WORKING PAPER

No. 19

Macro-economic Stabilisation in Jamaica:

The Lessons of Recent Experience

Derick Boyd

ISBN: 0 85003 102 8

July 1986

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Acknowledgements

This working paper is part of a larger study on Jamaica prepared for an ODI Research Project on 'Macro-economic Stabilisation, Income Distribution and Poverty'.

ODI Working Papers present in preliminary form work resulting from research undertaken under the auspices of the Institute. Views expressed are those of the authors and do not necessarily reflect the views of ODI. Comments are welcomed and should be addressed directly to the authors.

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1. THE DECADES OF THE 1950s AND 1960s

An examination of the causes of disequilibria in the Jamaican economy should properly start with a review of the 1950s and 60s. These decades were, in the main, good years for Jamaica. An examination of the nature of economic developments in these years, however, reveals two notable features. First, an unbalanced economic structure with a very high concentration in the export sector was established. This was also accompanied by relatively widespread import demand by end use, see Table 1. Predictably, this if uncorrected, would in later years lead to problems associated with structural decline in leading sectors.

The second notable feature is the marked increase in income inequality, poverty and other manifestations of social and economic deprivation. This in large part resulted in the election victory of the Michael Manley led People's National Party (PNP) in 1972 which had social programmes as an important part of their election manifesto.

The decades of the 1950s and 1960s showed relatively high growth rates and Jefferson (1972) reports an annual average growth rate of 6.7% for the years 1950-68. As Jefferson notes, however, there was a secular decline in the growth rate of GDP over the period. "During the period 1950-55 real GDP grew at the rate of 10.1% per annum. During the subsequent five year period the rate of growth dropped to 7.1% per annum. It slowed down even further to 4.5% during the period 1960-65, and 4.0% for the period 1965-68" (Jefferson 1972: 43-44).

This reduced rate of expansion was accompanied by uneven structural development, the nature of which were to lead to both internal and external problems by the end of the 1960s and into the 70s. Table 2 shows the percentage sectoral contribution to GDP and unevenness of

TABLE 1

Percentage of Imports by End-Use Classification

	1958	1964	1968	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Consumer Goods	44	45	42	30	34	28	25	21	18	13	15	12	11	13	17	16
Food	21	19	16	13	15	14	14	12	10	7	9	7	6	7	9	8
Other	23	26	26	17	19	14	11	9	8	6	6	5	5	6	8	8
Raw Material	25	26	25	35	36	41	51	48	56	66	62	67	72	67	60	60
Fuel	9	9	7	10	9	11	21	19	22	29	23	33	38	33	30	30
Other	16	17	18	25	27	30	30	29	34	37	39	34	34	34	30	30
Capital Goods	31	29	33	35	30	31	24	31	26	21	23	21	17	20	23	24
Total Imports	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
c.i.f. J$m*	129.3	206.6	320.3	459.7	489.3	615.1	850.8	1021.4	829.8	781.6	1260.0	1754.4	2086.6	2623.4	2460.3	2841.0
f.o.b.US$m**	NA	NA	NA	474.1	465.7	570.2	811.4	969.7	791.6	666.7	750.0	882.6	1038.1	1296.7	1204.4	1122.2
Volume Index of Imports	NA	NA	NA	90	95	100	80	80	89	69	71	68	70	64		

Source: O. Jefferson 1972, p. 197; Economic and Social Survey of Jamaica various issues; The Statistical Institute of Jamaica, External Trade 1983;* R. Harris 1982, p. 221**

TABLE 2

GDP at Factor Cost by Industrial Origin at 1956 Prices (J$m)

Industry	1950		1960		1968		Average rate of growth per annum
	%	J$m	%	J$m	%	J$m	
Agriculture, Forestry & Fishing	.24	41.6	.13	52.4	.11	59.4	.02
Mining, Quarrying & Refining	.002	0.4	.10	37.0	.10	54.2	.31
Manufacturing	.14	23.4	.14	54.0	.16	89.0	.08
Construction & Installation	.08	13.6	.12	46.0	.10	53.8	.08
Public Utilities	.01	1.4	.01	3.6	.01	8.2	.10
Transport, Storage & Communication	.09	15.2	.08	30.8	.09	51.2	.07
Distribution	.16	28.0	.19	72.4	.14	74.6	.06
Financial Institutions	.04	6.6	.03	11.2	.03	16.6	.05
Ownership of Dwelling	.06	9.8	.03	10.6	.02	12.0	.01
Public Administration	.06	9.8	.06	23.4	.08	45.6	.09
Miscellaneous Services	.12	20.8	.12	48.4	.15	84.6	.08
Total	1.00	171.0	1.00	389.8	1.00	549.2	.067

Source: O. Jefferson 1972, p. 44.

sectoral performances. Apart from the Ownership of Dwellings which grew at a compound growth rate of 1% for the 1950-68 period, agriculture at 2% per annum recorded the slowest growth. The relative share of agriculture also fell from 24% of GDP to 11% over the period. Slow agricultural growth led to a rapid increase in excess demand for agricultural commodities both for consumption as well as for intermediate inputs, and contributed to declining agricultural self-sufficiency.

Indeed, the slow growth rate for Ownership of Dwellings indicates the relatively poor economic performance of labour at the lower end of the income distribution. Such poor performance is likely to be associated with increasing income inequality, and this is supported by available evidence. This conclusion is accentuated by the confirmed proclivity of Jamaicans to own their own homes and to invest in property. Income distribution data taken from the 1963/64 and 1971/2 household expenditure surveys show a significant worsening of inequality in both urban and rural sectors. The aggregate income distribution also shows a marked increase in household income inequality. Figures 1 to 3 present Lorenz curves plotted for the three levels of aggregation noted above. They show an unambiguous increase in inequality indicated by the outward shift and non-intersection of the curves.

Figures 1 & 2

HOUSEHOLD INCOME DISTRIBUTION, URBAN AND RURAL, 1963-4 and 1971-72

Source: C.E. McClure Jnr. THE INCIDENCE OF JAMAICAN TAXES 1971-72, ISER Working Paper No 16, p16 and p78

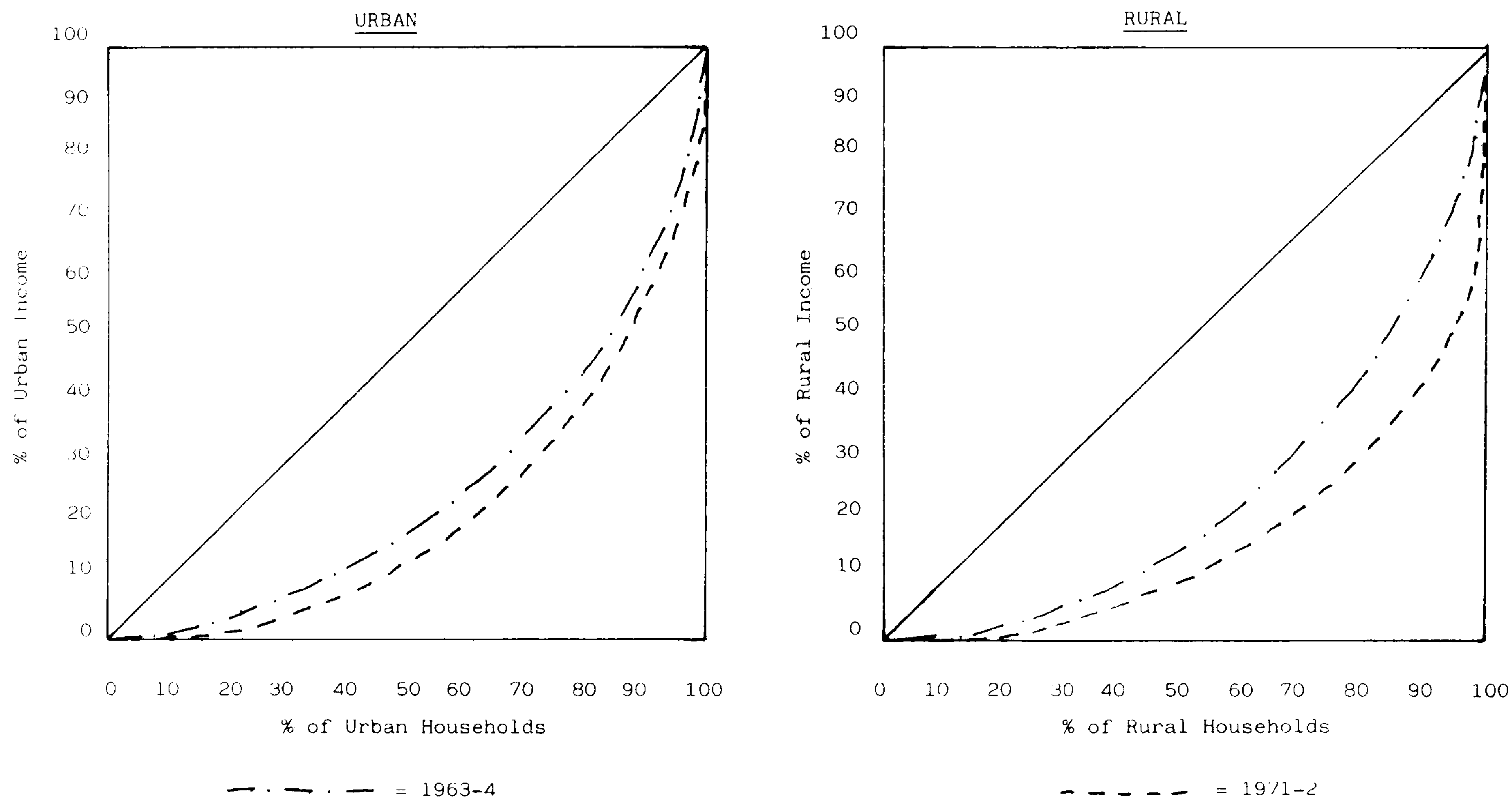
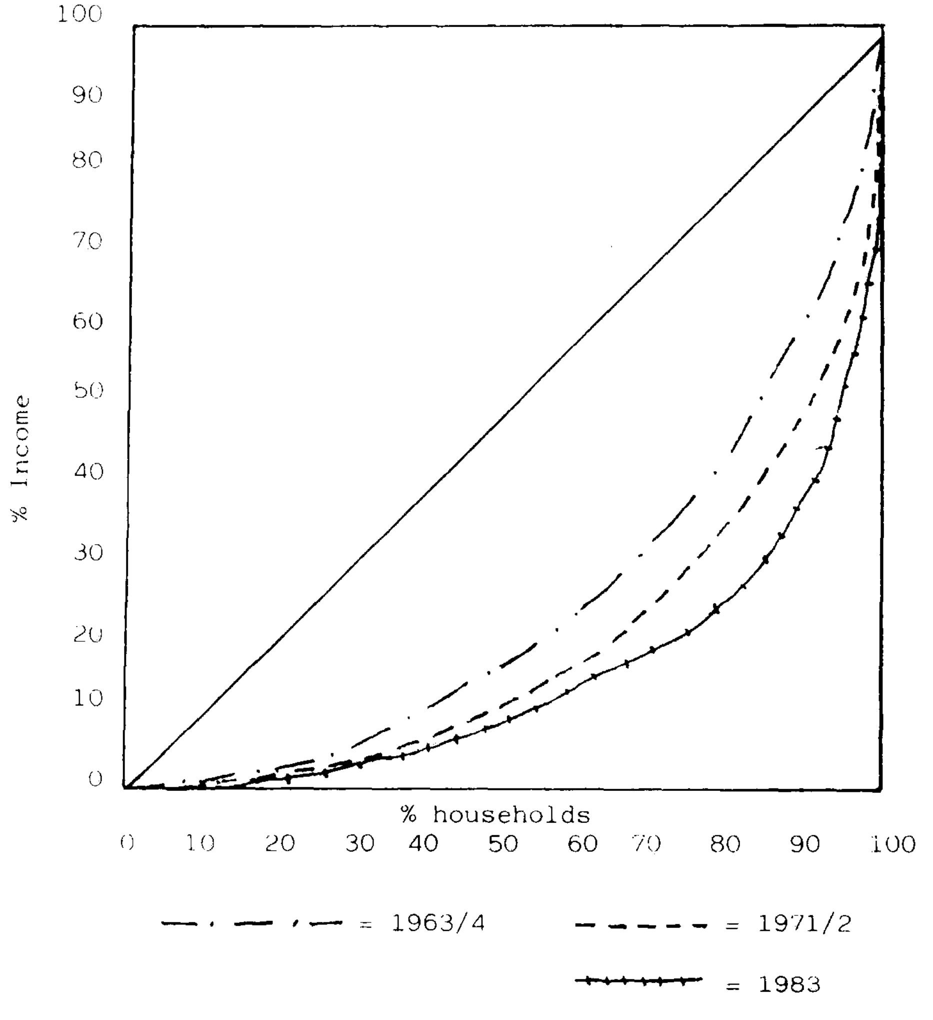


Figure 3

HOUSEHOLD INCOME DISTRIBUTION ISLANDWIDE, 1963/4 and 1971/2

Source: C.E. McClure Jnr. (1977)
C. Bourne (1984, p11)



The bauxite/alumina sectors, after their take off in 1952, came rapidly to dominate the performance of the external account, as well as providing important domestic stimuli. In 1953 bauxite/alumina accounted for 11% of merchandise export earnings, reaching 46% by 1958 and it remained approximately this magnitude for the fifties and sixties. In 1968 it accounted for 49% of merchandise exports, and in fact in the later decades of seventies and into the eighties its relative importance increased to well over 70% in some years.

Table 2 shows that the annual average growth rate of bauxite/alumina was by far the greatest, at 31% per annum, of all the sectors, and that by 1968 its relative contributon to GDP had climbed to 10% - almost to that of agriculture which stood at 11% of GDP. "The fact that the other large and rapidly growing sectors used, rather than earn foreign exchange emphasised the relative importance of the minority sectors as a source of import capacity and capital inflows. Both the capacity to adjust to an external deficit and the time period over which adjustment takes place would be constrained by the concentration of the source of foreign exchange and widespread dependence on imports" (Brown 1981: 8).

From 1959 and throughout the decade of the 1960s, with the single exception of 1963, there were always deficits on both the trade and current accounts (Jefferson 1972: 208). Moreover, this deficit was rising on trend. In 1960 the ratio of the current account deficit to GDP was 4% and in 1968 it was 12%. However, this deficit was, mainly covered by direct foreign investment into the export sectors of bauxite/alumina and tourism. Given the nature of this investment it is clear that it could not continue at high levels in the long-run, especially when it went primarily into the bauxite/alumina industry, since at sometime adequate capacity levels would be installed. After a relative lull over the latter fifties and early sixties the bauxite/alumina industry carried out what has so far turned out to be its largest major expansion programme over 1968-71 causing a significant increase in foreign capital inflows. After 1971, foreign direct investments fell dramatically.

As already mentioned, although macroeconomic indicators do point to the sixties as a period of growth, it is worth noting that this was also a decade which gave rise to pressing economic and social problems. Unemployment grew from 13% in 1962, to 17% in 1969 and reached 23% in 1972. Between 1950 and 1970, net migration totalled 323,175 persons ie, approximately 16% of the 1980 population over that twenty year period. In 1961 the figure peaked at 38,500 as people sought to 'beat the ban' into the United Kingdom which became effective in mid 1962. Since 1967, however, the net migration figure has averaged in excess of 20,000 to the end of the sixties and into the 1970s. There is little doubt that without entry restrictions these figures would be larger. Push factors did not abate in the sixties. Absolute poverty also grew, as between 1958 and 1968 it is estimated that the absolute weekly income of the poorest 30% of the population fell from J$32 to J$25 per capita in constant 1958 dollars (Girvan, Bernal and Hughes, 1980, p.115).

In summary, therefore, whilst the fifties and sixties were growth years, the changes in the economic structure were unbalanced with high import dependency and a high concentration in the export sector. If uncorrected this structural composition would lead in the long run to serious problems. Also, simultaneously with the growth in GDP was an increase in inequality, poverty and unemployment, in spite of quite heavy net migration. These dcades saw the establishment of the structural pattern of the 1970s and 1980s, which policy measures during these latter years largely failed to transform. Changes in the structure of international demand and relative prices would show up the weaknesses of such an unbalanced structure. These latter years would result in crisis conditions and show up traditional short-term adjustment policies to be relatively ineffective in protecting the domestic economy from the ravages of international economic turbulence.

2. THE 1970s: A PERIOD OF DECLINE

As was the case for many developing countries, the 1970s were a period of economic decline unprecedented in the post-war period. Analyses of the decline over what are sometimes called 'the Manley years'

(1972-80), are to be readily found: see for example, Sharpley (1984), Brown (1981), Kincaid (1981), and Girvan, Bernal and Hughes (1980). The differences which emerge from these studies do not question the existence or indeed the pronounced severity of the decline, but rather whether or not external forces were more or less responsible than internal factors.

Thus for instance, Sharpley (1984: 123), argues that "Jamaica's balance of payments crisis appears to have been not so much the result of external forces as of current domestic policies and underlying structural factors affecting the demand for non-oil imports, the supply of exports, and net inflow of foreign finance". Whilst, on the other hand, Girvan et al (1980: 144), suggest structural factors especially in the export sector, along with exogenous forces were the primary causes of the decline. Exogenous factors such as: "Termination of the bauxite investment cycle, import price inflation, export shortfalls and export price restrictions were important contributory factors to the weakness of the economy after 1972".

The decline of the economy occurred on the domestic as well as the balance of payments front. Table 3 shows that the GDP at constant prices in 1980 was 81.6% of that of 1973. Between 1974 and 1980, seven successive years of negative real growth were recorded. The per capita impact was compounded by an annual population growth rate of 1.3% throughout the period.

The 1972-80 period may be divided into two sub-periods, 1972-76 and 1977-80. The 1972 period saw the emergence of stagnation in the economy as well as the fundamental worsening of the balance of payments position. The 1977-80 period on the whole saw the government and the International Monetary Fund (IMF) attempt to deal with the disequilibria.

TABLE 3

Macroeconomic Indicators : Jamaica

	GDP at Constant Prices		Per Capita[1]	Consumer
	J$m	Rate of Growth %	Rate of Growth %	Price Increase %
1983	1922.9	1.8	0.1	19.8
1982	1888.8	0.0	-1.5	7.1
1981	1888.1	3.2	-1.9	4.6
1980	1828.0	-5.8	-6.9	25.0
1979	1940.0	-1.5	-3.5	24.4
1978	1970.6	-0.5	-1.8	47.1
1977	1961.6	-2.5	-3.1	16.1
1976	2011.0	-6.2	-8.1	8.3
1975	2143.2	-0.5	-2.2	11.4
1974	2153.1	-3.9	-5.6	22.1
1973	2240.2	0.4	-0.6	28.8

Source: The Statistical Institute of Jamaica, National Income and Product (Preliminary Report) 1983; Consumer Price Index 1980.

[1]The average population growth rate of 1.5% annually has been applied throughout to avoid yearly fluctuations in the rate of emigration (Sharpley 1984, p. 116); 1981-83 based on Statistical Institute of Jamaica, Demographic Statistics, 1983 mean population figures.

3. DOMESTIC AND EXTERNAL DISEQUILIBRIA: 1972-76

After their election victory, in 1972 the Michael Manley led People's National Party (PNP) implemented programmes which focussed on increasing employment, maintaining real wages, and reducing poverty, economic and social inequalities. The evidence would suggest, however, that insufficient regard was taken of the internal and external constraints within which the economy had to perform, and this in large measure led to the later difficulties.

The government's fiscal policy had important and far reaching implications for the performance of the domestic economy as well as the balance of payments. Government nominal expenditures averaged a 32% rate of growth per annum over the 1972/3 - 1976/7 fiscal years. Expenditures grew from 25% of GDP in 1972 to 46% in 1976; and the overall budget deficit increased from 5% of GDP to 24% over the period.

Both the rate of expansion and the structure of the expenditures had adverse implications for the economy. As Brown (1982, p.199) writes:

> "There is little doubt that the government was, itself, a contributor to the crisis of the 1970s ... government expenditure reflected consumption rather than investment as transfers through the government budget raised consumption levels and contributed to price increases but did not induce private investment...a substantial proportion of government's expenditure on capital account represented asset transfer".

Rapid fiscal expansion together with government policy to increase real wages led to wage inflation. Over 1974 and 1975, wage increases averaged 50% to 60% per cent and substantially exceeded the cost of living increases. This not only fueled inflation, but also led to a significant worsening of the balance of payments amongst other things.

Beginning in the 1950s the Jamaican export sector, became increasingly concentrated with the bauxite/alumina industry accounting for in excess of 50% of merchandise export earnings before the end of the

1960s. In May 1974, the government imposed a production levy on the bauxite industry which increased the tax revenue from bauxite from J$25m to J$200m in one year. The response of the companies was to cutback production and curtail investments in Jamaica even when, at that time, bauxite investments were expanding worldwide. The volume index of bauxite production fell from a high of 111 in 1974 to a low of 77 in 1975; and the alumina volume index fell from a high of 128 in 1974 to a low of 73 in 1976.

Given the export concentration the effect of the cutbacks in bauxite and alumina production significantly affected export earnings which rose by 6.5% over 1975, but fell by 14.6% over 1976 precipitating the crisis which led to the exhaustion of international reserves in 1976. The balance on current account recorded a peak deficit for the decade on 1976 at US$-302.6 mn equivalent to 10% of GDP.

The massive increases in oil and other import prices are often regarded as, of themselves, having a debilitating impact on the economies of non-oil importing countries. In the case of Jamaica, however, the evidence suggests that over the 1970s these price increase were in the main offset by increases in the price of Jamaican exports, see Table 4. Whilst the terms of trade declined over 1973-4, it soon recovered reaching 109 in 1975. Import prices, however, were significant contributors to price inflation (Sharpley 1984, pp.130-1, Bourne and Persaud 1977).

The disequilibria which developed over 1972 may be attributed to both domestic and external causes. On the whole, however, the evidence firmly supports Sharpley (1984) and Brown (1981, 1982), that the actual outcome of the 1972-76 period were not inevitable. That is, the economy's structure and the policies followed by the Michael Manley government were important contributing factors in the decline. The government pursued its primary social objectives refusing to recognise the constraints imposed by persistent balance of payments disequilibria on an open economy, holding to this course as long as it could. The subsequent result of this and other factors brought about rapid social and economic decline which attracted the attention of the world, especially as the government ascribed a significant part of the blame to their deepening problem on the nature of the relationship it was increasingly forced into with the commercial banks and the Fund. In the following section I shall briefly examine the relations between Jamaica and the Fund which developed over the 1976-80 period.

TABLE 4

Volume Index and Terms of Trade. Jamaica 1970-80

Years	Import Volume	Export Volume	Terms of Trade*
1980	64	93	90
1979	70	90	98
1978	68	94	98
1977	71	91	95
1976	69	83	101
1975	89	96	109
1974	80	114	84
1973	80	107	82
1972	100	100	100
1971	95	101	95
1970	90	92	115

Source: J. Sharpley 1984, Table 4.4, p. 122.

*Net barter terms of trade showing the index of export and import prices, measured in US dollars.

4. RELATIONS WITH THE IMF, 1976-80

The main landmarks of the relations between Jamaica and the IMF may be indicated in terms of the agreements concluded over the 1976-80 period.

(i) August 1977. A two year Standby arrangement signed at this time was suspended soon afterwards on the failing of the first quarterly test.

(ii) May 1978. The three year Extended Programme was pursued for one year, and was then re-negotiated.

(iii) June 1979. The 1978 Extended Fund Facility (EFF) was re-negotiated to take advantage of additional drawings under the Supplementary Finance Facility, but this collapsed in December 1979 when the performance tests were failed. There was no further agreement until after the violent October 1980 elections.

The government was reluctant to enter into agreements for upper tranche programmes because these would entail stiff conditionality criteria which the government was unwilling to implement. Consequently, although net foreign reserves was zero in March 1976, it was not until fourteen months later in May 1977 that the negotiations which resulted in the August 1977 agreement were started. The government, however, made extensive use of the lower tranche Oil Facility and the Compensatory Fund Facility especially during 1976.

The 1977 Standby Agreement

Prior to the August 1977 agreement, in early December 1976 before the elections, a two year Standby arrangement was worked out between the government and the Fund. After the PNP election victory, however, the government rejected these arrangements in January 1977 as being inconsistent with the recently obtained election mandate. This December 1976 arrangement had included a Wage freeze, reduction in the fiscal deficit and a devaluation of 20-40%.

In January 1977, prior to starting the May negotiations with the Fund, the government adopted a programme which included the following policy measures:

a. import and exchange controls;
b. foreign exchange rationing;
c. suspension of foreign debt repayments for eighteen months;
d. a policy on wage restraint which was rejected by the unions;
e. implementation of a dual exchange rate system;
f. a search for financial help from sympathetic governments.

It became clear to the government that international financial support depended upon its reaching agreement with the Fund and thus negotiations were reopened in May 1977.

Although the Fund was clearly not in favour of certain elements of the government's policy, an uneasy agreement was concluded in August 1977. The performance criteria required a sharp reversal in economic trends. Virtually no expansion was permitted in the net domestic assets of the Bank of Jamaica, and net bank credit to the public sector during the first six months of the agreement. This was a clear attempt to bring an abrupt halt to the government's expansionary policies financed by increasing the money supply. As it turned out neither the government nor the Fund were particularly flexible. (Sharpley 1984, Kincaid 1981).

Sharpley's conclusions with respect to the nature of the relationship between the Fund and Jamaica seem pertinent and would appear to be also confirmed by events in the 1980s, where the Fund appears to be quite open to accepting government policy measures similar to those unilaterally implemented after the 1976 elections, such as delayed devaluations, a multiple exchange rate system, import and foreign exchange restrictions, when faced with a government given to cooperation in principle with the Fund.

Sharpley (1984, pp.158-9) writes: "Jamaica's experience surrounding the 1977 Standby agreement supports Dell and Lawrence's conclusion

(1980, p.10) that there is relationship between the ability and the willingness of the developing countries to accept Fund conditionality and the amount of resources the Fund is able to make available. While the Jamaican authorities had allowed the economy to deteriorate dramatically before going to the Fund, the conditions required for this credit were out of all proportion to the resources made available. Even if the agreement was seen by the Fund as a test of the government's determination to implement high stabilisation measures, the size and conditionality of Fund resources provided little scope and encouragement to adhere to this goal".

It must be noted that the acceptance and flexibility mentioned above is not a general feature of Fund policies. There is evidence, however, of some temporal flexibility, and such evidence will be discussed in detail in a later section. Quite frankly, it is very surprising that economists should not expect to find this flexibility. The Fund does not operate in a vacuum, but usually in a highly charged political atmosphere, and economic policy can hardly be expected to be devoid of political interests.

The 1978 Extended Fund Facility (EFF)

In May 1978 an EFF programme was agreed upon supported by IMF funds of about US$250m (SDR 200m). In the light of the December 1977 test failures the Fund was able to push through an agreement which reflected its view on stabilisation policy more fully than it succeeded to do in the 1977 Standby agreement. The 1978 agreement included the following conditions:-

(i) The immediate unification of the exchange rate in addition to a devaluation of 15%, and monthly devaluations amounting to a further 15% over the first twelve months of the programme.

(ii) Price liberalisation and limitation on wage increases to maximum of 15% over the first two years.

(iii) Increased taxes to yield \$180m in fiscal year 1978/79.

(iv) The accompanying monetary measures included:

(a) banks liquidity ratios increased to 40%;

(b) ceiling on commercial banks loans and advances to the private sector of 10% above the amount in May 1978, but later changed to 5% in early 1979.

(v) The performance criteria included the condition that the net domestic assets of the BOJ should increase by only 16% to the end of the fiscal year (9 months).

The primary adjustment policies of this deflationary package were concerned with the problems of wage increases, which had risen by approximately 30% in real terms between 1973 and 1976, and devaluations. "Unlike the earlier Standby arrangement, the Fund now recognised that the size of the resources directly available from the EFF had to permit an increase in imports consistent with the growth objectives of the programme. Furthermore, the Fund more actively assisted the Jamaican authorities in their efforts to mobilise additional external financing from commercial banks, international agencies; and foreign governments" (Sharpley 1984, p.145).

Although in the programme's first year (May 1978 to April 1979), the government carried out all aspects of the agreement, the economy's performance under the EFF programme was poor. Instead of stabilising, the current account underwent further decline, real GDP declined by -1.6% and tax receipt targets were not met. "The adjustment cost of inflation, reduced government services and lower levels of income caused immediate hardships, and the sacrifices seemed in vain..." and gave rise to demonstrated public resentment (Sharpley 1984, p.149, Kincaid 1981).

The 1979 Extended Fund Facility

In a further effort to stabilise the economy, the EFF programme was re-negotiated and the mix of adjustment policies was changed "both in order to respond to the growing social tensions and in an effort to stimulate a more rapid recovery of the economy" (Kincaid 1981, p.19). Of this programme Sharpley (1984, p.150) wrote that it reflected, "both a change in the Fund's policy towards Jamaica and a general increase in resources available following the establishment of the Supplementary Fund Facility which became operational in February 1979".

In comparing the 1977 and 1979 programmes Sharpley (1984, p.151) further notes: "The 1977 Standby failed to act as a catalyst and additional foreign funds fell short of the Fund's projections, but in 1979 the IMF sought to substitute direct Fund assistance for foreign borrowing in order to improve foreign and local investors confidence..." Furthermore, although similar performance criteria were attached to both agreements the speed of adjustment demanded in the latter case was much slower than in the former.

"In December 1979, Jamaica failed to meet three of the major performance criteria" and the programme was suspended (Sharpley 1984, p.153). As a result of foreign exchange shortages and social and economic uncertainties the fiscal and growth objectives of the programmes were not met (Sharpley 1984, pp152-4, Kincaid 1981, pp.19-20).

Social and political factors contributed to the failure of the government and the Fund to negotiate a new programme, and Prime Minister Michael Manley announced in early 1980 his intention to hold a general election as soon as feasible in order that the nation could decide upon an economic strategy and "what part the IMF should play; or whether it should play any part at all".

5. THE 1981 EXTENDED FUND FACILITY PROGRAMME

In the October 1980 general election, the Jamaica Labour Party (JLP) led by Edward Seaga, won an overwhelming victory. This election was dubbed "the IMF election" since the central point of dispute between the opposing parties was whether Jamaica should continue to seek IMF assistance or should an alternative path be pursued. In the event the strongly pro-IMF party won 53 out of the 60 seats to the elected house of representatives. Consequently, there was considerable political pressure on both the government and the Fund to come to some early agreement to ameliorate the severe foreign exchange and widespread social and economic crises, for which Jamaica attracted world attention.

Immediately after the election, a wave of relief and optimism among business and many sections of labour replaced the pessimism which had resulted in the net migration of capital and highly skilled labour during the late 1970s. This resulted in foreign capital inflows commencing immediately and the supply of food and other items improved considerably as empty shelves were refilled.

In April 1981, an agreement was concluded with the Fund for an amount of SDR537 mn, to cover the three fiscal years 1981/82 to 1983/4. The IMF agreement was an essential part of the government's economic recovery programme which emphasised the need to expand output and investments, through relaxing the production constraints imposed by foreign exchange shortages, opening up the economy to imports, freeing prices, and instituting a programme of divestment of certain public enterprises.

In assessing the IMF support of government policy in Jamaica in 1981, two factors mentioned by Sharpley (1984, p.155) are worth reiterating. Firstly, "in the 1981 agreement it was recognised that Jamaica's extensive import controls could not be dismantled quickly without exacerbating the foreign exchange shortages, but the eventual liberalisation of the import licensing system was called for". Secondly, "the trade weighted index of Jamaica's real exchange rate was virtually the same in 1978 as 1980/81, yet a 30% devaluation was required in the first twelve months of the 1978 agreement whereas no further devaluation of the official exchange rate was called for under the 1981 agreement".

It seems that under pressure from the government the Fund waived, at least temporarily, these policy measures, and that future performance would indicate the need for their imposition. This may be deduced since the recently elected pro-IMF government would, for instance, not want to devalue the J$ immediately upon taking office if for no other than political reason. Also, devaluation would have reduced the success the newly elected government had in bringing down the inflation rate from the recorded official rates of 28.7% in 1980 to 4.6% in 1981. Furthermore, the government may have envisaged that devaluation would retard 'catching up' capital investments and restocking by increasing their costs. This had been impossible in the late 1970s due to foreign exchange shortages and exchange and import restrictions under the Manley regime.

1981 Economic Performance

Over the 1981 calendar year Jamaica passed all of the quarterly IMF tests. This is not unique since in the first year of the Manley 1978 EFF all quarterly tests were also passed. Moreover, some macroeconomic variables indicated that the economy had emerged from the persistent decline of the preceeding eight years. GDP recorded a growth of 2% which was later revised to 3.3% for the year. Employment also grew by 3.3%. As noted above inflation measured by the Consumer Price Index (CPI) showed a marked decline in its annual growth rate. Gross Fixed Capital Formation which declined by -7.8% in 1980 grew by 37.4% in 1981 but this increase was not reflected in the growth of output in many sectors.

These notable developments must be seen against the background of the severe foreign exchange shortage which existed at the beginning of the year, and they would have been impossible without the mobilisation of a substantial amount of foreign exchange generated by the April 1981 IMF agreement. On the whole, the productive sectors showed some response to the easing of the foreign exchange constraint on production, although the manufacturing sector and public administration did show absolute declines. The overwhelming response to the 1981 policy measures, however, came not primarily from investment demand but rather from consumption demand.

Part of this lack of production response may be attributed to an inadequate manufacturing base. The relatively rapid opening up of the economy and the competitiveness of imports may also have been contributory factors. At root is the economy's weak productive base supporting a large distribution sector. Indeed, the relative contribution to GDP of the distribution and the manufacturing sectors is usually of the same magnitude. In 1981, for instance, distribution and manufacturing each accounted for 15% of GDP, see Table 5. It is worth noting that the traditional importance of the distribution sector in Jamaica is partly founded upon the relative importance of imports. In 1981, for instance, the ratio of imports of goods alone to GDP was 50.5%.

In this immediate post-election period the easing of the foreign exchange constraint through renewed official and private inflows and the partial relaxation of quantitative restrictions brought about a deterioration in the merchandise and current accounts. In 1980 the former was US$-69.0 m and the latter US$-204.2 m, and in 1981 these deficits increased to US$-322.7 m and US$-336.8 mn, respectively, see Table 6. This represented an increase in these deficits of 368% and 65%, respectively. However, the notable turnaround in net capital inflows which moved from US$-10.4 m in 1979 to US$247.2 mn in 1981, counterbalanced these deficits and resulted in an Overall Balance of US$-89.6 m.

In spite of this poor external performance all of the IMF tests were passed as the ceilings on the BOJ's net international reserves and net domestic assets were not breached due to the massive foreign capital inflows. It is worth noting that in spite of the massive net capital inflows that net private capital inflows only accounted for US$7.0 m of the US$247.2 m net total, ie less than 3%. This heavy dependency on

TABLE 5

Percentage GDP Contribution by Industrial Sector 1976-83, Constant 1974 J$

	1976 %	1977 %	1978 %	1979 %	1980 %	1981 %	1982 %	1983 %
Agriculture, Forestry & Fishing	8.2	8.6	9.5	8.3	8.2	8.2	7.6	7.9
Export	(1.8)	(1.5)	(1.7)	(1.4)	(1.3)	(1.3)	(1.3)	(1.2)
Domestic	(6.4)	(7.1)	(7.8)	(6.9)	(6.9)	(6.9)	(6.3)	(6.7)
Mining & Quarrying	6.2	7.4	7.6	7.6	8.9	8.7	6.2	6.2
Manufacture	18.6	17.6	16.7	16.4	15.4	15.0	15.9	16.0
Construction & Installation	8.3	6.7	7.0	7.1	5.4	5.2	6.0	6.1
Distributive Trades	17.0	16.6	15.8	15.3	14.9	15.3	16.4	15.0
Government Services	15.2	16.5	17.3	18.6	19.2	19.1	19.5	19.4
Other Sectors *	26.5	26.6	26.1	26.7	28.0	28.5	28.4	29.4
Total GDP J$m	2026.1	1992.9	1985.9	1940.6	1828.0	1888.1	1888.8	1922.9

*Other Sectors: Electricity and Water; Transport, Storage and Communication; Financial Institutions; Real Estate; Miscellaneous Services; Household and Private Non-Profit Institutions; Less Imported Sercice Charge.

Source: Economic and Social Survey of Jamaica 1980, 1981 and 1983.

TABLE 6

Selected Balance of Payments Indicators: (1960-70: J$mn, 1971-83: US$mn)

J$M

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
MERCHANDISE BALANCE	-16.4	-9.2	-6.4	6.8	-25.8	-27.2	-39.2	-51.8	-92.1		-89.2
EXPORTS (f.o.b)	117.6	127.2	131.4	148.8	156.2	154.8	164.2	165.4	184.8		
IMPORTS (f.o.b)	134.0	136.4	137.8	142.0	182.0	182.0	203.2	217.2	276.9		
CURRENT A/C BALANCE	-17.0	-7.6	-6.0	7.0	-31.2	-21.8	-32.0	-53.2	-88.6	-103.0	-127.2
NET CAPITAL FLOWS	17.4	10.2	7.2	11.4	28.6	20.2	40.4	60.0	111.8	98.5	134.1
OFFICIAL									6.5	10.3	-1.2
PRIVATE									105.3	88.2	135.3
OVERALL BALANCE	0.4	2.6	1.2	18.4	2.6	-1.6	8.4	6.8	23.2	-4.5	6.9

Source: Economic and Social Survey of Jamaica 1980, 1982, 1983; Harris (1982, p.221); Jefferson (1972, p.208, p.215); Girvan et al (1980 p.155).

US$M

1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
-130.8	-133.1	-177.3	-117.6	-159.3	-131.9	83.9	44.5	-67.9	-69.0	-332.7	-435.9	-436.5
343.8	332.6	392.9	693.8	310.4	569.7	750.6	794.5	814.7	992.0	974.0	768.5	685.7
474.1	465.7	570.2	811.4	969.7	791.6	666.7	750.0	882.6	1,061.0	1,296.7	1,204.4	1,122.2
-114.0	-110.4	-180.8	-166.9	-282.7	-302.6	-34.6	-86.7	-142.6	-204.2	-338.8	-388.4	-288.6
134.5	65.8	137.1	254.2	208.9	48.3	56.9	9.8	-210.4	171.0	247.2	471.7	8.9
4.8	20.5	36.7	90.1	124.2	79.2	-5.9	178.9	71.2	120.0	240.2	446.0	321.0
129.7	45.3	100.4	164.1	84.7	-30.9	62.8	169.1	-81.6	51.0	7.0	25.7	-312.1
20.5	-44.6	-43.7	87.3	-73.8	-254.3	22.3	-76.9	-153.0	-33.2	-89.6	83.3	279.7

p.215); Girvan et al (1980 p.155).

official inflows has come to characterise the Seaga administration. The government's inability to induce an increase in the net inflow of private capital and the reliance on large inflows of official loan capital will, of course, have very serious long-term and short-term management implications for the economy and the management of the budget. This will be further commented upon in a later section.

The significantly poor performance of the trade sector was due to a 25% increase in imports and only a 1% increase in exports. The structure of the increased imports reflected a significant bias towards consumer goods. Consumer foods and durables rose by 40% and 67%, respectively, over 1981. Consumer non-durables such as medical and pharmaceutical, clothing, essential oils, also grew by 35% above the 1980 import figure. Overall, the consumer goods category which is comprised of food, durables and non-durables rose by a massive 44%. On the other hand, raw materials, excluding fuel, which is indicative of increased production, rose by almost half the consumer goods rate at 26%.

Whilst such an import structure may have made good PR in this immediate election honeymoon period, such a structure clearly did not address the underlying causes of persistent balance of payments disequilibria, and reflected a misallocation of scarce foreign exchange resources which should have been used towards developing a sound productive base. Whilst increased competition can lead to improvements in the efficiency of domestic industries, in the absence of an adequate productive base such policies run the real risk of merely increasing the import bill. The real reason for the consumption spree was political. "The people deserved a break from the shortages of the late 1970s", was Prime Minister Seaga's view. The essential point remains, however, whether such an allocation represented the optimum use of scarce foreign exchange under the circumstances.

An increasingly disturbing feature of the trading balance was the poor performance of Jamaica's main export of bauxite/alumina. Even though the bauxite/alumina companies obviously preferred the new JLP administration to that of the PNP which had introduced the bauxite levy, and in spite of the re-negotiation of the structure and level of the levy, bauxite production fell by 12.5%, and alumina production rose by only 4.1%. Moreover, this output reduction was accompanied by reductions in capacity utilisation and closures, under the pressure of a combination of falling world demand and prices. The structural concentration of Jamaican exports makes it difficult for external adjustment to take place in the short run in the absence of a recovery in the bauxite/alumina sector. We shall return to this export concentration aspect later on in the study.

The rapid growth in public expenditure and the budget deficit over the 1970s has been recognised as a factor contributing to over-inflating aggregate demand and exacerbating the balance of payments disequilibria (Sharpley 1984, p.127). An important objective of the 1981 government programme, therefore, was to reduce the relative size of the public sector and produce a 1% of GDP fiscal surplus by the end of the three year programme. In 1981, the first year of the programme, the fiscal performance improved significantly. Total revenue grew by 13%, whilst expenditures only grew by 3%, thus bringing about a 10% reduction in the budget deficit. To a certain extent this improved performance was due to tax arrears which were withheld in the crises years of 1979 and 1980. Nevertheless, the deficit to GDP ratio fell from approximately 21% in 1980 to 17% in 1981.

The 1981 performance of the economy, although indicative of growth in certain respects, did not address the fundamental issues of the dominant external disequilibrium problem. After years of severe foreign exchange shortages, the massive inflow in 1981 was not used primarily to increase the productive base. External balance adjustment demanded that such inflows should be used in ways which would generate foreign exchange. Such inflows were primarily official inflows through government borrowing and guaranteed debt and could not be expected to continue at the increased rate in the long run. Finally, the absence of exchange rate adjustment maintained the relative price advantage of non-traded to traded goods, although it may well have contributed to the slow growth in prices. A discussion of the implications of the

Seaga regime's exchange management policy will be presented in a later section.

6. 1982 ECONOMIC PERFORMANCE

Whilst 1981 could be said to have shown internal growth and external decline, in 1982, the second full year of the Seaga government, the figures showed a marked decline on both fronts. Real GDP grew by one-fifth of one percent, and both the trade and current accounts showed record deficit levels (see Table 6).

The Consumer Price Index in 1982 showed a 6.2% increase. Under the pressure of increased food imports domestic food crop production declined by 12% and this contributed to a 8% increase in the Food and Drink index. However, decreases in some fuel and grain prices, along with the retention of price control on nineteen basic food items helped to keep down the rate of growth of prices.

The performance of the major industrial sectors was very poor at a time when they should have been undergoing significant expansion, due to the easing of the foreign exchange constraint. Net capital inflows in 1982 peaked due to official net capital during 1982 of US$446.0 m. The highest nominal figure ever recorded. Major industries such as Mining/Quarrying and Agriculture declined by 30% and 8%, respectively. The cutbacks in bauxite/alumina were due to structural decline in the industry as a result of a fall in international demand. In agriculture the contraction was due to variety of causes some of which were long-run: they include poor marketing arrangements, unavailability of inputs, depressed farmgate prices, and larceny.

The recovery in 1982 was concentrated in the non-traded sectors. For instance, the construction industry recorded highest growth rate of 15%, followed by Distributive Trades with 7%. On the other hand, following the decline in 1981, manufacturing rose by a modest 6%, Gross Fixed Capital Formation grew by 23%, with the construction industry accounting for half of its growth.

The External Sector 1982

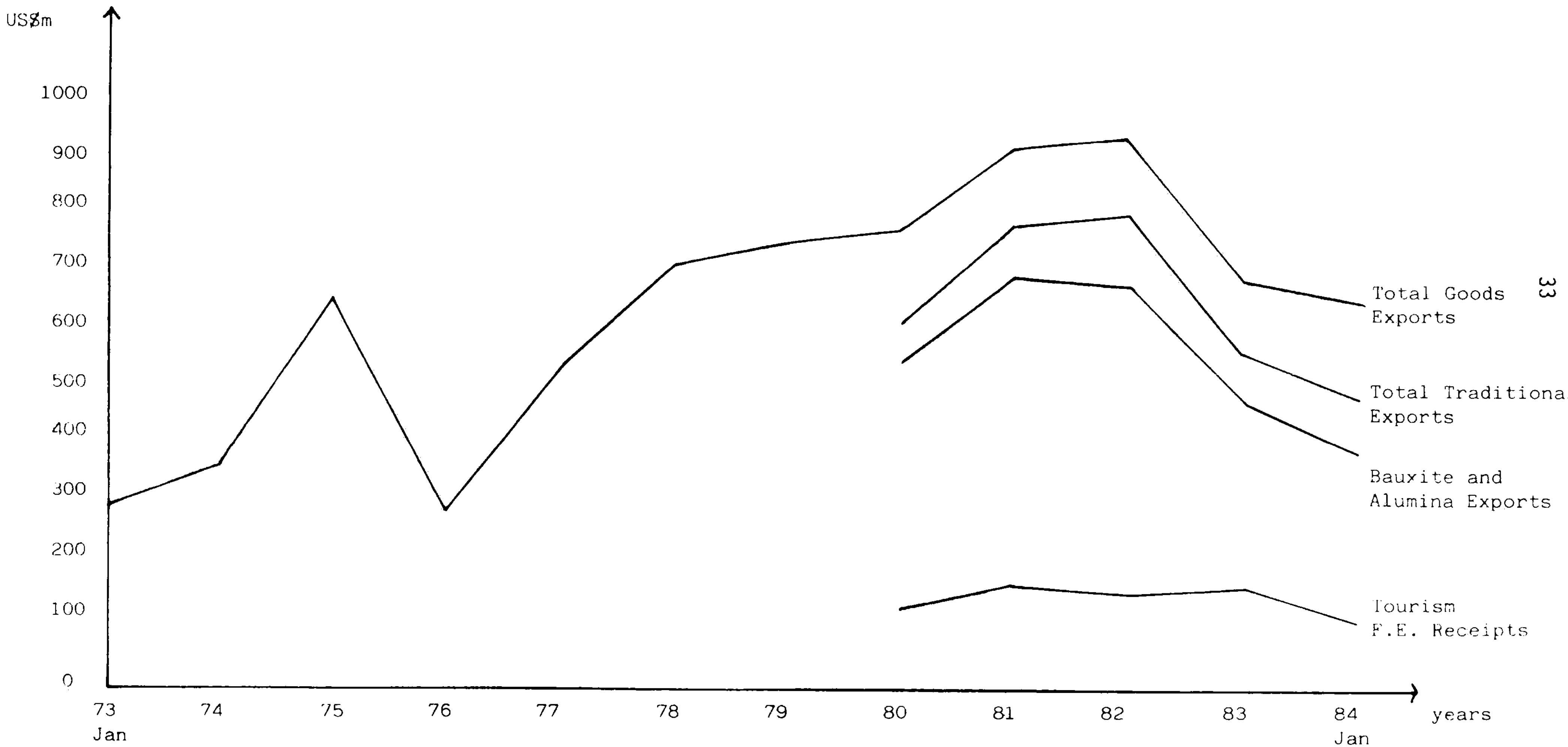
The import bias towards consumer goods recorded in 1981 was maintained in 1982, in spite of the continuation of the import licensing system as the main instrument for the allocation of foreign exchange and the restriction of imports. The 44% growth of consumer goods imports in 1981 was followed by a further increase of 21% in 1982. Food imports grew by 18% and consumer durables grew by 38%, with passenger cars accounting for nearly half of the latter's growth. Total raw material imports actually fell by 21%, the fuel component of which fell by 25% due largely to the decline in production of bauxite/alumina. Capital goods imports rose only by 10%, with vehicles reportedly accounting for a significant part of this sector's growth. Such an import structure does not suggest a country in the second year of an economic recovery programme after seven successive years of negative real growth.

On the export side, there was a dramatic fall in aggregate export value of 26% (see Figure 4). Traditional exports declined by 32% with the bauxite/alumina component falling by 36%. However, both of the two other major traditional exports rose in export value. Banana exports increased by 85%, but this inflated figure was still below the 1980 export level, because 1981 was a particularly poor year. Sugar rose marginally 3%.

On the whole, although goods imports fell by 7%, exports fell by 26% resulting in a 48% increase in the trade deficit. Although services and transfer balances improved, the current account showed a record high deficit of US$-388.4 m for the year, ie 12% of GDP. Net Capital Inflows improved upon the record level of 1981 to increase by a massive 91% (see Figure 5), thereby allowing a surplus on the Overall Balance and an addition to the BOJ's foreign reserves. This is about the only piece of good news that the balance of payments held for 1982.

Figure 4

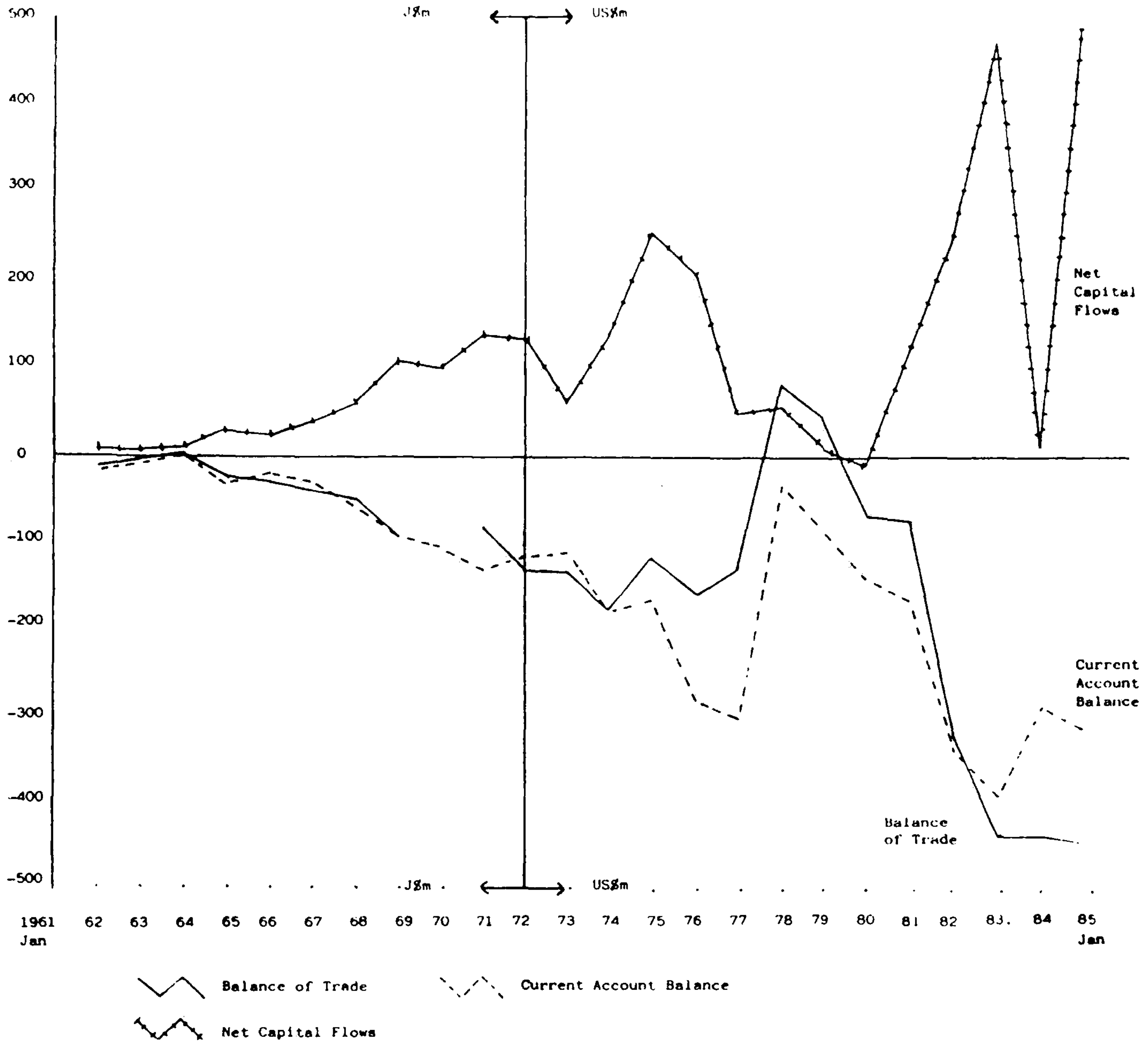
THE STRUCTURE OF EXPORTS AND TOURISM FOREIGN EXCHANGE RECEIPTS (US $m)



Source: Economic and Social Survey of Jamaica

Figure 5

SELECTED BALANCE OF PAYMENTS INDICATORS: JAMAICA 1961-1983



Source: Jefferson 1972, p208, p215; Economic Survey of Jamaica 1980, 1982, 1983

7. 1983 ECONOMIC PERFORMANCE

The third calendar year of the Seaga regime saw an increase in the difficulties facing the Jamaican economy, and the introduction of several major initiatives aimed at combating the non-responsiveness of the economy. In many respects 1983 may viewed as a watershed in the performance of the economy as it showed signs of developing the crisis symptoms familiar in the 1970s.

Exchange Rate Policy

In January 1983, after 2 years and 3 months of inaction on the exchange rate front, the government introduced a two-tier foreign exchange market system. The establishment of a dual exchange market system is worthy of note given the Fund's basic opposition to such market structures, and this initiative was introduced in the 7th quarter of a 3 year Extended Fund Facility programme.

This dual system was the most important element in a policy package aimed at addressing the persistent foreign exchange shortage. Under this regime all official transactions and certain controlled items were kept at the official rate of J$1.78 to US$1.00, which was established back in May 1979. While, in the so-called formalised parallel market the rates were to be determined by commercial banks based on market conditions. Trading in the parallel market began initially at around J$2.60 to US1.00. A month after the parallel rate had risen to J$2.84 and showed every sign of going higher (see Table 7).

This new exchange market structure along with export incentive measures introduced resulted in retaliatory action and an acute disruption of the Caribbean Community trade. The major CARICOM trading countries complained of the competitive advantage to Jamaican exporters resulting from the effective devaluation of the Jamaican dollar. After lengthy discussions a special CARICOM rate was fixed at J$2.25 to US$1.00. In effect, therefore, there were three trading rates for the Jamaican dollar. This indicates one of the difficulties of carrying through devaluations during periods of slow world trade, since such policies increase the market share of the country concerned essentially at the expense of other LDCs market shares.

Table 7

JAMAICAN EXCHANGE RATES: 1967-85

(J$ per US$1.00)[1]

21st Nov. 1967	J£1 = UK£1 = US$2.40		Following devaluation of UK£. The previous rate was J£1 = UK£1 = US$2.80
9th Sept 1969		J$0.8333	J$ creation UK£1 = J$2.00. Marked by US$1.20 = J$1.00
Dec. 1971		J$0.76746	US$1.303 = J$1.00
17th Jan. 1973		J$0.90909	US$1.10 = J$1.00
22nd Apr. 1977	Basic Special	J$0.90909 J$1.25	Dual exchange rate regime started.
Oct. 1977	Basic Special	J$0.90909 J$1.28	
Jan. 1978	Basic Special	J$1.05 J$1.35	
May 1978	Basic Special	J$1.55 J$1.55	Dual exchange rate regime ended.
June 1978		J$1.57	Monthly Mini-Devaluations started.
July 1978		J$1.60	
Aug. 1978		J$1.62	
Sept 1978		J$1.65	
Oct. 1978		J$1.66	
Nov. 1978		J$1.67	
Dec. 1978		J$1.69	
Jan. 1979		J$1.71	
Feb. 1979		J$1.73	
Mar. 1979		J$1.75	
Apr. 1979		J$1.76	

May 1979	J$1.788125	Monthly mini-devaluation ended.
Jan. 1983	Official J$1.788125 Parallel J$2.60	Two-tier exchange rate regime started.
30th Aug. 1983	Official J$1.788125 Parallel J$2.96	BOJ started to determine the the parallel rate.
24th Nov. 1983	Official J$3.15 Parallel J$3.15	Two-tier regime ended. Single rate to be determined within band in BOJ auctions.
3rd Jan. 1984	J$3.30	
1st Feb. 1984	J$3.30	
1st Mar. 1984	J$3.30	
6th Apr. 1984	J$3.70	
4th May 1984	J$4.00	
1st June 1984	J$3.89	
6th July 1984	J$3.89	
3rd Aug. 1984	J$4.04	
7th Sept 1984	J$4.15	
5th Oct. 1984	J$4.30	
2nd Nov. 1984	J$4.60	
30th Nov. 1984	J$4.86	Effective 29th Nov. the bands were removed so that the J$ could move freely.
31st Dec. 1984	J$4.95	
10th Jan. 1985	J$4.95	
5th Feb. 1985	J$5.20	
1st Mar. 1985	J$5.01	
1st Apr. 1985	J$5.50	

1 Selling rates of the US$.

Source: Bank of Jamaica, Balance of Payments of Jamaica 1983, prepared by the Research Department; and various issues of The Daily Gleaner, Jamaican national newspaper.

The government hoped that the attractive parallel market buying rate would pull into the banking system the foreign exchange which was being traded on the black market. It was expected that people with foreign exchange would find it attractive to sell to the commercial banks since these banks would pay much more than the J$1.78 per US$1.00, the official buying rate. The foreign exchange in fact increased rather than decreased, due (as figures published later would show) to an increased net outflow of private capital of US$155 m over 1983. Later on, in order to reduce the excess demand pressure in the official market, almost all non-official transactions were shifted to the parallel market in June 1983, thereby ending the implicit subsidisation of these items. Transactions in the official market were confined to mainly servicing the external debt, public capital payments, basic food and food imported for the tourist sector.

From January to August the commercial banks brought about a secular devaluation of the J$ on the parallel market and this gave rise to the criticism from the government that the J$ was being devalued too rapidly. This resulted in the Prime Minister, through the Bank of Jamaica, taking on the responsibility at the end of August of setting the rate. From 30th August 1983, commercial banks would no longer offer different rates. A fixed rate would be set each week for buying and selling, and trading began at a selling rate of J$2.96 to US$1.00, effecting a revaluation on some selling rates which reached as high as J$3.50.

Jamaica's foreign exchange problem, however, did not abate. The IMF programme was suspended at the end of the third quarter in 1983.

As part of a new IMF arrangement, from the 24th November 1983 all the exchange rates were unified and devalued. The new exchange rate was J$3.15 per US$. The system for determining the exchange rate was also changed to one whereby the Bank of Jamaica set a band within which the available foreign exchange is auctioned. The band was established on a ratchet principle which allowed it to be increased, ie the currency to be devalued, but there was no provision which allowed the Bank of Jamaica to decrease the band. This band system remained in place for almost exactly one year. In November 1984 exchange rate bands were removed permitting the exchange rate to move upwards or downwards without limit. The auction element has continued in place and approximately one and a half years later in April 1985 the Jamaican dollar has depreciated to J$5.50 to US$1.00.

The introduction of the parallel market and the subsequent overall devaluation of the J$ did not improve the foreign exchange supply, nor did it reduce the external deficits in spite of increasing the relative price of traded goods. The 1983 merchandise deficit of US$-436.5 m surpassed the 1982 deficit. The current account balance fell below the 1982 record deficit, but at US$-288.6 m was still high. It represented 13% of the 1983 GDP (converted at J$3.15).

An area of marked significance which seems to signal a substantially deteriorating position was the 1983 net capital movements. Overall net capital inflow fell to US$8.9 m, as against the peak levels of US$471.7 m recorded in 1982, US$247.2 m in 1981, and US$171.0 m in 1980 (see Table 6). This fall is all the more important because it was the result of a significantly increased outflow of net private capital of US$-312 m.

Furthermore, the net official foreign capital inflows are not, of course, an absolute advantage, since they will, inter alia, have adverse implications for future debt servicing and principal repayments, and also adversely affect the attainment of fiscal targets. Indeed, debt servicing and repayments were sources of major problems in 1983. The gross external debt was 41% of the year's export value. In July 1984 the Paris Club agreed to reschedule Jamaica's debt arrears for 1983 and repayments falling due between January 1984 and March 1985, totalling US$135 m. The arrears for 1983 were rescheduled over seven years with one year's grace. The signals indicate, therefore, that the servicing of debts and arrears are likely to be present serious problems to Jamaica in the very near future. In the face of the rapidly deteriorating export performance it is difficult to draw any other conclusions from the reported official figures. The absolute value of exports has fallen in US$ terms in every year since 1980.

1983 IMF Test Failures

As noted above, Jamaica failed the first of two quarterly IMF tests in the first quarter of 1983, but a waiver was granted which allowed the EFF programme to continue. The Bank of Jamaica (Monthly Review August 1984: 2) explained this failure thus: "The second year of the EFF programme came to an end on the 31st March 1984. At that date certain targets established under the programme were not met due to the failure of some programmed external flows to materialise. The full amount of resources due from the IMF during the second year of the programme (US$191 m) had already been drawn by January. The government requested and was granted a waiver from the Fund in breaches of the performance criteria as at March 31, 1983 to allow for a continuation of the programme into its final year. All the performance criteria were successfully met at the end of June".

Jamaica failed the quarterly IMF tests for the second time in 1983 (third quarter) however, when foreign exchange cash flow problems "led to accommodation by the Bank of Jamaica which is obliged to underwrite government's debt under such conditions. As a consequence, Jamaica breached both the net international reserve target, by US$21.0 m and by extension the net domestic asset target by a similar amount in Jamaican dollars" (Economic and Social Survey of Jamaica 1983, 6: 3). This led to the suspension of the programme and negotiations started for a new Standby Credit programme which came into operation in early 1984.

It is noteworthy that the 1984 Standby programme was for one year only and provided funds totaling SDR64.0 m: (US$67.2 m); unlike the programme which was prematurely terminated which was a three year EFF and which provided SDR537 m over the three years, with SDR237 m in the first year alone. The 1984 Standby Credit programme was vastly inferior to the preceeding programme, therefore, but the Jamaican performance figures does not suggest that the economy has significantly improved over the 1980s.

Fiscal Performance

Arising largely from the devaluation of the Jamaican dollar in 1983, budget targets were massively over-run. The actual recurrent deficit in 1983 of J$714.1 m passed the targeted budget deficit of J$570.6 m. The targeted overall deficit of J$441.2 m was surpassed by 280%, and represented an increase of over 75% on the preceding year's deficit.

Consequently, the government had to borrow the equivalent of 25% of the 1983 GDP in order to finance this deficit, and relied heavily on domestic borrowing to finance over 65% from this source. Rather than producing the 1% of GDP surplus planned for the end of the three year programme, there occurred a 25% of GDP deficit. The plans were a little off target.

Devaluations always increase the domestic cost of external debt servicing and repayments, and in 1983 the increase in the Gross External Debt was J$2,832.6 m. This represented a massive increase of 110%, expressed in J$, over the year.

In point of fact, in spite of this large increase in the foreign debt, Jamaica only borrowed J$360.4 m over 1983. The majority remaining of J$2,472.2 m was due to the devaluation brought about by the unification of exchange rates on November 23rd, 1983, at J$3.15 from an official rate of J$1.78 to US$1.00.

Since devaluations always necessitate the upward revaluation of foreign debts and will increase the debt service costs in terms of the domestic currency, this will clearly increase budget deficits, unless off-setting expenditure cuts can be made, and/or revenues are significantly increased.

External Trade

The merchandise deficit of US$-436.5 m represented a slight worsening of the peak deficit of 1982. During 1983 the level of imports fell by 6.9% to US$1,280 m; however, the level of exports recorded a greater fall of 10.8% to US$685.7 m. The 1983 merchandise value figure was only 70% of the 1981 value in US$ terms.

The primary cause of the export contraction was the continuing decline in bauxite/alumina exports whose level was US$423.8 m in 1983, a reduction of 18% of the 1982 figure (see Figure 4). In fact, this 1983 figure was 56% of the 1981 figure. Bauxite/alumina since 1980 has experienced a rapid fall and the situation would have been worse were it not for the USA's, essentially politically motivated, decision to add to her already high stockpile from Jamaican exports. Indeed, the Planning Institute of Jamaica (ESSJ 1983, pIII) reports that in 1983: "Jamaica's bauxite output fell to its lowest level in twenty years, employment was further reduced and foreign exchange receipts declined by 35%, the third successive annual decline in these three indices".

TABLE 8

Bauxite/Alumina as a % of Total Good Exports

Year	Percentage	Year	Percentage
1983	61.8	1975	64.9
1982	71.0	1974	62.4
1981	78.8	1973	67.2
1980	78.1	1972	64.2
1979	71.4	1971	65.1
1978	71.6	1970	66.8
1977	70.5	1969	60.4
1976	69.3	1968	49.6

Source: Economic and Social Survey of Jamaica 1983, 1982,
Statistical Yearbook of Jamaica 1982.

In spite of the dramatic fall in bauxite/alumina exports, it nonetheless still accounted for 62% of total merchandise exports, see Table 8. It has consistently accounted for well in excess of 60% of merchanside exports since 1969. The two other highest exporting sectors in 1983 were sugar at US$57.2 m and coffee at US$8.3 m, and these represented 14% and 2% of bauxite/alumina export value, respectively.

Devaluations appear to be inappropriate policy responses to the structural decline which face the bauxite/alumina industry. However, because the contraction is exogenously determined it may well be that the government has little scope to employ efficient policy measures which would significantly improve the situation. Finding appropriate policy measures to improve export performance is made more complex due to the concentration and the structural decline in the primary export earning sector. Sector based policy initiatives may well be the more appropriate policy type under these conditions, rather than broad based policies such as devaluations.

The non-traditional export sector is moderate in size and accounts for 22% of the total merchandise exports in 1983 (see Figure 4). It consists of five main subsectors: food; beverages and tobacco; crude materials; mineral fuels; and fats and oils. In recent years this sector has grown. Between 1981 and 1983 the sector grew by 27%, with 7% points of this growth accruing over 1983. This should not be taken to suggest, however, that the exchange rate depreciations have been responsible for this growth since most of this growth preceeded the devaluations. The sector's relative importance, however, may be indicated by the fact that in 1983 its exports represented 36% of the export value of the bauxite/alumina industry.

Imports, as we noted above, fell by 6.9% in 1983. This was achieved through a reduction in the three main categories of imports: consumer goods, raw materials, and capital goods. The consumer goods category fell by 10%, non-durables and durables. In the raw matrials category, fuel imports fell by 5% and other raw materials by 8%. In the capital goods category, the absolute amount in US$ terms spent on imported construction materials remained constant. Transport equipment fell by

22%, no doubt due to the increased policing of the measures to restrict illegal vehicle imports in this class. The other capital machinery class of imports remained constant, and the residual category, other capital goods, fell by approximately 18%.

The import structure in 1983 would suggest a smoothing out of derived demand as the restocking phase over 1981 - 1982 comes to an end. Although this is plausible, it seems unlikely when the movement of other macroeconomic variables are taken into account. A more likely explanation is that the structure of external trade is indicative of an economic slow down of the economy, especially in the export sector.

Export agriculture in 1983 was 3% lower than the 1982 level at constant prices, see Table 5. The production volumes of sugar and banana were significantly lower than their 1980 levels by 16% and 29%, respectively, following a secular declining trend. Increases in agricultural production in 1983 occurred only in the areas of spices, cocoa, coffee and copra. Domestic food crop production, however, increased significantly under the twin impact of price and substitution effects, as people switched from the imported foods which were rapidly increasing in price due to the effect of the dual exchange system.

This, therefore, indicates some exchange rate responsiveness on the import side. This gave a fillip to domestic crop production which had fallen 14% in volume terms over 1982. The 12% rise over 1983, however, meant that production volume was still 4% below the 1981 level. Elsewhere, agricultural output remained fairly constant, and preliminary figures report a real growth of 5% (National Income and Product, prelim report 1983: 29). However, given that production in the major crops has fallen significantly, as we have noted, this casts some suspicion on the accuracy of this agricultural growth figure.

GDP's composition suggests that growth took place in domestic production overall, with a general fall in export production. This is the opposite to what would be expected given that the devaluation of the J$ started in January 1983. A switch from domestic to export production would be expected. This, however, assumes the existence of an appropriate set of structural and institutional conditions. The dominant observed response, however, has been due to the demand substitution effect which led to increased production of non-traded goods.

The institutional and structural characteristics of the economy along with the movement of market indicators such as the exchange rate will in the end determine the response of the economy to policy measures. Institutional behaviour is an often neglected area when policy responses are designed, so that institutions are continually being developed in response to economic and social problems, but they quite often do not perform as expected. For instance, the tourist industry has been the recipient of extensive public assistance, but even when the data show the industry to be growing, the industry has failed to deliver the expected goods. The tourism sector has assumed a critically important role in the Jamaican economy, particularly as a result of the decline in the bauxite/alumina foreign earnings, and has received many government incentives since 1980. It has failed so far, however, to fulfil its promise as a provider of foreign exchange. In 1983 the number of visitors and visitor expenditure is reported to have increased by 16.8% and 18.2%, respectively. Yet cash receipts by the Bank of Jamaica from the tourism sector declined by 34.3% in 1983 compared to 1982.

8. THE POLICY RESPONSE IN 1984

The poor performance of the economy in 1983, following those of 1981 and 1982, and the failure of two IMF tests during 1983 gave rise to the implementation of a strong IMF package in January 1984. These measures were, it was reported, to improve the balance of payments, contain price inflation, stimulate domestic savings and so lay the foundation for sustained economic growth. This package was supported by an IMF SDR64.0 m (US$67.2) Standby agreement for a year.

The following measures were announced on the 24th January 1984.

(a) The imposition of a 12% ceiling on the increase in commercial banks' lending to the private sector for 1984.

(b) The liquid asset ratio of commercial banks was increased by 4 percentage points to 40%.

(c) The cash reserves ratio of the commercial banks was increased in stages from 5% to 10% effective April 11, 1984.

(d) The liquid assets of the commercial banks were redefined to exclude their foreign currency float (resulting from the lag between purchases and sales of foreign currency transacted by the banks on their own account).

(e) The liquid assets ratio of non-bank financial intermediaries was increased from 10% to 15% in order to keep their credit expansion in line with the overall targets for the system as a whole.

(f) A deposit scheme was introduced under which all bona fide requests for foreign exchange payments must be accompanied by a local currency deposit equivalent to the foreign currency demand at the prevailing exchange rate.

(g) In order to prevent deposit interest rates from falling too far below the inflation rate (which would provide a disincentive to savers), and also to utilise the interest rate mechanism as a restraining factor in the growth of demand, the following adjustments were made:

(i) Bank Rate was increased from 11% to 13%;

(ii) Bank of Jamaica's rediscount rates were increased by 2%;

(iii) the minimum interest rate on savings deposits was increased from 9% to 11%.

(iv) the maximum lending rate of building societies was increased from 14% to 16%.

Other measures of the government's economic programme included the elimination of direct price control. A restructuring of custom duties and tariffs has accompanied the opening up of the economy, and the import licensing system has largely been dismantled although some minor bureaucratic control remain.

On the tax front, new taxes have been introduced and the rates of some existing ones have been increased. For instance, an education tax was introduced in the 1983 budget, and the stamp duty was increased from 5% to 10%. In the absence of inflationary adjustments the effective rate of personal income tax has increased due to fiscal drag. Jamaica has a tax credit scheme and it is noteworthy that by and large, the nominal value of tax credits available in 1984 are the same as in January 1977.

In an attempt to bring the budget deficit under control the government has undertaken in the Standby agreement to reduce expenditure by reducing government employment by 6,200 posts in the 1984/5 fiscal year. In addition there has also been a significant cutback in government services, and the introduction of fees for public services which were hitherto free, eg. public hospital services. Other existing fees were also increased.

In the other major policy area is the twice weekly public auctioning of foreign exchange through the Bank of Jamaica. These policy measures together comprise the main elements of the Jamaican stabilisation programme. This programme is supported by quarterly drawings from the Fund subject to the passing of certain quarterly performance tests.

Both 1983 and 1984 have seen a significant worsening of social and economic conditions for most Jamaicans, and it is clearly recognised that, whatever the long term benefits to arise from these policies, the short and medium term effects will be an increase in personal hardship for the majority of the population.

Food Aid Programme

In an attempt to deal with the predictable increased difficulties which resulted from these policies the government launched the Food Aid Programme (FAP) in May 1984, financed by a J$141 m loan. An indication of the severity of the poverty problem in Jamaica can be obtained from the fact that the FAP is designed to reach one million people, and this represents 50% of the total Jamaican population. The target population is comprised of school children, pregnant and nursing women and young children, the elderly and very poor people. After taking into account administration and transportation costs, the FAP income for the target population over the year will be J$88.52 for each recipient, ie less than J$8.00 per month. At the April 1985 exchange rate this works out at less than US$1.50 per month.

The Food Aid Programme is neither designed to nor promulgated as being able to take care of all food needs. The government manifestly could not afford such a programme. The programme is designed to meet some of the food needs of the neediest. However, the size of the target population is instructive in indicating the magnitude of the Jamaican problem which can be exacerbated if the impact of stabilisation policies worsened income distribution and poverty thereby dumping most of the welfare costs of adjustment on the worst off in the society.

9. A REVIEW OF POLICY 1981-84

The evidence showed 1984 to be a very difficult year for the Jamaican economy. The vigorous Fund supported stabilisation programme implemented in January 1984 was designed to address the persistence of external disequilibria and the slow rate of growth of domestic production, but this has increasingly produced stagflationary effects.

The Evolution of Policy

The effectiveness of any stabilisation programme must reside in the appropriateness of the various policy measures in concert to effect the desired changes in the way the economy produces, distributes and consumes goods and services.

The imposition of inflexible policies determined by certain policy rules is a frequent criticism of the Fund's activity. This issue covers two main areas of conditionality: the type of policies which are acceptable; and the determination of the ceilings of the various performance variables which are to be tested. In this brief review it is easier to test the inflexibility hypothesis with respect to policy type rather than the levels of the performance indicators, especially since exactly how the latter are determined is not known.

Sharpley (1983) noted that the Fund appeared to be more flexible to the pro-Fund Edward Seaga government than it was to the anti-Fund Michael Manley government. She writes: "compared with the 1978 and 1979 agreements, overall the conditionality attached to the 1981 agreement was more flexible in its foreign exchange ceilings and import requirements, and less demanding in terms of exchange rate and wages policies. More emphasis was placed on the government's determination to control public spending and gradually de-control the economy" (Sharpley 1983 p157).

The evolution of policy over 1981-84 have confirmed the flexibility of the Fund in this regard in its relation to Jamaica in the 1980s. A look at some of the aberrations from the usual Fund policy measures is instructive. Notable among the aberrations are the following:-

1. The absence of devaluation for the first two and a quarter years of the Seaga regime in spite of rapidly deteriorating merchandise and current account balances.

2. The establishment during 1983 of a multiple exchange rate system.

3. The absence of any serious attempt to restrict the money supply and the supply of credit between October 1980 and December 1983.

4. No serious attempt to cut government expenditure which rose to an all time peak of 48% as a ratio of GDP in 1983. This ratio was 1980 = 44%, 1981 = 44%, and 1982 = 46%.

5. The maintenance of direct nominal value price controls until 1983.

Certain events appear to be important in the evolution of the 1984 stabilisation programme. The first is that upon taking office for the first time in October 1980, it would have been politically unpopular for the Seaga government to immediately implement a vigorous programme of expenditure cuts, devaluation and deregulation of the economy. The second is that the short-term management policies of 1981-83 manifestly failed to produce the desired results, leading to the September 1983 failing of the IMF tests which brought to an end the 1981 EFF programme. It thus became necessary to launch a new programme in cooperation with the IMF.

In light of these, a snap general election was called for December 1983 with twenty days notice. For various reasons the main opposition party, the Michael Manley led PNP, did not contest the election and the Seaga led JLP was returned largely unopposed thus securing a mandate to do what in its view was necessary to put the economy right. Following directly upon the heels of the election victory, a more rigorous monetarist based stabilisation programme supported by the IMF was launched in January 1984, enhancing elements of previous programmes.

It would appear, therefore, that prior to the December 1983 elections, the government was in large part able to avoid policy measures such as expenditure cuts, monetary restrictions and devaluations which are generally associated with high costs of adjustments. The programme it was able to pursue under the 1981 EFF agreement was in important elements not within the usual IMF guidelines. From January 1984 the stabilisation efforts shifted gear and all of the seemingly leniencies of the former period were eradicated. The degree of the policy shocks increased, interest rates were increased along with other monetary restrictions and the J$ was subject to devaluations almost twice per week (Tuesdays and Thursdays) over the year. This, it would appear, was in direct response to the failure of government policy over 1981-83. The delayed response and the accommodation of aberrations from the usual Fund guidelines are noteworthy.

It is noteworthy that the 1983 and 1984 devaluations are far and away greater than the mini-devaluations of 1978 which contributed so much to the political and economic instability which emerged over the late 1970s.

10. PERFORMANCE IN 1985

In an April 1985 broadcast to the nation assessing the performance of the Jamaican economy and, introducing and justifying new policy measures, Prime Minister Seaga stated the following.

> "Tonight I want to let you know that we have met our 1984-5 targets. The two basic economic goals which we had set were, first, the reduction of the budget deficit to 8.3 percent or half the level of 17 percent GDP inherited from the previous Government, and second, the reversal of the continuing slide in our balance of payments to achieve a substantial surplus. We have in fact bettered the first target of 8.3 percent, and it is now expected that this deficit will have been reduced to about 7.2 percent of GDP - an astonishing feat". (Daily Gleaner 12th April 1985, p3).

Just how real and important these achievements are is worthy of a brief examination. It is worth noting that although the broadcast appears to be an assessment of economic performance over the past 1984/5 fiscal year, no mention was made either of the growth rate of the economy, or the inflation rate. These two areas are, of course, important policy areas, but figures are not so far available for either the calendar year 1984 or the 1984/5 fiscal year.
Of course, it is reasonable to expect that the growth figures will be negative and that the inflation figures will be high in the light of the 50% devaluation of the J$ and significant price increase over the past year (these are true for the calendar or the fiscal year, see Table 7). Basic food items such as flour, sugar, rice and bread were significantly increased over 1984 and continue to show strong unflagging upward movement. Electricity, water and telephone rates have increased in the region of 100%. A petrol price increase of 21% sparked off two days of roadblocks and disruptions in January 1985.

The national accounts have not been published to date, but some of the Prime Minister's figures may be set in perspective from the monthly statistics published by the Bank of Jamaica. The reported cut in the size and proportion of the budget deficit was achieved in the light of severe reductions in government employment and expenditure. It would appear, however, that Mr Seaga has not been quite fair when he compares his 7.2% of GDP deficit with the 17% he inherited, for two reasons.

The first is that he compares his net deficit figure for 1984/5 with the gross deficit of 1980/1. The Prime Minister also quoted a figure of under J$700m as representing 7.2 percent of GDP, but recent Bank of Jamaica statistics show the net deficit figure to be J$786.2m.

The BOJ figures in fact show the 1980/1 gross deficit to be 17.0% of GDP and the 1984/5 gross deficit to be 12.5%. But Mr Seaga's 1983/4 gross deficit was 23.7%. So the astonishing feat is to have reduced it from 23.7% to 12.5% in one year.

Secondly, Mr Seaga's government took over with about five months of the 1980/81 fiscal year still left to run; and in the succeeding years government expenditure increased as Table 9 shows. It is worth noting that the gross deficit in 1983/4 reached the peak ratio of 24% attained under Mr Manley's administration in 1976. The 1984/5 fiscal figures have to be seen in this perspective.

A remarkable feature of the Bank of Jamaica's fiscal statistics reproduced in Table 9 is the 68.3% increase in government revenue over 1984/5. Recurrent revenues provide the vast majority of revenues and a breakdown of these for 1982/3 to 1984/5 is provided in Table 10. The table shows significant increases in each revenue category. Direct and indirect tax revenues increased by 38% ; non-tax revenues increased by 147%; and transfers from the Capital Development Fund (CDF) increased by a massive 245%. The last category represents the production levy revenue from the bauxite industry. The levy is paid into the CDF and transfers are made from it.

Table 9

FISCAL INDICATORS[1]

(J$m)

YEARS	TOTAL REV.	TOTAL EXP.	SUR/DEF	net S/D	adj S/D
1982/3	1,750.3 (29.5)	2,707.4 (45.7)	-957.1 (16.2)	-784.1 (13.2)	-
1981/2	1,552.6 (28.3)	2,471.3 (45.0)	-916.7 (16.7)	-744.4 (13.6)	-
1980/1[4]	1,375.2 (23.0)	2,391.5 (40.0)	-1,016.3 (17.0)	-812.2 (13.6)	-

[1] Figures in brackets are ratios with respect to the GDP for the fiscal year.

[2] Net of amortization.

[3] Estimates.

[4] GDP ratios are based on the assumption J$1,016.3 = 17.0.

Sources: National Planning Agency, Economic and Social Survey of Jamaica 1980, 1981, 1982 and 1983; Bank of Jamaica, Statistical Digests, July 1980, October 1984.

Table 10

RECURRENT FISCAL REVENUE: 1982/3 - 1984/5

(J$m)

	1884/5	1983/4	1982/3
RECURRENT	2,695.8	1,706.2	1,720.8
TAX	2,064.9	1,501.4	1,376.9
NON-TAX	147.9	64.8	49.7
TRANSFER FROM CDF	483.0	140.0	182.0
SPECIAL BAUXITE TRANS	-	-	112.2

Sources: Bank of Jamaica, Statistical Digest, October 1984; National Planning Agency, Economic and Social Survey of Jamaica, 1983.

It is surprising that in a period which has seen major cutbacks, in bauxite and alumina production and plant closures, that government revenue from this source should have increased by so much. Especially since the levels of the levy have been reportedly reduced. However, the depreciation of the J$ and the fact that the levy is paid in foreign exchange would account for some of the increase.

A detailed breakdown of revenue sources will not be available until the national accounts are published, but two questions worthy of examination are: what are the micro sources of the increased revenue? and, what if any will be the effects of these increases in revenue on the economy? The level of personal and indirect taxes in Jamaica are already very high, and these high rates are associated with considerable mal-distributional effects and tax evasion in the absence of any serious attempt to curb such illegal activities (Boyd : 1984).

With respect to the balance of payments Mr Seaga said the following.

> "The second target, to transform a deficit of nearly US$300 million in our 1983/84 balance of payments account to a surplus of some US$300 million in 1984/85 is expected to be achieved by the end of this month, representing an equally astonishing turn-around of approximately US$600 million in a single year. The deadline for achieving this target was extended by the IMF from the end of March to the end of April because the Fund was not able to complete on time the documentation necessary to release flows from the World Bank, AID, and the IMF itself which constitute part of the build-up of reserves targeted". (The Daily Gleaner, 11th April 1985, p3).

Table 11 reports the balance of payments figures issued by the Bank of Jamaica in April 1985. Now whilst the Prime Minister referred to payment flows over fiscal years, the figures in Table 11 refer to calendar years, but given the considerable overlap of the periods we would expect to see the improvements referred to by the Prime Minister reflected to some degree in the calendar year figures. This however, is not the case. Table 11 does not indicate meaningful improvement in the balance of payments. At best the results are ambiguous.

Both the trade and current account balances are still quite close to the record deficit levels of 1983. The 1983 current account deficit was US$-375.4, and in 1984 this deficit moved to US$-311.2. This deficit represents 42% of total goods exports. It is far from being insignificant, and in US$ terms is larger than any current account deficit recorded during the Manley years of 1972-79 (see Table 6).

The overall balance does show a turn around from US$294.6m in 1983 to a surplus and additions to reserves of US$173.5. This was achieved through the new record net capital inflows of US$484.7m. This surpassed the previous peak reached in 1982 (see Table 6 and Figure 5). This massive inflow was achieved with the now characteristic heavy reliance on official inflows. These are, of course, official loans which serve to increase Jamaica's international indebtedness and which will have to be repaid. Although desirable they do have considerable costs attached to them especially if they are not used to improve the foreign exchange earnings potential of the country.

The noteworthy feature of the capital flows, however, is the considerable net private capital inflow figure. In a section above it was stated that the Seaga regime had not succeeded in attracting significant net flows of private capital, as evidenced by the figures in Table 6. Although revised upward, Table 11 still shows a record private net outflow figure of US$-294.6m for 1983, which is larger than any outflow recorded in the 1970s. The provisional 1984 figure, however, shows a substantial net inflow of US$127.1m.

Table 11

JAMAICA: BALANCE OF PAYMENTS

(US$m)

	1983[1]	1984[2]
MERCHANDISE	-595.4	-442.9
Exports (fob)	685.7	738.7
Imports (cif)	1,281.1	1,181.6
SERVICES	118.5	4.7
Foreign Travel	374.3	403.3
Investment Income	-185.1	-304.8
Other	-70.7	-93.8
UNREQUITED TRANSFERS (net)	101.5	127.0
OVERALL BALANCE	-294.6	173.5
CHANGE IN RESERVES	294.6	-173.5

(+ is a decrease)
(- is an increase)

[1] Revised.
[2] Provisional.
[3] Includes arrears and net errors and omissions.

Source: Bank of Jamaica.

This could be regarded as heralding the start of significant net private inflows but this cannot be construed from the 1984 net private flows figure since it also contains arrears and net errors and omissions items. Also, it does not accord with the current climate of decline which has beset Jamaica, brought about through widespread production cutbacks and redundancies experienced over the last two years.

In conclusion, it is worth noting that the deflationary thrust of government policy has intensified in 1985. In April 1985, the bank rate and the interest rate on savings, amongst others, have been hiked to all time highs of 21% and 20%, respectively. The liquidity ratios of commercial banks have been increased to 48%, and extensive new regulations have been brought in to curb the credit creation of other financial institutions. These measures have, of course, dealt a debilitating blow to production and employment and the various manufacturers and exporters associations have been vociferous in their criticism of government policy.

Credit restrictions have been significantly increased in an attempt to squeeze out the excess demand for foreign exchange at the Bank of Jamaica's foreign exchange auctions. The primary objective of the monetary policy, the Prime Minister explains, is the defence of the exchange. The efficacy of this instrument in this regard is, however, open to doubt since the economic and social costs involved may be quite considerable.

Furthermore, the pretence of the exchange rate being determined by market forces is unconvincing. The structure of the auctions is such that the Bank of Jamaica in effect decides the exchange rate. A detailed description of the auction cannot be given here so that it will have to suffice to say that there is no policy rule which guides the auction and so the exchange rate. The determination of the latter thus becomes discretionary.

11. CONCLUSIONS

In spite of the quite high growth rates over the early post-war period, the decades of the 1950s and 60s saw the establishment of an economic structure which was characterised by the following features.

(1) Export concentration of earnings in a few, but primarily one sector, the bauxite/alumina sector.

(2) Widespread demand for imports spreading over consumer, capital and intermediate goods.

(3) An inadequate productive base, along with the relative decline in agriculture.

(4) Increasing income inequality and social problems.

The interaction of this structure and the composition of the balance of payments especially with respect to the concentration of private capital inflows into the bauxite and tourism sectors, implies that persistent current account disequilibria could not be financed in the long-run by net capital inflows. In order to attract these flows in the long-run new investment areas need opening up.

These structural factors along with the deficit and inflationary expansionary policies of the 1970s which sought to address some of the social problems combined, in the face of other contributory exogeneous factors, to produce a period of prolonged decline. The external constraints imposed on this small open economy were largely ignored by the PNP government of the 1970s, and seven consecutive years of negative growth were recorded over 1974-80 which resulted in a heightening of the social and economic problems. The existing data suggest that income inequality worsened significantly over the 1970s accompanying the long-run negative growth trend (Bourne 1984).

It is, however, probably the case that whilst poverty almost certainly increased, the extremes of poverty with respect to say malnutrition did not increase or may even have been reduced, due to the sensitivity of the government to such social issues. The evidence on this is sketchy, but what is more certain is that the economic and social hardships increased over the period as the foreign reserves ran out and the foreign exchange gap widened.

The 1980s heralded a different approach espoused by the incoming JLP administration. More serious attention was to be paid to the constraints imposed by the balance of payments. The evidence up to 1984 indicates, however, that the opportunities opened to the economy, especially in the immediate post election period with massive net capital inflows were not grasped. The economy over 1981-82 hardly responded to policy measures and 1983 was a particularly difficult year. The government's response to the poor performance of 1983 was to implement a vigorous IMF deflationary stabilisation programme. Analysis of this programme suggests that the effect of the stabilisation programme introduced in 1984 and continued into 1985 is likely to be stagflationary with rapidly increasing economic and social dislocations.

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18 July 1986
TA/PDS