

# T&T 'SICK'

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Senior Economics Lecturer Dr. Roger Hosein

Trinidad and Tobago's economy is sick and whether there is a cure in sight is still to be determined. "Three main things summarise the state of our economy and where we exist in the global economy: Dutch Disease, Baumol Disease and the Shale Gas Threat. They don't hold the attention of the media as they should, but these are the three principal problems engaging T&T's economy and all other problems stem from them," senior economics lecturer Dr Roger Hosein said last Friday.

Hosein, Co-ordinator of the Trade and Economic Development Unit at the Department of Economics, UWI in St Augustine, was delivering the feature address at the Employers Consultative Association's (ECA) Annual General Meeting at the Hilton Trinidad, St Ann's. And like many extant medical conditions, these diseases are overshadowed by apparently healthy factors. "The rapid increase of (energy revenue) in recent years and the rapid rate of growth in the T&T economy during the period 1994 to 2008 led some commentators to become comfortable with the state of the economy. And if you look at the fundamentals—you could be forgiven. Commentators started to look at the aggregate figures and felt comfortable in the cushioning provided from these numbers," Hosein said.

He used a cricketing analogy—easily recognisable in the Caribbean—to illustrate his point. "If you see Brian Lara in the crease and on the board you are seeing 500 or more runs you can tend to get carried away with the aggregate score and think the West Indies are doing well. But the fundamental truth is that Lara made 400 or 375 out of that score and monopolised the total output. So it is important to consider while some of the macroeconomic indicators like US\$9 billion in foreign exchange reserves, almost a year import cover and a US\$4 billion Heritage and Stabilisation Fund, all is not well," he said. But despite these strong indicators, there have been other concerns—some seemingly omnipresent since independence and other new features of a changing world—that need to be urgently addressed. These, in Hosein's opinion, include:

- Dependence on petroleum sector (Dutch Disease)
- Lower productivity growth in services sector (Baumol Disease)
- Global export markets evolving (the threat of Shale Gas)
- The real effective exchange rate
- Rising debt to GDP levels
- Full employment in a stagnant economy (and government intervention)
- Transfers and subsidies

Continuing with his cricket analogy, "While Lara is in the crease making his runs, nobody is uncomfortable because the current account balance is in surplus, the fiscal balance is in surplus

and everything seems nice. The problem is, you are going to realise you are unable to sell other goods abroad only when Lara is out. Only when the reserves for production of oil come down to zero and there are no natural resources to bail you out, you will be asking sugar for money, and cocoa for money, and coffee for money, and not going to get it because you have decimated those industries. While Lara is making these runs means while oil was accumulating all this wealth, we did not pay enough attention to the world class cocoa and coffee and tourism sectors we keep boasting about that are now so underdeveloped, and that is a key variable,” Hosein said. “Whilst the overall growth performance on paper looks fine, especially after 2008, we have a series of negative growth.

As a UWI economist, I was surprised to see the overall growth rate for 2012 being 1.2 per cent knowing that the growth rates in the previous quarters were negative,” he said. “We have found ourselves in extreme dependence (on energy): 92 per cent of foreign direct investment, 55 per cent of fiscal revenue, and 86 per cent of export revenue was in the petroleum sector. That is a lot of dependence from a sector that employs three per cent of the labour force. Dependence of any form macroeconomically is always associated with volatile macroeconomic growth,” he said. Pointing to the real effective exchange rate (REER), a trade-weighted, inflation moderated exchange rate, he said, “If we modify the exchange rate (currently TT\$6.44 to US\$1) taking into consideration the inflation rates in those countries, what we want is a figure as close to 100 per cent as possible, which means we are maintaining our tariff level at a certain level. What (our research) has found is that the REER has increased sharply to about 135 per cent, which means our goods are 35 per cent overvalued.” While he does not believe the currency needs to be devalued, Hosein says urgent steps to increase T&T’s competitiveness need to be taken—like improving the ports, ease of doing business and the traffic congestion situation. “Anything that can decrease domestic price level will improve this,” he said. That competitiveness may be hindered by the effects of government intervention—mainly through transfers and subsidies and manipulation of employment levels. “(Our UWI research has shown) a sharp inverse relationship between transfers and subsidies, almost indicating in the economic sense that one causes the other. Using the language of statistics, from a temporal precedence perspective it seems that an increase in government transfers and subsidies is what is bringing the unemployment rate down in T&T,” he said.

Hosein’s research showed that even though the national unemployment rate was 4.9 per cent as stated in the latest Central Statistical Office data for Q2 2012, in certain geographical areas the rate is much, much higher—Mayaro/Nariva at 13 per cent; Point Fortin at 18 per cent; and 2.3 per cent St George. The unemployment rate may be falling but the number of people working fewer than 33 hours in a week—what in economic terms is under-employment—has increased. It should be noted that Port of Spain, and in particular, the communities of East Port of Spain, including Morvant/Laventille in St George West, are the primary targets of several government-funded make-for-work projects like Colour Me Orange. “The people in charge of labour market decisions should probably consider some kind of sectorial labour market policy... (This make-work intervention) needs to be addressed. We need to pay attention to providing long term sustainable jobs in the economy because (make-work programmes) tend to nurture a cyclical, generational mindset,” Hosein suggested. It’s the same thing with the fuel subsidy, he said. “The changes made in the last Budget need to continue. At the end of the day we simply cannot afford a fuel subsidy.” The Government Assistance for Tuition Expenses (GATE) programme is also

another government project Hosein feels needs to be reconsidered. “I helped design GATE, but not in the current configuration. My suggestion is to give universally 50 per cent of the fees, and the remaining 50 per cent should be assessed on a needs basis. If you can afford it, pay your money, because this is a merit good, not a public good. GATE is certainly a good example of where there has been misallocation of the use of economic rents (acquired during a boom).” He added that regarding productivity and wage increases, the demand for wage increases has outstripped our productivity. “We make unreasonable requests sometimes,” he said.

Hosein said while the government has recognised the need to improve the fiscal regimes relating to the Energy Sector, one of the biggest failures of the T&T government is the Economic Development Board (EDB). While this country was celebrating the discovery of 1 trillion cubic feet of gas last year, improved technology has unveiled the potential to extract 500 times that amount in the US, which was once our most lucrative export market—now set to become a net exporter. Other shale gas discoveries in other parts of the world will inevitably lead to changes in price, Hosein says. “The EDB is the think tank institution to tell us who to sell to, which country is best compatible with ours, and whose production pattern best locks on to our import pattern. Nothing like that is done. We just sell to whom we traditionally sell to. What is the comparative advantage of this economy besides oil? We need to know what is our genuine comparative advantage, and who is our natural trading partner. We had a rude awakening with natural gas. The EDB should have stepped forward and recognised a potential shale gas threat three years ago,” he said.

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