University of the West Indies

SALISES WORKING PAPER SERIES 1

Jamaica's Debt-Propelled Economy: A Failed Economic Strategy and Its Aftermath

Donald J. Harris

FIFTY/FIFTY

SURVEYING THE PAST TO INFORM THE FUTURE

SIR ARTHUR LEWIS INSTITUTE OF SOCIAL AND ECONOMIC STUDIES

Jamaica's Debt-Propelled Economy: A Failed Economic Strategy and Its Aftermath

Donald J. Harris

Professor Emeritus of Economics
Stanford University

SIR ARTHUR LEWIS
INSTITUTE OF
SOCIAL AND
ECONOMIC
STUDIES

ISSN:

An earlier version of this paper was presented to the First National Economic Forum, on "Economic Growth Agenda", sponsored by the Jamaica Chamber of Commerce, held in Kingston, Jamaica, October 13-14, 2009. Excerpts were subsequently presented in a 3-part series of essays in the Daily Gleaner, entitled "The Debt-propelled economy: failed economic strategy", October 25, November 1 & 8, 2009.

Jamaica's Debt-Propelled Economy:
A Failed Economic Strategy and Its Aftermath

Table of Contents

Jamaica's Debt-Propelled Economy: A Failed Economic Strategy and Its Aftermath

Donald J. Harris

1. Summary

Jamaica now faces the critical issue of how to pull the economy out of the ditch it finds itself in and the painful adjustments that process will undoubtedly require. It is necessary to examine how exactly the country got itself into this situation. The purpose of this exercise is not to assign blame. Rather, it is an essential prerequisite for understanding how to get out of the ditch and to move forward. Accordingly, in this paper, I seek (a) to draw out some of the crucial lessons to be learned from the experience of economic policies actually pursued in the period since 1990, and (b) to derive from this analysis some constructive proposals for action now.

Starting in the early '90s, concerted efforts were made to design a new economic growth strategy, the National Industrial Policy.[1] This Policy (NIP) was officially adopted by the government in 1996. The basic point of the analysis presented here is that the core economic strategy actually pursued by the government, when examined in its totality, was very different from the announced strategy. The strategy actually pursued I call the strategy of a debt-propelled economy. The NIP was, instead, explicitly based on a strategy of export-led growth. I argue that the strategy pursued ultimately proved to be unsustainable, self-defeating, and undermined the very goals of the NIP. My proposals for action follow directly from this basic finding.

2. Two Different Types of Economic Strategy

It will help to see the thrust of my argument if one keeps in mind a sharp distinction I have made elsewhere[2] between two types of economic strategy:

---

[1] For the purpose of full disclosure, I should indicate that I worked as an economic consultant for the Government of Jamaica (GOJ) on and off during the period 1994 to1998, in the process of developing the NIP. That was an exciting time, with much talk, vigorous debate, as well as some action in moving the ball forward policy-wise. The NIP emerged from the heat and light of that time. I would like to acknowledge here the extraordinary team-work, done by a large number of dedicated, smart, and talented people, which went into laying the groundwork for this project, and bringing it to fruition as a comprehensive strategic plan for national development based on genuine participation by a wide cross-section of the public. (See the Acknowledgements at the end of this report.) Some are representatives of the highest caliber and finest traditions of the Jamaican civil service, and some are prominent voices from the private sector who have long been laboring in the fields on behalf of themselves <u>and</u> the national interest.

[2] In the specific context of the Jamaican economy, export-led growth is discussed in detail in Harris (1997). The concept of the Jamaican economy as a "debt-propelled economy" was introduced in a speech that I gave to a symposium held at UWI in 1986 (published in the booklet (Davies, 1986) and is developed further in a forthcoming paper (Harris, 2009).

(1) the strategy of **export-led growth**;
(2) the strategy of **a debt-propelled economy**.

The essential distinction between them is in the source of the dynamic that drives the economy. To put it simply, in one case the momentum of the economy is driven by exports. In the other it is driven by debt. I argue that these two strategies are not only fundamentally different and incompatible, but also mutually opposed (certainly in the experience of Jamaica, though one could argue for strategic convergence in other historical cases, e.g. South Korea).

The debt-propelled economy is a path followed for a very long time in Jamaica, by a succession of different governments.[3] Having failed to wean public policy off it, the country now has to face squarely its consequences and the task of cleaning up the results it has produced. And what an immense task that is turning out to be!

It was evident all along that there were deep structural problems in the Jamaican economy that were not being addressed by public policy, except perhaps by a succession of short term palliatives. My studies of the actual empirical record of long-term trends up to 1989 showed that there was a "dramatic change in economic performance" or "striking structural discontinuity" that occurred around 1974-75 (Harris, 1990, 1994). This break was represented most significantly by a decline in the long-term growth rate of exports from a previous average of 9.3 % per annum to a much lower rate of 2.4%, while GDP went into a steep decline at a rate of -0.24%.

It was already clear also that export growth, at that slower pace, could be carried along for a while by the continued growth of bauxite and tourism (each running into its own predictable headwinds), aided by the newly emerging apparel industry (sheltered under the protective but fragile umbrella of the Caribbean Basin Initiative), while the traditional vessels of bananas and sugar (mainstays of support during earlier expansionary eras while operating under heavy protection from the "mother country") had already sprung major leaks. The only real hope for creating new momentum was to bolster some of the ongoing export activities that could foresee good prospects and to diversify strategically into new product lines.

[3] In the turbulent times of 1986, similar in many ways to today, there was a lot of talk about "the debt problem" in Jamaica, directed at the government then in power. The conference presentations published in Davies (1986) were a part of that dialogue. Looking forward presciently to the perpetuation of this "debt problem" for a long time to come, I was warning then: "I should emphasize that this is not only a short term crisis problem. I think that there is a fundamental error in the existing discussion which seeks to make it appear that this is merely a short term adjustment problem. My argument here is that it is a permanent built-in feature of the economy because that overlay of debt obligation will continue to ramify for another 25 to 30 years." (Davies, 1986, p. 78). We are now only 23 years out from that time, and still in the same fix. Future historians may find a certain historical irony in the fact that the person who edited the presentations of that conference for publication came later to occupy the seat of Finance Minister and helped to perpetuate the very same "debt problem" that was theretofore being questioned. My point here is not intended to single out any particular individual. Rather, it is to drive home the important point that the debt-propelled economy has been around for a very long time in Jamaica and systematically pursued by a succession of different governments.

The NIP aimed to break out of the mould of the past and to tackle these problems in a forthright, comprehensive, coherent and concerted manner. This innovative effort took place in a striking historical context in the early '90s when the world economy was changing rapidly and offered both challenges and opportunities that required moving to a more proactive and agile mode of response.

3. The National Industrial Policy

The innovative approach and rich details of the NIP, as regards its strategic focus, core policies, sectoral strategies, and proposed implementation strategy, can be more usefully studied by reading the original policy-document (GOJ, 1996). It will suffice here to review briefly its overall content and scope.

First, let me quote from the Foreword:

> Let 1996 be the year in which we move forward boldly by building up the momentum of growth and development to take the country into the 21st century. (p. ii) … At a minimum, we must set ourselves the goal of achieving a per capita income of $4,000 by the year 2010. This requires an average annual growth in GDP of six percent. (p. iii) … At the same time, the government is committed to developing an integrated and structured approach to economic policy. … Accordingly, policies for stabilization of the macroeconomy must be integrated with policies for promoting growth and diversification of production. … The process of policy making and implementation requires building consensus among all actors. To this end, the Government is committed to building and sustaining a Social Partnership, bringing together the leadership of the country in all areas (p. iv).

and from the Executive Summary, on the important matter of "Policy Implementation" (leaving out here key details regarding the proposed "time-phased sequence of implementation strategies"):

> Implementation of the Policy will proceed according to a three-phased overlapping sequence of strategies … The strategy in each phase has its own set of well-defined priorities and economic measures, designed to achieve definite results within the relevant time-frame and to lay the groundwork for the next phase. (p. 8) …
> Central direction, coordination, integration, and monitoring of the overall Policy will be provided by an inter-ministerial council, headed by the Prime Minister. This is to be called the Development Council. The Development Council will seek to focus attention on meeting the fundamental objectives of the Policy and on assessing performance within the relevant time-frame. (p. 11) …

> The entire network of public sector agencies will be called upon to implement particular strategies, programmes, projects, and action plans, in line with the requirements of the overall Policy. Those agencies must therefore be structured and operated in a manner consistent with timely, efficient, and effective implementation of policy. (pp. 11-12) …
> A consultative system will be put in place to allow systematic and regular interaction between the Government, business, labour, and NGOs. The aim is to promote an active partnership, on a continuing basis, so as to share ideas on policy and strategy formulation, to explore issues, and to resolve problems. (p. 12)

What is crystal clear from careful reading of this document is that the NIP was aggressively, assertively, and explicitly based on **a strategy of export-led growth**. Its rallying cry was "building international competitiveness", aiming towards the goal of export growth and diversification. It accepted the essential role of government in creating the enabling environment for investment, while relying on owners and managers of Jamaica-based firms to strengthen their internal conditions, by increased productivity and efficiency in the use of machinery and labor, upgrading technology, training of workers, improving product quality and diversity, finding new markets, and other entrepreneurial initiatives.

The basic frame of the policy is shown in the following graphs taken from the text of the document.

Graph #1 shows the comprehensive scope of the overall Strategic Plan summarized in a Policy Matrix.

Graph #2 shows that the NIP was conceived as the basic foundation on which would be erected a policy regime that would focus on **investment as the central pillar** for building a production system for "growth and diversification of tradable goods and services" – in short, for an "export push". Within the ambit of the NIP, specific policies for investment promotion, infrastructure development, and for providing a "support framework" would be geared to that objective. All other policy mechanisms and tools would be subordinated to that objective.

Graphs #3 & #4 show that the policy was concretely focused on targeted production-sectors, forming an identified group of **five "strategic industry clusters"**. These clusters were seen as having the potential for sustained growth, through reliance on the strengths of leading sectors ("growth poles") within each cluster and on the synergies that could be created by exploiting linkages with other sectors and sub-sectors inside the cluster and between clusters. Broad-based technical support was seen as coming from the already strong and growing sectors of Information Technology and Telecommunication.

Graph #5 shows the proposed time-sequence of implementation strategies.

4. The Factual Record of Economic Performance

So, what went wrong and why? And what needs to be done now in order to get it right? Providing a compelling answer to these questions is an essential prerequisite for understanding how to move forward.

For this purpose, it is important to begin by placing some key facts on the table, describing what actually happened. The data presented in the following Graphs are all based on official data sources.

1. The basic and general economic trend during the period under review is summarized by three conspicuous features, shown in Graph #6:

* Total public debt mushrooms exponentially after 1994/5, reaching a peak as a percentage of GDP (124%) in 2003 and a peak level of US$14 billion in the last two years, three times the size of the early '90s.
* Meanwhile, Gross Domestic Product remains nearly flat, growing at a negligible rate of 0.9% on average for the whole period.
* The (nominal) exchange rate falls through the floor; the Jamaican dollar, which was worth US$0.14 in 1990, falls to slightly more than 1¢.

This is a dismal performance by any standard, whether viewed in terms of (a) the payoff to the country as a whole in terms of growth of real output from accumulation of a vast amount of debt, or (b) in comparison with other countries that were able to take advantage of the opportunities available in a time of rapid growth in the world economy to grow themselves at a high rate. In fact, it would not be too much of an exaggeration to say that an economic catastrophe was wreaked on the country, because, just like the recent hurricane Dean (2007), or before that, Ivan (2004) and Gilbert (1988), the country is now left with the obligation of an enormous mountain of debt to pay back and the responsibility to clean up the damage that was thereby created.

Note two interesting and, in my view, highly important features of this performance:

(a) the timing of the takeoff into exponential growth of the debt coincides pretty closely with the decision to leave the IMF in 1995;

(b) the timing of the takeoff also coincides pretty closely with the introduction of the NIP in 1996.

Taking these two coincidences together might lead one to intuitively grasp that this was not a <u>mere coincidence</u> but, instead, that there is a <u>causal connection</u> between them, i.e. that one thing led to another and then to another. Specifically, that leaving the IMF led to a regime of fiscal indiscipline; and fiscal indiscipline led to undermining the NIP. That intuition, in my judgement, would not be entirely wrong, but it would require some further analysis to give it legs. I want to try to cast some light on this issue here.

2. Graph #7 shows that financial institutions were doing pretty well for themselves in terms of profitability, judging from the size of the average spread between lending and deposit rates, with a heavy bias in portfolios in favor of government debt. At the same time, depositors were evidently getting hit with negative real returns on deposits. Another interesting feature worth noting is the long lag, of about five years, in adjustment of loan rate to a declining inflation rate, as shown in Graph #8. Looking closely at the actual *performance* of the financial sector in terms of both the length of this lag and the size of spreads in comparison with other financial markets in the region and elsewhere (coupled with casual observation of the actual *structure* of the financial market in Jamaica) leads to the reasonable inference that there was (is) no such thing as a competitive market for finance in Jamaica. My sense is that the market has been dominated by a few banks and finance houses which have been able to exercise a great deal of market power.

Now, looking at the overall picture drawn so far, one finds that there are two basic things operating here. On the one side, there is a government that is addicted to deficit spending (see Graph #13); this is evidently what lies behind the mushrooming public debt. On the other side, there is a financial industry, with an apparently monopolistic market structure, that is feeding off the trough of government debt. These two things seemingly go hand in hand, and appear to be mutually supportive of each other. Some would conclude, perhaps not too rashly, that this is a very unhealthy situation for a country. I myself find it to be at once <u>the most intriguing and yet the most revealing feature in the picture of what has been going on in the Jamaican economy during the period under review.</u>

3. This feature of the picture is reinforced when we look at the next graphs. Graphs #9 and #10 depict what is happening on the production side of the economy (the time periods are separated because of the difference in the deflator used for the two periods). What we see here is an extraordinary and phenomenal transformation in the structure of the Jamaican economy. At the outset, in 1992-1993, manufacturing is more than one and a half (actually 1.7) times the size of finance and insurance. By 2007 the situation is completely reversed: finance and insurance become 1.4 times the size of manufacture (and that does not take account of the sizeable growth in inter-sectoral payments from all other sectors to the financial sector, what the national accounts call "financial intermediation services"). It can be readily seen from the graphs that the crossover point is dated at around 2001. A similar process of relative decline occurs in agriculture, which goes through a sharp decline starting in 1997 to a new low in 2007.

Looking at the actual sector shares in 2007: Finance & Insurance (11.2%) is almost as big as Government (11.7%) and slightly less than Transport & Communication (12.3%). The biggest sector is distribution (Wholesale, Retail, etc. = 18.9%), and the financial sector is approaching it very closely if one adds in financial intermediation services.

It appears, then, that the financial sector has grown to become a real behemoth of an industry and, instead of complementing and reinforcing growth in the rest of the economy, its growth has been opposite to and, I argue later, detrimental to much of the rest of the economy.[4]

4. The dismal picture of economic performance also shows up on the foreign-trade side. During the previous decade, 1986-95, exports of goods and services grew at a pretty good pace of 9%, an uptick from the previous pattern. In the following decade, 1996-2005, the growth rate fell back to 1.3%. There has been a slight increase since then to about 3% but that is still far below the achievement of the previous decade. Graph #11 shows clearly the overall pattern of trade as one of relatively stagnant exports and rapidly growing imports, such as to create an ever growing trade-gap to be paid for by inflows of credit and other finances. Remittances also served as a cushion throughout the period to support this gap.

5. Finally, to fill out the picture, consider what is happening within the financing operations of government. As shown in Graph #12, most strikingly, interest expense grows as a share of total revenue, reaching a peak of 60% in 2003/04, twice its initial level in 1990, before falling back to about 40% in 2007/08. At the same time, the share of capital expenditure falls from an initial high of 18% to a low of 3%, recovering later to a level still below its earlier high point. Expenditure on programs also undergoes a diminishing share. Clearly, interest expense managed to crowd-out all other major items of expenditure, except for wages and salaries, and remains as the dominant component of government expenditure.

In summary, this is the factual record of economic performance. To be fair, it must be said that significant economic gains were made in some areas during the NIP period, particularly in investments in hotel facilities and in highway construction. However, a final accounting of these projects requires a thorough cost-benefit analysis not yet made, taking account of the actual cost-overruns involved, the quality of work done, the environmental effects, and the opportunities forgone. Moreover, in the final analysis, the actual strategy must be judged by its total outcomes over the entire duration, not by picking and choosing the high or low points.

5. Explaining the "Economic Muddle".

I consider now the question: how to explain this pattern of economic performance? By analysis of the economic strategy actually pursued by the government, I show here that the observed outcomes are due, at least in part, to deeply rooted flaws in that strategy.

[4] The profound shifts identified here in the productive structure of the economy must correspondingly have had far-reaching consequences for the pattern of personal income distribution (specifically the components of wages, interest, and other property income). There must also have been a correspondingly significant influence on the structure of economic incentives (specifically, incentives for the direction of entrepreneurial effort, employment of labor, and individual investment in education and training). These consequences are not examined here, but certainly deserve much closer study.

First, let me clear out of the way some misleading approaches to this question. Official accounts and public discussion emphasize the role of "shocks" as causal factors, some "external" (oil price increases), some "natural" (hurricanes), and some supposedly random and unexpected (Air Jamaica debt, FINSAC debt, public sector wage adjustments). All such events are presumed misleadingly to be outside the control of decision-makers in government. This approach obscures more basic underlying forces in the economy and leads to confusion in policy analysis, particularly as regards the role of debt.

Total national debt incurred in this period is indeed a big and cumulative "shock". More important, it is also a continuous, persistent, and sustained condition, and the result of basic decisions by the authorities. Debt is debt, whatever its source. As the public debt grows, decisions are made to incur it, about how to manage it, and there are consequences of such decisions. It is a measure of good (or bad) statecraft how that process is managed. With bad statecraft, debt can propel the economy into a ditch.

There was also talk, during this period, about a mysterious "economic model" that the authorities were supposed to be following as the basic guide to their decision making. I have looked hard but never found an explicit account of what that model was. I did distribute and later published a formal mathematical model to explain some of what was happening back then, showing specifically that there were "fundamental imbalances" in the economy and that "the policy regime is necessarily boxed into a tight corner" (Harris, 1999), but this was a far cry from what the authorities were saying. My analysis is developed further in a forthcoming paper (Harris, 2009).

Nonetheless, it is possible to unearth, by deeper probing, the underlying economic strategy actually pursued and its implications. This is what I try to do here. The analysis is based on a straightforward application of demand and supply analysis, looking out from the pivotal window of the foreign exchange market (see Graph #14). To achieve clarity of exposition, since there are many different factors at play at the same time, the main points are enumerated and ordered as follows.

1. The explicitly declared policy priority of the government was what it called "macroeconomic stability". This stance, when it is examined closely, comes down to one and only one thing, i.e. **a single-minded focus on defending the nominal exchange rate**. (Recall that this policy came into play after a period when the government had been operating a strictly managed foreign-exchange "auction" and deployed officers of the Bank of Jamaica to scurry around the countryside with suitcases to ferret out whatever foreign currency they could find, or relying on generous benefactors to come to the rescue of the auction with timely donated cash and loans. Leaving behind this unwieldy, fragile, and ineffective system, the foreign exchange market was "liberalized", supposedly to allow the market to find its own level. But it was not the case of a freely floating, flexible exchange rate regime. Rather, the government was now operating a kind of "dirty float" in which the authorities would seek to intervene as deemed necessary to keep the market "stable".)

2. **This single-minded approach itself is already to be seen as the indication of a fundamental flaw in the strategy being pursued**. This is because, to engage in a little bit of policy speak, there has to be as many policy instruments as there are objectives in a policy. So, if your objectives also include export growth, then you have to deploy other policy tools to meet that objective, besides the exchange rate itself and the tool used to defend the exchange rate. Moreover, you end up with **a basic contradiction** (or "policy inconsistency") if the instrument you are using to defend the exchange rate is also destroying the objective of export growth. What I go on to show in the rest of this section is exactly how this contradiction plays out in the strategy pursued by the government so as to make that strategy self-defeating, unsustainable, and destructive of the goals of the NIP. The argument is somewhat tedious and, in parts, a bit technical. So, the reader who is impatient with following the details can safely move on to the next section.

3. The setting is one in which, throughout the period under review, **there is heavy pressure on the exchange rate due to excess demand in the foreign exchange market**. The important thing to note here is that the biggest source of excess demand comes from the government itself. The government is the biggest player in the market on the demand side, because of heavy borrowing to meet its financial requirements: the current budget deficit, plus debt service obligations for past debt, plus building up the international reserves, plus a portion of imports associated with the expenditure side of the government's budget. What this situation amounts to is that (one branch of) the government is busy trying to defend the exchange rate against demand pressure in the foreign exchange market, while (another branch of) the government itself is busy creating the demand pressure by its heavy requirements for foreign exchange.

One could say that it is a case of the right hand not knowing what the left hand is doing. I prefer to think of it, and I said so at the time, as the case of a dog furiously chasing its own tail. The aptness of this image is reinforced by considering further points to be made below.

4. **The key instrument, the government's weapon of choice, for defending the exchange rate is the interest rate**. This is based on the seemingly reasonable calculation of the so-called "arbitrage condition", i.e. that liquid funds will go where they can get the highest return, therefore you want to keep the interest rate just high enough, say, epsilon above the next best option, so as to induce a sufficient flow of funds into the market to relieve the pressure of demand and meet the volume requirements of government paper on offer to the public. From some of its published reports, this appears to be what the government was saying in defense of its interest rate policy, i.e. that it is a necessity dictated by financial arbitrage. In my view, this argument is simply not supported by closer scrutiny. Why?

a) From the data presented here, note that the interest rate differential was quite large, much greater than a mere epsilon above the next best option, say, the T-bills offered by the USA and Trinidad & Tobago, and greater than any reasonable estimate of the relevant financial risk premium.

b) Interest rates on GOJ paper remained high even after USA T-bill rates started falling, the latter dropping eventually to near zero when the Jamaica T-bill was still paying upwards of 20%.

c) The argument strictly assumes that the domestic financial market is highly competitive, with arm's length trading among all participants, which it is not, as I suggested before.

One could argue, instead, that the government failed to leverage its own powerful position in the market (at least in the domestic market). Effectively acting as a *monopolist* in the domestic market, the government was selling one of the best financial products, bonds that (for a time at least, before they were subsequently downgraded) were highly rated because of a constitutionally ratified government guarantee against default. The authorities should have been able to exercise countervailing power, certainly in the domestic market, against the *monopolistic power* of local banks and financiers. My sense is that they did not. In effect, they were allowing the banks to run rings around them and hold to ransom the national treasury.

5. **The supplementary weapon used to defend the exchange rate is the international reserves**. Buildup of massive reserves, though itself a source of excess demand in the foreign exchange market, is supposed to be a threat held by the government over the heads of agents in the market to enforce market discipline. But, if it is going to be perceived as *a credible threat*, then it has to be used forcefully and in a timely manner. My sense is that the authorities were not very adept in using this weapon, for the following reasons:
(a) simple correlation of net changes in the reserves with movements in the exchange rate shows a significant lag in response and no significant or direct correlation with subsequent movements in the exchange rate;
(b) forceful use of this weapon should also have helped to tamp down domestic interest rates, but the data show no significant effect there either.

It also has to be recognized that there is an *opportunity cost* involved in holding the nation's wealth in reserves. The reserves are, strictly speaking, capital assets that are sitting idly in portfolios held abroad, presumably in US treasurys, and earning a pittance compared with the general capital market or with the "sovereign wealth funds" of other countries. The country is thereby losing out on possibilities for gain that could advance the social interest.

6. **The interest rate is a two-edged sword**. It can be a powerful weapon, used skillfully as a tool to manage the foreign exchange market. But it has another side: **it drives up the cost of servicing government debt**. Consequently, interest expense on a growing debt eats up a bigger and bigger share in the budget, forcing the government to borrow more in order to obtain the funds to pay interest on existing debt. Eventually, new debt is then being used to pay off old debt. This is a classic case of **a debt trap.** There is every indication that the government's fiscal position has in fact deteriorated to that ultimate state, if not earlier, certainly today. Whatever the case, it is clear from the data that, throughout this process, debt service has served to crowd out other government programs and public investment. From the standpoint of pursuing consistently an export-led strategy, this **crowding-out effect** matters crucially, to the extent that it cramps the ability of government to finance the broad range of activities that provide support for the export push, as promised in the "support framework" outlined in the NIP.

7. **There is no free lunch**. By abandoning the IMF option and moving to finance more and more debt from local sources, **the government was substituting high-cost credit for low-cost credit**. As the justification for this move, it was said at the time that the government was seeking autonomy and independence from IMF supervision out of concern for "national sovereignty". But whatever one may think of the value of such independence, it is evident that it does not come free. It has a significant cost, measured by the difference between the interest cost of borrowing from private credit institutions and the cost of IMF and other bilateral and multilateral funds. Moreover, in stark historical irony, the government has now placed itself in the ironical position of having to return to the IMF after proving, during a run of about 14 years, how well (?) it can manage its own finances in the absence of IMF supervision.

8. **The authorities failed to grasp the full meaning and practical significance of the important distinction between the nominal exchange rate NER and the real exchange rate RER**. Or, if they did grasp that distinction, they failed to operationalize it in their conduct of policy. This is a tricky technical point that would require some technical exposition to fully develop. But it can be simply explained as follows. The NER is the money value of the country's currency in relation to that of its trading partners, say, the US dollar. The RER is the money value *adjusted for the difference in relative prices and costs between countries*. Ultimately, it is the RER that governs the possibility of achieving "stability" in the foreign exchange market. It follows from this condition that good statecraft requires a delicate balancing of the goals of "money" management of NER in the foreign exchange market with "cost" management on the production side of the economy. In other words, the essence of good statecraft in this arena, hence of a well functioning political directorate, is being able to find that "sweet spot" where both sides, the monetary side and the cost side are in balance. In my view, the authorities never managed to achieve that balance by deploying the full range of instruments available to them. To this extent, one must conclude that **there was a fundamental imbalance in the strategy being pursued**.

Here again, one could say that it is a case of the right hand not knowing what the left hand is doing. Instead, I say that it is more a case of the dog chasing its own tail. The reason for this lies in the observed outcome, i.e. that there exists a large and growing gap between imports and exports while the NER goes into continuous decline. The fact is that, when the country loses its cost competitiveness with its relevant trading partners, it is most likely to be flooded by cheaper imports while its exporters suffer loss of market share in export markets. This sets up a perverse negative feedback effect on the foreign exchange market by increasing demand for foreign exchange while reducing supply. Then, something must give. In a dirty float as well as a clean float, it is typically the exchange rate that gives. The authorities must then keep chasing the elusive goal of a "stable" exchange rate for as long as they fail to take control of **the conditions that determine cost competitiveness**. To achieve such control would have required a more evenly balanced strategy with broad-based implementation of the strategy outlined in the NIP. It is important to note here that all of the relevant **cost factors** were explicitly identified in studies done for the NIP project (and in the export study (Harris, 1997)) and fully laid out in the policy document (GOJ, 1996, p. 54) as matters requiring systematic action by both government and private sector.

9. **If interest is a cost for government it is also a cost for business**. In effect the exchange rate policy adopted means that, while the interest rate is being used to defend the nominal exchange rate, and thereby provide significant gains for the financial sector, it is also being used, in effect, to punish domestic producers (especially those who are most exposed because of heavy reliance on credit to sustain production).

Exporters are likely to feel this hit the most, perhaps more so than importers, because of the long lag between starting up production and receipt of revenues from a distant market. In this respect, there is a certain asymmetry between exporters and importers. Importers get lower cost trade-credit based on finished goods they already have on hand, or on the wharf, perhaps on consignment. Exporters, on the other hand, have to start up production for a product they don't yet have and for a foreign market which they may not have, with time and effort spent in the interim to manage the production process from start to finish, to find the market, and deliver the goods to market. The difference is higher risk, hence higher interest rate. At least, that is what the bankers say. I think it is more a matter of how you collateralize debt. In fact, the bankers have proved themselves to lack the initiative and enterprise to find out how best to do this to make profits. My sense is that there is much room for financial innovation here, and there is undoubtedly a market to be had for a smart financial investor willing to try.

10. My final point is, in a sense, the most important for evaluating the overall strategy. It concerns the damaging effect of the strategy on investment and production, hence on imports and exports, and the consequent negative feedback effect on the foreign exchange market. The factors accounting for this circular and perverse effect of the strategy are already apparent from the previous points. The more general point to be made here is that this effect means that **the strategy as a whole turns out to be unsustainable and necessarily self-defeating in terms of its own goal**. In the language of sports, the authorities were scoring an "own goal", or worse, "shooting themselves in the foot", and no celebration is due for that achievement. Furthermore, in this process, the strategy also had the damaging "same-side" effect of undermining the supposedly shared goals of the NIP.

11. Considered as a whole, the brunt of my argument then is this. There was **a fundamental flaw in the strategy pursued, consisting of a fatal imbalance in the policy-mix**. Because of this flaw, the government managed to box itself into a classic debt trap from which it became impossible to escape because, in this process, the government had pushed aside and undercut the only solid basis for a sustainable solution, which was through a genuine export-led strategy as promised in the NIP.

6. A Theory of Implementation Failure

I would like to go on now to make a further point. For illustration, I present in Graph #15 a Matrix of the Policy Development Process. The cells are deliberately left blank. They can be filled in with information from the NIP itself along with detailed documents, studies, and analyses, prepared during the process of laying the groundwork for the NIP, that should still be available in the files of PIOJ, JAMPRO, MOF, BOJ, OPM (Technical Secretariat & Development Council), as well as very useful and relevant work done by private-sector agencies (JEA, JMA, PSOJ, JCC, etc.). The cells are marked with a check-mark simply to indicate that the relevant work was done in each case, effectively and intelligently so.

Now, the idea here is that **policy development is a process**. Let's say you start off with the preliminary work of doing the sector-by-sector analyses, you identify the clusters you want to target, then do the "SWOT" analysis (strengths, weaknesses, opportunities, threats), set out the objectives you think you want to achieve, and identify the polices and instruments you want to use to achieve those objectives. All this was done in the development process of the NIP. And then you get to the all important implementation stage after which, if successfully accomplished, you hope to have some evidence of (good) performance on which to base your evaluation. In the best of circumstances, this is a dynamic and iterative process. You get to performance evaluation and you conclude you need to make adjustments/corrections in the policy, and so you go back to the start and rework the process.

But, in practice, a blockage tends to occur in the implementation stage, identified as the red zone in this graph. This is evidently what happened with the NIP. So, my argument is that, associated with the ***failure of economic strategy*** there was also what I would call a critical ***implementation failure***.

I have a "theory" of implementation failure as a chronic feature of policy development and governance in Jamaica. This problem is not confined to Jamaica; some would say it is a universal problem but, for the moment, I won't go there. It is certainly found elsewhere in the Caribbean. For instance, Havelock Brewster has done a detailed study (unpublished, as far as I know) of all the policy decisions taken at the meetings of Heads of Government of CARICOM and found that only a minute proportion of those decisions have been actively engaged by the governments and agencies supposed to implement them.

Reasons usually given for this failure are many.

Relevant, but in the overall scheme of things not to be highly rated, are the usual complaints about "government bureaucracy". There is definitely something to this, in my view, especially at the upper-most rungs of the ladder, not as much at the intermediate levels, at which I have found some of the most devoted, team oriented, and talented people (see the Acknowledgements at the end of this report). Those who have no experience of working at those upper levels of government can have little or no appreciation of the terribly dysfunctional "games that some people play" (in terms of turf wars, petty infighting, disrespect for subordinates, and dismissal of serious analytical-policy work as "too academic"). But those bumps in the road should not be allowed to stand in the way of the larger vision.

The role of money in politics is an obvious issue and a universal problem. This issue acquires greater significance in a setting, such as I have outlined here, where there exists an apparent **symbiosis between government and an overgrown financial industry**. In reaction, some in Jamaica have called for public financing of elections. I would be reluctant to urge this as a solution now, given the parlous state of the Government Budget and the heavy burden already being inflicted on the taxpayer that is likely to increase further in moves to find a way out of the current economic crisis.

As regards the larger scheme of things, and in particular how things work generally in Jamaica's political economy, I can think of no better analytical treatment of this than in the prolific work of Professor Carl Stone; see especially his magnum opus (Stone, 1980) which is still highly relevant today. However, stepping away from Stone's broader message for the moment (and because I think the problem is much deeper and larger than can be discussed here), I wish to focus here on a different tack capable of yielding working principles for designing solutions that can receive more immediate attention and action.

At this more pragmatic level, I think the problem is, first, one of ***institutions***: i.e.

(a) existing regulatory institutions that do not perform well their assigned job of providing oversight, accountability and transparency, and need to be shaken up to do so;

(b) missing institutions that could serve to enhance and strengthen those functions as well as focus and direct action in accordance with priorities and plans generally agreed upon.

Second, it is a problem of *failure to articulate and distinguish the proper space for performing the functions of* ***legislating policy*** *as against the functions of* ***executing policy***. In Jamaica, the two functions have tended to be fused in practice, despite what the Constitution says about the proper and distinct roles of Parliament and the Civil Service. This situation often results in a terrible mismatch, in some cases, of Ministers and required executive skills, and in others, of competent Permanent Secretaries and meddlesome Ministers, and still others, of Ministers with recalcitrant (and vengeful?) Permanent Secretaries. Generally speaking, I think that the Westminster model of government, as it has evolved in Jamaica (and perhaps in some other Caribbean countries), has not worked out very well in practice and has now become quite dysfunctional.

7. Looking to the Future from the Past: Constructive Proposals for Action Now

Recognizing where the country stands now, overwhelmed by an economic crisis and burdened with the legacies of the past, there is much that has to be done in the short term to deal with the most urgent problems. In many cases, these involve technical issues, for instance about management of the existing public debt, fiscal consolidation, tax policy, that are now under discussion by officials and the public, and need not be addressed here.

But, looking forward now, and thinking long-term, the critical question is: how to overcome the **chronic tendency to strategy failure and implementation failure**, as a characteristic feature of economic policy and governance in Jamaica. This problem is deeply rooted in our post-independence history and political culture. Nevertheless, it is still possible to come up with working principles for designing practical solutions relevant to the situation the country faces today. There is no better time than the present to do this. The crisis itself demands it, and every crisis is an opportunity to tackle problems that in other times may prove intractable. Moreover, addressing some of these problems is relatively costless, and could prove a handy way of getting some savings in the budget as I show below.

Regarding the broad issue of **institutions for effective implementation of public policy**, let me make it clear, at the outset, that I am not necessarily advocating constitutional change here and now. There was much debate about this matter during the '90s, some of it quite constructive in my view, including contributions by the current Prime Minister (then leader of the NDM). But because of the pressures of the moment, this does not seem to be an appropriate time to press this matter. Besides, before we get to that, there are other intermediate steps worth taking that could be readily adopted.

Accordingly, I offer the following proposals for action now.

1. My first and leading proposal, as the first order of business for the day, is to **separate development policy and planning from the Ministry of Finance**. The proper role of the MoF, enshrined in the constitution, is to manage the budgetary financing activities of the government (the so-called "money bills"). The constitution does not say that the Minister holding this office should also be directly responsible for economic development policy and planning. The comingling of the latter with the former is a recipe for failure and disaster, if not subjected to proper controls. To avoid this outcome and achieve better balance in the economic policy-mix, the legitimate interests of the MoF (divested of its current functions of "economic planning") and of the BoJ (duly constituted as an independent Central Bank) must be counterbalanced by a separate institutional leadership of the development effort. To this end, I propose the formation of a separate and distinct **Ministry of Development and Planning**. This new ministry could then be made to absorb many of the functions of development and planning, currently scattered over many different ministries and agencies, within a single apparatus of government. That would sit well with the current and urgent objective of reducing the cost of government and meeting the desired goal of a reduced number of cabinet positions suggested long ago by the Nettleford Committee.[5]

It is necessary to stress the meaning and significance of this proposal. In the complex and challenging conditions of today's world, issues of economic development and planning require a holistic and integrated approach to forming public policy and priorities, based on thorough analysis and understanding of the complex structure of the economy, its component parts, the interrelations among them, and the factors which alternately hinder and promote change. To address these issues with a sharp and concentrated focus requires a competent and forceful driver within the Cabinet (a warrior for the cause!), vested with properly constituted authority (and surrounded by a team of competent personnel), who can direct, motivate, and coordinate appropriate action. To subsume these matters entirely within the confines of the budget process, a process which merits full attention on its own terms and must itself be subordinated to policies and priorities determined elsewhere, is bound to result in confusion and dismal failure such as we have witnessed in the period under review here.

2. The other equally significant and important feature of this proposal is that, by restoring the Ministry of Finance to its proper and unique constitutional role of managing the money bills, it seeks to place the MoF on a stronger footing to **implement the imperative of fiscal discipline**, without which the country is destined to continue to undergo future bouts of debt explosion. The MoF must then be made to operate under strict requirements that the budget must "add up", and the adding up verified by an independent office, i.e. the office of the Auditor General. The MoF would be expected to perform well only when the fiscal accounts balance. It should not matter whether this is done in a one-year or three-year cycle. The audited fiscal accounts must also be placed on full display for all to see, both in Parliament and before the general public. This requirement forces maturity on the part of Government and the general public, because it demands transparency and accountability in government financing operations and allows the public to engage in informed debate about those operations.

Because many of the statutory bodies were set up in the past to bypass parliamentary oversight and public scrutiny, serious information asymmetry problems have come into play, leaving Parliament and the public in the dark. Moreover, this allowed for the creation of off-budget and contingent liabilities along with the maintenance by government of active deferred financing accounts with the large banks. Consequently, fiscal accounts were always at odds with actual fiscal expenditures, government could not program accurately its demand for funds, hence could not predict accurately impact of its demand for funds on interest rates, hence constantly missing interest rate targets, with the budget deficit then becoming the residual in this causal chain.

To break into this causal chain at its source, the operations of all statutory agencies must be placed "on the books", and the MoF must be made to give up the practice of off-budget operations. The system of government guaranteed loans and advances to statutory

[5] One could reasonably expect that such a Ministry, conceived in this way, would make a perfectly natural fit integrated with the Office of the Prime Minister.

agencies without a corresponding obligation for those agencies to transfer their surpluses to the Consolidated Fund must be revised. Furthermore, instituting and enforcing a proper treasury management function and rigorous control of the contract procurement process are necessary requirements to bring the overall budget into balance.

3. If the BoJ is to be legitimately considered an autonomous and independent Central Bank, then it must be made to justify and validate that status by **standing guard against the fiscal imprudence of the MoF**, instead of aiding and abetting it by allowing the MoF easy and uncontrolled access to the many monetary instruments (T-bills, repos, etc.) that enable and facilitate such imprudence. Furthermore, the BoJ must itself exhibit fiscal prudence, technical competence and professionalism in the internal management of its own affairs, inasmuch as it must also seek to strengthen regulatory control over private financial institutions under its purview.

4. A major source of concern must be to **rein in and bring under proper coordination, scrutiny, and accountability, the role of key government agencies**, such as Development Bank of Jamaica, Urban Development Corporation, Jamaica Promotions Corporation (JAMPRO), and National Housing Trust. Proper coordination of this particular set of agencies should become central to executing the economic development effort under the guidance of policy priorities and directives coming from the new Ministry of Development and Planning.

5. **All operations of government must be subjected to oversight and accountability through open and transparent procedures**. This requires beefing up and giving teeth to the agencies responsible for performing this role (e.g. Auditor General, Contractor General, and Director of Public Prosecutions) as well as firming up the role of relevant Parliamentary Committees.

6. Reform and proper regulation of the financial sector to enforce rules of competition and good behavior are essential to moving forward. If the symbiotic relationship between government debt and the finance industry has become dysfunctional for the economy as a whole, then reform of one side of this relationship necessitates reform of the other. This is made even more necessary now that the sector has grown to be bloated and fat from feeding at the trough of public debt. It will be difficult to wean those elements of the private sector that have fed off this largesse to move into more productive investments where the economic risks and management requirements are very different and more challenging. I certainly hold no brief for the investors who succumbed to the easy inducements of the debt bubble. But I also think it is disingenuous for some current and former public officials to be now criticizing investors for not taking risks, when those officials were themselves responsible for creating and promoting the conditions for investors to gain exceptionally high returns from virtually riskless government paper.

7. More constructively, it is necessary to **promote the emergence of new dynamic leadership within and without the financial sector,** *a new cadre of financial innovators*, who will themselves seek out profitable opportunities to channel funds into

long-term productive investments, acting under appropriate regulatory oversight to avoid reckless schemes such as those that came to light in the FINSAC era. In specific terms, this new leadership would seek to develop new mechanisms and instruments for serving the following purposes:
(a) deepen financial intermediation towards the long end of the spectrum (equity and venture capital), as distinct from short-term debt financing;
(b) improve access to finance for MSMEs oriented to export or import substitution, by finding effective and legitimate ways to collateralize debt;
(c) strengthen the collective, self-regulating credit/saving institutions, that have existed for a long time in credit unions and the "partner" system, but more along the operational lines of the famous Grameen bank in Bangladesh.

8. As concerns **productive investment**, until and unless systematic efforts are made to reduce the elements of risk, uncertainty and cost associated with the environment for conducting business operations in the factory and on the farm (urban crime, praedial larceny, bureaucratic delays, energy costs, etc.), as well as to restructure the complex and unwieldy system of tax incentives, it seems unlikely that there will be a significant resurgence of domestic private investment in export-producing activities. Moreover, the current state of the government's budget puts on hold many public investment projects and programs for providing a "support framework" for private investment. Some productive capacity has already been wiped out by policy failures of the past, especially in manufacturing, but there is viable agricultural land that can be brought into production for domestic food and for inputs into processing as well as for export. Supply of skilled labour, schooled in the requirements for work in modern industry and agriculture, will be a significant constraint that challenges the capacity of the educational and training institutions to respond.

9. It is useful to adopt **a model of private cum public-sector strategic partnership** to pursue economic targets of opportunity for investment and export, where the targets are identified and pursued through an open and transparent, structured and deliberative process. The idea here is to take advantage of the executive abilities and entrepreneurial skills of some of the dynamic leaders in the private sector (who have proved in practice their strengths as business leaders as well as their commitment to the national interest) to form operational teams to get things done.

I have in mind here the instructive example of the Costa Rican coalition, CINDE (loosely translated from the Spanish as "Costa Rican coalition for initiatives for national development"). Their success in winning an agreement with Intel for a major IT investment (US$300m in a computer chip plant) in Costa Rica in 1996 is now duly celebrated in business-school case-studies (see Spar, 1998). During work in Costa Rica in 1994, I was fortunate to be able to observe closely the action on the ground in the early stages of project planning and implementation leading up to the actual agreement. It was truly an impressive performance by CINDE, working hand-in-hand with government personnel, acting with professionalism, skill, competent management, and wise, forceful leadership, to coordinate and drive the process to a successful agreement and subsequent delivery of objectives.

There is another instructive example closer to home, familiar to those of us old enough to remember the case of the bauxite levy negotiations admirably documented in the book: *Jamaica in the World Aluminium Industry,* by Dr. Carlton Davis.

10. **Strengthening the technical and administrative capacity of human resources in the public sector** is a major requirement for successful policy implementation. Down-sizing of government presents an opportunity for rationalizing ("right-sizing") the allocation and effective use of the best talent currently employed in government. Useful approaches to increasing the supply of such talent at all levels (adding to the entry-level supply coming out of local schools and colleges) include breaking down the barriers to labour mobility within CARICOM and tapping into the vast talent-pool of the diaspora.

11. At the top levels of government, it is necessary to find a way to **rejuvenate the executive positions in executive institutions in the public sector**. There is no objective reason why the official Director or Governor of a government agency or statutory body should be allowed to hold on to that position for up to 15 or 20 years, and more in some cases, before yielding it up to younger, highly qualified, aspiring candidates, and moving on to another position, or to a comfortable retirement, or proving his/her supposed mettle and talent by competing in the international labor market. This practice may serve perversely to discourage aspiring and talented candidates and cause them to vote with their feet by moving to more welcoming environments. How else (apart from obvious salary and working conditions and the small size of the domestic market) can one account for all the highly talented, migratory young Jamaicans that one finds in top-level positions overseas?

12. In all this effort, there is a crucial role for **wise, visionary, and pragmatic leadership at the top of government**, in defining the vision, giving directions, insisting on the proper balance in the mix of policies being pursued, ensuring that there is a well-functioning network of teams in place to carry out the vision, and disciplining the slackers and miscreants. There is no formula for a solution to this problem. We either have it or we don't. We can usually tell when we have it and when we don't, but unfortunately only after the fact. In a parliamentary democracy like ours, we have to take our chance and choose between the options we have. That could turn out to be like a crap shoot.

13. The problem here is that we have for too long cultivated and held up for celebration **the image of the charismatic leader**. That kind of leadership can only take us so far, and may turn out to be totally redundant in the modern era. Looking around us today, at the countries that are doing well, we find that the kind of leadership that is working is far from the charismatic model. They are good managers of Cabinets and of other functionaries inside the state apparatus as well as leaders of the public conscience. They don't have to have PhDs; that qualification, however acquired, can sometimes be used to promote empty rhetoric, grandstanding, and braggadocio ("doctor politics"), and thereby serve as a handicap. They are sufficiently confident and self assured to surround themselves with teams of highly skilled professionals who work together in a collaborative and collegial way; they draw on people and ideas from government, business, universities and trade unions; and they have a broad base of support in the community. We have to begin to demand these qualities from our own leaders.

14. Finally, we also have to disabuse ourselves of **the false notion that somehow all of our ills are due to foreign sources** ("external shocks"), things that we do not ourselves control, and hence have no responsibility for their consequences. We are indeed a small country, facing much of the time "outside" forces that may seem to constrain and overwhelm our actions. But that is no cause to pull back and leave ourselves at the mercy of those forces, or feign an inability to do anything about them. Other countries, just as small, are managing to hold their own and to thrive in the same international environment. We have to find our own niche and make the best of it. This begins with recognizing our strengths and weaknesses, learning the lessons from our failures and successes in the past, and taking responsibility for our own present and future actions.

Acknowledgements

I would like to provide here a bit of historical background in order to draw out some general points.

The germ of the idea of a NIP really came out of an initiative taken by the Hon. Hugh Small when, as Minister of Finance in 1992, he called a group of us to a meeting in Washington and challenged us to propose solutions to what he saw then as the economic crisis facing the country. That group consisted of Richard Fletcher, Dr. Richard Bernal, Margaret Bernal, Dr. Gladstone Bonnick and myself. In an astute and proactive response to the suggestions that came up at that meeting, Minister Small returned to Jamaica and quickly set about the task of organizing a national conference on the economy, held in October 1992, that resulted in the remarkable and original papers later published in the volume (PIOJ, 1994). This effort provided the stimulus for further moves to action on forming new policy.

Subsequently, around the end of 1994, I began to work as an economic consultant in the PIOJ, helping to lay the groundwork for the NIP under the wise guidance of Marjorie Henriques, then acting director of the PIOJ, and with the help of a team led by Wes Van Riel who did a tremendous job of pulling together all the pieces to make the project work efficiently – the project financing activities, the research by myself and a number of other consultants, the consultations all over the country with a wide cross section of social groups and the public at large. Later, I went on to work at JAMPRO and in OPM, preparing the final draft of the Policy with a team consisting of some of the finest civil servants one could find: Pat Francis, Margaret Mais, Valerie Veira, Maureen Vernon, and Dr. Carlton Davis, as well as Dennis Morrison from the Jamaica Bauxite Institute and Professor Alvin Wint from the UWI. The policy was signed off by the Prime Minister and tabled in Parliament on April 25, 1996.

Prime Minister P. J. Patterson played the key role in that last phase to determine the overall scope, structure and content of the policy, and to drive the process of preparation and planning for the policy to its completion as a document to be tabled in Parliament.

I ended up working for a year afterwards as Director of the Technical Secretariat of the Development Council with another hard working, supportive, and creative team consisting of Dr Ute Schumacher and Sonia Ingleton and with helpful contributions from Dr. Gladstone Hutchinson who was then in the Ministry of Finance. Dr. Hutchinson has continued since then, in different venues and even until now, to provide me with opportunities for useful exchange of ideas on the issues discussed in the present report.

In parallel with activities taking place in the public sector, there was a great deal of ferment taking place in the private sector as well, spearheaded by the JCC, PSOJ, JEA, JMA, and others, including the Trade Unions, and NGO's, with vigorous participation by representatives from the Women's groups. There was active pursuit of the call for formation of a Social Partnership to bring together all these groups and representatives of government.

I should mention here the work of the JEA in particular, led by an impressive team of energetic and talented women: Beverly Lopez, Beverly Morgan, and Pauline Gray (who tragically passed away at an early age). They asked me to undertake a project for the JEA on export policy that resulted in the monograph (Harris, 1997). I readily took on that task as a way of strengthening the most important voice in the private sector at that time speaking out for the objective and necessity of a strategy of export-led growth.

Finally, I should also mention some other prominent voices that were speaking to the issues from the private sector, including Dr. Marshall Hall (Jamaica Producers Group), Douglas Orane (GraceKennedy), Dr. Ralph Thompson (Seprod), Claude Clarke (Highgate Chocolates), Charles Ross (PSOJ), Anthony Gomes (columnist), Beverly Manley and Anthony Abrahams (both of them as the smart and provocative leaders of the Breakfast Club).

There are many others too numerous to mention. To all goes my appreciation for their stalwart efforts.

I report all of this activity here, not out of a narrow concern with history and personalities, but in order to drive home a number of important and general points:

1. There is not much new that one can say or write about problems of the Jamaican economy that has not been done already by people struggling on the ground here to deal with those problems.

2. There is truly an impressive number of committed and talented people, both in the public and private sector, who have devoted time, effort, and resources to grappling with the problems we face as a country.

3. It must give those of us who have already "been there and done that", so to speak, a sense of déjà vu to be returning to work our way again through some of the same sets of problems and issues today.

4. This is a measure of how much progress we have made, or lack of it, over the years.

5. Finally, and most important, I want to emphasize the element of **team work** in all the activities that I have just described. What has struck me over the years is that we have a strong and enduring capacity for collective action to get things done in the national interest at the middle levels of our society. Where we hit up against a wall, or run up against the most formidable obstacles, is at the top levels of our national leadership.

References

Davies, O. (ed.) (1986). *The Debt Problem in Jamaica, Situation and Solutions*, Economics Department , UWI, Mona, Monograph #1.

Davis, C. E. (1995). *Bauxite Levy Negotiations, Jamaica in the World Aluminium Industry, Vol II 1974-1988*, Jamaica Bauxite Institute.

Government of Jamaica, 1996. *National Industrial Policy, A Strategic Plan for Growth and Development*, Jamaica Information Service, April 25.

Harris, D. J. (1990). “Capital accumulation and resource allocation in an import-constrained economy: a framework for analysis of recent experience and current trends in the Jamaican economy,” presented to National Symposium on the Jamaican Economy, PIOJ, Kingston, June 25-26.

Harris, D. J. (1994). “The Jamaican economy in the twenty-first century: challenges to development and requirements of a response,” in PIOJ (1994).

Harris, D. J. (1997). *Jamaica’s Export Economy: Towards a Strategy of Export-Led Growth*, Ian Randle Publishers, in association with Jamaica Exporters’ Association, Kingston.

Harris, D. J. (1999). “Macroeconomic stability and growth: a policy analysis,” in *Economic Dynamics and Economic Policy*, Proceedings of International Colloquium II, Editora Universa, Universidade Catolica de Brasilia, Brazil, May 27-29.

Harris, D. J. (2009). “Dynamics of the debt-propelled economy: the D-factors in Jamaica’s poor economic performance,” forthcoming.

PIOJ (Planning Institute of Jamaica). (1994). *Jamaica, Preparing for the Twenty-First Century*, Ian Randle Publishers, Kingston.

Spar, D. (1998). “Attracting high technology investment: Intel’s Costa Rica plant,” World Bank/IFC Foreign Investment Advisory Service, Washington, D. C.

Stone, C. (1980). *Democracy and Clientelism in Jamaica*, Transaction Books, New Brunswick (U. S. A.).

GRAPH #1
From National Industrial Policy, p. 3

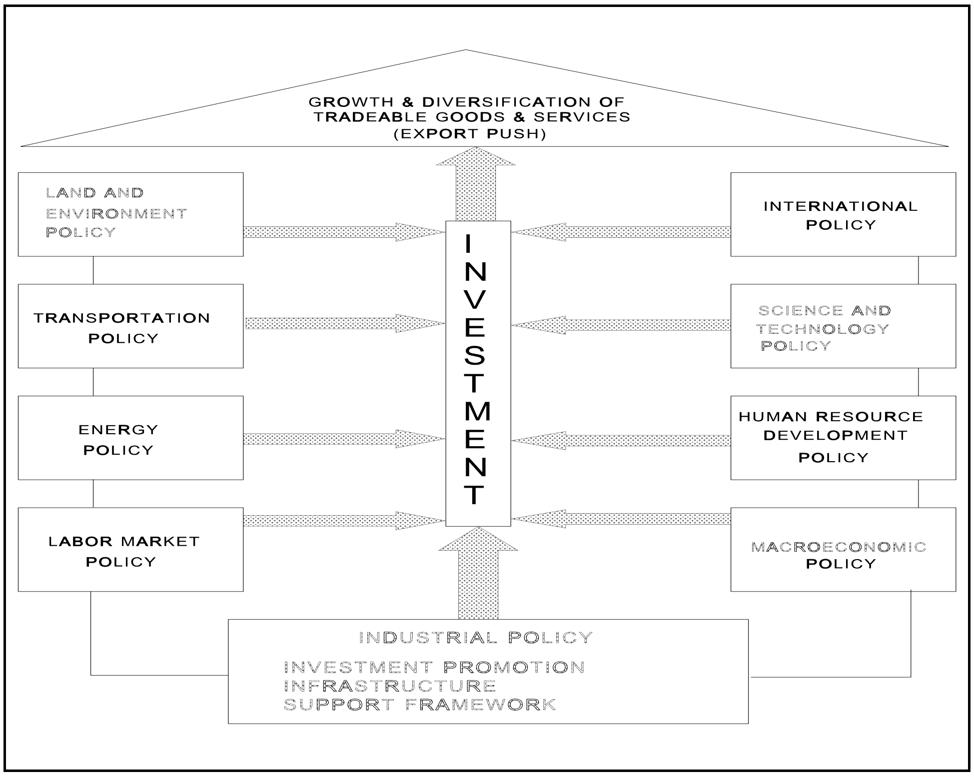
STRATEGIC PLAN

Policy Matrix

Objectives	Policies	Interventions/ Implementation
Stability, Predictability, Credibility	Macroeconomic Policy	* Fiscal Controls * Monetary Controls * BOJ Autonomy * Social Partnership
Growth and Diversification through building International Competitiveness	INDUSTRIAL STRATEGY Investment Promotion * Incentive System * Financing Mechanisms * Investment Packaging Infrastructure * Physical Infrastructure * Human Resource Development * Science & Technology Support Framework * Trade Policy * Labour Market Policy * Competition Policy * Small Business Development * Public Sector Reform	* Time-phased Sequence of Strategies * Targeting Strategic Sectors * Continous Consultation between Government, Business, Labour, and NGOs
Equity	Social Policy * Poverty Alleviation * Gender Perspective	* Social Agenda
Conservation of the Environment	Environmental Policy	* Incentives * Regulation/Enforcement * Public Education

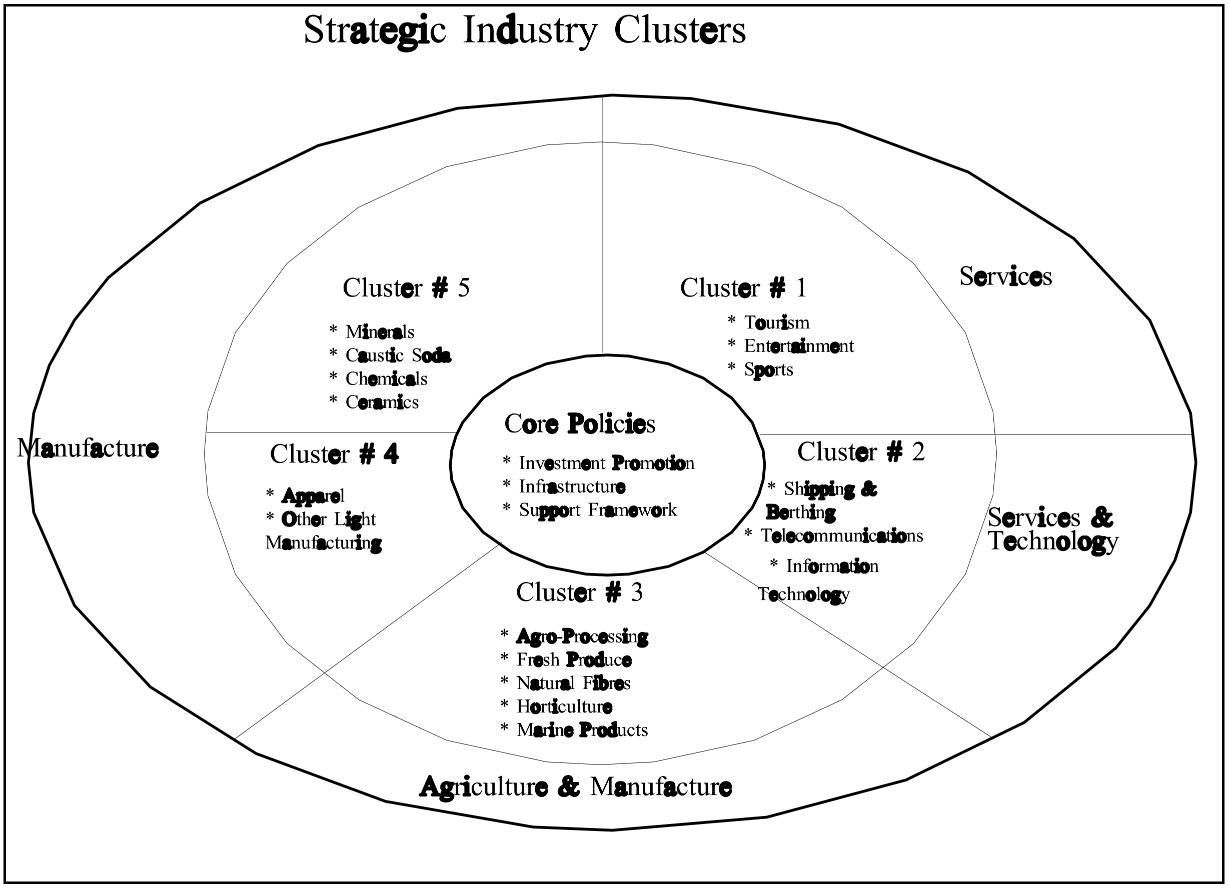
GRAPH #2
From National Industrial Policy, p.6

POLICY INTEGRATION AND COORDINATION



GRAPH #3
From National Industrial Policy, p. 9

Industrial Policy: Instruments and Targets



GRAPH #4
From National Industrial Policy, p. 133

Targeting Strategic Clusters

Clusters	*Growth Poles*	*Linkage Sectors/ Sub-sectors*	*Supporting Sectors*	*Infrastructure Support*
Cluster #1	**Tourism**	***Entertainment Sports Fresh Produce Processed Foods Beverages, Tobacco Garments Furniture Crafts***	***Information Technology***	***Physical Infrastructure Electricity Roads Transportation Ports, Airports Water Sewage***
Cluster #2	***Shipping & Berthing***	***Air Cargo Ground Transport***		
Cluster #3	***Agro-processing***	***Agriculture Marine Products Packaging***		***Human Resources***
Cluster #4	***Apparel***	***Textiles Footwear Sewn Products Machine Tools***	***Telecommunication***	***Science & Technology***
Cluster #5	***Bauxite & Alumina Non-metallic Minerals***	***Limestone Lime Industrial Chemicals Silica, Clays Ceramics, Glass***		

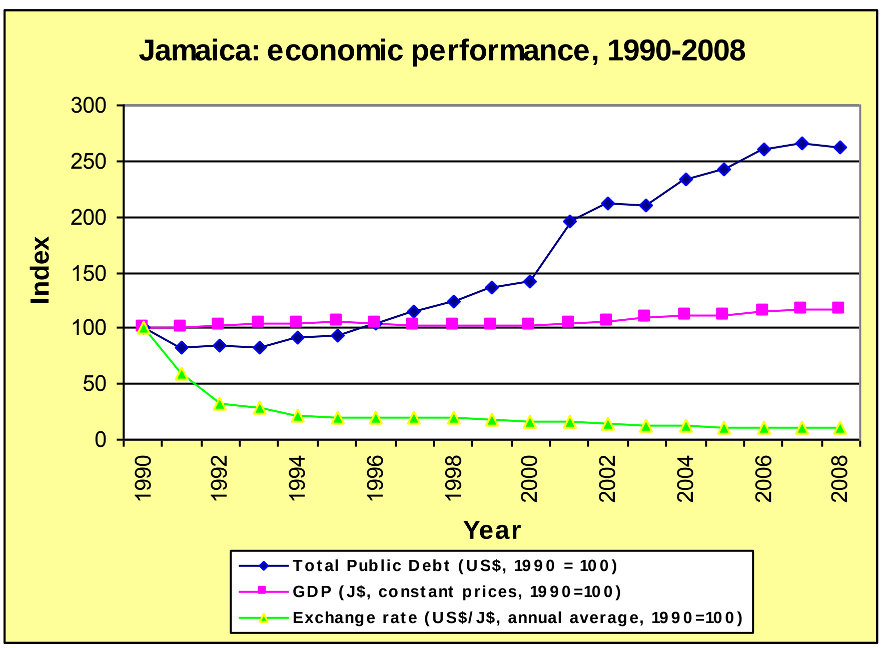
Note: The numbers associated with the clusters **do not** represent a ranking of the clusters.

GRAPH #5
From National Industrial Policy, p. 8

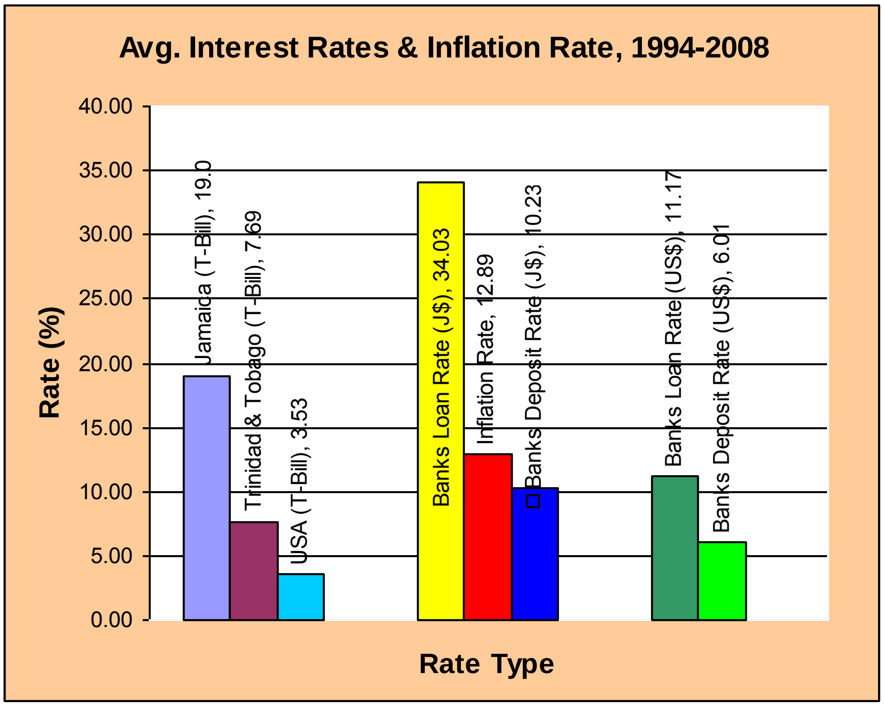
Time-Phased Sequence of Implementation Strategies

1996	1997-1998	1999-2010
Phase 1 Short-term Strategy: establish Social Partnership		
Phase 2 Medium-term Strategy:	growth with stability	
Phase 3	Long-term Strategy:	export push and efficient import substitution

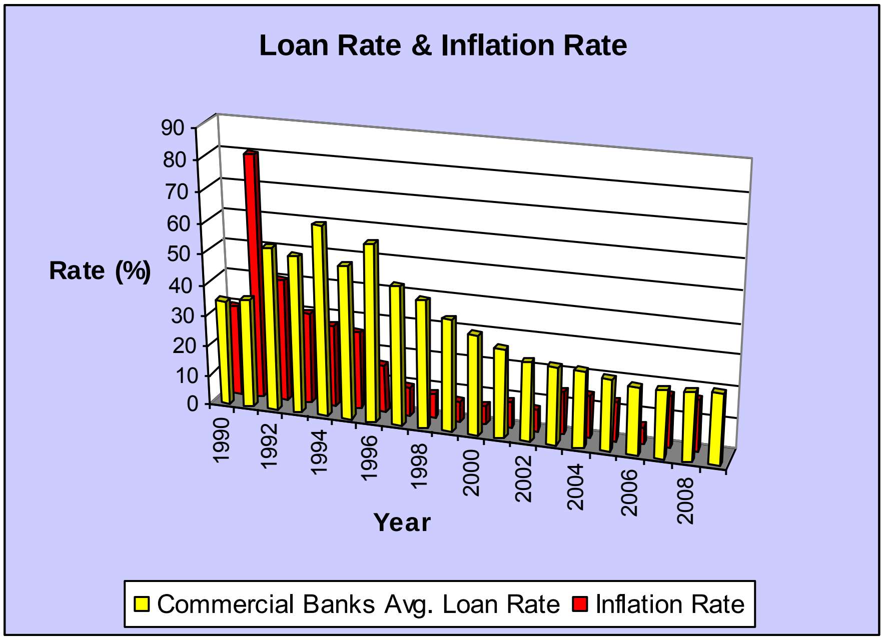
GRAPH #6



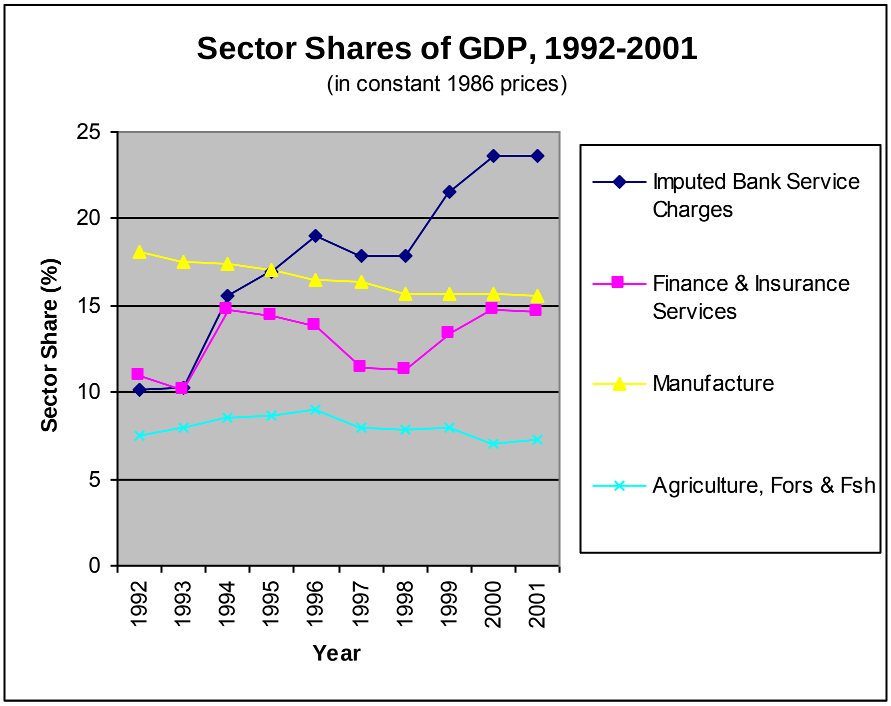
GRAPH #7



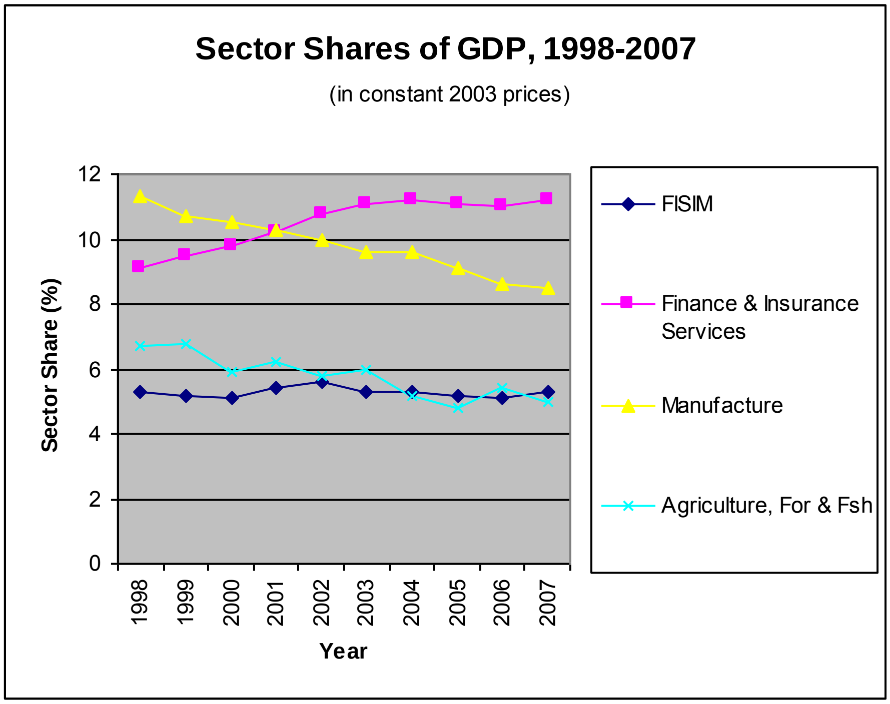
GRAPH #8



GRAPH #9

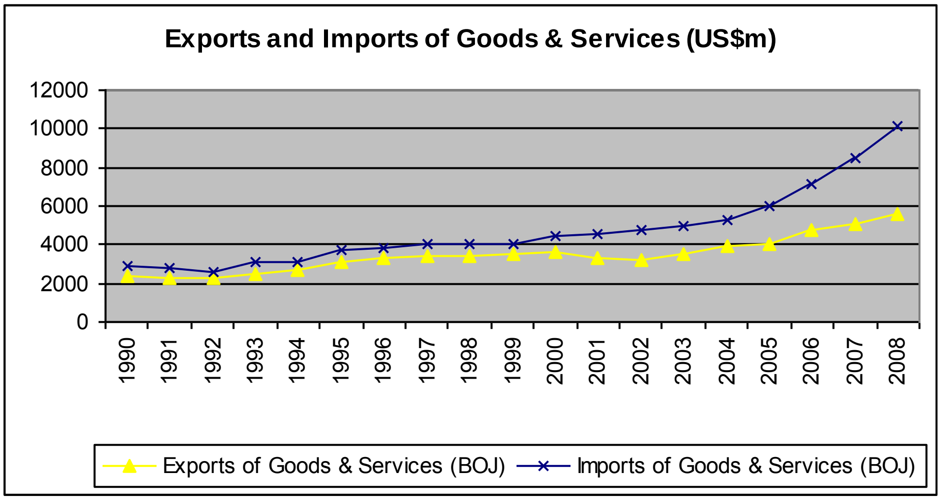


GRAPH #10

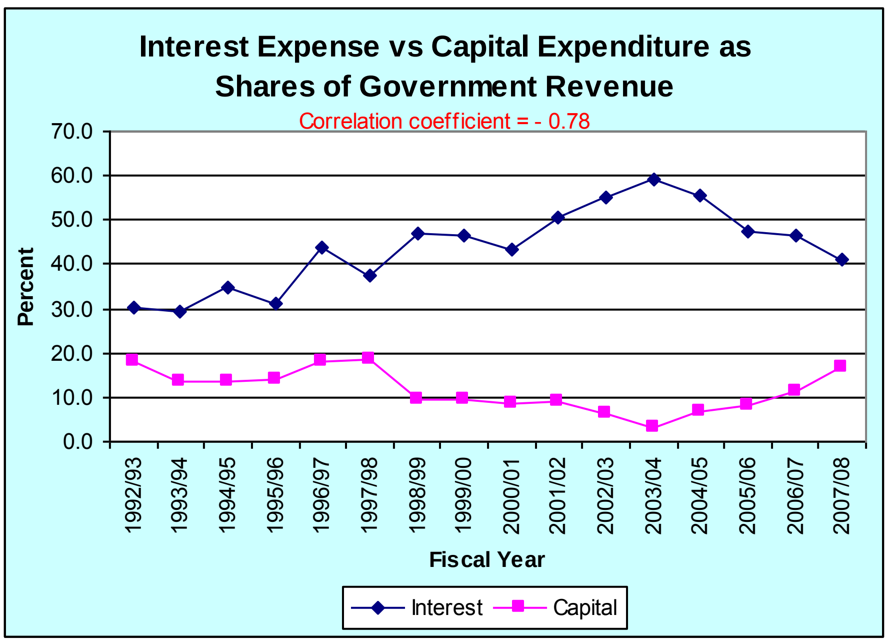


FISIM = "Financial intermediation services indirectly measured"

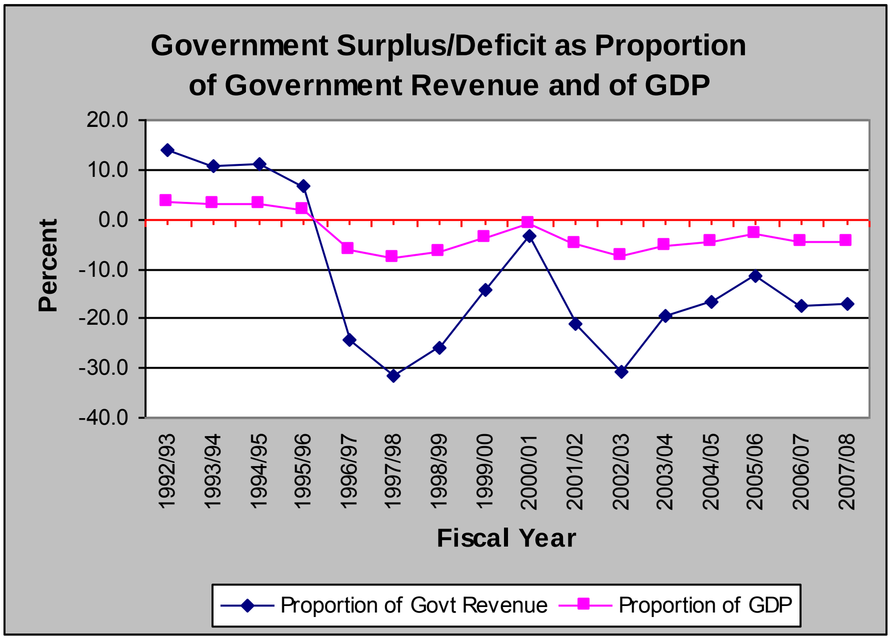
GRAPH #11



GRAPH #12



GRAPH #13



GRAPH #14

The Foreign Exchange Market

Demand	Supply
Government: Borrowing & debt service	Creditors Foreign & domestic
Government: Increase of international reserves	Government: Decrease of international reserves
Foreign factor incomes	Foreign Direct investment (FDI)
Imports of goods & services	Exports of goods & services
	Remittances
	Other transfers

GRAPH #15
Matrix of the Policy Development Process

Sectors	Clusters	SWOT Analysis	Objectives	Policies	Implementation	Performance	Evaluation
√	√	√	√	√		?	?
√	√	√	√	√		?	?
√	√	√	√	√		?	?
√	√	√	√	√	THE	?	?
√	√	√	√	√	RED	?	?
√	√	√	√	√	ZONE	?	?
√	√	√	√	√		?	?
√	√	√	√	√		?	?
√	√	√	√	√		?	?