

## ABSTRACT

## The Impact of Macro-economic and Sectoral Policies on the Performance of Agriculture in Trinidad and Tobago: 1966 - 1993

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The broad objective of this study was to evaluate the impact of macro-economic and sectoral policies on the performance of the agricultural sector in Trinidad and Tobago, over the period 1966 - 1993. The methodology used defines economic distortions of policy as the distortions between actual and equilibrium (non-intervention) prices. These distortions are then used to evaluate the policy impact on production, consumption and foreign exchange earnings of selected agricultural commodities. Major macro-economic policies include trade and exchange rate policies. These have an indirect economy-wide effect on agricultural prices and performance. On the other hand, sector and commodity specific policies which include price support, subsidies, and other specific policy measures have a **direct** effect. The sum of these two influences gives the total effect of intervention on a particular commodity or on the sector as a whole.

If producers receive prices for their output that are less than equilibrium (non-intervention) prices, then they are penalised or "taxed" or are **negatively** affected by the distortions, which as indicated, can be direct or indirect. If on the other hand, they receive prices that are higher than world market or non-intervention prices, then the sector or commodity is said to be protected or **positively** affected. For the consumer the interpretation is the reverse. The total effect may also be positive or negative depending on the direction of influence and/or relative weights of macro vis-a-vis sectoral policies.

Over the period of the study, agricultural development in Trinidad and Tobago took place against an essentially "protectionist" strategy of import-substitution-industrialisation. This strategy was characterised by trade and exchange rate controls, a fixed exchange rate regime and heavy government intervention in the economy. This study quantifies the effects of intervention on output, consumption and foreign exchange gain/loss of five major agricultural commodities viz. sugar cane, cocoa, coffee, poultry and tomato. These accounted for more than half of total agricultural output over the entire period.

The study used a partial equilibrium approach which was chosen for its empirical simplicity and usually incontrovertible findings. The specific measure as outlined in the Krueger, Schiff and Valdez (KSV) study (1991) also allows comparison of the results for Trinidad and Tobago with those of other countries. The measure used in this study expressed agricultural prices as a ratio of non-agricultural prices and as such explicitly recognised that it is

relative price movements rather than absolute ones that lead to resource allocation.

The study found that trade and exchange rate policies served to distort agricultural prices resulting in an average indirect negative effect of 12.6% (five commodities). Quantitatively, these negative economy-wide effects dominated the typically positive direct sectoral effects (average 10.1%) such that the total effects of intervention were negative. It was also found in this study that producers of exportables were "taxed" while producers of importables were protected. Another important finding was that the mineral base of the Trinidad and Tobago economy served to engender the familiar "Dutch disease" which worked against agriculture. Except for the overall positive direct effect, these results were generally in line with those of the KSV study.

With regard to the specific commodities, it was found that the average direct effects were positive for all commodities except coffee. The total policy impacts were however negative for all commodities except poultry. In other words, apart from poultry, producers of the major crops were "taxed" during the sixties and most of the seventies. This was perhaps due to the emphasis by government over that period, on the strategy of import-substitution-industrialisation. Consistent support to poultry over the entire period of the study appears to be in keeping with the emphasis on the goal of "food self-sufficiency". Not surprisingly, for most commodities, protection via intervention was heaviest during the period of the oil boom when the government's revenue base would have been strongest. Support seems to have weakened in the post-1985 period as recessionary conditions set in but it seems to have risen briefly thereafter on the heels of yet another oil price increase.

The macro-economic environment has since changed to a more liberalised and facilitative one and the economy is performing creditably as reflected in the key indicators. One recommendation is that this environment be maintained as this study has established that inappropriate macro-economic policies can serve to reverse any positive effects of direct sectoral support.

It is also recommended that focus of any direct support must now be on appropriate sectoral and industry-specific policies aimed at the removal of the binding constraints to agricultural development such as, inadequate rural access roads, irrigation and institutional support. A mineral-based economy would always tend to push towards, if even temporary, appreciation of the exchange rate which can be detrimental to the tradeable sector of the economy, including agriculture. This tendency must be minimised by the use of appropriate counter-measures.

**Keywords:** Macro-economic policies; sectoral policies; agricultural sector; Ronald Ramkissoon, NPRs; Trinidad and Tobago.