

A T&T and Caribbean 'Macro-Economic' Framework

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Pre-‘Modern’ Macro-Economics

- The Laissez-Faire Economics Revolution of Adam Smith :
- BEST GOVERNMENT IS THE LEAST GOVT.
- The key problem of the age being Development or Transformation

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'Modern' Macro-Economics

- G.D. Allen credits Ragnar Fritz with the 1933 introduction of the term 'macro-economics'
- The Key problem of the age was Unemployment in the context of the Great Depression which began in 1929.
- The Keynesian Counter-Revolution-to laissez-faire
Econs

Keynes Theory of Employment

- Employment = $f(\text{Expenditure})$
- so the challenge is to decompose such Aggr. Expenditure into distinct categories informed by two theoretical criteria:
 - *distinct determinants of expenditure behaviour by category;
 - * Susceptibility of these specific determinants of economic (expenditure) behaviour to manipulation by Governmental policy instruments.
- Hence E (via proxy Y) = $C+I+G+X-M$.

Keynesian-type economy Policy Variables & Tools

POLICY INSTRUMENT	C	I	G	X	M
Fiscal Policy	X	X			
Monetary Policy	X	X			
Exchange Rate Policy				X	X

Generic Definition of Macro Economic Theory & Policy

- “The theoretical identification of key macro-economic variables susceptible to manipulation by available economic policy instruments within the control of the State”

The PEM Model: Pure Plantation Economy

- In Pure Plantation Economy there was no macro-economy.
- Here Employment = $f(X+M)$ since M are the inputs which permit X (output) to be produced in the first place.

PURE PLANTATION ECONOMY: I/O model

A	B	C	D	INPUTS=M L,KG,IG,CG.	OUTPUT= EXPORTS(X)
A	-	-	-		
B	-	-	-		
C	-	-	-		
D	-	-	-		

Plantation Economy Modified (PEM)

- In PEM Employment = $f(X+r+M_{nd}-M_d)$
- Where:
- X =Exports;
- r = Residentiary sector Output
- M_{nd} = non-displaceable Imports:e.g. capital/some intermediate goods;
- M_d =displaceable Imports

Plantation Economy further Modified (PEFM)

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- Employment= $f(X_t + X_{nt} + M_{nd} + r - M_d)$
- Where X_t = traditional exports;
- X_{nt} = non-traditional exports (manufacturing, services)

BOP: the 'macro econ in Caribbean?

- Best&Levitt: “arguable the BOP is the macro-economy”
- Hein observed in 1984 that “...*in very small econs the importance of trade is overwhelming... Yet major economists often either neglect trade or treat it as a 2ndary factor...it follows that the theories of these authors on which much econ theory and teaching is still based are of least relevance to problems of microstates and could even be misleading when applied to them.*”

Hein (completed)

- *“ It is consequently necessary to use very different approaches..any study (or teaching) of micro states’ economics would be justified in starting with a focus on international trade and the external sector and treating the domestic economy as a mere dependent appendages. Similarly the usual distinction between macro-economics and micro-economics is not very helpful in the study of very small countries.”* (Hein, 1984:22-23)

Where do we want to Go and How?

- Where we want to go is for $E = X_t + R_x + R_{nt} + M_{nd} - M_d$.
- i.e. where r transforms into R and now has 2 distinct components: $R_x =$ **Residential Sector exports;**
- **And $R_{nt} =$ Residential sector non-tradeables.**
- Question is how? i.e. is the BOP is susceptible to national policy manipulation? And of so through use of which instruments?

Towards a National SS Economic Framework

- **Supply-side Theory and Policy including:**
- **To begin with Eco-Cultural Sustainability Policy;**
- **Industrial, Trade (including promotion & negotiation) policy and linked Investment Policy;**
- **Technology Policy and related general Human Resource Development (not certification!) Policy;**

Policy Instruments

- Monetary Policy.
- Linked fiscal & monetary policy
- Exchange Rate policy: modified Currency Board;
- Public Economic Education

Sectoral & Micro Interventions

- One advantage of small size is that many of these policies (particularly the non-fiscal, monetary and exchange rate but not exclusively so) can be applied at the sectoral and even firm level (e.g. Forsyth as already cited on micro-focused technology policy):

Toward a National Econ Framework:

A matrix summary

Policy Instrument	X	+M nd	+ R	-Md
Fiscal Policy including special treatment of windfall commodity rents	x	x	x	
Monetary Policy: 'r' plus sectoral restructuring	x		x	
Exchange Rate P: modified Currency Board	x	x		x
Eco-Cultural Sustainability Policy	x		x	
Industrial/Trade Policy including clustering	x		x	
Technology/Human Resource Development Policy	X		X	X
PUBLIC ECONOMIC EDUCATION	x		x	x