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MACROECONOMIC STABILITY AND THE SEQUENCING OF ECONOMIC REFORMS: WITH REFERENCE TO PRIVATISATION IN THE CARIBBEAN

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1. INTRODUCTION

This paper is part of a larger study on privatisation in the Caribbean as a strategy of public sector reform. The issue of public sector reform emerged since the 1980s when countries in the region that were adversely affected by external shocks such as the rise in oil prices in the 1970s and fall in oil prices in the 1980s, embarked on economic adjustment to bring demand in line with falling output and foreign exchange earnings and to diversify their productive and export structures. The huge public and foreign debt incurred by some governments, notably Jamaica and Guyana, and the expansion of the public sector in a number of countries due to nationalisations and creation of new enterprises during the 1970s, led to a programme for restructuring the state-owned enterprises (SOEs) and reducing the size of the state sector. Reform was focussed on achieving financial rather than economic efficiency as prices and tariffs were increased without restructing the management and improving internal and allocative efficiency.

The World Bank's shift from supporting overall structural adjustment programmes to supporting sectoral adjustment programmes has allowed it to focus on reform in specific sectors, including administrative reform and institutional strengthening to underpin the other adjustments in the economy. Governments in the region have pursued the various reforms to varying degrees. Nevertheless, there seems to be a general consensus that the state sector must be made more efficient and must facilitate the development of the private sector. These objectives can be achieved by restructuring

SOEs and by pursuing some form of privatisation of the enterprises. The extent and timing of privatisation would depend on the nature and extent of the SOE sector in each Caribbean country.

The size per se of the SOE sector is of less significance than its dominance of certain sectors in the economy. By the end of state acquisitions of enterprises in Jamaica in 1980, the SOE sector was dominant in the sugar, petroleum, cement and tourism industries as well as in the utilities sector. In Trinidad, by the early 1980s the SOE sector was dominant in the sugar, energy, cement, airline, fertilizer, methanol and steel industries and in the utilities sector [Adam, Cavendish and Mistry, 1992]. Guyana has the most extensive and dominant SOE sector. Prior to privatisation, SOEs numbered 63 and were dominant in almost every sector of the economy, including the media and retail trading. The state sector dominated sugar, bauxite, forestry, pharmaceuticals, packaging, banking, insurance, printing, transportation and the utilities in addition to other areas [Greenidge, 1993]. Since SOEs were the main exporters in Guyana, their performance affected export earnings and in turn adverse developments in the international economy affected their operations.

The dominance of the SOE sector in Trinidad and Guyana implies that governments in these countries would have to devise policies for the various industries and sectors if a significant programme of privatisation is to be undertaken. The governments would also have to devise policies to facilitate the emergence of local (and foreign/regional) investors within the various sectors. This would

involve among other things, a strategy for mobilising domestic savings and for creating the conditions conducive to attracting foreign and regional investment. In the case of Jamaica, a fairly vibrant local private sector existed prior to the state acquisition of enterprises in the 1960s and 1970s. The macro policies of the 1980s facilitated the emergence of many local entrepreneurs particularly in the financial sector. Significant privatisation was therefore more feasible in Jamaica despite unfavourable macroeconomic conditions. In the next section we look at the macroeconomic conditions within which privatisations were carried out in Jamaica, Trinidad and Guyana; and in the third section we look at the sequencing of economic reforms and how privatisation fits into the schema of structural adjustment.

2. PRIVATISATION AND MACROECONOMIC STABILITY

For the purpose of this paper, privatisation is defined as the full divestment or transfer by sale of the ownership and control of state-owned assets to the private sector; and partial divestment through leasing, franchising and management contracts.

Jamaica

Jamaica embarked on a stabilisatiion programme supported by the IMF from 1981, and on a structural adjustment programme supported by the World Bank from 1982. Within the first two years only two small firms were sold and a number of hotels leased. These transactions added J$2.9 million to government revenues. The

stabilisation programme was not a stringent one; focus was on reducing credit to the public sector and reducing the budget deficit. However, credit to the public sector increased from fiscal 1980 to fiscal 1983. The budget deficit increased from 17 percent GDP in fiscal 1980 to 19% GDP in fiscal 1983. The balance of payments also deteriorated from US$-152 million in fiscal 1980 to US$-448 million in fiscal 1983. Interest rates remained relatively low and stable but the inflation rate increased significantly over the period.

Despite this, the climate could not be said to be adverse for privatisation as credit was not severely restricted and interest rates were not high. Nevertheless, savings remained depressed and negatively affected by government dissaving during the period. Moreover, in terms of the stock market where shares of enterprises to be privatised could be offered, the situation was not promising as few firms issued new shares on the stock exchange. The market index increased from 66 in 1980 to 240 in 1983; $5 million worth of stocks were traded in 1980 and $9 million worth in 1983. Firms historically relied on the banking sector for their capital requirements [Adam et al. 1992]. The relatively low interest rates that prevailed only reinforced this trend.

Privatisations between 1981 and 1983 would have had to be by private sales given the unstable macroeconomic environment shaped by growing inflation, fiscal deficit and balance-of-payments deficit and the limited activity on the stock exchange. Moreover, the government had just embarked on a structural adjustment

programme and the preparation of enterprises for privatisation takes time.

An austere stabilisation programme was pursued between 1983 and 1985; the dollar was devalued, the growth of credit was restrained and interest rates were increased. The result of the measures employed by the government was improvement in internal and external balance. Inflation fell significantly to single digits and interest rates were stabilised aroung 25 percent during the late 1980s. The fiscal deficit was brought down to about 5% GDP in 1986 and the balance-of-payments deficit was reduced. Several privatisations (23) were pursued within this period. Four of the transactions involved public offers; five were sold privately to foreign buyers and three to joint venture partners. The largest sales were National Commercial Bank (NCB), Caribbean Cement Company(CCC) and Telecommunications of Jamaica Limited (TOJ). A portion of the shares of each of these was sold to the public.

Most of the shares in the Bank were sold to domestic buyers through share offers. The public was sold 63 percent of Caribbean Cement shares, a foreign concern 10 percent and the government retained 27 percent. In the TOJ sale, only 13 percent was sold to the public; foreign purchasers got 70 percent with government retaining the rest. A number of hotels and manufacturing enterprises (12) were sold; and several hotels were leased. The government received US$55 million or J$314 million from the leases during the period 1985 to 1989.

Stock market activity increased with public offers during the

privatisations of 1985-1989 as the privatised firms contributed significantly to market capitalisation. In 1985, the market index increased to 941 (from 461 in 1984), influenced by the Seprod offer of 17 percent of the shares for US$1.8 million or J$9.8 million. The volume traded increased to J$116 million (from $26 million in 1984). With the sale of NCB shares valued US$161 million or J$88.7 million, the index moved to 1499 and the value traded to J$358. By 1989, the index moved to 2075 and the volume traded moved to J$516 million. On the whole, privatisation contributed to the development of the capital market.

For the period, 1990-1992, smaller privatisations were undertaken with the exception of 1992 when the remaining NCB and Caribbean Cement shares were sold as well as government's shares in Caribbean Steel (51%). NCB shares were sold privately whereas the shares in Caribbean Cement and Caribbean Steel were sold to the public. Seven enterprises were sold or leased in 1991 yielding J$74 million. In 1992 seven were also sold or leased and brought in J$725 million to the government. The most significant sales were in respect of NCB and Caribbean Steel.

During this period, inflation grew from 22% in 1990 to 77 percent in 1992. The dollar declined by 61 percent in 1991 and by 23 percent from December 1991 to March 1992. The money supply grew significantly from 19% in 1990 to 59% in 1992. Real interest rates remained negative as nominal rates increased marginally. On the other hand, government's fiscal budget went into surplus from fiscal 1989. Government also realised a surplus from the

operations of the major public sector enterprises.

Trinidad

Trinidad and Tobago's economy declined during the 1980s due to the fall in oil prices. Government revenues declined as a consequence and the government had to adopt measures to stabilise the fiscal as well as the external accounts and to adjust to the fall in oil prices. Government expenditure was drastically reduced leading to reduction of the public sector deficit from 12% GDP in 1982 to 5 percent in 1989 and to less than 1 % in 1990. Current transfers to SOEs were reduced from 13% of total revenues in 1984 to 2% in 1988. The deficit increased in 1991 and 1992 as oil priced declined. The balance of payments also deteriorated. Interest rates on Treasury Bills were increased in order to reduce liquidity.

Privatisation can be examined within two periods, 1978-1986 and 1988-1990. The only significant privatisation that occurred in the first period was that of National Commercial Bank. Shares were sold to the public in 1978 and 1980 leaving the government with 46 percent equity. The receipts from privatisation were TT$6.58 million. During the second phase, TT$12 million worth of shares in Trinidad Cement Limited were sold to the public. A further TT$21 million worth of shares were sold in 1990. Government sold 49 percent of its shares in the Telecommunications Company, Telco, to Cable and Wireless (UK). Restructuring of the Development Finance Company (DFC) saw government selling 56 percent of its equity and retaining 38 percent in the restructured company. The steel

company ISCOTT which represented government's largest single holding of equity, was restructured through a two year management contract in 1986 and its assets were leased in 1988 to ISPAT, an Indian steel firm. Over the period 1988-1989, the proceeds from privatisation were TT$39.2 million.

The first phase of privatisation through public issues took place before 1982. From 1982 to 1988 the Trinidad and Tobago Stock Exchange declined because of the general decline in the economy. The third phase of the NCB privatisation occurred in late 1988 when a further 10 percent of equity was sold to the public. The first phase of the Cement Company privatisation occurred in early 1989 when TT$12 million worth of shares were sold to the public in early 1990. The Trinidad stock market is small. Privatisation did not expand the capacity of the market. The privatisation issues of NCB and TCL accounted for only 4 percent of total market capitalisation and 2.7 percent trading volume [Adam et al. 1992]. All in all, five privatisations were completed by 1990 out of a list of twelve companies which were recommended for privatisation by the Rampersaud Committee,

Guyana

Privatisation in Guyana was adopted as part of an economic adjustment programme to deal with the economic crisis of the 1980s. Sixty three (63) enterprises were listed for privatisation. Between 1984 and 1992 about one third of this number were fully or partially privatised. Two companies (GLL and SIL) were made defunct in 1988 and one bank and a liquor company were partially

privatised through share issues. From 1989 to 1990 three companies were closed (and stocks sold); a timber company (GTL) was fully privatised through the sale of its assets to a Caricom company; and a trading company (GNTC) was partially privatised through the sale of assets to local and foreign investors. These are relatively small privatisations, although the sale of assets of GTL and GNTC brought the government over US$7 million in revenue.

A significant number (13) of full and partial privatisations took place in 1991. Two companies were closed and their assets sold to local and regional buyers; three were fully privatised (to a foreign, expatriate Guyanese and a local investor); the bauxite and sugar companies were restructured through management contracts; whereas the others were partially privatised through the sale of assets or share issues and debt-for-equity swaps. The banks (RB and GBTI) were privatised through the offer of shares to the public. In 1992, a rice milling and marketing authority was fully privatised through the sale of its assets to local investors. On the other hand, a livestock company (LIDCO) was partially privatised through a share issue in a debt equity swap with a Caricom company. A Soap company was made defunct.

Privatisation became actively pursued after 1989 as a result of the structural adjustment programme which the government embarked on with external (World Bank) support. However, it progressed slowly because of the adverse economic conditions. The pace quickened from late 1991 when the economy began to show some improvement in macroeconomic indicators.

The mechanism of share issues to the public was used only in the case of two commercial banks and the packaging company (SAPIL). A Stock Exchange does not exist and a securities market for trading stocks, public share issues and treasury bills is just emerging. The small size of the market and the small number of actors does not make this a suitable mechanism for large-scale privatisations until such time as a Stock Exchange and a regulatory framework are established. Moreover, monetary policy to reduce liquidity (via high T-Bill rates) constrained the use of equity financing.

As the experience in the above three cases show, the privatisation process was very slow during periods of macroeconomic instability; Jamaica 1981-1985, Trinidad 1982-1986, and Guyana prior to 1989. This contrasts with Chile where the government returned over 300 state enterprises to former owners during a period of macroeconomic instability, 1974-1979 [Hachette and Enders 1993]. Inflation was high and stabilisation measures through restrictive monetary and fiscal policies were pursued to effect stability in prices. However, inflation remained high until the early 1980s. After the first phase of privatisation, the economy went into a deep economic and financial crisis. This coincided with the international economic recession of the early 1980s. The mode of privatisation contributed to the crisis; the government offered controlling stock packages as well as credit to investors. Financial institutions gained leverage in many of the privatised companies. The highly indebted conglomerates which resulted from the privatisations became bankrupt in the early 1980s as a result

of reduced economic activity caused by the stabilisation programme [Edwards 1985]. Many of the privatised enterprises were repossessed by the government.

From the Chilean experience, one can say that Jamaica, Trinidad and Guyana were prudent in pursuing macroeconomic stabilisation before embarking on an extensive programme of privatisation. Nevertheless, stabilisation of the Jamaican economy is still to be achieved. However, this has not constrained the continuation of the privatisation programme. What may have changed is the mode of privatisation: greater reliance on private sales rather than on public issues.

3. THE SEQUENCING OF ECONOMIC REFORMS

The economic adjustment pursued by many developing and some developed countries since the 1970s has had varying effects and results. The fact that a number of countries, especially those in Latin America, have experienced 'adjustment crises' such as a liberalised economy but external and internal imbalances have led to a focus on the sequencing of economic reforms.

Studies on sequencing have been undertaken mainly by World Bank consultants (Edwards, de Melo and Michaely) and mainly for Latin America. One of the studies in a World Bank project (1991) on trade and industrial policy in East Asia, looked briefly at the sequencing of reforms and advocated trade liberalisation before financial liberalisation; liberalisation of domestic financial

markets before liberalisation of the capital account; and complete trade liberalisation before liberalisation of capital controls [Edwards 1992].

Studies funded by the IMF during the mid 1980s looked at the question of sequencing to some extent. A major finding is the importance of consistent macroeconomic policy to the liberalisation of the current and capital accounts. The main findings from a survey of the literature on sequencing of economic reforms by Edwards, suggest the following: the extent of macroeconomic disequilibrium will determine the most appropriate reforms and their sequencing; a foreign debt overhang and high inflation will create tension between stabilisation measures and liberalisation goals, especially in relation to the use of exchange rate and tariff instruments; and liberalisation objective may be difficult to attain before the macroeconomy has been stabilised.

None of the studies in the literature surveyed has examined the question of privatisation and its role in the sequencing of economic reforms. However, some studies done for the World Bank and drawing on the Chilean experience, suggest that privatisation should not be pursued in a high-inflation environment. It should be pursued in a macroeconomic environment where deregulation and trade liberalisation have taken place. The privatisation of monopolies should only be pursued within a framework of transparent regulatory oversight by government. With these general insights we now look at the Caribbean experience.

There are two relevant issues regarding the sequencing of

privatisation within a programme of economic reforms. One refers to the sequencing of the whole process of privatisation and the other refers to sequencing within the privatisation process itself, that is, the order in which particular enterprises should be privatised and the phasing of privatisation of individual large-scale enterprises (and monopolies). The sequencing of privatisation is also related to the objectives of privatisation and to the objectives of the adjustment programme as a whole.

The broad objectives of adjustment programmes can be described as the achievement of internal and external balance and the sustainability of export-led and private-sector-led economic growth. Stabilisation and structural adjustment programmes involve managing demand while increasing output, exports and investment inflows. The main policy measures pursued by Caribbean countries have been:

1. Elimination of non-tariff barriers and adoption of tarification;
2. Reduction of tariffs and tariff dispersion
3. Currency Devaluation;
4. Maintaining positive real interest rates;
5. Price deregulation;
6. Reduction of government expenditure (and in particular current transfers to SOEs);
7. Increase in the price of goods and services produced by SOEs;
8. Reduction of income tax rates and simplification of the tax

system;

9. Deregulation of administrative controls on private sector activity; and
10. Divestment of SOEs.

The divestment of SOEs is intended to broaden and strenghen the private sector and at the same time reduce the financial burden on the government and ultimately the tax-paying public. This is the objective of the World-Bank-supported structural adjustment programme (SAP). However, Caribbean governments have had varying objectives in relation to divestment of SOEs. In the main, they embraced the SAP objective of reducing the public sector deficit as part of IMF and World Bank conditionality. However, they were also seeking funds to reduce the foreign debt. In the case of Guyana, the government was seeking foreign exchange because of the serious economic crisis that developed in the 1980s. Jamaica, and to a lesser extent Guyana, adopted the market-oriented philosophy of the lending agencies and embraced privatisation as a strategy for widening the parameters of private sector economic activity. In the Jamaican case, a new government that emerged from elections in 1989 reviewed the privatisation strategy of its predecessor and focused its approach on developing competition and regulation policy to guide private sector development.

In Jamaica, most of the structural adjustment measures were pursued slowly. Trade liberalisation proceeded slowly with non-tariff barriers being removed before significant reduction in tariffs. Price deregulation was carried out in the mid 1980s but

the policy was reversed in pursuit of low inflation to prevent further decline in the exchange rate following the significant devaluations from 1983 to 1985. Reform of the SOEs was pursued to control the public sector deficit.

Seprod, the monopoly that produces oils, fats and soaps was privatised in 1986 before trade liberalisation was significant. The decontrol of its prices further strengthened its monopoly position although the reversal of policy the following year negatively affected that position. The cement company was also privatised before trade liberalisation had advanced and experienced a similar situation as Seprod in relation to its prices. The telecommunications monopoly (TOJ) was also privatised before an appropriate legal and regulatory framework was put in place. A Fair Competition Act has now been put in place and a Fair Trading Commission established (1993) to ensure competitive practices by private sector firms. In what can be called the third phase of privatisation, a packaging monopoly (West Indies Glass) was sold to private interests in 1991. Although significant trade liberalisation had occurred by then, bureaucratic constraints on the importation of competing products ensure monopoly practices by the company. Despite the intentions of the government, the privatised monopolies have not been subject to competition either through import liberalisation or the entry of competing firms.

In Trinidad the privatisations have not been as significnt as in Jamaica. The government sold shares in Trinidad cement company but this company is not a monopoly as in Jamaica; the government

also owns minority shares in the Arawak cement company which is slated for privatisation. The steel company is a monopoly but it has been leased rather than sold outright. In any case, most of the output of the company is geared toward the export market. In Guyana where the number of privatisations have been as significant as in Guyana, two timber companies were sold to regional and local interests. The rice authority was partially privatised and the price of rice (paddy) decontrolled. The sugar and bauxite companies were partially privatised through management contracts. As in the Jamaican case, the telecommunications monopoly was sold (80%) to foreign interests before appropriate legal and regulatory framework could be put in place. The packaging monopoly was only partially privatised. Shares were sold locally through a public offer, whereas shares to foreign and regional interests were transferred through debt-for-equity swaps.

The sequencing of these privatisations were influenced as much by political as economic considerations. The need to indicate serious intention and for a successful case of privatisation led to the privatisation of the telecommunications monopoly in Guyana, GTC, when this company was not even on the original list of firms scheduled for privatisation [Greenidge 1993]. The early privatisation of two large entities, the National Commercial Bank and the Caribbean Cement Company not only gave the Jamaican government its privatisation success stories but ensured through the mode of privatisation (wide share ownership) that the process could not be reversed by the political opposition [Adam et al.

1992].

These cases point to the issue of sequencing of the privatisation process itself. Even though budgetary considerations and the nature of the macroeconomic environment may determine that small and loss-making enterprises be divested first, it the larger and more profitable enterprises that would attract interest and determine the direction and success of the privatisation process [Greenidge 1993]. The length of time and cost involved in preparing enterprises for privatisation (including restructuring) would not allow many large enterprises to be privatised within a short time frame. Moreover, the seqencing of large-scale privatisations is necessary to ensure optimal returns from divestment. The first tranche of a share issue gives an indication of the market price and determines the price of the subsequent tranche.

The issue of sequencing is also related to which enterprises should be fully divested, partially divested or retained within the public sector. The options will depend on what goods and services are being produced by the enterprises. World Bank studies suggest the following.

The firms producing private goods such as food and clothing could be fully divested in private offers even in cases where they may be monopolies since policies could be pursued to ensure a competitive market. Enterprises producing 'collective' goods such as road maintenance, street cleaning and garbage collection can be contracted out as is already the case in Jamaica. Government can

fully or partially privatise enterprises producing 'toll' goods, namely electricity, water and communications. The franchising method tends to be common in the case of utilities and road transport [Paul 1985]. Given the length of time and complexity of the privatisation process, developing countries such as those in the Caribbean should pursue partial privatisation as a first option, that is, contracting, franchising and leasing [Greenidge 1993].

The option of liquidation of entererprises has not been pursued by many developing countries. Chile pursued this option during the second phase of privatisation and in relation to some of the enterprises that government had repossessed after the earlier privatisations. Guyana also pursued the option of closure. About five enterprises were closed between 1989 and 1991. Closure resulted from the failure to successfully negotiate a sale. A glass factory (GGL), a restaurant (Sijan Plaza) and the road transport company (GTSL) were among the SOEs that were closed [Greenidge 1993, p.18].

The foregoing suggests some general guidelines for pursuing privatisation options within the context of a structural adjustment programme. Given the fiscal imperatives of the latter, SOEs should be restructured (commercialised) to improve both finncial and economic efficiency. Enterprises in non-strategic industries and in sectors where similar firms operate, should be sold first, through private sales. SOEs which are monopolies or operate in strategic sectors should be divested only after specific policies

have been formulated for the sectors/industries and a legal and regulatory framework has been put in place to promote contestable markets. The next stage that suggests itself is partial privatisation through management contracts, leases, franchises and the partial sale of shares, with the final step being full privatisation. How the last step is pursued will depend on the particular conditions within each country.

A number of lessons from individual country experiences can be drawn. The case of New Zealand shows that full privatisation can be pursued using the method of open bids. This can solve two problems: eliminates the cost of underwriting share issues; and removes the pressure on the domestic capital market whose absorptive capacity for large numbers of shares may be weak [Jones 1991]. If the objective is to broaden the ownership base then share sales to small investors can be pursued in respect of enterprises (such as banks) which operate in markets that are competitive to some extent (cases of Chile, Jamaica, Guyana and Trinidad). Shares can also be sold to the employees of the firms to be privatised, in full as was the case of the Government Printery in Jamaica or partially as in the case of the Chilean computer firm ECOM which controlled 50% of the Chilean market. In countries where a vibrant private sector does not yet exist government may retain majority ownership in a partially privatised enterprise as was the case of the telecommunications monopoly in Trinidad.

The study of privatisation in itself is a complex matter.

When other elements of structural adjustment are added this only adds to the complexity. This means that more indepth case studies examining the interrelationship between privatisation and other aspects of adjustment programmes would have to be done. Nevertheless, from our survey of a number of studies done so far on privatisation, we can attempt to delineate some policy prescriptions in respect of privatisation and other economic reforms that are being pursued by many Caribbean countries.

The policy matrices in the diagram below show macro and micro policy actions that should be taken under specified macroeconomic conditions, and the policy actions regarding state-owned enterprises that should be pursued in conjunction with the other policies.

In a high inflation environment (where the inflation rate exceeds 60 percent), and in which the foreign debt and the trade and budget deficits are large and domestic savings are low, trade liberalisation should be pursued slowly. Government expenditure should be reduced and interest rates should be significantly increased to restrain demand but significant exchange rate changes should be avoided. Policy actions in respect of SOEs should be to reduce current transfers (subsidies) to most of these enterprises, and to commercialise them by changing their legal status where necessary and leasing the enterprise or contracting out its management. Enterprises can be partially divested with government retaining majority shares. Small enterprises and larger ones in non-strategic industries can be fully divested through private

sales or through share issues where markets are competitive.

Macro-economic Conditions

Inflation	Foreign Debt	External Trade Balance	Savings	Government Budget
High > 60%	High	Large Deficit	Low < 15%	Large Deficit
Medium 20-60%	Medium	Small Deficit/ Surplus	Medium 15-20%	Smaller Deficit/ Surplus
Low < 20 %	Low	Surplus	High > 20%	Surplus

Macro-policy Actions

Reduce NTBs and Tariffs	Liberalise FX Market	Liberalise Domestic Capital Market	Devalue	Adjust Interest Rates	Fiscal Policy Action
Slowly	No	No	Small change	High	Reduce Expenditure
Faster	Yes	Yes	Possible large change	Medium	Raise Non-Income Taxes
Fast	Yes	Yes	Stabilise	Low	Reduce Income Tax

Policy Actions Toward SOEs

Government Expenditure	Restructure SOE	Partial Privatisation	Full Privatisation	
			Action	Conditions
Reduce Current Transfers to SOEs	Commercialise	Lease; Contract; Franchise; Government Majority Shares	Small/Large Private Sales; Share Issues	Non-strategic Industries; Non-monopolies; Competitive markets
Increase Prices and Tariffs			Employee Buy out Large Private Sales; Large Share Issues	Legal Regulatory frame-work for competition; Legal Regulatory frame-work for monopolies

As macroeconomic conditions improve (from rows 2 to 3 in diagram), trade liberalisation can proceed at a faster rate and the domestic capital market can be liberalised followed by liberalisation of the foreign exchange market. Exchange rate action would be determined by the rate of trade liberalisation and the level of inflation. Low inflation and a high savings rate would facilitate reduction in nominal interest rates. Larger privatisations through local private sales or share issues become

feasible under these conditions. Employee buy-out of enterprises and sale to small-scale investors are options than can also be pursued. For large sales of enterprises that are monopolies or oligopolies a framework for regulation or competition should be established to curb monopolistic behaviour.

4. CONCLUSION

Our policy matrix in the last section was in effect our conclusion from this phase of the research. What we will do in this section is briefly discuss a central issue that is both an objective of structural adjustment and a condition for successful privatisation of state-owned assets. That issue is competition and it becomes important when governments embark on a significant programme of liberalisation and deregulation which is intended to release competitive market forces.

In markets where competition already exists, competition between firms should effectively regulate the behaviour of privatised firms and induce internal efficiency. Where the firm to be privatised has a dominant market share and hence market power, then contestable markets should discipline firm behaviour. This means that firms are vulnerable to threats of entry by new firms. Effective government regulation is needed to enforce contestability as dominant firms can constrain entry by new firms. In the case of natural monopolies governments tend to rely on regulation. But this can prove ineffective especially where natural monopolies and

other dominant firms are foreign owned.

Structural break may be a better mechanism for ensuring competitive practices. That is, the firm can be broken up into two parts, one of which is amenable to competition and the other where competition is not feasible. An example is the electricity company which can be vertically separated into generation where competition is possible and transmission and distribution where competition is less feasible (the case of Chile disproves this infeasibility). The interrelationship between the two sectors has to be clearly specified. The effectiveness of this strategy as against the strategy of regulation of a monopoly is demonstrated in the telecommunications industry in the US and UK. In the US, the long-distance sector of AT&T was separated from the local operations. On the other hand in the UK, British Telecoms was privatised intact as a monopoly with the government relying on regulation whose effectiveness has been in doubt [Vickers and Yarrow 1988].

In the Caribbean, the telecommunications monopolies have almost all been sold intact to foreign interests without adequate relatory framework being put into place. The question is whether regulation would be any more effective or would not be far less effective than it is in developed countries such as the UK. The issue of regulation is now occupying governments in countries such as Jamaica and Guyana because of monopolistic behaviour: the suspension of collect calls in Jamaica and the hike in telephone rates in Guyana. More research is needed in the region on the role of regulation vis-a-vis other modes in ensuring competition.

Empirical research on this question is presently in progress and should provide further insights into policies regarding privatisation and other structural adjustment reforms.

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