocated and eight out of every ten dollars in grants and loans. The plus/ minus columns show the deviations from the overall average.

In Table 8, a financial summary of the development and welfare schemes is given for the period April 1, 1946 to March 31, 1957. The great involvement of the British government in the public sector of the territories is very revealing. It can be imputed, from the data, that all sectors of the territories, economies had some impact, albeit in varying degrees.

Whether one considers the Tenantry Road programme in Barbados; the Bartica-Potaro Road or the Wapisiana Tribe in British Guiana; the Punta Gorda Town Pier or Malaria Eradication in British Honduras; the Youth Corps or animal nutrition in Jamaica; fisheries development or Aedes Aegypti eradication in Antigua; control of storm waters or livestock development in Montserrat; the central cotton experimental station in St. Kitts; the airfield at Beef Island in the British Virgin Islands; housing authority or squatter control programmes in Dominica; fisheries or timber utilization programmes in Grenada; the Anse-la-Raye-Soufriere Road or cocoa industry in St. Lucia; and the Campden Park Experimental Station in St. Vincent, the evidence is overwhelming that the welfare schemes in the Caribbean had massive impacts on the fiscal affairs of territories.[24]

Over this period of analysis each territory had a different emphasis in terms of the development and welfare schemes in operation. For Barbados, British Honduras, Turks and Caicos Islands, Montserrat, Dominica and St. Lucia, the welfare priority was communications and transport. In British Guyana, alone, housing and planning was the priority. Agriculture and veterinary service was the top welfare priority in Jamaica, St. Kitts-Nevis-Anguilla and St. Vincent. On the other hand, medical, public health and sanitation was the highest welfare priority for the Cayman Islands. Aid to the Public Works Department was the *number one* welfare priority for the British Virgin Islands, whereas, education was the *number one* priority welfare expenditure for Trinidad and Tobago. "Miscellaneous" was top priority in Grenada.

In terms of regional groups, Jamaica and its dependencies ascribed top ranking importance to agriculture and veterinary services; in the Leeward Islands the Public Works Department was top; for the Windward Islands medical, public health and sanitation was ranked one, and for the West indies, in general, the miscellaneous category was billed as *number one* due in large measure to 25.9 per cent of the total going to the miscellaneous category in Grenada. Overall totals showed that the top five development and welfare schemes in the Caribbean during 1946-57 were agriculture and veterinary, communications and transport; water supplies, drainage and irrigation; education; and housing and planning.

TABLE 7

EXPENDITURE (E) TO ALLOCATIONS (A) AND GRANTS AND LOANS (GL), APRIL 1, 1946 TO MARCH 31, 1957

Islands	E/A %	±BCA[a]	E/GL%	±BCA[a]
Barbados	63	2	61	–18
British Guiana	67	6	75	–4
British Honduras	74	13	78	–1
Jamaica	64	3	83	4
Cayman Islands	60	–1	92	13
Turks and Caicos Islands	74	13	108	29
Leeward Islands				
General	68	7	76	–3
Antigua	58	–3	75	–4
Montserrat	66	5	82	3
St. Kitts-Nevis-Anguilla	39	–22	80	1
British Virgin Islands	68	7	85	6
Trinidad	42	–19	93	14
Windward Islands				
General	53	–8	65	–14
Dominica	64	3	72	–7
Grenada	66	2	85	6
St. Lucia	65	4	74	–5
St. Vincent	53	–8	65	–14
West Indies (general)	58	–3	76	–3
*British Caribbean Area	61	0	79	0

Note: Author's calculations
a — ± British Caribbean average
* This represents the entire region, whereas the West Indies General represents general allocations to the entire group in a general fund.

Data obtained from Luke [1951; 1955-56; 1957]

Source: Luke [1951: 1955-56; 1957]

TABLE 8

FINANCIAL SUMMARY OF DEVELOPMENT AND WELFARE SCHEMES APRIL 1, 1946 — MARCH 31, 1957 (£ '000)

				Jamaica and Dependencies				Leeward Islands		
Service	Barbados	British Guiana	British Honduras	Jamaica	Turks & Caicos Islands	Cayman Islands	General	Antigua	St. Kitts-Nevis-Anguilla	Mont-serrat
Administration	—	11.8	43.0	11.7	4.2	—	18.0	—	—	8.6
Agriculture and Veterinary	172.3	708.0	695.9	1,967.8	10.8	7.0	39.5	177.7	102.2	51.6
Communications and Transport	632.0	688.6	1,381.3	24.8	27.8	32.8	13.1	66.5	—	71.2
Education	99.0	377.2	181.0	1,171.5	22.9	14.9	9.2	72.4	87.8	53.0
Fisheries	6.9	25.3	7.0	20.8	—	—	—	8.2	10.4	2.5
Forestry	.5	.1	341.8	225.5	—	—	.9	11.5	—	—
Housing and Planning	1.8	1,404.1	90.1	475.4	2.6	—	1.5	107.5	53.9	16.6
Industrial Development	.6	2.0	24.0	20.6	80.0	—	—	10.4	—	—
Labour	—	—	8.0	—	—	—	—	—	—	—
Land settlement	—	84.2	—	10.2	—	—	.2	90.2	15.5	13.8
Medical, Public Health and Sanitation	220.8	152.0	145.9	898.3	14.0	49.9	38.8	174.9	49.7	36.9
Public Works Department	27.9	245.5	20.4	—	—	—	53.3	151.3	—	13.0
Social Services	11.0	34.6	66.1	331.3	—	—	5.5	2.5	3.3	2.0
Surveys	—	246.0	16.4	99.0	—	—	—	4.5	—	—
Telecommunications (including Broadcasting)	—	—	13.3	.6	.9	—	—	—	—	1.3
Water supplies, Drainage and Irrigation	164.8	2,488.4	36.2	1,439.5	9.0	—	1.0	190.4	31.0	22.0
Miscellaneous	6.8	2.2	246.7	14.1		—		7.6		4.4
Total	1,344.4	6,470.0	3,317.1	6,711.1	179.6	104.6	181.0	1,075.6	353.8	296.9

Source: Luke [1957: 130] Table 1.

TABLE 9

FINANCIAL SUMMARY OF DEVELOPMENT AND WELFARE SCHEMES APRIL 1, 1946 — MARCH 31, 1957 (£'000)

Service	Virgin Islands	Trinidad	Windward Islands					West Indies General	Totals
			General	Dominica	Grenada	St. Lucia	St.Vincent		
Administration	—	—	35.5	—	—	67.3	—	107.7	307.8
Agriculture and Veterinary	36.5	103.9	33.5	281.2	203.8	537.4	216.2	220.9	5,566.2
Communications and Transport	34.9	—	78.3	672.1	68.9	617.9	214.3	51.4	4,675.9
Education	12.7	360.5	2.4	89.1	55.4	73.3	75.3	80.6	2,838.2
Fisheries	4.0	—	6.1	—	16.0	5.0	8.3	—	120.5
Forestry	2.0	—	29.8	43.6	13.0	30.2	—	3.0	701.9
Housing and Planning	—	—	47.6	11.8	3.4	533.9	52.6	—	2,802.8
Industrial Development	—	—	.3	—	—	—	5.4	.5	143.8
Labour	—	—	14.5	.1	—	.2	—	23.0	45.8
Land settlement	—	104.2	—	73.4	12.8	4.3	25.4	—	434.2
Medical, Public Health and Sanitation	5.1	—	118.2	16.4	34.0	157.4	87.9	289.8	2,490.0
Public Works Department	44.7	—	28.2	32.3	—	20.0	7.2	4.5	648.3
Social Services	—	—	11.1	27.5	4.8	6.4	24.5	50.5	581.1
Surveys	—	—	10.4	—	—	—	13.2	9.5	399.0
Telecommunications (including Broadcasting)	3.8	—	16.1	—	—	5.7	.1	—	41.8
Water Supplies, Drainage and Irrigation	21.2	—	—	11.4	47.3	25.5	102.3	—	4,590.0
Miscellaneous	—	—	8.5	20.9	321.5	115.0	5.1	481.9	1,242.1
Total	164.9	568.6	440.5	1,279.8	780.9	2,199.5	837.8	1,323.3	27,729.4

Source: Luke [1957: 130], Table 1

By and large, the welfare component of revenues in the Caribbean was underwritten, to a large degree, by British grants and loans. This infusion of funds was not an outright "golden-handshake". Earmarked and necessary as the funds were, they served to undermine the spirit of self-sufficiency that could have developed in the region. Too many fiscal decision-makers looked to Britain to balance their budgets, fund their infrastructural development, and in general, run the fiscal affairs of the state. While British aid to the region was a "pay back" of some of the region's contribution to Britain, the point can still be made that the fiscal links between Britain and the Caribbean did not augment the development process. If anything, the process was a constraining one. It was constraining to the extent that the individual territories did not exercise their full fiscal potential, and were not keenly concerned about fiscal reform.

In addition to the general welfare assistance to the region, Britain also gave grants-in-aid. Over the years, a few countries, such as Dominica, Montserrat, St. Lucia, St. Vincent and Grenada received varying amounts of grants-in-aid. Some countries, such as St. Kitts-Nevis-Anguilla, refused to accept aid. This position was taken because the political directorate in St. Kitts-Nevis-Anguilla argued that there were too many strings attached to the use of the aid.

Table 10 indicates the amount of grants-in-aid received by countries over the years. Many of the columns are not complete, primarily because we were unable to get the actual data, or some approximation thereof, from the various Governments' *Estimates*. Nevertheless, the data give a useful insight into an understanding of the inflow of grants-in-aid to the territories. This aid seems to be sound on the surface. However, we are of the view that the territories were vectored into a "holding pattern" as far as their fiscal development was concerned.

And it should be noted that the grants-in-aid created an illusion in the fiscal development of the territories.

Budgets and the Budgetary Process

Many statements about budgets and the budgetary process are simply developed when one is discussing these documents and the process in developing countries. Statements of these simple nature are bound to omit some salient factors. This is the one great drawback with discussing budgets and the budgetary process in the Caribbean. While the statement that at the back of any budget and the budgetary process are policy decisions which are rooted in the socioeconomic history of a country, is true, many problems are in that view.

This section will focus on four issues. The first relates to the historical legacy of budgets and the budgetary process which evolved. But our discussion goes beyond a mere historical review to incorporate the links of the budgets to revenue sources and uses. Second, the British

TABLE 10

BRITISH GRANTS-IN-AID TO THE LEEWARDS AND WINDWARDS — 1955—1975

Year	Name of Recipient Country						
	Antigua	Dominica	Grenada	Montserrat	St. Kitts-Nevis-Anguila	St. Lucia	St. Vincent
1955	1,286,514	566,285	—	425,669	—	284,803	—
1956	997,876	352,038	—	538,354	—	42,144	733,324
1957	1,368,206	1,035,112	—	366,284	—	112,776	1,082,338
1958	1,246,455	1,078,123	—	610,954	—	790,533	1,213,470
1959	1,136,013	1,280,000*	280,000	815,000	—	998,730	1,364,000
1960	1,536,000	1,357,000	—	914,000	—	1,168,000	1,237,500
1961	—	1,858,373	—	1,056,480	—	1,450,000	—
1962	—	1,470,624	98,924	—	—	1,232,998	—
1963	—	1,338,784	1,305,607	960,184	—	266,702	—
1964	9,360	1,305,454	1,277,332	1,157,500	—	—	—
1965	—	715,740	1,250,409	697,959	821,927	—	1,171,871
1966	46,642	1,759,938	1,857,770	689,896	—	—	1,994,760
1967	—	—	—	—	—	—	1,931,889
1968	—	—	—	—	1,225,500	—	2,286,329
1969	—	1,510,000	—	—	1,116,480	—	2,088,000
1970	nsc	1,287,000	5,280	1,016,012	2,151,480	190,757	335,750
1971	nsc	1,080,000	—	1,826,779	2,414,400	214,890	1,320,000
1972	nsc	636,721	—	895,373	2,400,000	195,913[R]	1,000,000
1973	nsc	—	—	1,219,200	2,160,000	305,984	1,200,000[E]
1974	nsc	—	—	1,342,032[R]	2,160,000[A]	254,820[R]	—
1975	nsc	—	—	1,952,000[E]	2,420,000[E]	311,675[E]	—

* *The Pattern of Revenue and Expenditure in Dominica,* [1958—1972] Lestrade.
– Not available E = Estimates A = Approved Estimates R = Revised Estimates nsc = not separately classified
Unless otherwise specified, these figures refer to actual grants-in-aid.
Sources: St. Vincent *Digest of Statistics* (various years)
For other countries: *Estimates of Revenue and Expenditure* (various years).

oversight functions and the budgetary process are discussed. Here, the discussion is in light of developments in the budgetary process and the controls and reforms which are imposed. Third, weaknesses in the budgets and the process are discussed in light of constraints on the fiscal system. Finally, politicization of the budgetary process and the public choice *versus* the individual choices are considered.

The Historical Legacy of Budgets

Budget, budgeting and the budgetary process have a series of meetings, depending on the context in which they are used. According to Burkhead [1956: 2] "in Britain the term (budget) was used to describe the leather bag in which the Chancellor of the Exchequer carried to Parliament the statement of the Governor's needs and resources". Over time, the budget referred to the statement within the bag and not the bag itself.

In the Caribbean, a budget is normally associated with a document that shows a relationship between government revenues and expenditures over a specific time, the fiscal year. Simplistically, then, *a budget is a plan for collecting and spending government revenues* over some time period. The collection and expenditure of the revenues are linked to the production and provision of goods and services for the population. More fundamental, however, a budget is the primary mechanism that a government uses so that it could introduce some rules and regulations in the collection and expenditure of money within its politico-economic confines. A budget, in this sense, is a document that has some links with past revenues and expenditures and definite connections with future revenues and expenditures.

In general, the budget should be reflective of the resources in a society and should also reflect the decisions arrived at relative to the sources and uses of these resources. Operationally, budgets in the region reflect the decisions of the executive in government, with little or no input from the people. This may be true, since budgeting is considered an executive function. However, since the Caribbean inherited the Westminister model, both legislative and executive functions are pooled to arrive at a budget, and to put into effect the methods of budgeting. From a practical point, budgeting is normally carried out by the political party in power. It uses its judgement to implement whatever controls, rules or regulations it sees fit. Constitutionally, the Leader of the Opposition should have budgetary oversight function, but save for Jamaica, this function is rarely exercised by opposition leaders in the other states of the region.

The strength of any analysis is as sound as the basic assumptions upon which the analysis is predicted. It is now well established in econometrics, for example, that the moving together of two things (correlation) does not imply causation. Nevertheless, it seems safe to state that some of the historical features which arose *via* budgets in the

Caribbean have detailed certain lines of departures as far as budgeting is concerned. Although budgets in the Caribbean have some common threads running through all of them, statements about the budgets and budgeting could be misleading. Budgeting, as Maxwell [1969: 208] claims, aims at "an accurate determination of governmental needs and an efficient appraisal of how the needs can be met". Lee and Johnson [1973: 53] contend that the "practice of budgeting ... (is) ... concerned with the provision of services to satisfy social wants and needs and also the redistribution of income".

From a macroeconomic point of view, the purpose of budgeting is to effectuate measures so that the scarce resources of a country are allocated equitably among the competing wants and desires of the citizens. In this regard, our concern is not with the mechanism of budgeting or preparing the budget but rather, our emphasis is on the operational side of budgeting. In other words, how and why do budgets and budgeting reflect certain policy objectives, and are these policies in accord with the wants and needs of the societies in question?

Born of the British colonial era, the Caribbean's budget and budgetary process tend to mirror that of Britain. Changes which are to be made in the revenue profile are normally announced in the budget sessions of the legislatures. However, the governments are free to impose changes *via* new taxes contingent upon their reflection of the economic conditions in the economies. Although there should be one budget and the budgetary process should follow the plans therein, supplementary budgets could be introduced. Changes in revenue, the budgets and supplementary budgets have to be agreed upon by both government and opposition before the changes become legally binding. This constitutional provision is not always adhered to in all of the states of the region.

The budgetary process in the region has certain features which are nominally geared to ensuring equity in tax levels. The effects of the budgets, like any economic policy, are both general and specific. Given the vagaries of the economies of the region, the empirical evidence shows that the effect of the budgetary process has not benefitted all of the people equitably. Such a conclusion is a commentary on the obvious. This must be true for the economies are operating under Keynesian fiscal policy dictates. It is known that it is precisely in this area that Keynesian economic theory is weak as it concentrates on the aggregate approach and minimizes the structural laws of motion of the societies (Burhead, [1956: 80-82;] Lee and Johnson, [1973: 77].

Budgets and budgeting in the Caribbean are partially reflective of the sources and uses of revenues. For one, as we saw in the preceding section, the welfare component of the countries' development was influenced by decision-making in Britain. While budgets normally have links with revenues and expenditure decisions, the budgetary process and the budgets of the Caribbean did not always reflect ideas such as Musgrave's [1959].

He perceived of a budget as having three basic functions:

a. The provision for social wants, which requires the government to impose taxes and make expenditures for goods and services, to be supplied free of direct charge to the consumer;

b. the application of certain corrections to the distribution of income as determined in the market requiring the government to add to the income of some by transfers while reducing the income of others by taxes; and

c. the use of budget policy for economic stabilization, rendering it necessary under some conditions to raise the level of demand by a deficit policy and under others to curtail demand by a surplus policy [Lee and Johnson, 1943: 11].

To a large extent, these three views of government's role in budgets and the budgetary process are applicable to the Caribbean. The system is Keynesian and the ideology is capitalism. Institutional features, nonetheless, bar the full achievement of the three Musgravian budgetary functions. It is clear, nevertheless, that the fiscal directorate in the region have always recognized that budgets are powerful tools. The Honourable David Coore, Q.C., past Deputy Prime Minister and Minister of Finance for Jamaica, in his *Budget Speech,* May 16, 1974, highlighted one of the Musgravian budgetary functions when he said, "... part of the objectives of economic policy must be the improvement of the level of the total amount of social justice in the society and the redistribution of wealth in the society..." [Coore, 1974: 38].

The historical legacy of budgets in the Caribbean had the implicit aim of making amends in certain segments of the societies. The late Premier, Robert L. Bradshaw, said

> **budgets ... are — in effect — housekeeping on a national scale in which desired expenditure is assembled and costed, and collective income identified and marshalled to meet that expenditure, and, ideally, to provide a surplus; in a word, the family's needs are identified and measured against the family's income which should really be enough to supply those needs with a little left over for the bank. In our case, our needs are many but our means are few; therefore we shall have to cut our garment to suit the cloth available, at the same time as we devise means to add to that cloth, [Bradshaw, 1976 1977: 1].**

This Keynesian view of budgets and budgeting is very much keyed into the system that Britain passed on to the colonies.

The next section will consider the oversight functions of Britain and the impact on the budgetary process in the region.

Budgets and British Oversight Function

Discussions which were centred on budgets and budgetary reforms in the 1920s were not catering to the colonies' needs. Sir Warren Fisher and Sir John Hicks made contributions to developing a "system of treasury control" and attempted "to restructure the British budget, (such that it would) give a more meaningful presentation of government surpluses and deficits" [Premchand, 1975: 25]. Changes in the role budgets should play were instituted in Sweden, in the U.S.A. through performance budgets, and in the 1960s, through programme planning budgeting systems in the U.S.A. International agencies, such as the United Nations also entered the area of budgetary reform.

The experience of the Caribbean, however, is different from what was the accepted norm in other politico-economic entities. The colonial system of financial management was the *modus operandi* in the region. This meant that the fiscal affairs directorate were operating by the rules of a system that "aimed primarily at control of minute detail" (which, in fact, often proved illusory) [Premchand, 1975: 25]. In this system, public accountability was not accorded any large role, and the system was not very flexible as far as the accommodation of reform was concerned. This is paradoxical in the light of the fact that some of the more enlightened budgetary reforms have taken place in Britain.

Theoretically, the oversight functions of the British were geared to ensure that the regional governments were held accountable for their fiscal actions. Public accountability was perceived as a mechanism whereby the public officials were kept within the confines of narrow bands of governmental operations. The British, it may be argued, operated on the premise that the budget and the budgetary process afforded the electorate the opportunity to get vital information so as to evaluate the qualitative impact on the decisions of the political directorate. In the Caribbean, this strong theoretical view was not followed through. Consequently, the oversight functions of the fiscal officers from Britain were not as potent in a reform and control sense as they could have been.

It should be evident up to this point why the oversight functions of the British government were not functioning properly. In the first instance, the problem of distance and control was a conflicting one. Secondly, the methods and processes in operation were not conducive to smooth operations. The personnel in charge, locally and from abroad, saw the minute detail but more times than not, overlooked the big problem. Inflexible lines of development were the norms in the budgetary process. Thirdly, the line item budget was the dominant mode of operation. Not only was this process cumbersome, it was time consuming in its attention to minutiae. Fourthly, the ideological frames of references of the economies in question, the social norms of the personnel who implemented the budget plans and the fiscal overseers were all different. While there was a tendency for governments to change, fiscal officers "never died, they just passed away". In this respect, changes and reforms were far from plentiful.

In sum, while the structure of taxation in Britain changed, the objectives of its policies were modified, and some attempts were made in that country to be in tune with the realities of economic and fiscal development. In the Caribbean, the fiscal system went on, uninterrupted, by the changing fiscal awareness throughout the world. The point must be made that there were changes in the tax structure. The fundamental point is, there was no *structural* change in the fiscal system. That the oversight functions did not accord any growth perspective, from the point of new and far-reaching reforms, is a paradoxical situation in light of the changes that were occurring in the country performing the oversight. What role did the structure and scope of the budget play in this constraining development on the fiscal development of the region?

To appreciate this role, let us look at the inherent weaknesses of budgets and the budgetary process or budgetary mechanism.

Inherent Weaknesses in the Caribbean Budgets

Premchand in a detailed and profound article, charts five broad areas which are in need of reform. In viewing the budgetary reforms in the developing world, the "identified deficiencies" [Premchand, 1975: 27, Chart 1] are broadly, (a) "public expenditure planning"; (b) "budgetary procedures"; (c) "budget structure"; (d) "budget execution"; and (e) "accounting system".

In varying degrees, these inherent budgetary weaknesses of the budgets in developing countries are similar to those of the Caribbean states. Under public expenditure planning are (a) "inadequate attention to allocative efficiency"; (b) "absence of long term planning of expenditure"; (c) "lack of efforts to relate expenditure to outputs"; (d) "absence of economic policy inputs"; "absence of identification of the future expenditure requirements of current programmes and projects"; and (e) "absence of expenditure objectives".

Many of these weaknesses may be qualified in the Caribbean context. Nevertheless, when each is taken in turn, and when a profound analysis of the substance of the statement is made, the dimension of the problem is not too far from the reality in a Caribbean setting.

Under budgetary procedures, there are (a) an "absence of central agencies to review budget requests"; (b) "decision-making without due consideration of the financial consequencies"; (c) "lack of coordination with other public bodies engaged in economic management"; (d) indication of "control in minute and inflexible detail"; and (e) "preference for budgeting by aggregation (rather) than by indication or direction". These five areas of weaknesses are observable in many ways in the budgets and budgetary process in the region. The point must be made, again, that all of the ramifications of each are not in the region's fiscal system.

With regards to budgetary structure, these are (a) "excessive budgetary fragmentation"; (b) "multiplicity of budget categories"; (c) "emphasis on line-item structure"; (d) "absence of relationship to the current administrative activities"; (e) " lack of integration of the financial and the physical aspects of transactions"; and (f) "inadequate link up with the development plan". The structure and scope of the budgetary process are hampered by these weaknesses. To the end that the weaknesses are cumulative, the system is even weaker than a listing of each weakness indicates.

Execution of the budget is left up to the political party in power. The most dominant weaknesses are, (a) "excessive centralized control by the ministries of finance"; (b) "absence of preaudit of claims"; (c) "absence of yardsticks to measure performance"; (d) "overemphasis on financial targets"; (e) "absence of review of under and overspending ... cost escalation ..." (f) "delays in (the) release of funds and absence of cash management"; and (g) "lapse of budget grants". In this case of budget execution, the weaknesses are tied to the lackadaisical attitude that seems to be pervasive in the civil service structure. The failure of some civil servants, in key ministries, to demonstrate some sense of urgency normally leads to some of the weaknesses in properly executing the budget.

Finally, under the accounting system there are weaknesses arising from (a) "archaic procedures of recording"; (b) "out of date classification practices"; (c) "considerable time lags in reporting of accounting data"; and (d) "inadequate linkup with national income accounts". The areas which these specific weaknesses cover are too far-reaching to necessitate our providing any additional commentary. If each instance is taken, the problem can be pointed to in every Caribbean country, although Premchand's classification are applicable to the developing countries.

Politics and the Budgets

Lee and Johnson [1973: 197] contend that if "one accepts the proposition that governmental expenditures should be judged on the basis of their impact upon people and the environment, then the (programmes) that show desirable impacts should have a political advantage over (programmes) that show undesirable impacts or no impact at all". This view has several links to the politics of the budgetary mechanism in the Caribbean. It is accepted by many, that fiscal policy should be a deliberate attempt to use revenues and expenditure policies to benefit certain poor strata in the society. In the Caribbean, however, this deliberate policy is used, but not necessarily to benefit the poor sections of society. The rich and elite strata gain more from the budgetary mechanism because they are able to lobby more, pay off more decision-makers, and deliver more votes at election time. This process which seems to be embedded in many democratic capitalist systems has a great deal of importance in shaping the fiscal policies of the state.

While the political process may be sympathetic to the view that there should be balanced budgets (and we know there are many problems with this concept) see Keiser [1975: 195], the political directorate generally hold another view regarding the effect the budget could have in ensuring that it returns to power. Budgets should normally reflect the views of the public, but in the politicization of the budgetary process, the public choices and ideas are not accorded much weighting. This behaviour pattern is in keeping with the same benign neglect with which Britain treated the fiscal officers of the colonial Caribbean state.

Budgets in the Caribbean *via* the political process are incrementalist documents which reflect the view of the political parties in power. The budget, in any given year, is merely a revision of previous years' budgets. Because the budgets are not new budgets in the sense that there are *new* lines of departure, the class and interest group biases are normally maintained.

On another level, however, it must be borne in mind that nearly three-quarters of all budgets in the region are uncontrollable. Previous years commitments are difficult to eliminate. Areas such as infrastructural development and supportive services are difficult to eliminate. What could be controlled though are the interest groups which received contracts to provide the services. The politicization of the budgetary process in the Caribbean states highlight programmes and policies which are akin to what the Americans call "pork barrel policies".

To the degree that politics is the directing, as opposed to the guiding force behind budgets and the budgetary mechanism in the region, there will be constraints and conflicts. This does not mean that the complexity of governments decisions is not taken into consideration. It does mean however, that if the general public has no meaningful input in the decision as to where, how and when funds should be spent, then sectional interests will continue to dominate the receipts or budgetary benefits.

In the final analysis, our one positivist view on public finance in the Caribbean was concerned with showing how constraints have arisen in preventing fiscal policy from becoming a more dynamic tool for economic transformation. The problems of size, banking structure, capacity and resource can have both positive and negative impacts depending on how they are perceived, and on who controls what, when and where. The role of the state in terms of its sources and uses of revenue is critical to a better understanding of the interplay between the political system and fiscal development. The budget and the budgetary process is crucial, for herein lies the main weaknesses, the politicization issues and the general features which have to be remedied if public finance is to have a meaningful role in the development of the region.

It will be overstating the case to say that the fiscal process was riddled with constraints. It had its problems, but it had its successes too. One problem which cannot be overlooked, however, is the conflicting role of monetary policy in the region.

In fact, the role was not only conflicting it was also constraining. By this, we mean that monetary policy was basically a policy that the multinational banks practised among themselves and was not under the direction of the public sector or in the banks associated with the governments. The introduction of central banks in the region saw little substantive departures in monetary policy. That is to say the banks of the public sector, the central banks, were not able to shift the monetary policies of the multinational banks so that they were in accordance with the fiscal dictates of the public sector.

NOTES

1. The point should be noted that this view from the Keynesian analysis was restricted to the Anglo-Saxon world. On mainland Europe, some alternative roles of the public sector were already in place, pre-Keynes. See Musgrave and Peacock [1967].

2. Another political view of smallness, size and survival is well exemplified in the works of Emmanuel in Vaughan A. Lewis [1976]; and B. Benedict (ed.), [1967].

3. This issue of malfeasance and misfeance has not diminished. Recall the cases of Grenada and the commissions of inquiry into the same in Guyana and Jamaica [1978].

4. The term "overseer" is used here in a plantation/economic sense. Since the entire Caribbean was a plantation, the administrator of the plantation is designated the overseer.

5. Passively, the public sector aided the private sector in terms of fiscal incentives, tax rebate, etc. Actively, the government aided in terms of road building and other infrastructural developments which were, to a large extent, benefits for the private sector.

6. Evidence is readily available that the multinational branch banks are still conduits of funds to the metropole. Currently, it operates in a more disguised form. Many branch banks have been forced to become "indigenous" banks. But they still maintain correspondent banking relationships with their old headquarters. However, it is to be noted that surplus funds in many Caribbean countries are invested in the metropole and the banks are the prime conduits for these funds.

7. Central banks are in Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago. Currency authorities are in Belize and the Eastern Caribbean, (located in St. Kitts). The dollar denominations are, Bahamas, Barbados, Belize, Bermuda, Cayman Islands, East Caribbean, Guyana, Jamaica, Turks and Caicos, Trinidad and Tobago and the U.S.A. dollar *via* the British Virgin Islands.

   The central banks came into being shortly after the Caribbean countries in question became politically independent. In 1966, the East Caribbean Currency Authority (ECCA) replaced the British Caribbean Currency Board as the sole issuer of notes in the Eastern Caribbean. ECCA was originally located in Barbados but was shifted to St. Kitts after the former achieved political independence. Grenada, a politically independent East Caribbean country, does not have a central bank and it continues to use the East Caribbean dollar.

8. By monetary authorities is meant the government and Central Bank of Barbados. See *Balance of Payments*, p. 43.

9. In addition to the two forces, we can also think of two other factors which are critical: (a) the external decision-making and behaviour of the expatriate banks and their independent parent bank policy; (b) the policies of the large firms in the region. They exercise a tremendous degree of influence on the available finance. Added to the above, empirical evidence illustrates that the asset portfolio of the banks are normally over-specialized; in other words, mortgage and consumer loans. The upshot of this is, any major drawback in these areas exacerbate the problems in the banking structure in the Caribbean. This, in turn, causes a tremendous affect on the money supply and the control thereby.

10. Cited in Davis [1977: 95].

11. For a full discussion of these three points, see Davis [1977: 90-97].

12. See, for example, St. Kitts, Dominica, St. Lucia, as well as the other mentioned independent countries.

13. See Odle [1972].

14. It is not merely the lack of understanding of the two kinds of nationalization that caused miniaturization to fail. It was the lack of a stronger political will in the region which failed to put policies into effect that would have permitted full, as opposed to partial control of the expatriate banks.

15. For a discussion of these and subsequent points, see Jones-Hendrickson [April 1976: 7].

16. See Miliband [1973:] Chap. 3 for a discussion of this concept.

17. By quasi-direct we mean that the state did not take direct initiative, in all cases, in promoting this kind of development. It was a half-hearted approach in response to sectional interests.

18. The term normally used is "demonstration effect", but we believe "demonstration syndrome" is more appropriate in that it describes areas of ills related to development.

19. In addition to the listed problems, there are two discernable dimensions which are internal to the Caribbean system, and which tend to inhibit local decision-making. In the first instance, the aspect of multi-ethnicity makes democratic consensus very difficult to achieve. Second, the small size of the islands and the extreme visibility of the decision-makers, many face-to-face contacts, interlocking family relationships in the private and public sector and watered-down decisions are a general tendency for various compromises. Essentially, decision-makers and members of the political directorate cannot make decisions very easily. In some way or another, the decision may be construed as affecting one or other of the ethnic groups. In countries like Trinidad and Tobago, Guyana, Jamaica, Belize and the U.S. Virgin Islands, this issue of decisional impact on ethnic groups is critical.

20. For evidence in the case of Jamaica, see Charles McClure Jr., [1977]; also, see an earlier work, Ahiram [1964].

21. For an extensive analysis of this issue of excellence and equality, see Jones-Hendrickson [May, 1978].

22. The terms "state" and "states" are used in this work to refer to the overall Caribbean nation state, the former, and to the individual island state (the latter). [Jones-Hendrickson 1977]. The Caribbean nation state is loosely defined as all the Commonwealth Caribbean.

23. See Jones-Hendrickson and Bourne [1974] for a more detailed analysis of this issue.

24. For information on the projects see Luke [1957: 132-139], Table III B; Projects D 2881; D 2822; D 2960; D 3087; D 2661 A; D 2843; D 1982 A; D 2471 A and B; D 2081 D; D 2978: D 3026; D 2869; D 3035: D 1572 B; D 1743 A; D 2056 A; and D 2302 A.

CHAPTER 5

PUBLIC FINANCE IN THE CARIBBEAN: A NORMATIVE VIEW

The framework of public finance in the Caribbean has many possibilities in terms of normative views. In this respect, the kind of public finance that developed and is practised in the region rests on many normative propositions. But, while one could accept the existence of normative views and propositions, the fiscal directorate in the area seem unsure of themselves in the integration of positive and normative views in fiscal policies. It also seems uncertain about the means to use to establish meaningful integration of monetary policies and fiscal policies.

In this chapter, our focus will be on setting out some general views related to normative issues of public finance in the Caribbean. The ideas are, however, sufficiently broad to be applicable to most developing countries. In the first section, our discussion will be on the development of shifts in public finance in the region. The second section considers budgetary reforms. This is critical because, as we saw in Chapter 4, the budget is a crucial tool in aiding the development process. Finally, we consider from a regional point of view, the role public finance ought to play. Here, the discussion will centre on the use of revenues to benefit the people in general, and not groups in particular. A suggested mechanism, namely a Revenue Diffusion Fund (RDF) will be proposed.

Perceived Shifts in Caribbean Public Finance

If a close look is taken of the operations of public finance in the Caribbean over the last 30 years, for example, some interesting shifts of change in the policies of the public sector can be observed. Attempts were made to retain the inherited governmental type of finance while mixing it with functional finance of the *Abba Lerner* perspective. By governmental finance, we mean a type of public finance which depended upon government setting rules and regulations of expenditure in accordance with the market mechanism. In the Caribbean, many persons believe that the market mechanism does not work for all of the people.[1] However, some persons believe that the market mechanism could work for the people.

It is this other view that the market mechanism could work, which caused some "policy-shapers" to shape governmental policy by "tinkering" with the market mechanism. The tinkering of the market mechanism means that governments provide some goods and services which the society needs, but which the private sector does not produce.[2] Since the profit motive is the underpinning force of the private sector, certain goods and services are not normally produced or provided by this sector because *no to low profits* characterize certain goods. These so-called public goods and services, now have a long history of theoretical and applied discussions and need not detain us here.

In the region, taxes are not tools which can be designated "aids of development". Taxes are collected in order to help the state to carry out its expenditure duties. From Britain, the view was fostered in the Caribbean that governments must pay for themselves. This view is still true today. Such a system, in the absence of other constraints, would have ensured that revenue receipts would have been equal to expenditure outlay. There would have been no public debt or no budgetary shortfall. In sum, no crises in governmental finance.

In the 1950s, there was a noticeable shift in the public finance orientation of the region when the governments began their policies of "invitation to invest". That policy which still takes place today (in varying degrees) is a reflection of the Keynesian policy prescription. Normatively, it appears as if the public sectors were now "moving in tune" to a new set of rules and regulations. In a sense, governmental expenditures were perceived as providing some kind of catalyst. Objectively, the expenditures of the governments were aimed at increasing aggregate expenditure with the hope that unemployment in the various states could have been reduced, if not eliminated. In retrospect, many firms which accepted the invitations to invest merely promised to establish labour intensive modes of production. The 10, 15 and 20 year tax holidays that many firms secured in the region were done so on the simple grounds that they (the firms) would "put a dent" in the unemployment situation. These fiscal incentives did not give great benefits to the region, as regional public finance scholars have now established.[3]

Linked to the fiscal incentives was a partial view of the role of taxation. Externally, the private sector was seen as capable of pushing the countries out of underdevelopment. Internally, the political directorate was not sure of the role of local capital. The nonsupportive aspect of internal (local) private interests is fully in the line with the ideas of Keynes. It is to be recalled that the Keynesian policy prescriptions rested on the notion that the private sector may not be fully supportive of reducing unemployment.

Three options were opened to the public sectors of the region *vis-a-vis* the non-supportive role of the private sector. they could have increased taxation, reduced taxation or put into effect some combination of both. Increasing taxation has the potential of creating additional revenues for governmental expenditures. This option is in keeping with the possibility that government could provide more public goods and services. However, the history of tax increases in the region has been an uneven one. In recent years, sumptuary taxes have bourne the brunt of the increases.[4] But, this procedure does not differ significantly from what obtained in earlier years, as we saw in Chapter 4.

There are few instances of tax decreases in the region. There have been combinations of taxes which lowered effective tax rates, but in general, there have been no outright decrease in taxes.[5] The theoretical point to bear in mind is the following. Were the region's governmental attitude conducive to lowering taxes, it would have meant that some income taxes of consumers would have decreased. This could have increased additional consumption which would have lead to an increase in goods and services *via* the tortuous route of the taxes multiplier. That this policy of tax reduction was not widely used, reflects more an opposition to such a policy than a reflection of the fact that the increased income would have found its way into the coffers of metropolitan countries. The conspicuous consumption that is so prevalent in the region and the demonstration syndrome that is endemic in all developing countries are features which would have served to weaken the impact of tax decreases.

Arising out of the modes of public financing are the issues surrounding the national debt. It is our view that the regional states paid an insufficient degree of attention to the national debt and two sets of ideas lead us to this conclusion. First, the region was operating under the Keynesian prescriptions and variants of those prescriptions and it is to be recalled that the Keynesian view dismissed the national debt issue. The rationale was based on the view that it was more expedient to reduce unemployment than to "side step" the debt and "cradle" unemployment. In this situation, the politico-economic element in such a decision is very clear.[6]

A related issue, too, is the fact that the Keynesian prescription operated on the premise that spending in the private sector has some automatic tendency to be excessive. This invariably led to inflation. Keynes' prescriptions were a cut in public sector expenditure, a hike in taxes or, again, a combination of both options. These strategies would permit the public sector a reduction of any deficit in existence of the creation/enlargement of a surplus. From a positive point, the public sector could mobilize the surplus to eliminate or reduce the national debt, maintain idle cash balances, squander the surplus or do whatever is in accordance with its preference functions. To a large extent, this latter option was more the policy of the states in the region than deliberate policies to mobilize and reduce the national debt. There is only one Caribbean country which we know of that deliberately eliminated its national debt. Santo Domingo did so during the 1960s.

The second set of ideas regarding the insufficient attention to the national debt stems from the nature and scope of the national debt and empirical evidence exists to show that the bulk of the national debt was owned by external sources. This meant that Britain, in the case of the Commonwealth Caribbean, had the countries in a fiscal constraint. Within recent years (the late 1960s and 1970s) the picture has become worse as a large quantity of the national debt is owned by foreign interests.

In general, the national or public debt in the Caribbean is similar to national or public debts of metropolitan countries. The general notion is a simple one. The public debt is either internal or external. In other words, the debt belongs to or is owned by the nationals of a given country, or it belongs to or is owned by the nationals of foreign countries.

The national debt draws on several views in the literature of public finance. Adam Smith [1776] like David Hume and others was opposed to the issue of the national debt. Smith [1937: 881] contended that the national debt "has gradually enfeebled every state which has adopted it". However, Settner [1945: 454-460] points out that in 1768 Sir James Stewart, in his *Principles of Political Economy*, claimed that the public debt ought to function as the balance wheel of economic systems.

In the region, the national debt method of public sector financing was adopted because it was felt that it provided a useful means of obtaining funds for public sector development. Unfortunately, as the empirical evidence indicates, a significant proportion of the national debt is owned by foreigners. Kirton [1976: 207-210] cites instances of such a significance in the case of Jamaica, (see Tables 1 — 4).

The evidence from the Republic of Trinidad and Tobago also illustrates the significance of the foreign-owned component of the national debt, (see Tables 5 and 6). Fundamentally, the issue of the national debt in the region revolves around the two classical views of the debt; the nature and scope of the debt and the effect of debt creation and expenditure of the loaned funds. This is the traditional view which is discussed by Groves and Bish [1939: 479-480]; Musgrave [1959: ch. 23] Ferguson [1964]; Davie and Duncombe [1972: 425-428] and a number of other public finance scholars.

Critical to the foreign component of the national debt in the Caribbean is that foreign ownership of the debt involves a burden to the society. Much needed scarce resources have to be given up to service that foreign component of the debt and given the debt service charges that are normally associated with the debt, it becomes clear why the region continues to pay out more funds to international lending agents and agencies than it receives.

Added to the present general societal burden of the national debt is the fact that generations to come will also have to bear the burden of the national debt. Inplicit in this issue is the nature and scope of the national

TABLE 1

GROSS PUBLIC DEBT OF JAMAICA (J$m)

Year	Public debt	Internal debt	External or Foreign debt
1946	19.2	10.2	9.0
1948	22.8	12.6	10.2
1950	27.8	12.2	15.6
1952	30.4	14.0	16.4
1954	36.6	13.6	23.0
1956	38.2	15.6	22.6
1958	46.4	23.8	22.6
1960	68.8	32.0	36.8
1961	75.6	34.8	40.8
1962	75.3	36.8	39.0
1963	90.8	44.9	45.9
1964	101.0	56.4	44.6
1965	137.9	72.3	65.6
1966	129.0	64.0	65.0
1967	156.0	84.0	72.0
1968	182.8	100.8	82.0
1969	221.8	127.8	94.0
1970	252.6	152.4	100.2
1971	284.9	182.2	102.7
1972	332.6	215.3	117.3
1973	420.9	275.5	145.4
1974	520.8	314.8	206.0
1975	705.8	431.6	274.2
1976*	889.0	449.7	439.3

* Estimated figures
Source: Estimates, Annual of Jamaica

TABLE 2

JAMAICAN FOREIGN DEBT AS PERCENT OF PUBLIC DEBT, EXPORTS AND GOVERNMENT REVENUE 1962 — 1975

Year	Public Debt (1)	Exports (2)	Government Revenue (3)
1962	51.4	30.1	47.7
1963	50.5	31.8	54.5
1964	44.1	28.9	44.9
1965	47.6	42.8	58.9
1966	50.3	39.9	56.8
1967	46.1	44.1	55.3
1968	44.8	44.8	43.4
1969	42.3	44.4	53.5
1970	39.7	35.2	47.1
1971	36.0	35.9	42.0
1972	35.2	39.0	41.8
1973	43.5	41.0	42.3
1974	39.6	31.0	48.9
1975	38.8	—	52.0
Arithmetic Average	43.6	37.6	49.2

Source: See Table 1, and *External Trade Reports of Jamaica.*

TABLE 3

JAMAICAN FOREIGN DEBT CHARGES (J$m) 1960—1976

Year	Foreign Debt charges	Annual % rate of change of foreign debt charges
1960	3.5	—
1961	3.7	5.7
1962	3.5	5.4
1963	4.0	14.3
1964	4.2	5.0
1965	5.0	19.0
1966	6.0	20.0
1967	7.2	20.0
1968	7.8	8.3
1969	11.3	44.9
1970	11.4	0.9
1971	12.2	7.0
1972	13.7	12.3
1973	16.3	19.0
1974	19.3	18.4
1975	31.7	64.2
Geometric Rate of Change		10.71 per annum

Source: See Table 2.

TABLE 4

JAMAICAN FOREIGN DEBT AS PERCENT OF FOREIGN DEBT, EXPORTS AND GOVERNMENT REVENUE 1962 — 1975

Year	Foreign Debt (1)	Exports (2)	Government Revenue (3)
1962	9.0	2.7	4.3
1963	8.7	2.8	4.7
1964	9.4	2.7	4.2
1965	7.6	3.3	4.5
1966	9.2	3.7	5.2
1967	10.0	4.4	5.5
1968	9.5	4.3	4.1
1969	12.0	5.3	6.4
1970	11.4	4.0	5.3
1971	11.9	4.3	5.0
1972	11.7	4.5	4.9
1973	11.2	4.6	4.7
1974	9.4	2.9	4.6
1975	11.6	—	6.0
Arithmetic Average	10.18	3.54	4.95

Source: — See Table 2

TABLE 5

PUBLIC DEBT OF TRINIDAD AND TOBAGO
1959 — 1968 ($'000)

	Total	Local	Foreign	Debt Charges
1959	85,168	26,319	58,849	4,511
1960	97,821	37,255	60,566	6,145
1961	99,868	39,302	60,566	7,089
1962	117,104	44,367	72,737	10,342
1963	156,812	44,855	111,957	13,841
1964	214,354	93,332	121,022	17,144
1965	232,599	108,020	124,579	19,827
1966	266,108	129,772	136,336	17,797
1967	298,205	154,753	143,452	22,874
1968	338,827	181,596	157,231	31,585

Sources: *Annual Statistical Digest* 1968, Trinidad and Tobago, Central Statistical Office, April, 1970: 121)

Published Annual Reports of Accountant General's Department up to 1953 and Returns by Accountant General's Department for subsequent years.

TABLE 6

PUBLIC DEBT RATIOS OF TRINIDAD AND TOBAGO

1959 — 1968

	Debt Foreign/Local	Foreign/Total	Per Capita ($)
1959	2.24	.69	104.2
1960	1.63	.62	116.4
1961	1.54	.62	115.2
1962	1.64	.62	131.1
1963	2.50	.71	170.1
1964	1.30	.56	225.9
1965	1.15	.54	238.5
1966	1.05	.52	267.5
1967	.93	.48	295.3
1968	.87	.46	332.2

Source — Nominal data from Table 5

debt. When the debt is viewed as society's welfare loss as the society has to pay taxes, it may be argued that there is no burden for the local component of the debt. For the foreign component, there is a burden. The difference is that the local component may *be* incurred without duress. The foreign component is normally imposed on the societies in the region, without their knowledge or consent.

The burden of paying for both components of the foreign debt in the Caribbean falls, with undue severity, on the poorer strata of society. When the society is taxed to surrender the debt, the richer strata exercise their normal mechanisms of avoiding and evading the taxes. The poorer strata are not as organized and sophisticated to utilize the loopholes in the tax structure, hence they end up bearing the brunt of the burden of the national debt, especially the foreign component.

There are other complicated issues *vis-a-vis* the national debt in the Caribbean. But, at present, it is not clear if the political directorate in the region were really concerned with who owned the "national debt". It seems that as long as funds were available, the origin of the funds were not important. While Keynesian tools were in operation relative to the public financing in the region, many institutional "factors" were also in operation and at times, the tools and the factors were moving "in step". At other times, they were in conflict.

Within the last decade, public finance in the Caribbean has taken a new turn. What is true of the region is also true of those areas that have peripheral capitalist and capitalist systems of organization. Intrinsically, it can be observed that the nature and scope of public finance include more attempts at the mobilization of human and material factors of production. The *stated objectives* of Jamaica, Guyana and St. Kitts in ensuring productive employment, minimizing instabilities in the political arena, controlling domestic price upheavals, avoiding balance of payments disequilibria and aiding in the direct redistribution of income and wealth point to deliberate shifts on the part of the Caribbean states to use public finance policies for betterment of the majority of the people. That the measures are not particularly effective, as indicated elsewhere, [Jones-Hendrickson, 1977] may be more reflective of the short period of assessment as opposed to the lack of sincerity on the part of the political directorate.

Finally, the noticeable shift in public finance in the region seems also to be a reaction of the region's governments to the presence and policies of multinationals in the local economies.[7] When Britain was the sole overlord of the Commonwealth Caribbean, there were certain predictable policies arising out of the Keynesian prescriptions that Britain practised. With the entry of the multinationals and the consolidation of multinationals' power in the area (and the world), the relevance and effectiveness of the Keynesian prescriptions have been fundamentally weakened. In other words, the multinationals' situation as giant states within microstates served to undermine the fiscal policies of the region, despite their glowing appraisal by Baum [1974] and others, in the case of branch banks.

The Need For Budgetary Reforms

The one document that is critical in reshaping the role of fiscal policy is the budget and the positive orientations of the budget and the budgetary process were outlined in Chapter 4. The constraints in the development of some priorities for budgetary reform were also given. In this section, we will briefly outline why we believe there ought to be measures of reform in the budgetary systems of the region.

Within the Caribbean nation state, the notion of the budget as a comprehensive document seems not to be fully understood by the political directorate. This statement is made because of the nature of the budget process, the mechanical approach to planning stemming from the budget and the ineffective ways in which some budgets are operationalized. There should be all year round comprehensive budgets. Such budgets should form the basis for sounder judgement and improved decision-making, than is currently the case. The preparation of such budgets requires that all salient parts are brought together with all receipts and expenditures scientifically estimated or forecasted.

The Caribbean region today is plagued with too many haphazard "guesstimates" of budget aggregates, much "fiscal irresponsibility", and a great deal of "fiscal mismanagement".[8] Effectiveness in operationalising the budgets' benefits and efficiency in preparing the budgets should be enhanced if the budgetary process is centralized and organized.[9] That all sectors of the economies should be actively involved in the preparation of the budgets, is in direct concert with our views. One is not naive to believe that this process is a simple or easy one. But, if the region's political directorate are sincere as regards economic transformation, it follows that as large a strata of individuals as is possible should be involved in the planning process of the transformation.[10] What way to do it more effectively than through the planning mechanism of a budget?

While it is important that the region centralizes budgets and budgetary processes internally and regionally, another priority is the need for the area to minimize its dependence on the foreign trade sector. This continued dependence on the foreign trade sector means that the region will continue to suffer from the vagaries in the international market. One need only to recall the situation of sugar in St. Kitts, Barbados and Jamaica in 1973-74 to note the point that is being made. Due to the inelasticity of world demand for the region's primary products, minute variations in the demand/supply relationships will induce wide price vacillations.

Since revenues of the states' budgets are inextricably bound up with the international economy, revenues and expenditures are under severe control of the external sector. How can the region's economies be cushioned against the external shocks of the foreign trade sector?

In the first place, there is a need for an *active fiscal policy* in all Caribbean states. By active policy we mean a fiscal policy such that the public sector is actively involved in the planning, programming and implementation phases of the budgetary process. We also mean that situation where the people are actively involved in the decision-making process of the planning, programming and implementation process [Jones-Hendrickson, 1976].

Our view of active fiscal policy departs significantly from that of Bangs [1968: 56] who believes that an "active fiscal policy ... requires a net contribution to national product from government, resulting from an excess of expenditures over receipts, when unemployment is excessive". Such a policy is what we would designate a passive fiscal policy, for the public sector enters the decision-making when economic conditions are good, or when grants-in-aid from abroad make it possible for revenues to exceed expenditures. Instead of being in the vanguard of the decision-making process, the public sector is constrained to play the popular helper of the last resort.

The second and final point refers to the reforms in the structural orientation of the budget. Given the macroeconomic orientations of the region's Keynesian system, the structural rigidities in the system hamper or constrain the role the public sector could play *via* the budgetary process. To accomplish any real transformation, the dynamics of change in the region must be such that barriers and constraints to the role of fiscal policies are removed or destroyed. This means that there would have to be a synchronization of the rules and regulations which govern the budgets and the budgetary process. These rules and regulations would have to be simple but far-reaching within each state as well as among the states in the region. In the final analysis, it means that the interest of elite groups, the interest of specific racial groups and classes in the states would have to be subjected to the full decision-making process. Special favours, therefore, would have to be eradicated.

Bangs [1968: 57] argues, and we agree with him, that "fiscal policy cannot be divorced practically from the total structure of economic policy which, in turn, is merely a part of the larger cosmos of general policy within which any governmental administration operates". This lack of divorce between fiscal policy and economic policy is the primary reason for our stressing the need for a structural orientation in the budget and the budgetary process.

The issue of budgetary reform is a critical one. Not only are we discussing the problems inherent in legislatures refusing to go along with such changes in budgets, but also the problems associated with the non-deviation from line item budgets, the competing, conflicting and constraining positions of some agencies and ministries and the non-revealing of vital data to central coordinating agencies.

However, a word of caution. In the region, it is often thought that a new system can only be effective if the old one is thrown out completely. That is, the previous process has to be completely discarded. It may be true that one should not put old wine in new bottles, but, be that as it may, our suggestions for budgetary reform do not require the complete abandonment of old budgetary procedures. If the goals and objectives are to achieve economic transformation, then the reform measures have to go through incrementalist stages. This does not mean that the slower a state moves through the transition process, the more effective and efficient its budgetary process will be. It will require an adequate assessment of the timing, planning and implementation phases in each state. To implement all at once could be disruptive. To implement over too long a period could be counter-productive. How can these measures by instituted? What practical measures are feasible? To answer these questions, let us consider the role public finance ought to play in the region.

The Role of Public Finance

In developing the normative point of view of the role public finance ought to play in the Caribbean, one has to pursue the issue from two main points, the internal role and the regional role. It should now be sufficiently clear that our perspective is for an active role of government. The concept of "active" brings into sharp relief the oft debated, much discussed questions of the role of the state and the size of the public sector. These issues have been addressed in other places [Jones-Hendrickson, April and December 1976].

This section will briefly consider the development of the role of public finance locally and regionally, that is from the view of the individual nation state and the Caribbean nation state.[11]

In putting forward the view that the public sectors in the region should pursue active fiscal policies, one should note (a) the percentage of the national product collected by the public sector *via* taxes; (b) the ratio of public sector expenditures to gross domestic/national product; (c) the number of employees of the public sector *vis-a-vis* the overall labour force; and (d) the so-called "exhaustive expenditures" of the government.[12] Were it possible to form a meaningful composite index of this information, it would have become readily apparent that the public sectors of the Caribbean could play a substantial role in the affairs of the state. We recognize that there are shortcomings to these four measures, and that even in the region there may not be comparability across the states. Nevertheless, in any state where the public sector is the major employer, instead of these developing a dimunition of such dominance, there should be a consolidation of power.[13]

From Tables 7 — 11, one can see that in the case of Barbados, Bahamas, Jamaica and St. Kitts-Nevis-Anguilla, the four traditional sectors of economic activities are of critical importance. The four are general services, social services, community services and economic services. By and large, social and economic services command the largest share of the resources. This is clearly illustrated in Tables 12 and 13 for Jamaica and St. Kitts. The allocations for education, health and social affairs and finance are indicative of the social and economic services in St. Kitts-Nevis-Anguilla. The details of Tables 7 — 11 serve to highlight the public finance thrust of the given states. Law and order seems to command high priority in some states, for example in Guyana. The data presented in these tables are representative of all of the Commonwealth Caribbean states.

Tables 14 — 19 give concrete expressions of the various services for Barbados, Bahamas, Guyana, Jamaica and St. Kitts-Nevis-Anguilla.

The percentage of the national product collected through taxes varies from state to state. In the general case, it ranges from 18 per cent to over 30 per cent. Taylor [1977] gives evidence for Jamaica; Williams [1977] gives evidence for Barbados; Baptiste [1977] presents evidence for Trinidad and Francis [1977] presents evidence for the Eastern Caribbean.

The ratio of public expenditure to Gross Domestic Product (GDP) or Gross National Product (GNP) ranges from 30 per cent in Bahamas to 29 per cent in the Eastern Caribbean, for an overall ratio of 25 per cent. Expenditure to GDP was used, as opposed to expenditure to GNP because it was difficult to establish a concrete value for net factor income from abroad in the case of all of the states in question.

In the case of employees of the public sector, relative to the entire labour force, we cite evidence from the Virgin Islands, a Caribbean country outside our immediate group of study. Since the Virgin Islands' economy is very similar to many of the economies in the wider Caribbean, we believe that the evidence is plausible (see Table 19). Finally, in the case of exhaustive expenditure, we note that the region devotes about 35 per cent to exhaustive expenditures. This compares with the over 25 per cent that the U.S.A. devotes this category.[14] It has been made abundantly clear, however, that *public accountability must* be an integral part of the decision-making process regarding the role of public finance and, *pari passu*, the role of the public sector.

Internally, the public sectors have to operate systems that would ensure that they set the patterns of development. The history and current practise of development planning in the individual nation state is such that the private sectors are operating along one continuum, whereas the public sectors are operating along another. To operationalize any meaningful policy that would enhance internal development, the public sectors have to implement a kind of system that would lend itself to centralization as well as decentralization.

TABLE 7

GOVERNMENT EXPENDITURE FUNCTIONAL CLASSIFICATION, BAHAMAS
(B$m)

		1969 Current	1969 Total	1970 Current	1970 Total	1971 Current	1971 Total
1.	**GENERAL PUBLIC SERVICE**	**15.2**	**16.0**	**18.7**	**19.2**	**18.4**	**18.9**
a)	General Administration	8.6	8.6	10.2	10.2	9.9	9.9
b)	Public Order & Safety	6.7	7.4	8.5	9.0	8.5	8.9
2.	EDUCATION	13.2	15.2	17.8	23.3	19.9	22.9
3.	HEALTH	9.1	9.3	10.4	10.9	11.7	12.1
4.	**SOCIAL BENEFITS & SERVICES**	**3.0**	**3.0**	**3.3**	**3.3**	**3.6**	**3.6**
a)	General Admin. Reg. Research	.2	.2	.2	.2	.3	.3
b)	Old Age, Disability & Service	1.9	1.9	2.0	2.0	2.3	2.3
c)	Other Public Assistance	.8	.8	1.1	1.1	1.0	1.0
d)	Collective Social Services	*	*	*	*	*	*
5.	HOUSING	.1	.4	.1	.4	.1	.3
6.	OTHER COMMUNITY & SOCIAL SERVICES	.2	.2	.2	.2	.2	.2
7.	**ECONOMIC SERVICES**	**16.8**	**30.0**	**20.2**	**33.9**	**19.4**	**27.8**
a)	Agriculture & Fisheries	.5	.6	1.0	1.3	1.8	2.4
b)	Land Survey & Meteorological	.3	.6	.3	.6	.4	.6
c)	Transportation	.5	5.1	1.8	4.8	1.8	3.0
	Central Ministry (i)	.2	.2	1.4	1.4	1.3	1.3
	Road & Road Transport (ii)	.3	1.9	.4	1.2	.4	.5
	Water Transport (iii)	—	1.8	—	2.2	—	1.1
	Air Transport (iv)	*	1.3	*	*	*	*
d)	Post Office	—	1.3	—	1.8	—	.5
e)	Labour Employment Services	.3	.3	.4	.4	.4	.4
f)	Tourism	6.7	6.7	6.9	6.9	6.9	6.9
g)	Public Works & Water Supply	8.4	15.2	9.7	18.0	8.0	14.0
h)	Other	.2	.2	.2	.2	.2	.2
8.	**UNALLOCABLE**	**4.2**	**4.5**	**5.8**	**6.0**	**6.2**	**6.4**
a)	Public Dept. (Interest)	3.8	3.8	5.4	5.4	5.8	5.8
b)	Other	.4	.7	.4	.6	.4	.6
	CURRENT	61.8		76.6		79.6	
	TOTAL		78.4		97.2		92.1

* Less than .1 million
Note: Components may not add to totals due to rounding.
Source — Treasury Accounts.
The Central Bank of the Bahamas, *Quarterly Review*, (various issues).

TABLE 7a

GOVERNMENT EXPENDITURE FUNCTIONAL CLASSIFICATION
(B$m)

		Current 1972	Total 1972	Current 1973	Total 1973	Current 1974	Total 1974
1.	**GENERAL PUBLIC SERVICE**	**22.2**	**23.4**	**22.7**	**23.2**	**25.5**	**25.7**
a)	General Administration	13.2	13.2	13.0	13.0	14.7	14.7
b)	Public Order & Safety	9.0	10.3	9.7	10.1	10.8	11.0
2.	EDUCATION	21.3	24.5	23.7	29.3	26.7	35.5
3.	HEALTH	12.7	13.3	15.1	15.3	16.9	17.2
4.	**SOCIAL BENEFITS & SERVICES**	**3.9**	**3.9**	**4.3**	**4.3**	**3.8**	**3.8**
a)	General Admin. Reg. Research	.3	.3	.3	.3	1.3	1.3
b)	Old Age, Disability & Services	2.3	2.3	2.2	2.2	1.5	1.5
c)	Other Public Assistance	1.2	1.2	1.6	1.6	1.1	1.1
d)	Collective Social Services	*	*	*	*	*	*
5.	HOUSING	.2	.2	.1	.1	.1	.4
6.	OTHER COMMUNITY & SOCIAL SERVICES	.3	.3	*	*	.4	.4
7.	**ECONOMIC SERVICES**	**19.6**	**25.3**	**20.6**	**27.8**	**23.1**	**48.7**
a)	Agriculture & Fisheries	.9	1.1	.7	1.1	1.0	1.3
b)	Land Survey & Meteorological	.4	.6	.7	.9	.9	1.0
c)	Transportation	1.7	3.0	1.8	3.9	2.2	3.2
	Central Ministry (i)	1.3	1.3	1.3	1.3	1.5	1.5
	Road & Road Transport (ii)	.4	1.0	.5	.7	.5	.5
	Water Transport (iii)	*	.8	*	.6	*	*
	Air Transport (iv)	*	*	*	1.3	.3	1.2
d)	Post Office	—	—	—	—	—	—
e)	Labour Employment Services	.4	.4	.6	.6	.5	.5
f)	Tourism	7.8	7.8	8.1	8.1	8.4	28.4
g)	Public Works & Water Supply	8.3	12.2	8.7	13.2	9.9	14.1
h)	Other	—	—	—	—	—	—
8.	**UNALLOCABLE**	**6.1**	**6.9**	**6.9**	**7.1**	**9.0**	**9.1**
a)	Public Dept. (Interest)	6.1	6.1	5.7	5.7	7.9	7.9
b)	Other	—	.8	1.2	1.4	1.1	1.2
	CURRENT	86.1		93.5		105.5	
	TOTAL		97.8		107.0		140.9

* Less than .1 million
Note: Components may not add to totals due to rounding.
Source — Treasury Accounts.

TABLE 7b

GOVERNMENT EXPENDITURE FUNCTIONAL CLASSIFICATION
(B$m)

		Current	Total	Current	Total
		1975		1976	
1.	**GENERAL PUBLIC SERVICE**	**27.6**	**27.8**	**31.1**	**31.1**
a)	General Administration	15.6	15.6	17.3	17.3
b)	Public Order & Safety	12.0	12.2	13.8	13.8
2.	DEFENCE	—	—	.9	.2
3.	EDUCATION	28.9	31.5	34.4	38.1
4.	HEALTH	17.3	17.4	20.0	21.4
5.	**SOCIAL BENEFITS & SERVICES**	**4.3**	**4.3**	**4.3**	**4.3**
a)	General Admin. Reg. Research	1.4	1.4	.3	.3
b)	Old Age, Disability & Services	1.5	1.5	2.7	2.7
c)	Other Public Assistance	1.4	1.4	1.2	1.2
d)	Collective Social Services	*	*	*	*
6.	HOUSING	.1	.3	.1	.3
7.	OTHER COMMUNITY & SOCIAL SERVICES	.2	.2	.3	.3
8.	**ECONOMIC SERVICES**	**23.1**	**36.5**	**24.6**	**45.5**
a)	Agriculture & Fisheries	1.1	4.7	1.5	2.8
b)	Land Survey & Meteorological	1.1	1.2	1.1	1.2
c)	Transportation	**2.0**	**7.1**	**2.1**	**7.7**
	Central Ministry (i)	1.4	1.4	1.5	1.5
	Road & Road Transport (ii)	.5	.5	.6	.6
	Water Transport (iii)	—	—	—	—
	Air Transport (iv)	—	5.1	—	5.5
d)	Post Office	—	—	—	—
e)	Labour Employment Services	.4	.4	.6	.6
f)	Tourism	8.7	8.7	9.6	15.2
g)	Public Works & Water Supply	9.9	14.3	9.7	18.0
h)	Other	—	.1	—	—
9.	**UNALLOCABLE**	**10.1**	**10.3**	**10.1**	**10.2**
a)	Public Dept. (Interest)	10.1	10.1	9.6	9.6
b)	Other	—	.1	.5	.7
	CURRENT	111.7		124.9	
	TOTAL		128.3		151.4

* Less than .1 million
Note: Components may not add to totals due to rounding.
Totals for 1976 subject to revision upon completion of audited Treasury Accounts.
Source — Treasury Accounts.

TABLE 8

CENTRAL ADMINISTRATION — CURRENT EXPENDITURE, BARBADOS

(BDS$ m)

								1973/74				
Function	**1969/70**	**1970/71**	**1971/72**	**1972/73**	**1973/74**	**1974/75**	**1975/76**	**Apr-Jun**	**Jul-Sept**	**Oct-Dec**	**Jan-Mar**	**Jan-Mar**
General Public Service	17.9	19.2	19.1	20.0	24.0	31.4	33.0	4.7	4.7	5.0	5.1	9.6
Defence	.1	.1	.2	.2	.3	.7	.9	*	*	*	*	*
Education	11.3	19.0	22.1	23.6	35.8	37.3	43.6	10.2	7.6	8.6	9.0	9.4
Health	11.2	15.2	16.7	19.2	26.6	29.3	31.6	7.3	6.0	7.3	6.0	6.0
Social Security and Welfare	4.7	10.4	10.6	10.7	16.2	17.6	19.3	3.3	3.9	4.8	4.1	4.2
Housing and Community Amenities	3.9	5.2	6.1	5.1	1.7	2.6	2.6	.4	.3	.2	.3	.8
Other Community and Social Services	.2	.3	1.7	2.0	3.0	3.1	3.8	.7	.2	.6	1.1	1.5
Economic Services	5.8	6.9	7.6	8.2	21.4	22.1	25.5	5.7	6.1	5.3	6.1	4.3
Agriculture	1.7	2.1	2.7	2.8	4.0	4.2	5.2	.9	1.0	1.0	1.0	1.1
Water & Other Services	1.2	.8	1.4	.5	2.1	2.0	2.5	.9	.8	.4	1.0	.05
Roads & Other Transport	.9	1.4	1.6	2.8	12.0	13.3	15.6	3.4	2.8	3.2	3.2	2.6
Other	1.9	2.5	1.9	1.8	3.3	2.6	2.1	.5	1.5	.7	.9	.6
Charges of Debt	4.0	3.2	4.6	9.3	12.1	13.9	19.4	.2	2.3	1.9	4.0	7.7
Unallocated	8.9	4.2	1.1	—	—	—	—	—	—	—	—	—
Total	68.0	83.8	89.8	98.6	141.1	158.0	179.7	32.6	31.1	33.8	35.7	43.7
Memoranda Items												
Sinking Fund Contribution	4.1	1.5	1.8	6.6	2.8	3.5	na	na	na	na	na	2.8
Amortisation	—	—	—	.3	2.0	3.6	na	—	—	—	—	2.0
Other	1.5	1.9	2.0	2.2	2.8	4.3	4.7	.6	.7	.8	.8	.8

na = Not Available
* Less than .1 million
@ = Adjusted

Cont'd

TABLE 8a

CENTRAL ADMINISTRATION — CURRENT EXPENDITURE, BARBADOS

(BDS$ m)

	1975												
Function	**Apr.**	**May**	**Jun.**	**Jul.**	**Aug.**	**Sept.**	**Oct.**	**Nov.**	**Dec.**	**Jan.**	**Feb.**	**Mar.**	**Mar.@**
General Public Service	1.7	4.6	2.1	2.3	2.2	2.1	2.0	2.2	3.7	2.8	2.0	3.7	3.7
Defence	*	*	*	*	*	*	*	*	*	*	*	.2	.2
Education	3.7	3.4	2.5	3.0	3.3	2.5	3.0	3.1	2.7	3.1	3.7	3.3	3.3
Health	3.1	2.3	2.2	2.1	2.5	2.3	2.2	2.5	2.6	2.7	2.2	2.8	2.8
Social Security and Welfare	1.3	1.5	1.3	1.5	1.4	1.4	1.4	1.5	1.6	1.8	1.5	1.5	1.5
Housing and Community Amenities	.1	.5	.2	.2	.3	.1	.2	.2	.2	.1	.1	.3	.3
Other Community and Social Services	*	*	*	.6	*	.3	.3	*	*	1.2	*	.4	.4
Economic Services	1.9	2.0	1.9	2.1	1.0	1.6	2.1	1.6	1.9	2.3	2.0	2.5	.8
Agriculture	.3	.4	.3	.5	.2	.3	.3	.3	.5	.4	.3	.3	.3
Water & Other Services	.5	.1	.4	.1	.3	.2	.2	.2	.3	.7	.3	.3	−1.4
Roads & Other Transport	1.0	1.1	1.0	1.2	1.0	1.0	1.1	1.0	1.0	1.1	1.1	1.5	1.5
Other	.1	.4	.1	.2	.2	.*	.5	*	*	*	.3	.4	−.4
Charges of Debt	*	*	2.2	.8	3.2	1.3	*	.1	1.2	1.6	3.4	6.1	−.1
Total	12.0	14.4	12.4	12.7	14.9	11.7	11.3	11.2	14.0	15.6	15.0	20.7	12.8
Memoranda Items													
Sinking Fund Contribution	na	na	na	na	na	na	na	na	na	na	na	na	3.5
Amortisation	—	—	—	—	—	—	—	—	—	—	—		3.6
Other	.2	.3	.3	.4	.2	.3	.4	.3	.4	.3	.3	.5	.9

na = Not Available
* Less than .1 million
@ = Adjusted

Cont'd

TABLE 8b

CENTRAL ADMINISTRATION — CURRENT EXPENDITURE

(BDS$ m)

Function	1975/76												
	Apr.	**May**	**Jun.**	**Jul.**	**Aug.**	**Sept.**	**Oct.**	**Nov.**	**Dec.**	**Jan.**	**Feb.**	**Mar.**	**Mar.@**
General Public Service	1.8	2.8	2.4	2.9	2.2	2.4	1.8	2.1	4.7	2.2	2.3	4.6	5.4
Defence	*	*	*	*	*	*	*	*	*	*	*	.2	.2
Education	3.7	3.2	3.8	2.8	3.2	2.7	3.2	3.3	3.6	3.8	3.8	5.5	6.4
Health	2.2	3.0	2.6	2.6	2.7	2.6	2.7	2.4	2.3	3.2	2.2	2.9	2.9
Social Security and Welfare	1.6	1.6	1.6	1.5	1.6	1.5	1.6	1.7	1.8	1.7	1.5	1.6	1.7
Housing and Community Amenities	.2	.2	*	.2	.2	.2	.2	.1	.1	.2	*	.3	.7
Other Community and Social Services	*	*	*	.6	.9	*	.6	*	*	*	1.0	.3	.3
Economic Services	2.2	2.3	2.4	1.8	2.2	1.9	2.4	1.8	1.9	2.2	2.2	3.3	2.3
Agriculture	.6	.4	.5	.5	.3	.5	.4	.4	.3	.4	.4	.5	.5
Water & Other Services	.3	.2	.6	—	.6	*	.3	.3	—	.5	.2	.5	–.5
Roads & Other Transport	1.2	1.2	1.2	1.3	1.2	1.0	1.3	1.1	1.6	1.2	1.5	1.8	1.8
Other	*	.5	.1	*	*	.3	.2	*	*	*	*	.5	.5
Charges of Debt	.2	—	.7	1.3	1.8	4.3	1.0	.1	.7	1.2	3.8	4.4	4.4
Total	12.0	13.3	13.6	13.8	14.9	15.7	13.7	11.6	15.3	14.5	16.9	23.2	23.4
Memoranda Items													
Sinking Fund Contribution	na	na	na	na	na	na	na	na	na	na	na	na	na
Amortisation	—	—	—	—	—	—	—	—	—	—	—	—	—
Other	.4	.3	.1	.4	.2	.5	.4	.2	.2	.3	.3	.6	1.3

na = Not Available
* Less than .1 million
@ = Adjusted

Source: Central Bank of Barbados, *Annual Statistical Digest* [1975: 62 — 64]

TABLE 9

GOVERNMENT CURRENT EXPENDITURE, GUYANA
(G $m)

Year	Personal Emoluments[3]	Debt Charges	Other Charges	Total	Administration		Social Services				Posts and Telecommunications	Debt Charges	Public Works	Defence	Pensions	Other
					Law and Order	General	Economic Development	Medical	Education	Other						
1955	15.7	2.0	22.4	40.0	3.8	5.2	3.7	4.6	5.2	2.5	1.9	2.0	4.9	.1	1.5	4.5
1956	16.9	2.6	20.8	40.2	4.3	4.9	3.9	4.9	6.2	2.8	1.9	2.6	4.5	.1	2.0	2.1
1957	18.1	3.6	21.4	43.1	4.2	6.3	4.1	5.5	6.2	2.5	3.0	4.2	4.5	.1	3.0	3.0
1958	18.7	4.2	23.6	46.5	4.2	7.2	4.9	5.4	6.5	2.5	3.0	4.2	5.3	.1	3.0	3.0
1959	19.9	4.4	21.3	45.5	4.1	6.1	4.9	5.8	6.7	2.9	2.2	4.4	4.7	.1	2.0	1.5
1960	21.1	6.0	23.5	50.6	4.9	7.5	5.3	7.0	7.6	2.0	2.4	6.0	4.9	.1	2.3	1.6
1961	22.7	6.8	27.6	57.0	5.3	8.2	5.7	6.6	8.9	2.9	2.8	6.8	5.9	.1	2.5	2.2
1962	26.7	8.1	27.5	62.6	5.7	12.9	4.7	6.4	8.4	2.6	2.7	8.1	5.9	*	2.9	1.9
1963	23.5	10.1	28.3	62.0	6.3	8.9	3.6	6.3	8.9	3.5	2.4	11.0	6.4	*	3.3	2.2
1964	27.2	10.5	33.0	70.6	6.5	10.1	4.6	6.8	11.5	3.0	2.8	10.5	7.7	1.5	3.3	2.4
1965	33.5	12.1	36.4	82.0	7.0	12.2	6.7	8.0	13.8	3.8	3.2	13.0	8.3	.5	3.6	2.8
1966	34.4	13.0	36.8	84.2	9.1	13.9	4.5	8.2	13.9	3.6	3.5	13.0	7.3	1.0	3.5	2.6
1967	38.0	14.1	35.7	87.9	8.7	12.7	4.4	9.0	15.2	3.7	2.5	14.1	8.1	3.1	4.0	2.4
1968	39.8	17.9	40.6	98.2	9.0	14.7	4.7	9.4	16.2	4.3	2.6	17.9	9.4	3.4	4.2	2.4
1969	44.7	16.6	45.6	106.9	10.1	19.6	4.6	9.9	16.8	4.2	2.8	16.6	11.2	4.5	4.6	1.9
1970	49.7	17.2	56.7	123.7	10.9	25.0	4.3	10.1	19.1	4.4	3.0	17.2	13.8	6.5	5.4	3.2
1971	57.5	18.3	58.9	134.7	11.2	27.8	5.3	10.7	19.9	6.5	3.1	18.3	16.2	7.0	6.2	3.3
1972[1]	65.8	25.3	61.6	152.6	11.3	30.5	5.9	12.2	24.6	6.3	2.9	25.3	18.2	7.0	6.3	2.3
1973[2]	87.4	47.8	89.8	225.0	18.3	43.2	6.6	16.6	33.9	9.0	4.3	47.8	21.9	12.4	5.8	5.1
1974[3]	91.4	53.6	115.9	260.8	17.7	48.7	10.0	21.5	40.7	9.7	4.8	53.6	23.8	15.1	8.4	6.8
1975[4]	115.3	63.7	124.8	303.9	21.0	62.6	14.0	23.3	47.4	9.8	4.9	63.7	24.5	17.2	9.1	6.2

1) Not yet final.
2) Revised Estimates, 1973.
3) From 1969 includes Interim Relief and Allowances.
4) Budget Estimates 1975.

Sources — Accountant General Reports, 1955—65
Ministry of Finance Estimates 1966—74

Bank of Guyana, *10th Annual Report*, [1974: 90] Table 2
* Less than .1 million

TABLE 10

FUNCTIONAL DISTRIBUTION OF PUBLIC EXPENDITURE — JAMAICA — 1965/66 TO 1974/75

REVISED ESTIMATES

(J$m)

Years	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71*	1971/72*	1972/73	1973/74	1974/75
GENERAL SERVICES	24.2	25.4	30.8	29.6	34.1	41.2	45.1	56.3	75.3	121.5
Administration	11.0	11.0	14.8	14.0	16.7	21.4	21.9	30.4	35.3	64.3
Foreign Service & Defence	4.6	4.8	5.6	4.4	4.3	4.9	5.9	6.5	12.0	15.8
Justice & Police	8.4	9.6	10.4	11.2	13.1	14.9	17.5	19.3	27.8	41.4
COMMUNITY SERVICES	21.6	21.6	19.4	24.4	25.6	29.2	34.5	43.2	32.4	74.2
Roads & Waterways	9.0	10.4	11.2	11.8	14.5	15.3	19.5	23.5	23.6	43.6
Water Supply	7.0	5.2	3.4	4.8	5.4	6.6	8.9	10.9	5.6	13.6
Other Community Services	5.6	6.0	4.8	7.8	5.7	7.3	6.0	8.8	3.2	17.0
SOCIAL SERVICES	38.0	42.0	49.8	56.6	66.9	81.0	110.2	134.6	161.2	228.3
Education	18.4	20.0	25.0	28.4	34.1	44.1	56.6	61.0	88.7	129.7
Health	12.8	13.4	14.4	17.2	19.7	23.5	33.7	37.9	45.2	66.7
Other Social Services	6.8	8.6	10.4	11.0	13.1	13.4	19.9	35.7	27.3	31.9
ECONOMIC SERVICES	23.0	25.6	36.2	43.8	48.8	62.4	68.0	88.5	108.7	194.7
Agriculture	11.0	11.8	15.4	21.8	20.1	27.6	28.1	41.8	34.8	45.4
Transport, Storage & Community	6.4	6.4	7.6	8.2	7.8	13.8	17.5	16.3	19.4	28.6
Other Economic Services	5.6	7.4	13.2	13.8	20.9	21.0	22.4	30.4	53.5	120.4
OTHER SERVICES	22.8	26.6	30.8	38.8	43.6	49.8	52.2	50.9	93.5	145.2
Public Debt Charges	10.0	11.0	14.8	19.0	22.4	25.2	28.4	33.2	42.9	71.6
Grants to Local Governments	8.0	10.0	10.8	14.0	15.0	17.5	14.7	17.0	41.9	66.2
Pensions	3.6	3.8	4.4	5.0	5.4	5.9	7.3	—	—	
Miscellaneous	1.2	1.8	0.8	0.8	0.8	1.2	1.8	0.7	8.7	7.4
Total	129.6	141.2	167.0	193.2	219.0	263.6	310.0	373.5	471.1	763.6

* Latest Revised Estimates

Source: Economic & Social Survey, Jamaica — (various years).

TABLE 11

EXPENDITURE BY PORTFOLIO
ST. KITTS-NEVIS, 1967—1977 (EC$'000)

Heads	Years										
	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
1. Governor	141	56	59	50	55	56	57	56	77	108	97
2. Legislature	91	78	85	71	75	82	104	102	116	146	137
3. Legal	152	216	47	53	61	72	59	71	142	185	135
4. Audit	40	46	37	41	64	46	48	50	60	73	79
5. Premier[a]	1,037	1,173	1,149	1,220	1,773	1,764	1,826	1,943	2,372	3,231	3,479
Ministries											
6. Finance[b]	1,829	1,821	1,805	2,522	4,173	4,222	5,101	6,519	7,105	10,721	9,332
7. Trade, Ind. & Tour[c]	85	204	255	384	428	527	502	540	664	894	585
8. Agri. Land & HaL[d]	580	623	594	657	684	765	842	975	1,058	1,194	1,420
9. Comm. Work & P.U.[e]	1,263	1,441	1,471	1,704	2,041	2,085	2,532	3,249	4,205	4,681	6,688
10. Education & HNSA[f]	2,436	2,397	2,566	2,625	4,206	3.960	4,431	4,913	6,141	7,419	7,721
Total Recurrent[g]	7,654	8,055	8,068	9,327	13,560	13,579	15,502	18,418	21,940	28,652	29,673

Notes

a Premier's Portfolio includes administration Expenses, Home Affairs administration, police and fire brigade and prisons.

b Ministry of Finance includes Administration expenses, inland revenue, customs, port and marine.

c Ministry of Trade, Industry and Tourism.

d Ministry of Agriculture, Housing and Labour includes Administration expenses, central housing, agriculture, peasant settlement, peasant development, marketing corporation, labour, cemeteries, gardens and historical sites.

e Ministry of Communications, Works, Utilities, Posts and Telegraph includes administration expenses, post office, public works, electricity, ice and cold storage, telephone and water services.

f Total Recurrent and Non-Recurrent Expenditures.

g Total Expenditures includes grants-in-aid.

Source — St. Kitts-Nevis-Anguilla, *Digest of Statistics,* various years; *Government Estimates,* various years.

TABLE 12

PERCENTAGE DISTRIBUTION OF PUBLIC EXPENDITURES — JAMAICA

Heads	Years									
	1965/66	**1966/67**	**1967/68**	**1968/69**	**1969/70**	**1970/71**	**1971/72**	**1972/73**	**1973/74**	**1974/75**
General Services	18.7	18.0	18.4	15.3	15.6	15.6	14.6	15.1	16.0	15.9
Community Services	16.7	15.3	11.6	12.6	11.7	11.1	11.1	11.6	6.9	9.7
Social Services	29.3	29.7	29.8	29.3	30.5	30.7	35.6	36.0	34.2	29.2
Economic Services	17.7	18.1	21.7	22.6	22.3	23.7	21.9	23.7	23.1	25.5
Other Services	17.6	18.8	18.4	20.1	19.1	18.9	16.8	13.6	19.8	19.0

Source — Jones-Hendrickson [1976: 41] Table 5

TABLE 13

PERCENTAGE EXPENDITURE BY PORTFOLIO,
ST. KITTS-NEVIS-ANGUILLA — 1967—1977

Heads	Years										
	1967	**1968**	**1969**	**1970**	**1971**	**1972**	**1973**	**1974**	**1975**	**1976**	**1977**
Governor	1.8	0.7	.7	.5	.4	.4	.4	.3	.4	.4	.3
Legislature	1.2	1.0	1.0	.8	.6	.6	.7	.6	.5	.5	.5
Legal	1.9	2.6	.6	.6	.4	.5	.4	.4	.6	.6	.5
Audit	.5	.6	.5	.4	.5	.3	.3	.3	.3	.3	.3
Premier[a]	13.2	14.3	14.1	13.1	13.1	13.0	11.8	10.5	10.8	11.3	11.7
Finance	23.3	22.2	22.1	27.0	30.8	31.1	32.9	35.4	32.4	37.4	31.4
Trade etc.	1.1	2.5	3.1	4.1	3.2	3.9	3.2	2.9	3.0	3.1	2.0
Agriculture etc.	7.4	7.6	7.3	7.0	5.0	5.6	5.4	5.3	4.8	4.2	4.8
Communication	16.1	17.6	18.0	18.3	15.1	15.4	16.3	17.6	19.2	16.3	22.5
Education, Health etc.	31.0	29.3	31.5	28.1	31.0	29.2	28.6	26.7	28.0	25.9	26.0

Source — Calculated from Table 11

TABLE 14

EXPENDITURE INDICES FOR BARBADOS

(1969/70 = 100)

Services	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75	1975/76
General	100	107	107	112	134	175	184
Community	100	221	226	228	345	374	411
Social	100	150	850	1,000	1,500	1,550	1,900
Economic	100	119	131	141	369	381	440
Other	100	132	100	99	174	137	111

Source — Central Bank of Barbados, *Annual Statistical Digest* (various years)

TABLE 15

EXPENDITURE INDICES FOR GUYANA

(1969 = 100)

Services	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Economic	146	98	96	102	100	93	115	128	143	217	304
Community	74	65	72	84	100	123	145	163	196	213	219
Central	62	71	65	75	100	128	142	156	220	248	319
Social	82	83	90	96	100	114	118	146	232	242	282
Other	80	81	78	89	100	124	129	135	197	254	274

Source — Bank of Guyana, *10th Annual Report,* 1974

TABLE 16

EXPENDITURE INDICES FOR JAMAICA

(1969/70 = 100)

Services	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73	1973/74	1974/75
General	120	115	118	98	100	100	94	97	103	102
Community	143	131	99	108	100	95	95	99	59	83
Social	96	97	98	100	100	101	116	117	111	100
Economic	79	81	97	101	100	106	98	106	103	114
Other	92	98	93	105	100	99	88	104	104	99

Source — Nominal data from *Economic and Social Survey*, Jamaica (various years)

TABLE 17

EXPENDITURE INDICES FOR BAHAMAS

(1969 = 100)

Services	1969	1970	1971	1972	1973	1974	1975	1976
General	100	123	121	146	149	168	182	205
Community	100	120	100	150	80	80	200	200
Social	100	103	113	120	133	113	137	133
Economic	100	120	115	117	123	138	138	146
Other	100	138	148	145	164	214	240	240

Source —Nominal data from the Central Bank of The Bahamas, *Quarterly Report* (various issues).

TABLE 18

EXPENDITURE INDICES FOR ST. KITTS-NEVIS-ANGUILLA*

(1969 = 100)

Services	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Social	98	93	100	89	98	92	91	85	89	82
Community	89	98	100	102	84	86	91	98	107	91
General	94	101	100	93	93	92	84	74	77	80
Economic	105	100	100	122	139	141	149	160	147	169
Other	100	110	100	80	100	60	60	60	60	60

* *Source* — Government *Estimates* St. Kitts-Nevis-Anguilla (various years)

The indices of the various services depicted in Tables 16 — 18 clearly point to the thrust of the various states in terms of their public expenditure priorities. Over the period of analysis, the allocation to general services in 1969 dollars, decreased in Jamaica and St. Kitts and increased in the Bahamas, Barbados and Guyana. Community services allocations fell in Jamaica but increased in all of the other states. Social services allocation fell in St. Kitts but increased in all other states. Barbados' social services grew by over 13 per cent *per annum*. Economic services increased in all of the states. Finally, the miscellaneous "other" category decreased in the case of Jamaica and St. Kitts, but increased in the other states.

We will now suggest one centralized/decentralized mechanism.

A Revenue Diffusion Fund (RDF)

At the core of the role of public finance in the Caribbean nation state is what we call a Revenue Diffusion Fund (RDF).[15] The RDF is a mechanism wherein all of the Commonwealth Caribbean states pool a certain amount of revenues to ensure that regional governments avoid seeking funds from metropolitan sources at exhorbitant prices. Contribution to the Fund will be based on a *per capita* income basis and a fiscal capacity and effort aspect. In other words, if Montserrat's *per capita* income is $1,700.00 and its fiscal effort (revenues *per* one thousand population) is $3,000.00 then it will contribute revenues, based on some regional wide composite ratio that takes these factors into account, than upon some fixed percentage contribution. This means that there will be time when states will contribute more or less than the regional average. Such a contribution will depend on the economic conditions in the state in question. Borrowing from the RDF will also be based on *per capita* income considerations and fiscal effort.

There are drawbacks to any system which attempts to bring states of disparate resource bases together. It is our view, however, that there are sufficient dominant modal themes of public financing running through all of the regional states that the RDF could be functional. Policing of the RDF and enforcing the guidelines which will be inevitable in depositing revenues and issuing funds may pose some problems. At the outset, however, the regional ministries of finance could be the decisive force in the necessary policing efforts. The regional central banks should provide the oversight functions.

To effectively galvanize the kind of economic transformation that regional governments are presently discussing, a mechanism such as the RDF has to be top priority. It is necessary that funds diffuse from high surplus states to high deficit states at rates that are long term, low and fixed. Short term, high flexible rates would, invariably, place many states at a disadvantage *vis-a-vis* the credit capacity.

The central banks should be given the terms of reference to review, on an annual basis, which states are perpetually deficit countries (and hence continuous borrowers from the RDF). Penalties will be a part of the process. These should be imposed for excessive usage of the RDF and for late repayments. Loans could be refinanced but these should be on a variable finance rate (VFR). The VFR may or may not benefit the borrower since it would be operative on a "carrot or stick principle". The "carrot" will be instituted when market rates are falling while the "stick" will be instituted when rates are rising.

Why is the RDF necessary? It is necessary, first of all, because it will be a means and a mechanism of the region's own selection of the sole purpose of ensuring that funds are available when needed. It is necessary

TABLE 19

NON-AGRICULTURAL WAGE & SALARY EMPLOYMENT BY INDUSTRY U.S.V.I.* 1978

Published Industry Title	Average 1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual Monthly Average
Total Non-agricultural Employment	33507	33837	34697	35160	34290
Total Private Non-agricultural Employment	21380	21280	20797	22090	21470
Construction & Mining	2257	2267	2467	2653	2110
Manufacturing	2907	2910	2950	3027	2950
Durable Goods	600	680	703	737	680
Instruments & Related Products	513	587	597	630	580
Non-durable Goods	2307	2230	2247	2290	2270
Food & Kindred Products	233	243	247	280	250
Printing & Publishing	113	120	120	123	120
Other Non-durable Goods	1960	1867	1880	1883	1900
Transportation & Public Utilities	1763	1757	1767	1770	1760
Transport by Air	473	470	490	463	480
Communication	590	593	603	617	600
Other Trans. & P.U.	700	693	673	687	680
Wholesale Trade	647	647	623	613	630
Retail Trade	6253	6200	5973	6333	6190
Eating & Drinking Places	1407	1400	1297	1400	1380
Jewelry, Liquor, Gift & Rel.	2063	2020	1910	2067	2010
Other Retail Trade	2777	2780	2767	2867	2800
Finance, Ins. & Real Estate	1533	1523	1533	1523	1530
Banking	703	717	740	730	720
Services	6020	5977	5850	6160	6000
Hotels, Personal & Business Services & Amusement	4563	4537	4470	4690	4570
Hotels & Other Lodging Places	2910	2860	2700	2860	2820
Business Services	753	800	850	883	820
Educational, Legal & other Social Services	1457	1440	1380	1470	1430
Educational Services	557	540	483	570	540
Government	12127	12557	13533	13070	12820
Federal	590	633	660	660	640
State (Territorial)	11537	11923	12873	12407	12181
Government as per cent of territory	36%	37%	39%	37%	37%

* U.S. Virgin Islands

Source — *U.S. Virgin Islands Labour Market Review*, Vol. 2, No. 3, March 1979.

because it will serve as a further incentive for coordination in regional fiscal planning. This condition is a necessary one if economic transformation is to be effective from a regional point of view and not set specific to individual nation states. The RDF is also necessary because it will minimize the likelihood of nation states being caught in the trap [Odle, 1978] of international funding agencies with their attendant constraining fiscal requirements. Finally, it is necessary because the central banks will be functionally a part of the operative mechanism of overseeing the operations of fiscal policies. In so doing, the monetary and fiscal policy mix would be more than a theoretical exercise.

How would the RDF differ from other "partner-hand" type funds? First, the RDF would not be a mere repository for funds and a bank for borrowing funds. Surplus funds would be actively invested in the region through processes arrived at and plans drawn up by the ministries of finance, the regional central banks and the Caribbean Development Bank (CDB). Instead of there being idle cash balances, specific policy guidelines, as drawn up by the preceding three agencies, will form the means of putting the funds in areas where it is felt that the greatest benefit will accrue to the particular country and to the region in general. Funds borrowed *via* the "surplus facility" of the RDF would be at variable finance rates.

The RDF would also differ from the present financial arrangements in that no intrastate arrangements could be made to borrow from the Fund. For example, Trinidad and Tobago would not be the sole decision-maker in deciding that it can lend to Jamaica. Any state wishing to borrow from the RDF would have to get permission from the ministries of finance and from the regional central banks. Here too, it would not be an and/or situation. Both agencies would have to be in agreement. It should not be problematic to provide funds for one of the operational requirements of the monitoring process of the regional banks. It would be a continuous evaluation of the islands' economies and such a procedure would, if necessary, enable the central bank to have an up-to-date reading of the states' economies.

From a disciplinary point of view, the states' economies would have to be managed more effectively and more efficiently. This is where the active fiscal policy comes into play. No country would be permitted to lend another country in the regional grouping at rates which are in competition with the RDF lending rates (that is the normal borrowing rates and the variable finance rates). Violation of this regulation should be subjected to the suspension of borrowing privileges and/or a penalty equivalent to the difference between the normal RDF lending rate and the lending rate of the individual state.

For example, if St. Kitts makes a loan to Antigua outside of the RDF arrangements, St. Kitts would be (a) denied access to the RDF for some time agreed upon by the oversight agency, in this case the central bank;

and (b) a penalty could be imposed whereby St. Kitts pays into the RDF an amount that is equivalent to the differences between the RDF rates and the St. Kitts-Antigua loan rate. Say Antigua borrows $60,000 from St. Kitts, at 6 per cent *per annum* and the RDF's borrowing rate happens to be at a low 2 per cent *per annum*, then St. Kitts would be required to pay the amount of $60,000 at 4 per cent into the RDF. If, on the other hand, St. Kitts-Antigua negotiated rate is one per cent *per annum*, St. Kitts would be charged $60,000 at one per cent, that is the difference between the RDF rate and the St. Kitts-Antigua negotiated rate.

What will guarantee that (a) the RDF is workable, (b) the individual states would adhere to the rules, and (c) it would not be dominated by the larger countries? The mechanisms needed to make it workable are the politico-economic necessary and sufficient conditions of integrating monetary and fiscal policies in the region. As should now be obvious, the region's monetary and fiscal policies have not been working in the best interests of the states all of the times. It is our contention that the working together of these two policies could serve as the starting point for promoting economic transformation. The guarantees of "workability", therefore, rest on the interests of the individual nation states and the collective interests of the Caribbean nation state.

Adherence or non-adherence to the rules and regulations of the RDF would, again, depend on the collective interests of the nation state and the individual island states. While this establishes a kind of "moral" obligation, there would seem to be a need for greater sanction. In the event that an individual state violates the rules and regulation of the RDF, such a state should be barred from obtaining loans from the RDF for a specified period of time. Those states which engage in transactions with the violator should also be penalized by being barred from using the facilities of the RDF. Funds in the RDF which are the contributions of the violator may be frozen or remain part of the surplus investment portfolio of the ministries, the central banks and CDB. No state which violates the rules and regulations of the RDF should have prior right to withdraw its contribution from the RDF. The ministries of finance in the state of violation should be suspended from the deliberations of the RDF.

Each nation state would operate on a one country, one vote principle to ensure that equality is preserved. In this way, the decision-making pertaining to the RDF should not be biased in favour of any group of states. The principle of rotating chairmanship should be the method of coordination among the ministries of finance. One member and an alternate should attend meetings. The member would be the only voting member. A member of the regional central banks and the Caribbean Development Bank should also be on the policy-making board which would operate the RDF.

It should be understood that the Revenue Diffusion Fund is merely an attempt at minimizing the constraining forces of the region's borrowing from external sources. There are inherent problems in that the initial level of loans required may exceed the RDF initial finance capacity. If this probability is acceptable, this gives concrete support for our next suggestion. That is, the RDF should not replace all foreign borrowing in one massive swoop but should be a gradual phase in of the RDF over a 10 year period and a phase down of external borrowing over the same period.

This phase-in/phase out transition period suggests that the RDF should be very small in its initial operation. Within the first five years it is suggested that nominal contributions be made by the microstate economies of the Eastern Caribbean, while the larger states of Jamaica, Guyana and Trinidad and Tobago will be required to make generous contributions. Another thing that the phase-in/phase out period permits is an evaluation of both the RDF and foreign borrowing. Normatively, we believe the RDF will be superior to foreign borrowing, but the decision-makers in the respective states have to decide on the options opened to them.

In the scope of the RDF's evaluation, the decision-makers may want to utilize funds from the RDF solely for domestic light industries and current expenditure accounts, whereas external financing is utilized for heavy industries and capital expenditures. The adoption of such a position would depend on the attitudes to the region in the international lender markets.

Summary and Conclusion

No normative positions are ever in strict concert with what the majority of persons would accept. Our views on a normative view of public finance is not meant to depart from this thesis. Nevertheless, the views outlined are sufficiently general, fairly simple to comprehend and easily operationalized. To this end, their normative framework may not deter from their positive intent of change and transformation in the fiscal and monetary sectors of the Caribbean.

It is of particular importance to note that our discussion of the shifts in public finance developments, budgetary reforms and the role public finance (and the public sector) could play, are all discussed against the background of the positive features of the individual nation states and the Caribbean nation state. Methodologically, the normative views are only normative to the extent that these are things that ought to be done. In light of the origins of these "oughts", the core of the suggestions have to be seen as practical, even though they are untested and untried.

When the Kennedy Round of trade talks were completed several years ago, Third World countries (TWCs) the Caribbean included, began to take a very definite interest in the liberalization of trade barriers which constrained their export performance. The Generalized Scheme of Preferences (GSP), the mechanism under which Third World countries "benefit" from low import duties on their products in developed countries, were also of great importance to the TWCs and to the Caribbean in particular. Finally, the formation of the African-Caribbean Pacific (ACP) group have practical expression to the trade concerns of the Caribbean and similarly disposed countries. Despite these liberalizations of trading relationships, the Caribbean is still constrained by trade barriers and to effectively combat these problems, the region has to develop alternatives to trade and in so doing, it could minimize the harsh impact of vagaries of the foreign trade sector and the expenditure of hard earned revenues to mitigate the effects of the harsh impacts on the local economies.

Taxation policies have to be more reflective of the economies in question. At present, they seem to be more remnants of fiscal history as opposed to tools of active fiscal policies.

The budget and budgetary mechanisms are in need of reform. Reform here is not suggested as a means of keeping up with the developments which are taking place elsewhere. Reforms are suggested in light of the region's pursuit of economic transformation and, in fact, of the need for more concrete planning in the individual nation state and the Caribbean nation state.

Budgetary reforms also imply budget conformity and budgetary uniformity. If the region's decision-makers are really concerned about mechanisms of integration, be it short or long run, then the budgets and the budgetary process need to be reformed and uniformed as reformation and uniformity will ensure that there is comparability among the states; that overall planning could take place from a regional perspective and that common policies could be instituted. The present situation where each state pursues its own policies, independent of the others, would be greatly minimized if budgets are reformed and uniformed. In the final analysis, a budget is a plan and uniformed budgets suggest uniform plans. Uniform planning implies some common modal approach to the much vaunted, but poorly executed regional economic transformation and a new international economic order.

Finally, the Revenue Diffusion Fund was suggested as a concrete means of mobilizing taxation, reforming and uniforming the budgets and the budgetary processes in the region. Basically, it is perceived to be a mechanism wherein the individual nation state will contribute some revenues, and from which they can borrow in time of need. The rationales underpinning the RDF are to guarantee quick and easy access to a source of public finance, minimize the embarrassment (or harassment) the borrowing from external sources entails, serve as one step in the direction of self-sufficiency and permit coordination among the monetary fiscal directorate in the region. In so doing, policies should be aimed at promoting transformation policies which are in concert with the potentials of the countries and which are within their capacities to achieve.

NOTES

1. This idea of the inherent weaknesses of the market mechanism is also developed by metropolitan scholars such as Galbraith [1958] and Burkhead and Miner [1971]. Galbraith [1958: 115] in discussing the consumption and production features stemming from the market mechanism contends that "the economic theory which defends (the consumption) desires and hence the production that supplies them has an implacable . . . position in the conventional wisdom, (but) it is illogical and meretricious and in degree even dangerous". Burkhead and Miner [1971: 97] put it graphically when they contend that "analysis of the pure theory of public expenditures reveals a pathological case of market failure".

2. In reality, the private sector nurtures the view that there are some things they should do, and some things the government should not get into. Peter Phillips [1977: 150] cites evidence from Jamaica to substantiate this point. He had an interview with an elite from a powerful Jamaican family which owned the cement plant. The individual intoned that he would prefer if the Jamaican government does not get into the controlling of large companies. "I do not think", he noted, "except as a last resort, that governments ought to get themselves into operations which the private people could get into".

3. A very useful discussion of the inadequacy of fiscal incentives in the region can be found in Oldman and Taylor [1970]. For a metropolitan view of the inadequacy of fiscal incentives, see Gary Cornia *et al* [1978].

4. Sumptuary taxes are taxes on liquor and cigarettes, for example. Jamaica increased its sumptuary taxes several times between 1974-76.

5. St. Kitts once changed its turn-over tax into a type of commodity tax. By doing so, the effective tax rate decreased. See the 1974-75 *Estimates*. Antigua eliminated its income tax in 1976, due to a political pledge. However, it increased other taxes.

6. One classic instance of the politico-economic decision is the case of impact programme/ crash programme workers in Jamaica following that country's securing of revenues from the bauxite companies in 1974.

7. The nationalization of the bauxite industry in Jamaica and the control of bauxite production in Jamaica bear some testimony to this action on the part of the regional governments *vis-a-vis* the multinationals. Of course, the above actions are really minute attempts in controlling what Prime Minister Michael Manley of Jamaica likes to call "the commanding heights of the economy".

8. Many of these terms are in a state of development. Concrete definitions are not readily available in the literature of public finance. In practice, however, one is considering the poor attitude that many fiscal officers have to governmental revenue and expenditures. To say that this is endemic to the Caribbean would be ridiculous. It is sufficiently pervasive in the region, nonetheless, to warrant some comments. In a forthcoming work, this is precisely what we will detail.

9. By "effectiveness" we mean the optimum use of time in the operationalization of the budget. On the other hand, by "efficiency" we mean using the best ways of preparing and developing the budgets.

10. When one uses the term "economic transformation" for the entire Caribbean, it is not strictly correct. We have demonstrated elsewhere that all countries are not experiencing the economic transformation. There is much rhetoric regarding transformation. Nevertheless, using the term in a broad sense, we observe some signs of economic transformation in the entire region. Certainly, there is a greater collective consciousness regarding transformation today, than existed a decade ago.

11. One must be reminded that we are using the terms "individual nation state" and "Caribbean nation state" to distinguish the activities of say, St. Kitts, from that of the entire Caribbean.

12. By "exhaustive" expenditures we mean public sector expenditures for goods and services which fall outside the scope of GDP/GNP aggregates — narrowly defined.

13. "Power" is not being used here in an anti-democratic sense. The term merely connotes a system of organization and authority.

14 Francis Bator [1968: 9-39] discusses the concepts of "exhaustive" and "non-exhaustive" public expenditures. Non-exhaustive expenditures include interest payment on the national debt, welfare payments, old age and other retirement benefits. According to Lee and Johnson [1973: 27] "Non-exhaustive expenditures entail the redistribution of resources among components of the society rather than the consumption of resources".

15 For a detailed mathematical treatment of the Revenue Diffusion Fund, see Jones-Hendrickson [April, 1976].

CHAPTER 6

EMPIRICAL ANALYSES RELATED TO AN INTEGRATIVE FISCAL AND MONETARY POLICY

Two general views or hypotheses will underpin our discussions in this chapter. The first view centres on the idea that public finance of the "typical" Keynesian variant may have generated weak policy prescriptions in the structural reorganization of economic activities in the Caribbean. The second view focusses on the belief that the dynamics of monetary policy seem to be a constraint and not a companion tool of public finance in the Caribbean. These two views are central to an understanding of the positive and normative points which were raised in the two previous chapters.

This chapter will use empirical analyses to illustrate the core thoughts in the two ideas above. It will be assumed that it is because of the conflicting and contradictory roles of public finance and monetary policy in the region why there is a need for an integrationist approach to the implementation of these two policies. From the outset, we should make our argument very clear. We are not subscribing to an integration of public finance and monetary policies from a pure integrationist point of view although that view has some necessary bearing on the matter. But, while the view is necessary, it is not sufficient for our purpose.

For practical purposes, the two views are given importance, primarily because of the socioeconomic developments deriving from monetary policy and fiscal policy implementation in the region. In other words, the thrust of both monetary and public finance policies was fairly static. The evidence seems to indicate that many of the critical linkages which could have developed did not develop. The political directorate and decision-makers associated with the respective policies seemed to have followed their "own" policies with no overt integration of fiscal and monetary policies.

The level of empirical analyses that we will use is merely illustrative of certain views and such empirical analyses are not intended to substantiate any dogmatic view. In the first section the empirical analysis will focus on public expenditure relative to some macroeconomic aggregates and the second section will cover the revenue side and the same macroeconomic aggregates. The third section looks at the money supply side and a few aggregates. Implicitly, we are attempting to determine the simple relationships between revenue, expenditure and money supply aggregates with some GDP aggregates. Out of the relationships we will seek to interpret the result in the framework of the two hypotheses or views put forward in this chapter.

The Expenditure Side

Implicit in the test of fiscal policy and the impact on the revenue side is the concept of Wagner's hypothesis [1890] and Peacock-Wiseman displacement effect [1961]. These hypotheses are merely two of a number of hypotheses which are addressed to the issue of public sector activity and its increase over time. The Marxian [1932] process of "auto-destructive" capitalism identifies the dynamics for sociopolitical changes within the context of economic welfare and class conflict arising from technological developments.

Rosenstein-Rhodan once subscribed to the notion to what Winfrey [1973] calls "The Social Overhead Capital Hypothesis" which refers to the public sector investment activity which facilitates rapid industrialization. In many respects, this hypothesis is similar to Wagner's.

Linked to the social overhead capital hypothesis is the ambitious categorization of the so-called stages of growth of Rostow [1960] which focusses on the view that the requisite changes in the sociopolitical structure of traditional economies take place as a result of external forces and manifestations. Finally, there is the Schumpeterian hypothesis [1911; 1932] which is keyed to innovation and investment. Schumpeter contended that (a) entrepreneurs used innovation to trigger economic growth; and (b) that this economic growth and development was cyclical.

These Marxian, Rosenstein-Rhodan, Rostowian, and Schumpeterian models of public sector activity have some inherent points of departure in the Caribbean. However, Wagner's hypothesis and the Peacock-Wiseman hypothesis come closer to a liberal rendering of the two views or hypotheses of this chapter. As a result, we have settled on these two hypotheses which are concerned with fiscal and monetary activities and their changes over time.

Wagner's hypothesis posited a functional relationship between industrialization and the relative importance of activities in the public or governmental sector. Using data from Britain, France, Germany, Japan, and the United States of America, Wagner's statistical results appeared to identify a law which, liberally interpreted, states that social progress was the cause of public sector activities. Wagner saw his law as evident in three principal spheres. These are (a) public sector production and provision of goods and services; (b) law and order; and (c) the production of provision of general economic and social sector activities, that is, infrastructural development.

Wagner's three spheres of public sector activities are central to the

Keynesian economic framework which underpins Caribbean economies. His ideas were tested in five industrial countries. However, our test will be applied to a set of countries which are primarily agriculturally based. In addition, the sociopolitical dynamics underlying the countries under study are different from the industrial countries which Wagner studied. If we hold all of these differences constant, Wagner's hypothesis may be tested within a selected number of Caribbean countries.

Our fundamental task is to identify those modal features in the public sector activity in the Caribbean which were derived from the nature of the fiscal policies and monetary policies which are being presently used. We are not seeking to determine any theory of public sector activity.

The Peacock-Wiseman hypothesis attempts a line of departure which seeks to come to grips with an understanding of public sector activity in Britain over the period 1890 to 1955. Their key point was that exogenous factors were of paramount importance in explaining the evolution of public expenditure in Britain over the aforementioned period.

In the Caribbean, exogenous factors are very critical in the shaping of public policies and the base line determination of public sector activity. In this respect, the testing of both the Wagner law and the Peacock-Wiseman displacement effect is meritorious. Thus far, Odle [1976] has illustrated that there is some substance to the two types of hypotheses in the "evolution of public expenditure" in Guyana. In this regard, we appear to be on relatively safe grounds.

Formulation of the Models

The models which we will test fall into three general categories. The bivariate and multivariate models will be dealt with throughout this work. The first section concentrates on the expenditure side. Here, we are interested in establishing the relationships of expenditure in five equations:

(1) Expenditure (E) as a function of Gross Domestic Product (Y);

(2) Expenditure as a function of exports (X) and expenditure lagged one period (E_{t-1});

(3) Expenditure as a function of the money supply (M) and expenditure lagged one period;

(4) Expenditure as a function of exports and the money supply; and

(5) Expenditure as a function of Gross Domestic Product and the money supply.

The revenue side of fiscal policy is also expressed relative to the variables associated with the expenditure side. In other words, we will test:

(6) Revenue (R) as a function of Gross Domestic Product (Y);

(7) Revenue as a function of exports and revenue lagged one period (R_{t-1});

(8) Revenue as a function of the money supply and revenue lagged one period;

(9) Revenue as a function of exports and the money supply; and
(10) Revenue as a function of Gross Domestic Product and the money supply.

Finally, the third section will focus on the money supply side. Here the equations to be tested are:
(11) Money supply as a function of the Gross Domestic Product;
(12) Money supply as a function of exports and the money supply lagged one period [M_{t-1}];
(13) Money supply as a function of exports; and
(14) Money supply as a function of GDP and money supply lagged one period.

Formally, these equations could be written as follows:

(1) $E = E(Y)$
(2) $E = E(X,E_{t-1})$
(3) $E = E(M,E_{t-1})$
(4) $E = E(X,M)$
(5) $E = E(Y,M)$
(6) $R = R(Y)$
(7) $R = R(X,R_{t-1})$
(8) $R = R(M,R_{t-1})$
(9) $R = R(X,M)$
(10) $R = R(Y,M)$
(11) $M = M(Y)$
(12) $M = M(X,M_{t-1})$
(13) $M = M(X)$
(14) $M = M(Y,M_{t-1})$

Equations (1) — (5) are geared to assisting us in understanding the specific relationship underpinning the expenditure side of fiscal policies. Exports are included to enable us to accommodate the concept of the export-propelled nature of the economies and to determine the impact, if any, of (expenditure) fiscal policies on exports. Likewise, the money supply is included because we are attempting to develop *a crude measure* of the (expenditure) fiscal policy impact on the monetary sector. In Equations (4) and (5), the money supply is included with exports and GDP because here, too, we are attempting to determine (a) the (expenditure) fiscal policy impact on the export-propelled system and the monetary sector; and (b) the same policy impact on the entire economy and on the monetary sector.

With regards to the revenue equations, that is Equations (6) — (10), we are attempting to determine the (revenue) fiscal policy impact on the export nature of the economy, as well as the monetary sector. Finally, in the case of equations (11) — (14), we are trying to highlight the underpinning relationship among monetary policy, the entire economy, and the export nature of the economy. We admit that the measures developed in these 14 equations are crude measures of determining the fiscal monetary policy impacts on the Caribbean economies in question. Nevertheless, we believe that they provide a useful frame of reference from which more concrete lines of departure could be developed.

A Word About Data

The data which we used in the estimation of the model above were obtained from the official financial and statistical publications of the countries in question. Except for the trade data which presented some problems, in the case of some of the microstate economies of the Eastern Caribbean, the other data were fairly easy to derive. The data follow those presented. All data are in current dollars. It was difficult to obtain consumer prices indices for all of the observations, hence we ran the data in the undeflated form.

Except for one or two instances, we did not attempt to aggregate the data series for all of the Caribbean countries. We felt this would have created too many problems from the interpretational side. As a result, the system of equations were run for each individual territory. Such a procedure is not too horrendous if we accept the view that the countries in question have some common modes of socioeconomic underpinnings which permit us to compare and contrast them.

Specification of the Equations and Discussion

In the bivariate cases, for example, Equations (1), (6) and (14) are in the double logarithmic form such that we have:

$$\log E_t = \log A + b \log Y_t + \log U \quad (1)_t \quad (1)$$

and similar formulations for equations (6) and (14). The bivariate cases which are represented by equations (4), (5), (9) and (10), are also in the double logarithmic form. Here we have, as in Equation (9):

$$\log R_t = \log A + b_1 \log X_t + b_2 \log M + \log U_t \quad (9)$$

In the cases of equations with lag variables, that is Equations (2)(3), (7), (8), (12), and (14), we have, as in Equation (12):

$$\log M_t + AZ + b \log X_t + (1 — Z) \log M_{t-1} + \log U_t \quad (12)$$

In Equation (1) A's represent a constant term, the b's represent some elasticity measure, and the U's are error terms. In the case of Equation (12), A is a constant, b is an estimate of the short run elasticity and Z measures the speed with which the dependent variable (M, in this case) adjusts to equilibrium M. The mean adjustment lag is measured by (1 — Z/Z) and b/Z is the estimate of the long run elasticity of M with respect to X, as in the case of Equation (12). Rao and Miller [1971] detailed the issues inherent in an equation such as Equation (12). In addition to these issues, they discuss the distributed lag effects *vis-a-vis* the time profile of the estimate underpinning the distributed lag.

A Word about the Equations

The specific hypothesis related to Wagner's law requires that the rate of growth of public expenditures must be greater than the rate of growth of Gross Domestic Product.[1] This implies that, in the case of Equation (1):

$$\frac{dE}{E} > \frac{dY}{Y} \text{ or } \frac{dE}{dY} . \frac{Y}{E} > 1 \qquad (15)$$

In the case of the Peacock-Wiseman displacement effect, Wagner's hypothesis is included, but the concept is more refined. Basically, their formulation permits the elasticity of public expenditures relative to Gross Domestic Product to be greater than, less than, or equal to one, in the short run. In the long run the elasticity is strictly greater than one. Formally, the Peacock-Wiseman displacement hypothesis indicates that in the short run:

$$\frac{dE}{dY} . \frac{Y}{E} \gtreqless 1 \qquad (16)$$

and in the long run the elasticity is in agreement with Wagner's case , as it is shown in Equation (15).

Since we are operating on both sides of the "fiscal policy divide". We have extended the hypotheses to accommodate tests of the revenue fiscal policy impact. In this respect, the elasticities would be similar to the expenditures, that is for a Wagner-type:

$$\frac{dR}{dY} . \frac{Y}{R} > 1 \qquad (17)$$

and a Peacock-Wiseman-type:

$$\frac{dR}{dy} \frac{Y}{R} \gtreqless 1 \text{ (short run) } \frac{dR}{dY} . \frac{Y}{R} > 1 \text{ (long run)} \qquad (18)$$

The case of the bivariàte analyses could provide some useful points of departure. Particularly, the estimates of the elasticities could illustrate the degree to which a given percentage change in the countries' expenditure, revenues and money supply is associated with a change in Gross Domestic Product. In the case of the money supply relationship. M = M(Y), this may be some crude measure of a *transaction demand* for money. With respect to exports (X), the elasticities could permit an analysis of the responsiveness of a given percentage change in exports relative to a change in public expenditures and revenues.

Practically, the latter elasticities could be estimated from a regression of logarithm of annual observations of exports for the various countries. Logarithm is useful here because estimates in this form are directly interpretable as elasticities. Except for the case of the money supply as a function of export, M = M(X), we did not run revenues or expenditures as functions of exports only. Inherent in such a procedure would have been the possibility of specification error. The chances of expenditure and revenues adjusting completely to changes in exports within one year are quite slim. Consequently, we would have developed a situation where the long run elasticity of expenditures with respect to a change in exports would be different for the short run response. This is our primary reason for using the partial adjustment model which is formulated in all equations with a lagged term.

Empirical Results

The empirical results for all of the equations are presented in the six tables of this chapter. The data set is given in an appendix to the chapter. It is instructive that we bear in mind the underpinning features of Wagner's hypothesis and Peacock-Wiseman's displacement effect in analyzing the empirical results in Table 1. Wagner, as it is to be recalled, contended that the rate of growth of public expenditures must exceed the rate of growth of national income. In other words, the elasticity of public expenditures with respect to national income must be greater than one.

Peacock and Wiseman, in their study of the pattern of public expenditure in Britain, noted that wars and social crises are inherent in the tendency of peoples' perception of the concept of the "tolerable burden of taxation". This view of the 'tolerable burden of taxation' derives as a result of the change which occurs in peoples' reality of the countries in question. In other words, the Peacock-Wiseman model suggests that countries are governed by a politicoeconomic model wherein the state of the economy impacts on the polity, and the nature of the political behaviour in practice, affects the economy. Frey [1978] outlines the points of such a politicoeconomic model.

In analyzing 'wars and governmental expenditures in Western Europe since the eleventh century', Crowley [1971] pointed out that the Peacock-Wisemanhypothesis suggests that the rate of growth of public expenditures could be greater than, less than or equal to the rate of growth of national income in the short run. In the long run, the condition definitely depicts an elasticity of greater than one. This is inkeeping with Wagner's law".

Against this background, we may now comment on the results in Table I. All countries except Antigua, Barbados and Montserrat, present results which are in tune with Wagner's law and the long run Peacock-Wiseman displacement effect. When the Eastern Caribbean and Barbados are combined, this grouping falls in the same category as Antigua, Montserrat and Barbados. When the data from the Eastern Caribbean group are analyzed, without Barbados, the results support Wagner's law and the long run aspect of the Peacock-Wiseman's displacement effect.

The empirical results for Antigua, Barbados, Montserrat and the Eastern Caribbean seem to suggest that the period of our analysis is illustrative of a short run situation. Put another way, short run displacement effects could characterize public sector activity in the named countries. Long run permanent public sector activities could characterize the other countries.

Except for Barbados and the Eastern Caribbean, as a group, the results from all of the entities have high R^2, indicating, *inter alia,* that the fit was a good one. When Barbados is combined with the Eastern Caribbean, the R^2 increases by 15.9 per cent. Of vital importance in the results is the very high statistical significance of *all* of the t-ratio.

The inelastic public sector expenditures of GDP for Barbados (.506) is not in accordance with the elastic response that Howard [1979] found for Barbados over a partial period of our analysis. His period was 1953-64. The elasticity was 1.248 with a t-ratio of 12.04 and an R^2 of .930. This difference may be due to different time frame or to errors in the data. Pragmatically, our view is supportive of the difference in time series aspect. Nevertheless, the difference is worthy of further investigation.

When revenues are regressed on Gross Domestic Product for the various states, we observe that all of them, except Bahamas and Barbados resort to a Wagner type law for revenues. The results are in keeping with the expectations of a Peacock-Wiseman type displacement factor. All of the t-values are significant at an accepted 5 per cent level of significance. The t-values could be derived from the estimated elasticity coefficient and the standard error of the estimate.

The revenue results of Belize and Montserrat are very interesting in that they are implying that for a 10 per cent increase in GDP, there is an associated 21.29 increase in revenues in Belize and 25.49 per cent increase in revenues for Montserrat. These results are comparable to the expenditure elasticity of Belize which is 1.328 and Montserrat's which is .667.

If we compare the expenditure and revenue elasticities of Tables 1 and 2, we note that in the case of Antigua, Belize, Montserrat, St. Vincent and Trinidad and Tobago, the responsiveness of revenues to GDP was greater than that of expenditures to GDP. In all other cases, the expenditure responsiveness was greater.

The impact of the expenditure on exports and expenditure lagged one period are presented in the empirical results of Table 3. The equation which was tested is implicit in the lag adjustment model as illustrated earlier. The elasticities are for export and expenditure lagged one period, primarily because we are attempting to capture the relationship between the nature of the economy and the expenditure component of fiscal policy.

From the results, it is observable that all of the exports variables, except Antigua's, are inelastic. In the case of Antigua, a 10 per cent increase in exports brought about a 21.74 per cent increase in public expenditures. St. Vincent's case was very minute. Here a 10 per cent increase in exports brought about a .07 per cent increase in public expenditures. The t-ratios of exports of Antigua, Belize, Grenada, Jamaica and St. Lucia are significant at 5 per cent level of significance.

In the case of the lagged variable, which, by definition is highly correlated with the dependent variable, only four cases of elastic responsiveness were derived. Antigua, Guyana, St. Kitts-Nevis-Anguilla and St. Vincent have results which indicate that for 10 per cent increase in expenditures lagged one period, revenues would fall by 16.15 per cent, and increase by 10.15 per cent, 10.40 per cent and 10.25 per cent. Except for Antigua's decrease, these increases are small. The t-ratios for all of the countries, except Antigua and Trinidad and Tobago, were significant at the 5 per cent level. The explanatory power of the equations indicate that over 90 per cent of the variation is being explained in eight of the 13 states.

With regards to the revenue side, Table 4 shows that the results of the regression on exports and revenues lagged one period. It is the companion side to the expenditures equation of Table 3. From the evidence, we note that all of the export elasticities are inelastic. The t-ratios for Barbados, Jamaica, Montserrat, St. Lucia and St. Vincent are not significant. All of the others are significant at the 5 per cent level.

Turning to revenues lagged one period, there are three cases of elasticities greater than one. These are barely greater than one. For the Bahamas, a 10 per cent increase in revenues lagged one period was associated with a 10.24 per cent in revenues, respectively. Barbados' case St. Vincent a 10 per cent increase in revenues lagged one period was associated with a 10.24 per cent in revenues, respectively. Barbados' case is unique in that a 10 per cent increase in revenues lagged one period was associated with a 10 per cent increase in revenues in the current period.

Underpinning the results in Table 5 are the short run (b) and long run (b/Z) elasticities and the mean adjustment lag (1—Z/Z). On the expenditure side, the long run elasticities, for all states, with the exception of Antigua, are greater than the short run elasticities. In eight states, a 10 per cent increase in exports brought about more than 10 per cent increase in expenditures. Guyana and St. Kitts present two very interesting departures from our implicit norms. The results indicate that a 10 per cent increase in exports in Guyana and St. Kitts-Nevis-Anguilla was associated with a decrease of 58.67 per cent and 48.53 per cent in expenditures, respectively, in the long run.

The speed with which actual expenditures adjusted to equilibrium expenditures was longest for Antigua, 2.615 years and shortest for Barbados .037 years or approximately two weeks. These data are to be compared with the negative results of Guyana, St. Kitts-Nevis-Anguilla and St. Vincent which were unexpected. They present a challenge in terms of explanation, although we are inclined to believe that the one period lag model may not be applicable to the expenditure *vis-a-vis* export conditions in Guyana, St. Kitts-Nevis-Anguilla and St. Vincent.

The mean adjustment to equilibrium values of expenditure occurred after less than one year in the case of Antigua, Belize and Trinidad and Tobago. In all other countries except Guyana, St. Kitts-Nevis-Anguilla and St. Vincent, the mean adjustment to equilibrium expenditures occurred in more than one year. In the case of Barbados, the mean adjustment is 25.289 years. There is a confusing element in the results, given that there are three negative mean adjustment lags to long run equilibrium[2].

On the revenue side of the fiscal divide, all, but one, long run elasticities of export in relation to revenues are greater than the short run. The lone exception is St. Lucia. Seven states have elasticities greater than one. Here, too, there are two interesting cases. St. Vincent has a significantly large elasticity. It suggests that a 10 per cent increase in exports reduces revenues by 60.24 per cent. Barbados has an elasticity that is infinity. These results seem, once again, to illustrate that the model used may not be applicable to all of the states.

The mean adjustment to long run equilibrium was less than one year for Guyana, Montserrat and Trinidad and Tobago. In all of the other states, with the exception of the Bahamas and St. Vincent, the mean adjustments to long run equilibrium are greater than one year. The negative values for the Bahamas and St. Vincent seem to underscore our need for applying different time lags to these states. Of all of the states, revenues adjust to long run equilibrium, the longest in the case of Grenada. It takes 4.988 years, or four years 361 days. The shortest adjustment period is in Guyana. The period is .802 years or 293 days.

Table 6 presents a comparison of the "b" elasticities and the beta coefficients. The "b" elasticities are merely the weights expressing the influence of the independent variables as they are interlocked into an estimate of the dependent variable. Since the units of the independent variables may be different, and since their respective variations may be very wide, we have to make some adjustments for the actual comparative significance of the individual independent variables.

The beta coefficient or beta "weight" takes into account the differences in the measurement units of the independent variables, as well as the variances. The beta coefficients provide a more accurate picture of the relative importance of each variable in the regression analysis.

From Table 6, we observe that in all cases, except Belize, the beta coefficients of the lagged expenditure variable is relatively more important than the bs and beta for exports. In the case of Grenada and Trinidad and Tobago, the elasticities of exports are greater than the elasticities of expenditures lagged one period, but the beta coefficients are weighted in favour of the lagged variable. In the case of Trinidad, also, exports and the lagged expenditures are almost equally weighted.

The revenue picture illustrates that the beta coefficients for the lagged expenditures are all greater than the betas for exports, except in the cases of Grenada and Trinidad and Tobago. The exports elasticities of

TABLE 1

EXPENDITURE (E) ON GROSS DOMESTIC PRODUCT (Y)

Islands	Constant	Estimate or Elasticity	SEE	R^2
Antigua	2.641	0.962	.060	.919
Bahamas	4.752	1.356	.173	.764
Barbados	4.549	0.506	.087	.643
Belize	–3.196	1.328	.133	.840
Dominica	1.311	1.254	.044	.977
Grenada	0.363	1.462	.128	.873
Guyana	–0.014	1.457	.076	.951
Jamaica	–4.702	1.448	.035	.989
Montserrat	3.911	0.667	.052	.896
St. Kitts-Nevis-Anguilla	0.685	1.413	.062	.965
St. Lucia	0.483	1.439	.142	.844
St. Vincent	–0.068	1.692	.733	.966
Trinidad & Tobago	–2.485	1.190	.075	.929
Eastern Caribbean (EC)	0.313	1.392	.220	.677
EC and Barbados	2.939	0.838	.094	.805

SEE — Standard error

TABLE 2

REVENUES ON GROSS DOMESTIC PRODUCT

Islands	Constant	Estimate or Elasticity	SEE	R^2
Antigua	2.310	1.029	.247	.914
Bahamas	4.681	0.370	.037	.842
Barbados	4.778	0.475	.082	.638
Belize	–9.493	2.129	.120	.937
Dominica	–0.976	1.130	.047	.968
Grenada	0.557	1.401	.096	.918
Guyana	0.405	1.357	.036	.987
Jamaica	–4.060	1.374	.026	.993
Montserrat	–3.934	2.549	.354	.732
St. Kitts-Nevis-Anguilla	1.600	1.188	.064	.948
St. Lucia	0.806	1.347	.044	.980
St. Vincent	–0.966	1.734	.067	.972
Trinidad & Tobago[a]	–4.927	1.508	.096	.950

SEE — Standard error
[a] — 1955—1969

TABLE 3

EXPENDITURES AS A FUNCTION OF EXPORTS AND EXPENDITURES LAGGED ONE PERIOD

Islands	Intercept	Elasticity	See	t-ratio	Elasticity	See	t-ratio	R^2	Ser
Antigua	3.022	2.174	.650	3.340	−1.615	.931	−1.734	.740	.537
Bahamas	1.036	.125	.099	1.262	.743	.167	4.450	.954	.122
Barbados	−.274	.081	.198	.408	.961	.096	10.027	.986	.067
Belize	2.113	.329	.079	4.192	.368	.136	2.706	.969	.042
Dominica	.140	.086	.162	.529	.897	.110	8.166	.994	.030
Grenada	−.512	.596	.240	2.487	.532	.141	3.764	.944	.099
Guyana	−.803	.088	.147	.600	1.015	.121	8.354	.993	.036
Jamaica	−1.286	.495	.123	4.020	.660	110	6.026	.995	.037
Montserrat	.069	.044	.093	.473	.958	.086	11.098	.978	.055
St. Kitts-Nevis-Anguilla	−.399	.021	.133	.157	1.043	.073	14.265	.981	.049
St. Lucia	−1.339	.341	.154	2.214	.860	.141	6.079	.984	.071
St. Vincent	−.181	.007	.121	.059	1.025	.043	23.607	.994	.031
Trinidad & Tobago	−.403	.546	.403	1.357	.472	.320	1.476	.949	.057

Note: The period of coverage is 1955—1975, for all states, with the exception of Trinidad and Tobago, 1955—1969. For significance at the 5% level, two-tail, **ts must be greater than 2.11.**

TABLE 4

REVENUES AS A FUNCTION OF EXPORTS AND REVENUES LAGGED ONE PERIOD

Islands	Intercept	Elasticity	See	t-ratio	Elasticity	See	t-ratio	R^2	Ser
Antigua									
Bahamas	.085	-.026	.040	-.664	1.020	.070	15.289	.992	.051
Barbados	.019	.056	.102	.550	1.000	.062	16.129	.996	.030
Belize	-.035	.273	.117	2.328	.727	.139	5.327	.993	.033
Dominica	-1.965	.667	.243	2.747	.605	.151	4.007	.991	.043
Grenada	-.942	.306	.142	2.145	.833	.110	7.547	.964	.072
Guyana	-1.527	.719	.139	5.187	.445	.133	3.338	.990	.039
Jamaica	-.934	.287	.145	1.986	.829	.135	6.149	.995	.034
Montserrat	-1.321	.406	.505	.803	.860	.093	9.390	.944	.410
St. Kitts-Nevis-Anguilla	-.944	.903	.264	3.425	.216	.103	2.106	.821	.118
St. Lucia	-.037	-.011	.073	-.151	1.024	.066	15.379	.993	.041
St. Vincent	-1.945	.247	.573	.431	1.041	.206	5.042	.896	.896
Trinidad and Tobago	-2.234	.768	.328	2.341	.456	.213	2.137	.472	.046

Note — 1955—1975 for all states, except Trinidad and Tobago which is 1955—1969. For significance at the 5% level, two-tail, ts should be greater than 2.11.

TABLE 5

PARAMETERS OF EXPENDITURE AND REVENUE*

Islands	EXPENDITURES				REVENUES			
	b	Z	b/Z	$\frac{1-Z}{Z}$	b	Z	b/Z	$\frac{1-Z}{Z}$
Antigua	2.174	2.615	.831	.618	.042	.058	.942	.912
Bahamas	.125	.457	.486	2.891	–.027	–.023	1.143	–44.478
Barbados	.081	.038	2.131	25.289	.056	.000	∞	∞
Belize	.329	.632	.521	.582	.273	.274	.996	2.653
Dominica	.086	.103	.831	8.709	.667	.395	1.689	1.532
Grenada	.598	.468	1.278	1.137	.306	.167	1.832	4.988
Guyana	.088	–.015	–5.867	–67.667	.719	.555	1.295	.802
Jamaica	.495	.340	1.456	1.941	.287	.171	1.678	4.848
Montserrat	.044	.041	1.073	23.390	.406	.907	.448	.948
St. Kitts-Nevis-Anguilla	.021	–.043	–4.853	–24.254	.903	.784	.276	1.151
St. Lucia	.341	.140	2.436	6.143	–.011	–.023	.478	2.142
St. Vincent	.007	–.025	–.311	–40.366	.247	–.041	–6.024	–25.390
Trinidad and Tobago	.546	.528	1.034	.894	.768	.544	1.412	.838

*Parameters estimated based on the equation for (E ; R)

$\log E = AZ + b \log X + (1-Z) \log Et_{-1}$

$\log R = AZ + b \log X + (1-Z) \log Rt_{-1}$

TABLE 6

A COMPARISON OF (b) ELASTICITIES WITH BETA WEIGHTS

	X		E_{t-1}		X		R_{t-1}	
	b	Beta	b	Beta	b	Beta	b	Beta
Antigua	2.174	1.293	−1.615	−.671	.042	.058	.942	.912
Bahamas	.125	.214	.743	.756	−.027	−.045	1.023	1.032
Barbados	.081	.039	.961	.951	.056	.033	1.000	.965
Belize	.329	.602	.368	.389	.273	.307	.727	.691
Dominica	.086	.061	.897	.935	.667	.406	.605	.591
Grenada	.598	.389	.532	.589	.306	.222	.832	.781
Guyana	.088	.067	1.015	.929	.719	.609	.445	.392
Jamaica	.495	.401	.660	.601	.287	.244	.829	.755
Montserrat	.044	.040	.959	.945	.406	.078	.860	.898
St. Kitts-Nevis-Anguilla	−.041	.011	1.043	.973	.903	.571	.216	.351
St. Lucia	−.341	.266	.860	.731	−.011	.010	1.024	1.002
St. Vincent	−.047	.002	1.025	.992	.247	.071	1.041	.840
Trinidad and Tobago	.546	.459	.472	.500	.768	.517	.456	.472

Dominica, Grenada and Trinidad and Tobago are greater than the elasticities of revenue lagged on period. In the case of St. Lucia, the beta weight of lagged revenues has a very high weight *vis-a–vis* the exports beta.

The Money Supply Side

Our analysis is attempting to focus on the relationship between the fiscal and monetary policies. We are also interested in understanding the interactions among expenditures, revenues and the money supply. To capture some of the salient aspects of these relationships and interactions, we now turn to the money supply variable. For clarification, we are using the money supply as it is broadly defined in the context of Barbados and Guyana. The critical point that we are attempting to develop is an appreciation of the responsiveness of the three aggregates to different states of the economy. Using the money supply in the same manner, the fiscal variables permits us the latitude of making a cross comparison and evaluation of the empirical results.

It was our intention to test the relationships in Equations (3) — (5); (8) — (10); and (11) — (14) for all of the states under discussion. However, we were unable to obtain the relevant observations of money supply for all of the states. Consequently, our analysis centres on Barbados and Guyana. The results for Equation (3), $E=E(M,E_{t-1})$, for the two states were:

(1) **Guyana**

$$\log E = -.631 + \underset{\substack{(.147)\\(1.254)}}{.184 \log M} + \underset{\substack{(.144)\\(6.231)}}{.900 \log E_{t-1}}$$

$b = .184$

$Z = .100$; $b/Z = 1.840$; $\dfrac{1-Z}{Z} = 9.000$

Beta (M) $= .167$; Beta $(E_{t-1}) = .830$

$R^2 = .994$; SER $= .035$

(2) **Barbados**

$$\log E = -1.744 + \underset{\substack{(.224)\\(3.185)}}{.714 \log M} + \underset{\substack{(.150)\\(3.507)}}{.527 \log E_{t-1}}$$

$b = .714$

$Z = .472$; $b/Z = 1.513$; $\dfrac{1-Z}{Z} = 1.117$

Beta (M) $= .475$ Beta $(E_{t-1}) = .522$

$R^2 = .991$; SER $= .054$

The expenditure results for Barbados is explaining 99.1 per cent of the variation. The t-ratios, which are in the second parentheses are significant at the 5 per cent level of significance, using a two-tail test. It is to be noted that a 10 per cent increase in the money supply brings about a 7.1 per cent increase in public expenditures. Likewise, a 10 per cent increase in expenditures one year ago will bring about a 5.27 per cent increase in expenditures in this period. This seems low given that the correlation between expenditures and expenditures lagged one period is .997.

Once again these estimates of elasticities are partially helpful in that they permit us to show the degree to which a given percentage in one state's money supply is associated with a change in public sector expenditures or revenues. But, as stated earlier in this chapter, the possibility of specification errors in the equations cannot be dismissed.

The partial adjustment model and the estimated parameters highlight the following in the case of expenditures for Barbados. The short run elasticity (.714) is less than the long run elasticity of 1.513. Whereas a 10 per cent increase in the money supply will bring about a 7.14 per cent increase in public expenditures in the short run, in the long run, the increase in public expenditures will be 15.13 per cent for every 10 per cent change in the money supply. The mean adjustment to equilibrium (1—Z/Z) of expenditure values occurred after 1.12 years, and the speed of adjustment of actual expenditure to equilibrium expenditure was 472 years or 172 days.

In the case of Guyana's expenditure equation, the short run elasticity was also lower than the long run elasticity. The former indicates that a 10 per cent increase in the money supply brought about 1.84 per cent increase in public expenditures. But the latter indicates that a 10 per cent increase in the money supply was associated with 18.4 per cent increase in public expenditures. Here is one instance in which the differences between the short run and long run point out the issue underpinning the adjustment process. Expenditures did not adjust completely to changes in the money supply within one year. In fact, the mean adjustment lag was nine years and the speed with which actual expenditure adjusted to equilibrium expenditures was .100 year or about 36.5 days.

The explanatory power of the expenditure equation for Guyana is over 99.4 per cent. However, the money supply coefficient is not statistically significant at the 5 per cent level. The Betas of the money supply (M) and expenditure lagged one period (E_{t-1}) for Barbados indicate that for one standard deviation in the money supply, the estimated expenditure will change by .475 and .167 for Guyana.

On the revenue side, the results of Equation (8), $R = R(M_1 R_{t-1})$, for the two states were:

Barbados

$$\log R = -.362 + \underset{\substack{(.124)\\(1.090)}}{.136 \log M} + \underset{\substack{(.106)\\(8.642)}}{.919 \log R_{t-1}}$$

$$b = .136$$

$$Z = .081;\ b/Z = 1.679;\ \frac{1-Z}{Z} = 11.346$$

$$\text{Beta (M)} = .112;\ \text{Beta } (R_{t-1}) = .886$$

$$R^2 = .996;\ \text{SER} = .029$$

Guyana

$$\log R = -.556 + \underset{\substack{(.194)\\(1.911)}}{.370 \log M} + \underset{\substack{(.220)\\(3.181)}}{.700 \log R_{t-1}}$$

$$b = .370$$

$$Z = .300;\ b/Z = 1.233;\ \frac{1-Z}{Z} = 2.333$$

$$\text{Beta (M)} = .371;\ \text{Beta } (R_{t-1}) = .617$$

$$R^2 = .980;\ \text{SER} = .057$$

From the revenue side, in the case of Barbados, the explanatory power of the regression is over 99 per cent. In the short run a 10 per cent increase in the money supply brought about a 1.36 per cent increase in revenues; in the long run, a 10 per cent increase in the money supply brought about a 16.79 per cent increase in revenues. The money supply variable is not significant at our accepted level, but revenues lagged one period is significant. In this respect, it is to be noted that the correlation between R and R_{t-1} is .987.

Actual revenues adjusted to equilibrium revenues, in this case, in .081 years or about one month, but the mean adjustment lag or the adjustment to long run equilibrium of money supply changes to revenues occurred over a period of 11.346 years. The beta weights indicate that a one standard deviation change in revenues, as opposed to .112 standard deviations in the money supply.

With regard to the Guyana, revenues regressed on the money supply and revenues lagged one period, the empirical results indicate a 10 per cent increase in each case of the money supply and revenues lagged one period brought about an increase of 3.7 per cent and 7.0 per cent respectively. In the long run, the elasticity indicated that a 10 per cent increase in the money supply brought about a 12.33 per cent in revenues. The mean adjustment to long run equilibrium revenues occurred after 2.33 years and the speed of adjustment of actual revenues to equilibrium revenues was a .3 years or about 110 days.

The empirical results for Barbados' expenditure and revenues regressed on the money supply and the dependent variables lagged one period indicate that the short run elasticity of expenditure was greater than the short run elasticity of revenues. Moreover, the long run speeds of adjustment occurred in a shorter period of time for expenditures *vis-a-vis* revenues, namely 1.117 years *versus* 11.346. For Guyana's case, the short run elasticity of expenditure was greater than the short run elasticity of revenues. The long run speed of adjustment of expenditures was more than that of revenues.

In our attempt to come to grips with the nature of the economies under study, and in terms of reflecting the fiscal impact on the openness of the economy and on the monetary aspects, we tested Equation (4), E=E(X,M) and Equation (8), R=R(X,M). The results for Barbados and Guyana are as follows:

Barbados

$$\log E = -3.791 + \underset{\substack{(.205)\\(.450)}}{.092} \log X + \underset{\substack{(.148)\\(9.598)}}{1.420} \log M$$

$$\text{Beta }(X) = .044;\ \text{Beta }(M) = .945$$
$$R^2 = .985;\ SER = .070$$

Guyana

$$\log E = -1.457 + \underset{\substack{(.226)\\(1.882)}}{.426} \log X + \underset{\substack{(.190)\\(3.863)}}{.739} \log M$$

$$\text{Beta }(X) = .325;\ \text{Beta }(M) = .666$$
$$R^2 = .983;\ SER = .057$$

When expenditures are regressed on exports and the money supply for Barbados, the results indicate that a 10 per cent increase in exports values brought about a .92 per cent of increase in expenditures, whereas the same change in the money supply is associated with a 14.20 per cent increase in expenditures. The explanatory power of the equation is 98.5 per cent, but only the t-ratio for the money supply is significant at the 5 per cent level of significance. The betas indicate that the money supply is the more important variable in the equation.

Turning to Guyana, we observe that a 10 per cent change in export values is associated with 4.26 increase in expenditures. On the other hand, a 10 per cent change in the money supply is associated with a 7.39 per cent increase in expenditures. The explanatory power of the regression is over 98 per cent. Here, too, the beta for money supply (beta M) has a greater weighting than the beta for exports.

On the revenue side, we regressed revenues on exports and the money supply. Primarily, this was aimed at coming to grips with the openness and export-led economies of the region while also factors in the impact of the monetary sector. For the two states the results were:

Barbados

$$\log R = -2.572 + \underset{\substack{(.169)\\(2.528)}}{.427 \log X} + \underset{\substack{(.122)\\(.750)}}{.913 \log M}$$

Beta (X) = .253; Beta (M) = .750
R^2 = .985; SER = .058

Guyana

$$\log R = -1.324 + \underset{\substack{(.193)\\(4.393)}}{.849 \log X} + \underset{\substack{(.162)\\(1.720)}}{.279 \log M}$$

Beta (X) = .713; Beta (M) = .279
R^2 = .985; SER = .049

From the results for Barbados, we observe that a 10 per cent change in exports is associated with 4.27 per cent change in revenues and a 10 per cent change in the money supply is associated with a 9.13 per cent change in revenues. Only the export coefficient is significant at our established level of 5 per cent significance. The explanatory power of the equation is 98.5 per cent with a greater beta weight attributable to the money supply.

With regard to Guyana, a 10 per cent increase in exports is associated with an 8.49 per cent increase in revenues. This is to be compared with a 10 per cent increase in the money supply which is associated with a 2.79 per cent increase in revenues. In this case, too, only the export variable has a significant t-ratio. Ninety eight and one half per cent of the variation is being explained in this equation.

We are of the opinion that the fiscal impact *via* the overall goods and services produced GDP and GNP are critical to the changes which took place in the economies. Linked to this argument is the monetary aspect on GDP or GNP. In this respect, we tested Equations (5) and (10): E = E(Y,M) and R = R(Y,M). These results for Barbados and Guyana are:

Barbados

$$\log E = -3.210 + \underset{\substack{(.051)\\(1.354)}}{.069 \log Y} + \underset{\substack{(.094)\\(14.773)}}{1.384 \log M}$$

Beta (Y) = .084; Beta (M) = .920
R^2 = .986; SER = .067

Guyana

$$\log E = -.699 + \underset{\substack{(.240)\\(2.656)}}{.636 \log Y} + \underset{\substack{(.172)\\(3.711)}}{.639 \log M}$$

Beta (Y) = .415; Beta (M) = .579
R^2 = .986; SER = .053

Barbados

$$\log R = -1.036 + .051 \log Y + 1.108 \log M$$
$$\qquad\qquad (.047) \qquad\qquad (.088)$$
$$\qquad\qquad (1.089) \qquad\qquad (12.642)$$

Beta (Y) = .079; Beta (M) = .919

R^2 = .981; SER = .063

Guyana

$$\log R = .184 + 1.209 \log Y + .130 \log M$$
$$\qquad\qquad (.136) \qquad\qquad (.098)$$
$$\qquad\qquad (8.872) \qquad\qquad (1.324)$$

Beta (Y) = .869; Beta (M) = .130

R^2 = .994; SER = .030

From the results of expenditures of Barbados regressed on Gross Domestic Product (Y) and the money supply, we observe that a 10 per cent change in GDP is associated with a .69 per cent change in expenditure and a 10 per cent change in the money supply is associated with a 13.84 per cent change in expenditures. The coefficient of the money supply is significant at the accepted level of significance. The explanatory power of the equation 98.6 per cent. Here, also, the beta attached to the money supply has a higher weighting *vis-a-vis* that attached to the GDP.

In the case of Guyana, expenditures on GDP and the money supply, a 10 per cent increase in GDP brings about a 6.36 per cent increase in expenditures and a 10 per cent increase in the money supply brings about a 6.39 per cent increase in expenditures. Both coefficients are significant at the 5 per cent level of significance. The beta weights are almost 50-50 in their number of standard deviations *vis-a-vis* change in expenditures. The coefficient of determination, R^2, is explaining 98.6 per cent of the variation.

When revenues of Barbados are regressed on GDP and the money supply, the results indicate that a 10 per cent increase in GDP and the money supply respectively, would be about .51 per cent and 11.08 per cent increase, respectively, in revenues. The money supply is significant at the 5 per cent level of significance. In terms of explanatory power, the coefficient of determination is over 98 per cent.

These results are comparable to the case of Guyana where revenues regressed on GDP and the money supply indicate that a 10 per cent increase in GDP is associated with a 12.09 per cent increase in revenues. But, when the money supply is considered, a 10 per cent increase in the money supply is associated with a 1.3 per cent increase in revenues. The R^2 is .994 and t-ratio for GDP is significant at the 5 per cent level of significance.

A few tests were made from the money supply side representing

Equations (11) — (14). Equations (11) and (13) are bivariates where the money supply is expressed as a function of Gross Domestic Product and exports, respectively. The results are:

Barbados

$$\text{Log } M = 5.033 + \underset{\substack{(.082) \\ (5.067)}}{.415} \log Y$$

$R^2 = .588$

Guyana

$$\text{Log } M = .561 + \underset{\substack{(.086) \\ (15.622)}}{1.344} \log Y$$

$R^2 = .931$

Barbados

$$\text{Log } M = -2.265 + \underset{\substack{(.139) \\ (9.065)}}{1.259} \log X$$

$R^2 = .832$

Guyana

$$\text{Log } M = .908 + \underset{\substack{(.204) \\ (4.372)}}{.891} \log X$$

$R^2 = .619$

To determine the impact from the monetary side on the nature and openness of the economy and the links with monetary aspects in a previous period, we tested equations (12), $M = M(X,M_{t-1})$ and (14), $M = M(Y,M_{t-1})$. The results are reported below.

Barbados

$$\log M = -.865 + \underset{\substack{(.112) \\ (2.382)}}{.267} \log X + \underset{\substack{(.084) \\ (10.095)}}{.843} \log M_{t-1}$$

$b = .267$

$Z = .157$; $\frac{b}{Z} = 1.694$; $\frac{1-Z}{Z} = 5.376$

$(M) = .192$; Beta $(M_{t-1}) = .814$

$R^2 = .987$; SER $= .043$

Guyana

$$\log M = 1.149 + 1.011 \log X + .101 \log M_{t-1}$$
$$\qquad (.140) \qquad\qquad (.087)$$
$$\qquad (7.198) \qquad\qquad (1.157)$$

$b = 1.011$

$Z = .899; \ \frac{b}{Z} = 1.125; \ \frac{1-Z}{Z} = 1.124$

Beta (X) = .849; Beta (M) = .136

$R^2 = .969$; SER = .070

With regard to the regression of the money supply of GDP for Barbados and Guyana, we are attempting to get to the bottom of some aspects of a "transaction-type" demand for money. In the case of Barbados, a 10 per cent increase in the GDP is associated with a 4.15 per cent increase in the money supply. The t-ratio is significant at the 5 per cent level of significance; the R^2 is explaining 58.8 per cent of the variation. As it would be hypothesized, this equation seems to need some additional variables to improve its explanatory power.

In the case of Guyana, a 10 per cent increase in GDP is associated with a 13.44 per cent increase in the money supply. The t-ratio is very significant at our 5 per cent accepted level of significance. Unlike the Barbados case, the money supply appears to have some great strength *vis-a-vis* the money supply. In this instance the R^2 is 93.1 per cent.

Shifting to the money supply as it is regressed on exports, we note that for Barbados a 10 per cent increase in exports brought about a 12.59 per cent increase in the money supply. On the other side of the ledger, a 10 per cent change in exports is associated with an 8.91 per cent increase in the money supply for Guyana. In the case of Barbados, 83 per cent of the variation is explained and in the case of Guyana, the explanatory power is 61.9 per cent. While this may be considered low, the t-ratio is significant at the 5 per cent level of significance.

On the broader level, we regressed the money supply on exports and the money supply lagged one period for Barbados. With a short run elasticity of .267, the indication is that a 10 per cent change in exports is associated with a 2.67 per cent change in the money supply. The long run elasticity, on the other hand, indicates that a 10 per cent change in exports is associated with a 16.94 per cent increase in the money supply.

The speed with which actual money adjusts to equilibrium money is .157 years of about 57 days. This adjustment process had to be evaluated in light of the mean adjustment lag which, according to the results, occurred at 5.376 years. Over 98 per cent of the variation is being explained. Both variables, exports and the money supply, lagged one period, are significant at the 5 per cent level of significance.

Regressing Guyana's money supply on exports and the money supply lagged one period, we note that there is a short run elasticity of 1.011 and a long run elasticity of 1.125. These data indicate that a 10 per cent increase in exports is associated with 10.11 per cent increase in the money supply in the short run and a 11.25 per cent increase in the long run.

The speed of adjustment of the actual money supply to equilibrium money supply is .899 years or about 328 days. In the Guyana case, the mean adjustment to long run equilibrium is 1.124 years. Approximately 90 per cent of the variation is being explained, but only the coefficient for exports is significant at the 5 per cent level.

Linking the Empirical Analysis and our Hypotheses

The first idea regarding the nature of the Keynesian public finance in the region and its impact on the economy may be appreciated from the "displacement effects" which seem to be characteristic of the entire region. Given the nature of the expenditure and revenue elasticities, it may be deduced that the issues of public sector production of goods and services was more a reflection of the state of the economic system than of conscious efforts of the political directorate on behalf of the people. Many qualitative factors have to be taken in consideration in our interpretation of the empirical results and many more Models will have to be defined. Issues of specification errors, multicolinearity, omitted variables, autocorrelation and other econometric problems have to be ferreted out of the models, or in, as the case may be.

In essence, the nature of the economic arrangements was the driving force behind the revenue and expenditure patterns and not the machinations of the political directorate in using fiscal policies on behalf of the requisite economic transformation. What is being suggested is the idea that the economic and political actors in the Caribbean are prisoners of an economic system which caters to a given social arrangement. The given social arrangement is not a fundamental part of the Caribbean system of politicoeconomic and socioeconomic organizations. Consequently, expenditure and revenue patterns were more in line with the inherent dictators of the system than of the planning mechanisms that the political directorate could have instituted. Indexed into this Keynesian economic arrangement, the economies in the region were more receptacles to crises than nuclei in the planning and transformation process. The decision-makers in the system were, as a consequence, reactors to crises as opposed to actors in the planning and transformation process.

If we assume that our lagged models are basically reflective of some of the underpinning features of the economies, then the disparate speeds of adjustment and long run impacts of revenues and expenditure may lead to some identification of the economic instabilities in some countries, as well as the attendant social problems deriving therefrom. In other words, when the impact of expenditure or revenue is taking several years to filter into the economic systems, the given economies may be forced to reactionary policies stemming from an inadequate understanding as to why the expenditure or revenues are not "solving" the social problems confronting the economy. This suggests, in addition, that there may be spill over effects of one country on to another or pull effects of one country on another. If this inference is accepted as a partial link to the disparate speeds of adjustment of the revenues and expenditures, then it leads to another view regarding the movement of people from one Caribbean entity to another. This view is certainly worthy of further exploration.

One overriding notion which may be inferred is that when revenues or expenditures filter through the system quickly, the given country is caught with its parameters down. Its planning parameters tend to go awry. In the meantime, those countries where the expenditures or revenues are taking longer periods end up as the recipients of social and economic demands of the other countries.

The very high relationships between expenditures and revenues and the money supply and the differential speeds of adjustment of the given variables to equilibrium values are also symptomatic of the economic arrangements in the given states as opposed to a perceived conscious arrangement to use monetary policies for transformation purposes. The monetary sphere is critical to the expenditure and revenue sides. If the system permits disparate developments or incongruous approaches to development, then it would, indeed, be reacting to socioeconomic needs, as opposed to acting out the development and transformation prerequisites.

Our evidence on the constraining effect is only a partial empirical problem. The full thrust of the problem has been in light of the social and institutional arrangements of the banking system in the Caribbean. Against this background, the picture emerges that the economies may, indeed, have a monetary policy that is a constraint to public expenditure and revenue policies. This may be inferred because of our earlier statement. The economies are captives of some economic arrangements. Within those arrangements certain actions are preordained. Any monetary policy which is implemented will tend to be in conflict with the revenue and expenditure aggregative benefits did not trickle down to the lower income strata of the societies. Instead of there being a "trickle down effect", it seems as if there was a "drip-drip effect". We submit that it was the nature of the economic system that constrained the kind of development that occurred. In this respect, no active policies of integrating the approaches to development of fiscal and monetary policies was possible. This negative aspect underpins our articulation of a positive integrative policy.

In the final analysis, the empirical results seem supportive of a view that growth took place in the various countries over the period of analysis. But, it seems as if the economic system dictated the development process. Development did not dictate the system. Our call for an integrative fiscal and monetary policy centres on the need to have the two critical policy options dictate the system of development, rather than have the

TABLE 7

INDICES OF LOCAL REVENUES

	Ant.	D/ca	G/da	M/rat	St.K. N.A.	St./L	St.V	B/dos	B/h	B/l	G/da	T/T	J/ca
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
1955	100	100	100	100	100	100	100	100	100	100	100	100	100
1956	122	106	98	80	125	105	95	111	111	107	100	110	118
1957	78	118	85	136	129	123	107	120	122	124	101	123	142
1958	96	138	105	162	145	127	126	137	133	140	119	159	158
1959	107	140	106	180	139	139	137	134	166	154	118	161	174
1960	115	144	118	146	137	203	157	151	211	181	136	184	182
1961	142	171	133	173	154	201	165	152	233	181	146	398	197
1962	180	201	133	173	154	201	171	164	222	207	147	363	216
1963	209	216	138	191	142	225	176	195	255	233	155	525	221
1964	211	245	140	232	150	266	199	223	399	259	165	571	261
1965	214	275	156	322	164	290	200	232	466	285	190	641	294
1966	270	288	175	321	181	346	219	254	543	285	209	708	300
1967	265	370	150	379	186	385	233	291	655	311	228	649	344
1968	244	413	162	401	196	430	281	341	721	341	252	675	358
1969	301	459	190	388	200	481	319	436	865	379	272	834	410
1970	480	532	387	747	260	599	415	521	1076	400	327		483
1971	511	618	370	590	279	720	479	592	1021	413	311		557
1972	548	685	429	675	282	810	493	641	1076	414	371		776
1973	587	776	417	805	355	867	594	745	1186	574	393		966
1974	918	930	420	903	520	989	640	910	1552	778	780		1191
1975	932	981	513	1085	545	1187	790	989	1607	937	908		1866

EC$	(a) 4,230,503	B/dos$	(h)	17,281,545	Ant.	Antigua	B/dos	Barbados
	(b) 1,932,998	B/h $	(i)	9,015,711	D/ca	Dominica	B/h	Bahamas
	(c) 4,898,999	B/l $	(j)	3,858,064	G/da	Grenada	B/l	Belize
	(d) 534,622	G/na $	(k)	40,738,028	M/rat	Montserrat	G/na	Guyana
	(e) 3,566,578	T/T $	(l)	70,826,784	St.K.N.A.	St. Kitts-Nevis-Anguilla	T/T	Trinidad & Tobago
	(f) 2,748,112	J/ca $	(m)	38,018,940	St.L.	St. Lucia	J/ca	Jamaica
	(g) 2,461,263				St.V.	St. Vincent		

development and transformation process dictated by the system of economic arrangements.

Throughout Chapter 7, it is important to note that the empirical results are part of the wider historico-institutional framework which was described in the previous chapters. The salient point of the chapter is the need for a reflection on the integrative fiscal and monetary policy.[3].

NOTES

1. Various works have used other national income aggregates. National income itself is used more often than GDP. We used GDP because the measure is more readily available than other national income aggregates. The results are comparable to other works which employed the national income basis.
2. These negative results have proven to be a constant source of irritation for me. They defy my reading explanation at this point. If they are correct, then my learning the use of a lag model which accommodates more than one period may be useful.
3. Of course it requires more than a mere reflection. It requires an active public sector which is predisposed to galvanize the necessary support to put the integrative fiscal and monetary policy into effect.

CHAPTER 7

AN INTEGRATIVE FISCAL AND MONETARY POLICY FOR THE CARIBBEAN: A RATIONALE

A substantial number of articles and books have been written on the Caribbean's monetary and fiscal policies. The works of Fuat and Suphan Andic of the University of Puerto Rico, Clive Thomas and Maurice Odle of the University of Guyana, Compton Bourne and Wendell McClean of the University of the West Indies have all discussed some aspects of the monetary and or fiscal policies in the region.

The many works have assumed a positive approach either to fiscal policy or to monetary policy. None of them considers the explicit treatment of fiscal and monetary policy. Bourne's work indicate that he is aware of the need to have some mechanism for using both policies. But, his awareness is only in passing reference. Our suggestion of the need to have an integrative fiscal and monetary policy in the Caribbean is a first systematic attempt at implementing a single policy out of the two established sets of policy options. Our rational for this suggestion hinges on the concern that the Keynesian economic prescriptions were not intended to operate in economic and social systems such as those which obtain in the Caribbean.

Classical microeconomics was intrinsically linked to the political underpinnings of individualism of the eighteenth and nineteenth century European thought. Adam Smith shifted the fulcrum of thought from state power and control towards *laissez faire* and the hallowed market mechanism. His "invisible hand" hypothesis sought to concretize the core of the market mechanism. Smith supported a system of economic arrangements which were capitalistic and had flexible wages and prices. Smith perceived of the state as synchronizing peoples desires and wishes in a way that was not detrimental to the entire economy.

Under this self-equilibrating system of Smith, the role of the public sector was to establish law and order, promote free enterprise, support a monetary policy that smoothed out the vacillations in the money supply and produce and provide those goods and services which the private sector did not wish to produce or provide. In other words, the public sector was constrained to the production and provision of public goods and services while the private sector was confined to the production of all other goods and services. Fundamentally, the role of the public sector was to be operable at bare minimum. Individual utilities, as exemplified through the market mechanisms, were assumed to be the critical guidelines of public sector's activity.

With the advent of Keynesian economic prescriptions, a new thought pattern was woven. Keynes contended that the conclusion of classical economists were false, given their foundations. He had no argument with the logical connectives of classical thought. However, the policies deriving from the implicit economic arrangements were questionable in their global thrust. Cardinal to Keynes' objection was his questioning the nature of individuality, liberty and iniative within the classical systems. He argued that the classical economists were not correct in their assessment of individuality and iniative. Actually, the exercise of this free will was not conducive to the vaunted full employment equilibrium conditions.

Keynes clearly recognized the need for attacking those faults of an economy which pose constraints to development as opposed to companions to development. The theoretical analysis of Keynes leads us to the problems of attaining full employment. He recognized the issue of inequality in the distribution of income. In fact, Keynes said the "outstanding faults of the economic society in which we live are its failures to provide for full employment and its arbitrary and inequitable distribution of wealth and income", [Keynes, 1936: 372]. This was Keynes at his best but the application of Keynesian economic prescriptions in the region lost some of these salient features in the transshipment to the Caribbean.

Keynes' fiscal prescription for full employment recognized monetary policy. He noted that full employment is not possible if the interest rate which equates investment and saving at full employment production is lower than the liquidity trap rate. Furthermore, he contended, the "State will have to exercise guiding influences on the propensity to consume partly through taxation, partly by fixing the rate of interest and partly by monetary policy" [Keynes 1936: 377].

This large extension of the traditional functions of the public sector was given great latitude within the Caribbean context. The public sector system that developed nurtured and cherished the capitalist system. This is not to suggest that the Keynesian prescriptions did not recognize the need to control private enterprise. But, the system he advocated empowered the private enterprise with the latitude of unrestrained growth. There was no alternative conclusion, since Keynes supported the views that individuality and personal options, according to the classical dictates, were strong tenets in any economic system.

The Caribbean Derived System

Keynes' prescriptions were, therefore, in accord with the cherished notions of the market mechanism. The practice of Keynesian economics in the Caribbean was not concerned with minute details regarding equality. Basically, the prescriptions, as practised, tend to be in support of a reformist type of peripheral capitalism. To this extent, Keynesian operatives in the Caribbean supported a public sector that engaged in public works, manipulating taxes and tax rates, promoting the so-called overhead capital and creating the mechanisms for aggregate consumption. Some policies of income distribution have been put in place in the region and one can think of land reform in St. Kitts and Jamaica and the many instances of a welfare payments system that were ostensibly geared towards some mild kind of income redistribution.

When all the factors are given adequate weighting, the practised Keynesian economics was not more than an aggregative macroeconomic approach to development. Keynes' prescriptions were not geared to alleviating the structural rigidities which obtained at the *micro* level of operations. Fiscal and monetary policy under this regime were passive as there was no conscious manipulation of fiscal and monetary policies geared to specific strata of the societies. Of course, this was to be expected since the Keynesian system was a supporter of the capitlist tenets developed by Adam Smith. Capitalism is not empathetic or sympathetic to the poor strata in any society. If they have the money, they may eat; if they do not have the money, they will starve. Within the context of Keynesian economic prescriptions, the public sector's role was a limited one. It was limited to those areas and concerns which fell outside the interests of the private sector.

It is our contention that in economic systems circumstanced as the Caribbean systems, the public sector has to play a dominant role. The role that subsequently emerged was one that addressed the microeconomic perspectives of the societies. Increasing public expenditures and revenues, allocations to usual heads of infrastructure and law and order and a *quasi* concern for the trickle down effect of benefits seem to have been the norm of the Caribbean public sectors. Instead of there being a trickle down effect that seem geared to placating the rising social expectations of the populace, there was a drip drip effect.

In a capsule, the system of economic arrangements nurture a kind of political directorate which hold the view that the public sector should perform regulatory functions. These partial control mechanisms derived from a perception of the kind of political and economic arrangements that, it was thought, were in operation in Britain. That this was not necessarily correct was not any motive to galvanize a different public sector approach.

Growth did take place in the Caribbean from the colonial days up to the 1960s when independence was ushered into the region. Over our period of analysis, growth has also occurred. But, the question is not growth or no growth. The question is growth for whom, under what conditions, on whose terms and at the expense of whom? These prior questions were causal in our assessing the fiscal and monetary policies as they were practised. From the general assessment, we offer the idea of an integrative fiscal monetary policy for regional economic transformation.

Reasons For The Integrative Fiscal and Monetary Policies

It may be inferred from the historical and empirical analyses of this work that the separate applications of fiscal and monetary policies have not augured well for many people in the Caribbean economic systems. We believe that part of the problem lies in the nature of the system. But, this is only part. If both sets of policies are geared to economic change and transformation, then the logical thrust should be an active coordination of both sets of policies. The ultimate expressed objective should be the welfare of the people. If this is accepted as a *fait accompli*, then, logically, there should be some integration of fiscal and monetary policy options to achieve the expressed goal of economic transformation. In essence, the fiscal and monetary policies cannot continue to operate on seemingly opposite ends of the economic transformation continuum. The policies must be working in harmony and unity, not in tandem.

Our system of integrative fiscal and monetary policy, therefore, goes beyond the Keynesian prescriptions, even though the latter gives some partical recognition of income distribution. We see the integrative fiscal and monetary policy as one that gives a very active role to the public sector in controlling and managing the economy. Essentially, this public sector role is given such authority because we believe political and economic operatives cannot be meaningfully separated in Caribbean type economies. Political decisions impact on economic decisions and *vice versa.*

Fiscal policy is fully political in that it permits conscious manipulation of decisions by the political directorate. Monetary policies could be seen as strictly economic. These two accepted approaches to economic change and transformation should be integrated. Their continued separate operations could generate constraining and conflicting policy alternatives in the body economic. Such a view has roots in the speeds with which both policies adjust to equilibrium. Currently, monetary decision-makers are forced into a role of *post hoc* decision-makers. It would seem that the economies would be better served if both sets of policies operate on the day to day developments in the economy.

Implementation of the Integrative Approach

Small states such as those of the Caribbean could have a difficult task of implementing the integrative approach to fiscal and monetary policy. The Keynesian system, as we have noted before, operated at the *macro* level of development alternatives. Our approach is suggesting a thrust at the *micro* level of iniatives.

One specific departure which this new approach suggests is the use of fiscal policy *via* the budget as a "mechanism of transformation". Here, the public sector iniatives in the Caribbean will have to focus on the growth perspectives, nature and performance of expenditures and revenues at the *micro* level of operations in the region. The mechanism of expenditure, that is, the management functions linked with spending, the minimization of bureaucracy, the training of personnel would have to be brought under an umbrella organization, thereby permitting some semblance of coordination in policies.

The fiscal policy alternatives have to be within the ambit of monetary policy prescriptions. Planning and coordination of the two sets of policies have to be accorded priority which will be necessary if the specific stated objective is really economic change and transformation for all income strata of the societies, but especially the lower income strata.

Both sets of policies have to work together to restrain the present peculiar situation where fiscal policy seems to operate as if monetary policy does not exist. If monetary policy also continues to operate as if fiscal policy is of minor importance, the end result could be an exacerbation of the structural disequilibrium features of the economies in the Caribbean.

Monetary policy in the region is best exemplified along two lines. The branch banks of multinational North American banks have one version. The central banks have another version. The two variants are distinctly different although the central banks attempt to perform as controlling agents of the monetary system. If there is no serious coming to grips with these two disparate policies, two main outcomes are likely. In the first place, there could be a continued underdevelopment of the financial infrastructure in the region and secondly, there could be a low to no monetization of the fiscal system.

Practically viewed, fiscal policies have the potential of ameliorating structural problems in the economy. Monetary policies also have the apparent potential. Together, the two sets of policies offer more scope for achieving some level of transformation above that which each can separately achieve. Our integrative fiscal and monetary policy is designed to permit policy options which could be indexed to the improvement in the general welfare of a larger number of people than are currently sharing in those benefits.

The suggestion that there be an integrative fiscal and monetary policy has been mentioned in the literature before. We stated earlier that Bourne's work make implicit reference to such a possibity: But, at the institutional level, the central banks and political directorate in the region recognize the need to have the integrative approach. Our lines of departure are not distinctly different. The rationalizations provide some key to an understanding. Nevertheless, the recognition of the need for a common policy is there.

Let us consider an excerpt from a *Review of Recent Economic Development in Trinidad and Tobago,* [1976]. The document states:

> **In terms of total demand required to keep the supply of goods flowing at capacity rates, the economy seems to be in no need for additional stimulus or severe contraction of demand, though a closer monitoring of the rate of growth of instalment credit for consumption purposes should be undertaken. In these circumstances, the rate of monetary expansion is a critical factor which requires careful monitoring to ensure continuing growth at the level of physical capacity of the country [1976: 2].**

The principles stated, seem to suggest that there is a need for some kind of linkage between monetary policy and fiscal policy. Our concern, therefore, is suggesting a mechanism whereby the integrative policy caters to the lower income strata of society. In this regard, the *Review of Recent Economic Development in Trinidad and Tobago* makes specific reference to another salient objective of our integrative fiscal and monetary policy when it states that the data on loans to economic groupings indicate that banks should attempt to give preference in their lending to small businesses, mortgage finance for housing and *borrowers in the less favoured position of the economy* (emphasis added).

We have argued that the central banks and the individual branch banks have, sometimes, operated on different ends of the monetary policy spectrum. But, the central banks have also recognized the need to control the branch bank activities and through the process of miniaturisation, the central banks and the political directorate attempted such a policy. While it is correct to say that the process of miniaturization failed and while it is true that the expatriate banks have solidified their grip on the local economies, the policy of miniaturization seeks to address one of the problems which our integrative fiscal and monetary policy must tackle. As a precondition for the effective implementation of the integrative fiscal and monetary policy, the expatriate branch banks must be nationalized.

The process of miniaturization failed because the political directorate seemed not to be predisposed to establishing facilities which may be considered duplicates of the existing institutions. If the political directorate and the central banks assess the lending and investment policies of the expatriate banks, they would see an intriguing portfolio. The thrust of expatriate banks in the Caribbean has been towards large businesses. Households and other small consuming units have not gained any significant benefits from the expatriate banks. This skewed lending practices of banks is one aspect of monetary policy which runs counter to what we envision as an integrative fiscal and monetary policy. On this score, the central banks have to address themselves to the eradication of such lending policies. Since there is no guarantee that the expatriate banks will undertake the reform, then they should be nationalized.

One critical problem which will confront decision-makers in institutioning an integrative fiscal and monetary policy is the issue of efficiency and effectiveness in the delivery of banking services. To many, local or indigenous banks seem to throw away the concepts of efficiency in the procurement of financial services. Couple this with the lack of faith some people have, (including some members of the political directorate) in the local banks, and we observe that the issue of integrative policies becomes a very grave problem.

On the fiscal side, the political directorate would have to create the mechanism for more people to save. This may be through tax allowances, investment credits or some other system of relief. Such a posture is crucial for the mobilization of savings which are possible. From the available empirical evidence, there are many small savers throughout the Caribbean, but, unfortunately, their savings capacity is low as many of them are in poor paying jobs and many of them live beyond their means. These are the people who bank with local banks. The multinational branch banks cater to a different clientele. They have control over the larger capital flows, through the large businesses, real estate and other asset generating portfolios. This system will be an impediment to the process of integrative fiscal and monetary policy.

Integrative Policy *Versus* Policy Mix

The integrative policy is not being perceived as fiscal and monetary policy along the lines set out in most macroeconomic texts. In many cases, the policies still retain their individual characteristic features, despite their working together. Our integrative approach has two meanings. One meaning suggests genuine integration of the two sets of policies deriving from fiscal and monetary policy. The other meaning suggests an expansion of the benefits deriving from the integration of the policies.

The socioeconomic thrust of the integrative policy attempts to avoid the macroeconomic contentions to aggregating fiscal and monetary policies which try to restore full employment with acceptable levels of inflation. Given the Phillips curve, the welfare of some is advanced at the expense of the others. This policy is a direct outgrowth of the mixing of the fiscal and monetary policies, as opposed to the integration of the policies. The problems of unemployment and poverty in the Caribbean are attributable to structural rigidities in the local economic systems, compounded by the impact from the world capitalist system. The regional economies use the market mechanism to improve the welfare of the people. But, the free market mechanism, with its Keynesian derivatives, failed to produce the guaranteed economic benefits, has failed to generate the stability and has failed to permit adequate compensation for the balkanized labour force in the region.

The aspect of underemployment is critical to the region's policy makers. But, as Demas [1965: 121] noted in his seminal work:

> **The market mechanism, working unaided, will by the very definition of underemployment, be unable to generate structural and institutional changes at the pace required by development.**

In sum, the region's continued hold on the market mechanism forced the economies into ameliorating roles *vis-a-vis* the people's welfare. The mixing of fiscal policy and monetary policy was, by and large, mechanistic devises for attacking short run disequilibrium factors in the economy. Long run structural problems were incapable of being solved through the mixing of fiscal and monetary policies according to the dictates of Keynesian prescriptions.

From the empirical evidence, it is clear that the public expenditures in the region have been increasing. Revenues also increased but their discordant rates of impact on the systems in question highlight the concern for an integration of policies. Who benefitted from the expenditure, revenue and monetary policies are as important as the fact that the aggregates increased. Jefferson puts it rather succintly when he states (about Jamaica)

> **It is not enough, however, to know that government expenditure has been increasing rapidly. Attention has to be focussed on the manner in which the funds have been allocated...... The allocation depends on the scale of priorities of the planners. (A given) aggregative sum will have a substantially different effect on the character of economic development, depending on the combination of priorities chosen [1972: 252].**

The integrative approach that we are suggesting is operable at the level of integral plans for the states and the Caribbean nation state. In other words, plans should be at the *micro* level of integrating plans of monetary and fiscal policies and at the microstate level of the Caribbean. The nature of the expenditures, revenues and the money supply, as exemplified in the integrative policy, suggests public sector activities which are based on forward planning. On this point Demas noted:

> **In public sector programmes it is important to look ahead and forecast likely trends in recurrent revenue and expenditure. (And we add, money supply and demand). These financial forecasting may well involve national income forecasting, so that even public sector planning may shade over into overall planning [1965: 120].**

We suggest that these points should not be made, but ought to be made. The public sector should be involved in overall planning. The integrative policy that we suggest takes as one point of development this integrated planning among the various sectors of an economy and among the Caribbean states.

It was Odle [1976: 223] who reminded us what lack of planning did in the case of Guyana. He noted that "public spending had only limited effectiveness because the underdeveloped nature of the planning machinery tended to encourage special infrastructure works and a general sub-optional pattern of expenditure". Odle's point is critical. On reflection, the empirical results for Guyana leads to such a conclusion. It is to be recalled that the Guyana revenues long run elasticities were greater than the short run. This result may be a testimony to Odle's point which continued, "although openness of the economy permitted the collection of large revenues with which the government was able to employ a considerable (number) of people, the very fact of openness contributed to the national employment multiplier being low". Odle feels that the government failed to alleviate the unemployment situation when he stated that "this failure to significantly alleviate the serious unemployment situation reduced the potency of one of the strongest weapons of government for redistributing income".

We are of the view that the public sectors have failed to alleviate unemployment partly because their lack of aggressive initiative. More fundamental, however, the public sectors failed because the eonomic arrangements have constraining forces which do not permit these easy solutions of unemployment problems, and which certainly does not take into consideration any active policy of income redistribution.

All things being equal, the integrative fiscal and monetary policy is a suggestion which is geared to enhancing the welfare of Caribbean and Third World peoples. The underpinning rationale hints at the thorough intergration of two spheres of political and economic actions, which will be oriented to the promotion of the economic welfare of more persons than is currently the case in the region. The suggestion is normative but we believe there is a place for normative decisions. Along this front, we have suggested a feature such as the RDF.

The Revenue Diffusion Fund must be operative at a political level of organizations, if it is to be effective. It is noted in this work as an alternative to the financial dependence of the region. It is a method of promoting financial self-sufficiency. Jefferson seems to be hinting at an implicit recognition of some financial self-sufficiency when he states that:

> **even within the areas of expenditure to which the Government confines its attention, a deliberate choice of priorities has to be made by the planners, since even allowing for the possibility of borrowing, there is a limit to the availability of financial resources after the costs of financing the current operations of Government have been met [1972: 278].**

In essence, while the region can borrow from local and foreign sources, the long run burden to the people must be given top priority. Our Revenue Diffusion Fund attempts to minimize the need to depend on external resources and attempts to engender self-sufficiency in the region. It suggests coordinated planning if the policy is to be effective. The need for concerted, congruent, regional planning in the Caribbean is an urgent one. This sentiment seems to be emerging as a result of the many problems the states are confronting. A consensus seems to be in the making that supports regional planning.

The integrative fiscal and monetary policy proposal takes as its base, regional planning. Planning in this context is, as Demas [1965: 122] defined it, namely the formulation and implementation of consistent inter-related mechanisms geared to attaining specific socioeconomic goals. Structural and institutional changes will have to be made if there is to be meaningful regional planning. The integrative fiscal and monetary policy options are best operationalized from a regional point of view.

When all the evidence is assessed, this work on public finance and monetary policy in the Caribbeàn was centred on an evaluation of the inherent constraints in the type of economic systems that developed in the Caribbean. Our effort was devoted to an understanding of the nature of the economic system, the positive and negative features which the system generated and the reason for the many developments. We recognize fiscal and monetary policy as two powerful tools. We suggest that their separate, and in many cases, conflicting application did not augur well for the region. An integrative approach has the potential of generating more benefits for a greater number of people.

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