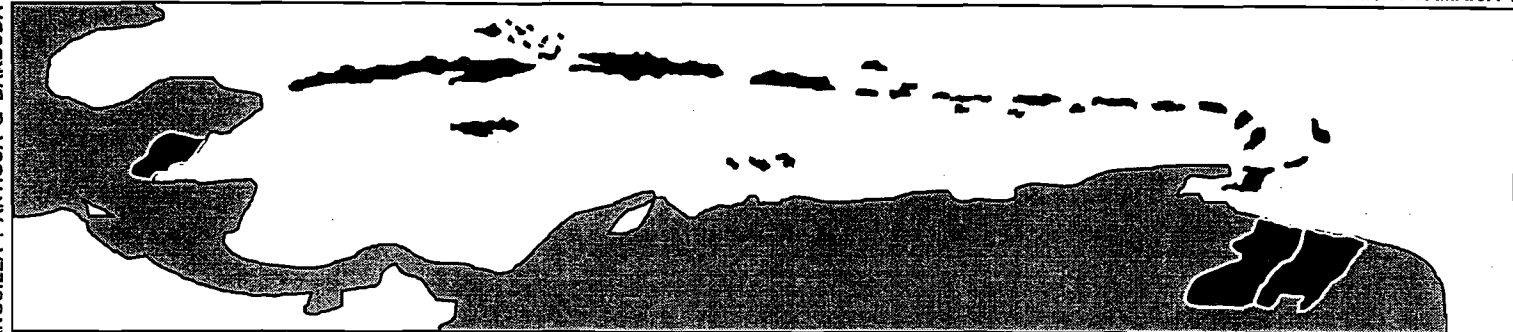




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MACROECONOMIC POLICIES IN THE CARIBBEAN


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MACROECONOMIC POLICIES IN THE CARIBBEAN

Introduction

The concern with a gender dimension of macroeconomic policy stems from the mandate of the Beijing conference on women 'to review, modify and implement integrated macroeconomic and social policies and programmes' with the objective of improving equitable access to economic resources and social services. 'Engendering macroeconomics' means making visible the way the structure of gender relations permeates the area of economics. The rationale is that the relationship between gender relations and macroeconomic outcomes has not received the same attention as the relationship between gender and microeconomics.

The aim of this paper is to set out some of the macroeconomic policies pursued in the Caribbean within the context of economic adjustment in order to understand what have been the determinants of these policies and whether and how gender analysis can contribute to a more equitable outcome. We first of all summarise what macroeconomic policy is and what it is intended to achieve. We then provide a brief background to the economic problems that countries in the region faced since the 1970s followed by a discussion of the macroeconomic policies pursued by the more developed countries in the region. We compare the policies adopted by Jamaica and Barbados to illustrate two different approaches to dealing with macroeconomic imbalances. Finally we consider the integration of a gender dimension into macroeconomic policy and macroeconomic analysis.

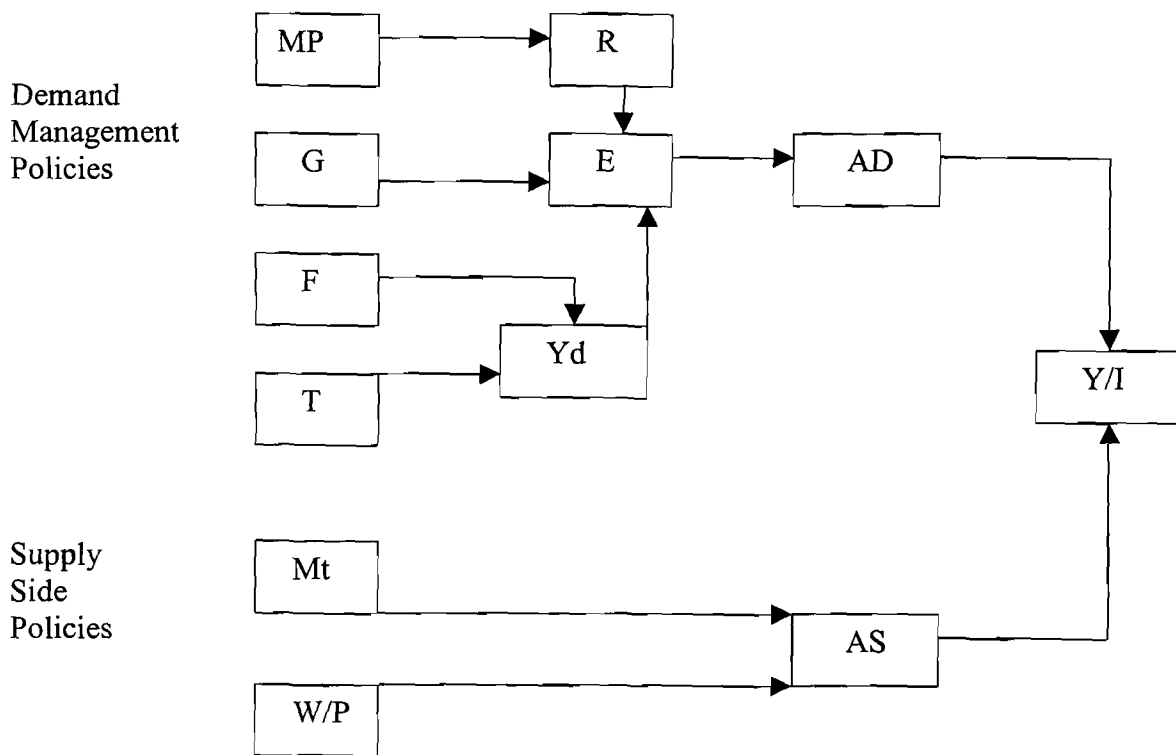
1. Macroeconomic policy

Macroeconomic policy is, as the name implies, overall policy aimed at influencing a number of macroeconomic variables, namely, national income/output, overall level of employment/unemployment and the general price level. It targets national aggregates, such as the growth rate, inflation rate and interest rate. Economic growth has been one of the most important objectives of macroeconomic policy since it is the *sine qua non* for the achievement of other economic objectives, such as income distribution. Governments, therefore, concentrate on either maintaining or increasing economic growth rates. And macro policies are pursued that facilitate increase in investment and in the productivity of investment. These essentially include a mix of monetary and fiscal policies that result in price stability.

Macroeconomic policies are also aimed at either stimulating/constraining aggregate demand or increasing supply depending on whether economic growth declines due to fall in demand or fall in supply accompanied by increased demand. Expansionary policies to stimulate demand and reduce unemployment were pursued by developing countries prior to the late 1970s. Since then countries have moved away from Keynesian type demand management to greater reliance on the neoclassical approach. The severe macroeconomic imbalances experienced during the 1970s and 1980s have led countries to pursue economic adjustment with support mainly from the International Monetary Fund (IMF) and the World Bank.

Economic stabilization policy is pursued to bring demand in line with existing supply by correcting imbalances on fiscal and balance-of-payments accounts. It employs the tools of demand management focusing on either or a combination of monetary, fiscal and exchange rate policies to achieve its objectives. Monetary policy influences the interest rate which, in turn, influences expenditure and, hence, aggregate demand. Fiscal policy influences disposable income and hence expenditure and aggregate demand. Structural adjustment policies or supply-side policies are pursued to increase supply through reliance on the market mechanism and by abolishing administrative controls. They comprise mainly liberalisation policies to remove controls; privatisation policies to remove the State from direct participation in economic activities; and tax reform to encourage savings and investment (See Figure 1).

Figure 1.
Influence of monetary and fiscal policies on income and the price level



MP = Monetary Policy
 G = Government Expenditure
 F = Government Transfers
 T = Taxes
 Mt = Market-oriented Measures
 W/P = Wages and Prices

R = Interest Rate
 Yd = Disposable Income
 E = Expenditure
 AD = Aggregate Demand
 AS = Aggregate Supply
 Y/I = National Income/Price Level

2. Macroeconomic policies in the Caribbean

Economic problems and adjustment

Caribbean countries are small in terms of population size with the exception of the Dominican Republic, Haiti and Jamaica, each of which has more than the 1.5 million people used by the Commonwealth Secretariat to define a small State.¹ But even the latter can be considered small in relation to other countries in the Caribbean and Latin America. So that, in addition to the problems faced by developing countries, as a whole, Caribbean countries face additional problems on account of small size. Among these are narrow production structures and volatility in foreign capital inflows and foreign exchange earnings. Countries also have narrow export bases, relying heavily on the sale of primary commodities or on earnings from the tourism industry, which is the most significant sector in most countries. They are, therefore, susceptible to fluctuations in commodity prices on international markets. The Caribbean region is also prone to natural disasters, in particular, hurricanes, which can constrain efforts at increasing output and income.

In order to broaden the economic base, governments in the region pursued a strategy of import-substitution manufacturing and diversification into tourism services from the 1960s. Since manufacturing activities were heavily protected against foreign competition, and extraregional exports had preferential access to developed countries, competitiveness was not a challenge. Macroeconomic policy - essentially fiscal policy - was used to facilitate the strategy of import-substitution industrialisation: tax incentives to local and foreign investors and expenditure on infrastructural projects.

Real growth in the region was high during the 1960s averaging 5-6 per cent per annum. The main issues facing governments were declining terms of trade and the inequitable distribution of income in countries such as Jamaica. The oil shocks of the 1970s put pressure on the oil-importing countries in the region, which had to face increased prices for imports of petroleum products as well as manufactures. Countries such as Guyana, Jamaica and Trinidad and Tobago increased State intervention as a tool of macroeconomic management. Macroeconomic policies were geared toward maintaining the status quo rather than adjusting to the realities of lower output and fall in earnings. Expansionary fiscal policies led to significant deficits that resulted in increased indebtedness and decline of international reserves. Although most countries experienced severe economic crises during the 1980s the nature of the crisis as well as the macroeconomic policies pursued varied across countries.

The main macroeconomic problems confronting many, in particular the larger, Caribbean countries in the 1980s were: negative rates of economic growth, high inflation (more than 10 per cent), unemployment, significant fiscal and current account deficits and increasing indebtedness. The smaller islands in the Organization of Eastern Caribbean States (OECS) experienced relatively higher growth (5-7 per cent per annum) than the larger countries in the Caribbean Community (CARICOM) partly due to prudent macroeconomic management and preferential

¹ Caribbean Group for Cooperation in Economic Development (CGCED), *Caribbean Economic Review*, World Bank, June 2000.

treatment in trade agreements, such as Lomé and CARICOM. They are however more vulnerable to external shocks, on account of their dependence on mono industries such as banana and tourism. Efforts at economic diversification depended on infrastructural investments and fiscal incentives to encourage private investment. Government current expenditure also increased as a result of hurricanes in the region. The fiscal deficit widened and external indebtedness increased in a number of islands, in particular Antigua and Barbuda. Economic adjustment was, therefore, based on fiscal stabilization and debt management.

The problems were worse in Jamaica and Guyana than in Barbados and Trinidad and Tobago and hence the adjustment process was more difficult. The first two countries experienced significant decline in output, which began in the latter part of the 1970s and was associated with reforms aimed mainly at achieving economic self-reliance and distributive justice. This along with the oil price shocks of the 1970s resulted in increasing balance-of-payments deficits, depletion of international reserves and significant accumulation of foreign debt. Fiscal deficits and their method of financing (Central Bank accommodation) contributed to increase in inflation.

The problems of Trinidad and Tobago began later (1983-1993) and were largely due to the oil price shocks: management of the earnings during the oil boom of the 1970s and the fall in oil prices from the early 1980s. The economy experienced negative growth, balance-of-payments and fiscal deficits and high inflation (over 10 per cent) and unemployment (over 20 per cent). The Barbadian economy went into recession in the early 1990s on account of increasingly negative growth, high unemployment (over 20 per cent in 1992), growth in inflation and fiscal deficits.

Economic adjustment programmes focused on containing aggregate demand to bring it in line with existing supply. Although the four countries used a combination of monetary and fiscal adjustment measures, Barbados focused mainly on fiscal measures whereas Jamaica relied mainly on monetary measures. Jamaica has had the longest experience with adjustment whereas Barbados has had the shortest. Grenada also devised and implemented an economic adjustment programme in 1992 to reduce fiscal and overall public sector imbalances and stem the decline in output.

The adjustment pursued by all of the above countries, with the exception of Jamaica, resulted in the resumption of economic growth. Jamaica's achievement was significant reduction in inflation in the late 1990s as well as reduction in the fiscal deficit. The failure of economic growth did not result in increased unemployment in spite of public sector retrenchment of staff and this could be attributed to the growth of the informal sector. However, the long-term pursuit of monetary stabilization has stymied the recovery of economic growth in Jamaica and contributed to the negative impact of adjustment on specific groups, including women and children.

The high interest rate policy pursued during the first half of the 1990s contributed toward the significant growth of financial institutions and conglomerates incorporating financial and

non-financial entities in Jamaica.² Increased indebtedness due to a number of factors resulted in the collapse of some of these institutions around the middle of the decade. Government intervention became necessary to avert total collapse of the financial sector. But it contributed to the significant build up of domestic debt. Persistent high interest rates, the high level of domestic public debt and the lack of growth are among the critical macroeconomic issues facing the government in the decade of 2000.

Monetary policy effects in Jamaica

Monetary policy works through influencing overall aggregate demand in the economy and is the main determinant of the general price level. It affects the economy through what is called the transmission mechanism³ (Figure 2). The monetary authority or central bank chooses the price at which to lend high-powered money⁴ to financial institutions. That price could be a bank rate or a repurchase agreement (repo) rate if the central bank uses open market operations⁵. The Bank of Jamaica uses a short-term (30-day) repo rate and open market operations to influence interest rates. A change in the repo rate is transmitted to other short-term money market rates. Commercial banks adjust their base lending rates, which affect interest charges to customers. This would, in turn, influence expenditure that is interest-rate sensitive. This would then affect demand and, in turn, the general price level or inflation. The change in interest rate also affects the prices of securities, such as bonds and equities. Other things being equal, a rise in interest rates leads to a fall in prices of stocks and bonds. A rise in the interest rate could also lead to appreciation of the exchange rate but this depends on the inflow of investment to take advantage of higher domestic interest rates. In Jamaica the real effective exchange rate appreciated by more than 30 per cent between 1995 and 1999.⁶ The appreciation of the exchange rate makes imports of goods and services cheaper and thus contributes to reduction of inflation.

² For a discussion of some of the problems experienced in the financial sector in the 1990s, see Helen McBain, "Factors Influencing the Growth of Financial Services in Jamaica", *Social And Economic Studies* (1997):46:131-167.

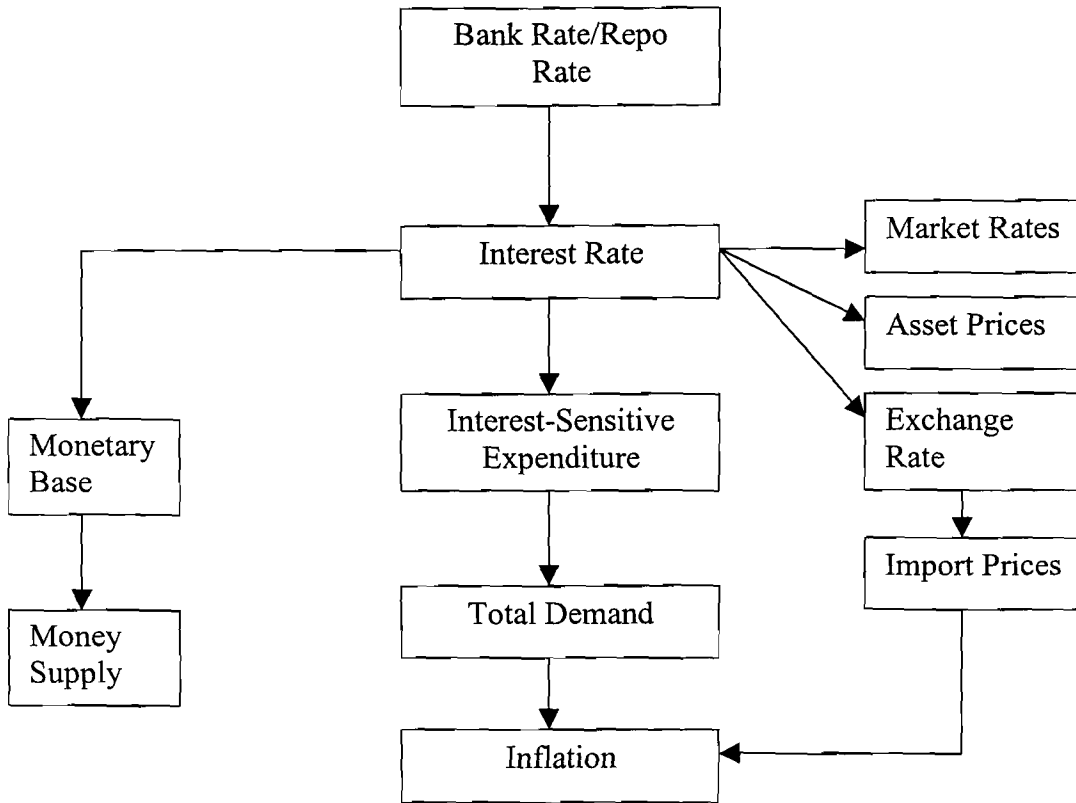
³ For a description of the workings of the mechanism in the United Kingdom see *The Transmission Mechanism of Monetary Policy*, The Monetary Policy Committee, Bank of England.

⁴ High-powered money or base money comprises cash (notes and coins) in the hands of the public as well as commercial bank deposits with the Central Bank.

⁵ In open-market operations, financial institutions sell assets (e.g. treasury bills) to the central bank with an agreement to repurchase them in a specific time (e.g. 30 days). The repo rate is the annualised rate of interest implied by the difference between the sale and repurchase price in the transaction.

⁶ See CGCED, *Caribbean Economic Review*, 2000.

Figure 2:
Transmission mechanism of monetary policy



The central bank can also influence interest rates by requiring commercial banks to hold cash reserves equal to a significant portion of their deposit liabilities on which no interest is paid. The bank varies the cash reserve ratio to influence the quantity of deposit money. Reserve requirements have been used by the Bank of Jamaica to control liquidity and led to significant increases in interest rates during the first half of the 1990s after liberalisation of interest rates in 1991. The Jamaican Government has since moved to reduce and eventually eliminate the statutory cash reserve requirement.

Increase in interest rates affects inflation by affecting the spending behaviour of individuals and businesses. Some benefit from the increase and some do not. Savers and investors in financial assets receive higher returns on their investment whereas borrowers incur higher costs of doing business. Individuals with mortgage debt are adversely affected by a rise in interest rates because this reduces their disposable income. There may be some respite if interest rate charges are locked in over the short-to-medium term. High mortgage costs would also affect the ability of some individuals to purchase homes.

High interest rates increase the cost of capital and hence could affect the ability of some firms to invest in inputs to improve or expand production. Firms that rely on savings and re-invested earnings and those with access to equity finance may be less affected than firms that rely largely on loans, especially those that are linked to short-term money market rates. The latter may reduce staff to cut costs and/or pass on increased cost in the form of higher prices to consumers. On the other hand, cash-rich firms would receive higher returns from investing in the money market than in the productive sector.

In Jamaica during the first half of the 1990s, high-income earners and individuals and firms with funds to invest made significant returns on investment in government securities and other money market instruments as well as on bank deposits. On the other hand, a number of homes were placed on the auction block because of failure to meet mortgage payments. Workers and consumers faced higher prices and hence had less disposable income. The contraction in the public sector to reduce the deficit added to the pool of unemployed and exacerbated the adverse impact of high interest rates. Reduction in employment followed on the wage increases granted to public sector workers in response to high inflation.

Monetary policy does not directly influence real output (GDP) growth although it could facilitate such growth through its influence on inflation. However, prolonged use of tight monetary policy can adversely affect growth prospects. This has been the Jamaican experience during most of the 1990s. Persistent high interest rates constrained the ability of firms to upgrade and expand production and export, although supply-side measures were employed such as tax concessions and technical assistance to firms in specific industries.

Monetary policy and gender concerns

Are monetary policy effects on curbing demand gender neutral or gender biased? The aggregate nature of the policy suggests gender neutrality. Demand is being reduced by cutting total consumption. However, the impact on gender of a policy instrument, such as interest rate, would depend on the spending and borrowing behaviour of males vis-à-vis females. A case could be made for using differential interest rates to facilitate women's access to capital, assuming that the problem is high interest rate and not inability to access credit. Such a policy was implemented in the early 1990s by the Jamaican Government, which used external financing and privatization proceeds to set up microenterprise loan programmes to facilitate business start-ups. Interest rates in those programmes were eventually increased as aid donors tied their funding to market-based interest rates. In any event, differential interest rates in the past did not seem to have been effective in promoting the type of development for which they were intended and this raises the question of the efficacy of institutional and implementation structures.

A sample survey of small and micro enterprises in Jamaica during the early 1990s revealed that one of the main problems that small and female-owned businesses faced was not high interest rates as had been presumed but access to credit. Women in particular were adversely affected on account of the high transaction costs associated with such lending. This was the reason why a number of quasi-formal financial institutions, such as the National Development Foundation, were set up. However, these institutions were also plagued with implementation problems such as long delays in approving loans and weak monitoring capacity.

Government can mitigate the adverse impact of monetary policy on specific groups through the fiscal budget. Temporary subsidies as well as tax relief could be provided to cushion the impact. This of course would only be feasible if fiscal contraction is not being pursued in conjunction with tight monetary policy. The significant budget deficits referred to above restricted government's use of fiscal policy to offset the adverse effects. However, it may be more a case of the composition of government expenditure and the role of interest groups in its allocation than the deficit *per se*. At this point it would be useful to compare the Jamaican and Barbadian economic adjustment policies to see what further light could be shed on macroeconomic policy as a whole and on the gender dimension of such policy.

Adjustment in Jamaica and Barbados compared

Jamaica's adjustment programme began in the early 1980s in response to economic problems that developed during the latter half of the 1970s: significant worsening of balance-of-payments and fiscal deficits, significant fall in international reserves, growing inflation, decline in economic growth and increase in unemployment. Adjustment continued into the 1990s. The Barbadian programme started in the early 1990s in response to economic problems that were similar to those that Jamaica faced. The difference was in the extent of these problems. In the case of Jamaica, deficits were larger, inflation and unemployment were higher and international reserves were more significantly depleted (Tables 1&2).

Table 1
Jamaica Selected Data (US\$m)

	1979	1980	1981	1982	1983
Fiscal Deficit	-304.7	-415.1	-404.6	-501.6	-424.0
Current Account Balance	-106.5	-136.1	-306.8	-383.3	-338.6
International Reserves	n.a.	n.a.	n.a.	n.a.	n.a.
Inflation (%)	3.7	4.7	5.3	5.7	6.3
Growth of Real GDP (%)	-1.8	-5.8	2.7	1.1	2.3
Unemployment Rate (%)	25.9	27.4	26.4

Source: ECLAC based on national data

Table 2
Barbados Selected Data (US\$m)

	1989	1990	1991	1992	1993
Fiscal Deficit	-33.2	-124.1	-26.75	-26	-34.4
Current Account Balance	28.3	-7.8	-25.7	143.4	70.3
International Reserves	77.8	92.0	145.2	160.7	142.1
Inflation (%)	6.2	3.1	6.3	6.1	1.1
Growth of Real GDP (%)	3.6	-3.1	-4.1	-6.2	1.5
Unemployment Rate (%)	15.3	15	17	23	24.3

Source: ECLAC based on national data

Both monetary and fiscal policies were used to stabilise the two economies. The fiscal measures used by the Jamaica Government included: reduction in expenditure – cut in public sector employment and subsidies and increases in consumption and other non-income statutory taxes and in utility rates. Improvement in the fiscal position was achieved but not on a sustained basis thus necessitating ongoing measures to reduce the deficit. The Barbados Government cut public sector wages as well as the size of the public sector to deal with government deficits and the overall public sector deficit. Capital expenditure was also reduced. A stabilization tax was imposed on incomes and consumption and import taxes (on luxury items) were increased. Utility rates and the cost of other government services were increased. The result was significant improvement in government's fiscal position. The public sector deficit of 1990 became a surplus in 1992.

Monetary measures were also used to complement the fiscal measures, namely controls on credit and interest rates and liquidity requirements on commercial bank deposits. Central bank credit to the public sector was limited and the liquid asset requirements and minimum deposit rates for commercial banks were increased. Government also issued treasury bills to reduce liquidity in the financial system. The exchange rate was not used in the adjustment process in Barbados. The government opted to retain a fixed exchange rate at its current value.

By contrast monetary measures occupied a central position in Jamaica's adjustment programme. Like Barbados, the measures used in the early 1980s were controls on credit and interest rates and liquidity requirements. The worsening of the current account deficit in the early 1980s initiated an austere stabilization programme in 1983. Exchange rate adjustment was used in conjunction with reduction in government expenditure until the mid-1980s. A low-inflation model was pursued from 1996 with a relatively stable exchange rate and gradual liberalization of trade and privatization of public assets. Inflation increased significantly from the late 1980s, and hurricane Gilbert contributed to decline in output and increase in imbalances due to increase in government expenditure.

Table 3
Barbados and Jamaica selected data (US\$m)

	Barbados					Jamaica				
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998
Fiscal Deficit	-18.2	-14.4	-64.0	-26.1	-19.0	144.4	96.1	-429	-549.9	-506
Current Account Balance	123.8	113.1	76.6	-0.4	-8.8	18.3	-172.7	-238	-400.6	-323
International Reserves	155.5	183.9	290.4	321.3	284.1	398.6	418.6	694.9	540.5	582
Inflation	0.0	1.9	2.4	7.7	-1.2	35.1	19.9	26.4	9.7	7.9
Growth of Real GDP	3.8	2.9	5.2	3.0	4.4	1.1	0.5	-1.8	-2.4	-0.7
Unemployment Rate	21.9	19.7	14.3	12.2	11.8	15.4	16.2	16	16.5	15.5

Source: ECLAC based on national data

Tight monetary policy was pursued during most of the 1990s to constrain demand in a weak export environment, bring down high rates of inflation and stabilise the foreign exchange market. The system of controls on credit and interest rates was abandoned in 1991 and open-market operations were instituted to influence money demand. Stabilisation was successful in

terms of reduction of inflation to single digit since 1997, stabilisation of the exchange rate and significant increase in official international reserves (Table 3). Fiscal surpluses were also achieved during the first half of the 1990s. However, a crisis emerged in the financial sector in 1996 as a result of the liberalisation of interest rates and weak prudential and supervisory infrastructure for financial institutions. The fiscal surpluses became fiscal deficits during the late 1990s despite the increase in the primary surplus of the public sector. This was due to the huge domestic debt accumulated by the government in dealing with the financial sector problems as well as the losses of the central bank and the above-inflation wage settlements of the public sector.

Among significant differences between the Jamaican and Barbadian approach there are at least two that stand out: the pace of economic reforms and the approach to demand management to contain inflation and facilitate economic recovery. The economic reform component of the adjustment programmes was geared toward opening up the economy to foreign competition and improving the competitiveness of industries. Trade liberalisation and liberalisation of prices as well as the capital and foreign exchange markets were some of the policies that were adopted. Jamaica pursued these policies gradually during the 1980s. Implementation was accelerated during the 1990s with significant reduction in tariff and non-tariff measures and the liberalisation of interest rates and the foreign exchange market in 1991. Barbados implemented trade liberalisation measures to comply with the schedule of implementation of the common external tariff (CET). But these were more limited than those implemented by Jamaica in the 1990s. Financial liberalisation was also gradual - reduction of credit controls and relaxation of exchange controls rather than liberalisation of the foreign exchange market. The pace of liberalisation during the 1990s was faster in Jamaica than in Barbados so that at the end of the decade the Jamaican economy was significantly more liberalised than the Barbadian economy.

The Jamaican approach to containing inflation was based on demand management through reliance to a greater degree on monetary policy and to a lesser degree on fiscal policy. Supply-side measures to increase production and exports were based on eliminating government intervention in the economy and relying instead on market forces. To this end, government removed price controls, cut back on subsidies to industries, liberalised imports and capital controls, reduced income tax and increased consumption taxes. The achievement of low inflation and a relatively stable exchange rate in the late 1990s has been achieved at the high cost of little or no economic growth. And the impressive accumulation of international reserves has been achieved at the high cost of significant domestic public debt.

The Barbadian approach to containing inflation and correcting imbalances was also based on demand management through a greater reliance on fiscal policy and a lesser reliance on monetary policy to restrain demand. However, there is a significant difference in the supply-side measures used to increase exports and economic growth. The government employed interventionist supply-side policies aimed at reducing costs in order to increase aggregate supply. Incomes policy also functioned in conjunction with monetary policy that was geared toward reducing the growth of money supply and, hence, demand-induced inflation. It involved controlling wage and price increases. The government achieved this through a tripartite agreement between itself, private sector entities and labour unions, which froze increases in wages and salaries except for productivity-related increases. Price increases were also constrained. The linking of increases to productivity provided the incentive to increase

productivity. The economy grew by 4 per cent in 1994, three years after the start of the adjustment programme and at 3.6 per cent per annum from 1996-1999. Inflation was reduced and unemployment fell significantly.

Barbados was able to pursue an incomes policy because of, among other things, the cohesiveness of the society and absence of extreme poverty. This allowed the government to adopt a mix of macroeconomic policies without having to adjust the exchange rate. The early action to correct imbalances and the short-term nature of demand management policies prevented the adverse impact of adjustment that was experienced in Jamaica. However, in Jamaica the fall in commodity prices in the early 1980s adversely affected the government's adjustment strategy, which was somewhat similar to the Barbadian strategy. An incomes policy was adopted but this was based on guidelines for wage and price increases that were not binding. The adjustment strategy pursued in the 1990s accelerated market opening before macroeconomic stability was achieved. Sequencing of the reforms was faulty – for example, the liberalization of the capital account prior to liberalization of tariff barriers to trade – and contradicted the efforts at achieving macroeconomic stability.

The mix of policies pursued by the Barbadian Government in its management of the economy was significant in preventing any adverse impact of adjustment on poor and vulnerable groups in the country. In Jamaica a number of factors explain the negative impact of adjustment on poor and vulnerable groups including the nature of the groups themselves. Policy inconsistencies, weak implementation structures and the need to adhere to conditionalities set by the international financial institutions in order to gain access to external finance, all contributed to the poor outcome of the 1980s and 1990s and hence to the negative impact on specific groups, in particular women.

The Jamaican Government is still preoccupied with further reducing inflation (to 5½ per cent per year), reducing the public sector deficit (to ½ per cent GDP by 2002) and sustaining a significant level of international reserves to defend the value of the local currency. It is also committed to achieving a certain level of growth (2½ per cent per year).⁷ To achieve these objectives, the government would have to reduce borrowing as well as expenditure, and increase prices to meet the costs of public enterprises. Monetary and exchange rate policies would be aimed at containing inflation and maintaining international reserves. The implication is that the exchange rate would not be allowed to depreciate. However, the government is committed to maintaining competitiveness by allowing the exchange rate to be determined by market forces, although the Central Bank will intervene to relieve temporary pressures on the rate. Preoccupation with achieving a low inflation rate, comparable to that in developed economies, precludes exchange rate flexibility to achieve export competitiveness.

However, monetary policy would be relaxed through further reduction in the cash reserve and liquid asset requirements and fiscal policy tightened to reduce the public sector deficit in order to facilitate reduction in the interest rate. A loosening of monetary policy necessitates a tight fiscal policy if the growth of demand is to be restrained. Once interest rates continue to fall there is a risk of pressure on the exchange rate. This was evident recently when the government

⁷ The government's medium-term macroeconomic objectives are set out in its Memorandum of Economic and Financial Policies to the IMF. See www.imf.org.

increased the long-term repo rate from 17 to 22 per cent as the exchange rate came under pressure, which was due to the secondary sale (to Jamaicans) of the government's US\$225 million bond that was floated on the international market. Prior to this, interest rates have been declining slowly in response to repo rate changes.

The switch from reliance on monetary policy to greater use of fiscal policy is expected to lead to significant fall in interest rates, which is necessary to facilitate early resumption of economic growth. However, that may be constrained by a number of factors, such as continued worsening of the current account deficit beyond the short term, slow decline of interest rates, renewed pressure on the exchange rate, increase in the crime rate and the fallout in the productive sector due to the closure of a number of firms.

3. Gender implications

The adverse impact of macroeconomic policies in the Caribbean has been largely the result of economic adjustment policies in countries that experienced severe economic problems. It is instructive that the burden of adjustment that fell on disadvantaged groups was significant in Jamaica and Guyana where economic decline was allowed to persist before adjustment policies were adopted. Fiscal policies had been used in the past to address issues of distribution. However, significant fiscal deficits and the nature of adjustment programmes precluded the use of the budget to cushion the impact of adjustment measures. Policy inconsistencies, inadequate coordination and weak implementation infrastructure, among other things, contributed to the adverse impact of economic adjustment programmes. The solution would seem to be to address these problems rather than focus on incorporating a gender dimension into these adjustment programmes. This does not mean that the question of gender equity is not important. However, it cannot be effectively addressed when the economy is experiencing severe macroeconomic disequilibria.

The question of gender equity and equity in general for that matter has to be addressed within the present context of market opening and greater reliance on market forces. Under the classical economic approach the issue of distribution was seen in terms of how income was divided among classes – owners of the means of production and workers. Equity could only be achieved by changing the functional distribution of income, which in turn means changing the relations of classes to the means of production. The neo-classical approach to distribution is based on factor prices that are determined by demand and supply in factor markets. The share of income would depend on the price that the factor – labour or capital – commands in the marketplace and not on the relation of its owner in the production process. Intervention can be made to correct for market imperfection, through trade union and government budget for example. The neoclassical approach allows for the targeting of specific groups without changing the functional distribution of income.

Government budgets have however been constrained by the need to reduce fiscal deficits and trade unions have had to focus more on retaining jobs for members than on securing significant wage increases. Restructuring of business and the decline in formal employment have significantly altered the size and sources of income accruing to individuals and groups. Income

from remittances is now a major source of income for some groups. Although the question of gender equity is an important one it cannot be divorced from the more general issue of equity. For example, policies aimed at improving equity between males and females could fail to address inequity within each group. So that policy could achieve equal pay for equal work by skilled women but fail to improve opportunities for unskilled women to acquire the skills that would allow them to enjoy equal pay for equal work. Educational and job opportunities would have to be provided at the same time as equity in the gender distribution of income is being secured.

4. Concluding remarks

Gender can be related to most issues. Engendering economics or macroeconomics implies infusing or incorporating gender into economic analysis. Once this is done, economic or macroeconomic policy-making would have to take into account gender implications. However, economic policy-making is about making choices, which is a political process. This means that a gender perspective would have to be explicitly adopted through lobbying by specific interest groups or through direct participation by gender-aware policy makers.

It has been demonstrated that gender can be incorporated into economic models such as the Revised Minimum Standard Model (RMSM) of the World Bank but not into the Economic Policy Model of the IMF. It has also been argued that macroeconomic problems reflect gender inequalities at micro and meso levels of the economy. The solution, therefore, is to eradicate the inequalities at those levels. However, macroeconomic policies need to be made gender-aware because of their gender effects at the micro and meso levels.⁸ Fiscal policy is the candidate that is presented for engendering macroeconomic policy because it is a public process with a regular cycle. National budgets are examined to determine whether there are inbuilt biases against specific groups such as women. This makes sense since budgets assume homogeneity of target groups. For example, if government expenditure on health services is cut it may be mostly women, and in particular poor women, who are affected. On the other hand, if taxes on cigarettes and alcohol are increased it may be mostly men, and in particular poor men, who are affected. But this could be seen as a positive outcome for health reasons.

On the other hand, monetary and exchange rate policies are seen as less accessible than fiscal policy because they fall within the ambit of Central Banks.⁹ However, Central Banks tend to use standard monetary models that could be examined from a gender perspective. But more important is the process of adjusting the bank's lending rate that will signal increases in interest rates, and choosing as well as influencing changes in the exchange rate. In the Caribbean it is only Jamaica that relies significantly on monetary policy. The spending and borrowing behaviour of individuals is an important determinant of policy. The Ministry of Finance in Jamaica does not or did not consider interest rates to be critical to investment behaviour because of the level of profits of large-scale firms as well as their access to equity finance and the tendency of small-scale firms to rely on savings. One of the reasons for keeping the exchange rate stable, even when considered overvalued, is what is seen as the speculative tendency of Jamaican investors.

⁸ See Nilufer Cagatay, *Engendering Macroeconomics and Macroeconomic Policies*, UNDP 1998.

⁹ See Diane Elson, *Integrating Gender Issues into Macro-Economic Policies*, Commonwealth Secretariat 1996.

Most of the latter tend to be males and therefore analysis of the decision-making process would be useful in light of the fact that biases are considered skewed towards females.

Relating gender to economic policy and, in particular, macroeconomic policy would be a useful exercise both from an academic and a practical policy-making perspective. However, since the concern is with equitable access to resources one would have to be careful not to overcompensate for gender inequity without addressing other forms of inequity such as class inequity.

These issues should be addressed within a programme of research in the Caribbean integrating gender into macroeconomic and macroeconomic policy analyses. The first priority of such a programme should be to set up a database with all the relevant information, disaggregated by gender, which feeds into not only the macroeconomic policy process but also the area of macroeconomics as a whole. But given the integral relationship between macro and microeconomic issues that database should include gender disaggregated microeconomic data. The establishment of the database can be done simultaneously with research into specific topics.

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