LESSONS FROM THE STRUCTURAL ADJUSTMENT PROCESS IN JAMAICA

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1. INTRODUCTION

The standard advice now offered to low-growth, developing countries with protracted international payments problems is that policies should be pursued which lead to a more efficient allocation of resources internally and that a shift into the production of exportable goods should be encouraged. With financial assistance tied to the adoption of this advice, what usually follows is a series of measures to increase public savings, constrain domestic demand for importables and, as far as practicable, a withdrawl of intervention in the pricing system. A transparent system of prices, it is argued, supported by adequate information and freedom of action, leads inevitably to a more efficient and rational use of resources and a consequent improvement in living standards. The free market and its political counterpart, democracy, now represent the prevailing tenet in development thinking.

This was not always the case, even among industrialized countries. A strong role for the state in the ownership of key natural resources and industries, in planning and in safeguarding the welfare of the ordinary citizen was for many years the accepted norm in Europe, with the state becoming more pervasive as one moved eastwards. The North American version of this thinking was manifested in an increasing tax rate and growing public sector deficits which were used to support subsidies on income, medical care, food and housing for the less fortunate. Studies in benevolent state intervention grew and became a strong branch of the literature during the decades of the 1960s and 1970s as considerations of social welfare and protection guided the invisible hand of private economic endeavour.

These broad swings in international politico-economic thinking have been reflected in the perceived role of the state in Caribbean economies and perhaps most intensely in Jamaica. Following political independence with the champions of the labour movement at the helm, the stance of the government was one of welfare-mindful industrialization. The generous incentives to foreign investors which had begun in the 1950s continued to create jobs in mining, tourism, manufacturing and export agriculture while new social legislation and collective bargaining protected the "rights" of workers. But these enclaves of industrial wealth were relatively small and isolated and stood in stark contrast a much lower average per capita income in traditional occupations despite impressive annual rates of growth in GDP. These gaps in income distribution amid the mood of liberalism and self actualization sweeping North America heralded a change of government in the early 1970s and a shift in the perceived role of government in a popular democracy.

During that decade, the governing party joined the ranks of the international socialist movement. The thinking of the government was guided by notions of equity, social justice and the collective good of the commmunity. This philosophy found its most important expression in the nationalization of the "commanding heights" of the economy - the land, mineral deposits, major export industries, financial institutions and utilities - and in socio-economic legislation which significantly increased the share of national income accruing to labour. Economic strategy was focused inwards for self reliance in basic commodities and embracing coooperative mechanisms for production, housing and finance. While income distribution "improved", output, especially of exportables fell steadily . Bouyed by an overvalued exchange rate, trade restrictions and price controls, a large market for illegal imports emerged which, when combined with heavy capital outflows, led to a growing balance of payments deficit. By 1980, the inherent contradictions in the economy constituted a fertile milie for the adoption of concepts identified with new wave of Anglo-American conservatism which in economic terms advocated lower taxation, private ownership and productivity versus redistribution, collectivism and state-sponsored welfare benefits.

Structural Adjustment in Jamaica is the body of policies pursued for most of the decade of the 1980s, particularly after 1983. Official documents frequently repeated that they were designed with the intention of setting the economy on " an export-led, private sector-driven, self-sustaining growth path". Supported with heavy financial backing from the multilateral development institutions and the blessing of the IMF (for most of the period), the government set about reorienting production based on market determined competitive advantage while smoothing the transition to the pattern of income distribution consistent with this model. Beyond that, the role of government was to be progressively reduced to its bare essentials - that of a kind of secretariat, providing a stable, regulated environment, common support services and external representation. Many deviations have arisen between the formation of these intentions and the outcome to date.

The review which forms the remainder of this paper is arranged as follows: Section 2 examines the structure of the economy prior to the effort at adjustment, the pattern of output, income, the price and incentive systems and the likely direction of indicators given the existing set of policies. Section 3 describes the strucural adjustment measures, the institutional changes and the external support which attended them. This is followed by a statistical and qualtitative assessment of the degree of transformation which ensued and the extent to which the process has lived up to expectations. The concluding Section attempts to draw some lessons from the experience of the process, some of which may be useful for other countries facing adjustment.

2. THE ECONOMY PRIOR TO ADJUSTMENT

From political independence in 1962 up to 1972 Jamaica enjoyed steady growth, with GDP expanding at a real annual rate of 5.3%. Direct foreign investment in bauxite, alumina and tourism, combined with domestic financial stability, contributed to this performance. But overall employment grew at a much lower rate, reflecting in part a shift away from labour-intensive agriculture to bauxite/alumina and import-substitution manufacturing. In 1974 the economy started a sustained contraction, with real GDP declining by about 3% per annum and unemployment rising to almost 28% in 1980. This prolonged crisis was trigerred by a combination of political division, inappropiate sector policies and unsound macroeconomic management, compounded by adverse external developments.

Despite the prosperity of the late 1960s there was growing dissatisfaction with the Government and a clamour for reform. Income disparities were wide. In all the major productive sectors - agriculture, mining, manufacturing- as well as the utilities and financial institutions, ownership and wealth were concentrated in very few hands, many of them foreign. The thrust of Government policy in most of these areas was to acquire land, enterprises and equity participation in most areas of the economy on behalf of the public and to widen the availability of social services to the general population. The socialist stance of the government created distrust between the private sector and itself which translated in short order into considerable flight of capital, closing of enterprises, and tax evasion. As a result, and although public investment grew as a share of total investment, total investment declined abruptly.

Overall agricultural production declined from 1972 to 1980, with export agriculture falling sharply, while domestic food crops increased. The decline of export agriculture was due to pricing policies. Farmgate prices were regulated by the Marketing Boards and they lagged behind the free farmgate prices for domestic crops. Export crops were produced in an increasingly regulated environment and suffered from underinvestmnent and an incentive system which favoured the production of domestic crops.

One goal of the government was to extend Jamaican control over the bauxite/alumina industry. In 1975 a government holding company was formed that took a 51% equity position in Kaiser and Reynolds and a minority position in Alcoa and Alcan and engaged in trading on its own account. An attempt was made to emulate OPEC by promoting the establishment of an industrial cartel of bauxite producers in 1973 and 1974. In April 1974 Jamaica introduced a controversial 7.5% production levy, and government revenue from bauxitte/alumina production rose sevenfold. Imposition of the bauxite levy marked the start of the decline in the Jamaican bauxite/alumina industry.

Manufacturing production peaked in 1973; by 1980, it was 30%

lower. This result was partly caused by shortages of foreign exchange, frequent labour unrest, unavailability of skilled manpower (due to intensified emigration) and deterioration of the country's infrastructure. The small domestic market was reaching its saturation point while the opening of the CARICOM markets diverted manufactured exports away from third countries instead of stimulating higher production levels. The import-substituting-oriented industries set up in the 1950s and 1960s were ill prepared to face world markets. Besides, the protective system based on quantitative restrictions to imports, made sales to extra-regional markets less profitable than sales to the sheltered but limited CARICOM market, and these in turn were less profitable than sales to the domestic market.

After 1973, the growth in public resources was not commensurate with the public sector's new role and expansion. The public sector's deficit consequently grew dramatically. Financing this deficit resulted in a crowding out of the private sector and money creation. The ~~latt~~er, associated with a policy of fixed exchange rate caused the Jamaica dollar to become overvalued and contributed to a serious disequilibrium in the external account.

There were other contributors to the balance of payments crisis. The maintenance of an overvalued exchange rate, the deterioration in infrastructure as well as adverse publicity led to a deleterious fall in tourist arrivals and expenditure. Many properties were acquired by Government in the process. The new operators boosted occupancy by promoting local vacation's by residents. While these moves saved jobs, they were niether profitable nor helpful to the balance of payments problem which was all the time being aggravated by capital flight. With respect to the latter phenomenon, not even a stringent tightening of exchange controls could succeed in stemming the outflow.

The decline of the Jamaican economy during the 1972-80 period could hardly be ascribed to the external environment in any direct sense. Terms of trade movements were slightly favourable and only a part of the trade volume and services deterioration was due to external reasons. The massive increase in oil and other import prices in the early 1970s was more than compensated for by increases in Jamaican export prices. Jamaica's terms of trade declined over the two years 1973-1974 but showed a significant recovery between 1974 and 1978. But the oil shocks had severe indirect effects onthe bauxite industry. Because the aluminum reduction process is energy intensive, the world fuel price rises induced the relocation of facilities towards energy-rich countries, reducing demand for Jamaican alumina. The demand for Jamaican bauxite was also affected by rising transport costs which favoured production of alumina near the bauxite source. Jamaica's share in the world bauxite production declined from 23.2% in 1965 to 13% in 1979. In value terms, however, the decline of external demand was compensated for by imposition of the 1974 levy, and net earnings from the bauxite/alumina sector rose by more than the increase in the oil bill.

There were several attempts over the period to arrest the decline and to offset the effects of reduced export earnings. The government increased external borrowing, tightened fiscal policy, and introduced extensive import restrictions and exchange controls. Still, the depletion of the foreign reserves of the Bank of Jamaica continued. As the crisis worsened towards the late 1970s, Jamaica also entered into an uneasy relationship with the IMF and the World Bank in negotiating financial support for the balance of payments.

The adjustment efforts were however niether long-lived nor extensive. The exchange rate remained fixed and pegged to the US dollar from 1973 until April 1977, when a dual exchange rate was established. Under an agreement signed in July 1977 with the IMF, Jamaica undertook to restore the Central Bank's foreign reserves, reduce sharply the fiscal deficit, restrict domestic domestic expansion and limit foreign borrowing. However, the IMF agreement did not call for a cutailment of public employment and social programs, or for the removal of price controls and subsidies. Jamaica was also allowed to maintain the new dual exchange rate, as well as the quantitative restrictions on imports. The distortions which had had a deleterious impact on production and resource allocation were allowed to remain, while direct credit controls were to be tightened. Attempts to implement these policies aggravated the slump. Jamaica failed to pass the December 1977 IMF performance test and the agreement was abrogated.

In January 1978, a 47.6% devaluation of the Jamaic dollar took place, and the exchange rates were unified in May 1978, with small monthly devaluations announced for twelve months. A three-year EFF Agreement was signed with the IMF in May 1978, calling for more comprehensive reforms. In addition to the exchange rate unification and devaluation, price controls and subsidies were to be phased out. During a transition period, wages were to be subject to a ceiling. Taxes were to be raised, and budgetary expenditures curtailed, while domestic credit was to be tightened. The agreement called for a more gradual fiscal adjustment than the earlier programme. Though the Governemnt came close to adhereing to IMF conditions, it did not conform to all the ceilings and, in September 1979, payments were suspended. Negotiations with the IMF were resumed, but they were fimally broken off in March 1980.

What existed at the end of the 1970s then was an economy whose main export earners - mining, agriculture, manufacturing and tourism- were depressed, investment was at an alll-time low and the trend in output pointed to more closures and greater unemployment. International reserves had been exhausted and replaced by a growing stock of debt while investible funds were fleeing the country. Beyond assuaging the political divisions which had emerged, what was needed was economic stabilization and a reorientation of policies to rebuild the productive sectors andf prepare them for international competition. The series of measures to accomplish this fell under the umbrella of structural adjustment.

3. STABILIZATION AND ADJUSTMENT

A: The Macroeconomy

The stabilization imperatives facing the authorities at the end of 1980 were quite clear. They were set out in a slate of policy intentions which won the support of the International Monetary Fund through their Extended Fund Facility. the program set to run from 1981-84 promised a reduction of the Central Government deficit from some 16.5% at the outset to 10% by 1983/84, a loosening of trade restrictions and a heavy promotion of investment with support from official creditors. Although the pace of adjustment was seen to be moderate and gradual, the outlook for growth in mineral exports, the potential for private capital reflows and the need to revamp the social and economic infrastructure suggested a predominant role for financing as against sharper adjustment. The funds committed by the IMF, SDR478 million or 430% of Jamaica's quota, made the country the heaviest borrower relative to quota of all Fund members.

By 1983, the initial optism had been deflated. Although the economy grew in 1981 and 1982, the programmed reduction in the fiscal and external current account deficits had not materialized. Chief aming the contributing factors was the fall in world demand and prices for bauxite/alumina which was so severe the by 1983/84, export earnings from this sector which had been US$760m in 1981 had fallen to US$424m in 1983 and showed no sign of stabilizing. The external current account deficit widenend to almost 30% of GDP while Govenment spending continued unabated. By the time the EFF was cancelled after failing the September 1983 test, a parallel market for foreign exchange had been established, there was a resumption of capital outflows and foreign exchange shortages once again hampered the availability of imports for the production process.

Having postponed public sector austerity and in the process crowding out of the private sector, the sustained depression in the bauxite/alumina market forced the authoriries to follow a apath of deep adjustment over the 1983-1985 period. Reforms were undertaken on all fronts. The exchange rate which had up till then been determined in at least two distinct markets was unified and an adjustment mechanism devised to maintain its realism. Allocation was later formalized in the Auction System where bidders paid their own prices for foreign exchange until the market settled down at a broadly accepted equilibrium. By that time, the exchange rate had moved from J$3.30 to US$1 in December 1983 to J$5.50 to US$1 at the end of 1986. In real effective terms, the adjustment was to a level some 40% below that obtaining in 1980.

Public sector adjustment was also stringent. Indirect taxes were raised to boost revenue while staff retenchment, rationalization and the reduction of subsidies helped to reduce the public sector borrowing requirement to 13% in 1985/86. the process of divestment of public companies was also set in train holding out the promise of a more rapid reduction in financing requirements in subsequent years.

The wider economy reeled and declined under the impact of a very restrictive stance on monetary policy. Rigid ceilings were placed on bank credit with subceilings on consumer loans. Reserve requirements were raised to the legal maximum and voluntary additional holdings encouraged pending amandment of the BOJ Act which would permit statutory reserve requirements of up to 50%. Interest rates on savings accounts were raised and in 1985, an auction for BOJ Certificates of Deposit was introduced to absorb excess liquidity and to send interest rate signals to the market. Real GDP slumped in 1984 by 1% and was followed ib a 4% fall in 1985.

Under the aegis of three Structural Adjustment Loans from the World Bank, other important changes were being made. The system of import restrictions had been effectively dismantled, the tax system was being simplified and supply side initiatives were boosting non-traditional agricultural and garment exports. More generally, however, total output had fallen below 1980 levels, unemployment had risen and the external current account deficit still remained high. A Tripartite Mission comprised of the IMF, IBRD and USAID analysts, in reviewing Jamica's position, concluded that the refofm efforts had been piecemeal, that the fiscal and exchange rate adjustment should be accelerated and that the JCTC, which handlled the core of JAmica's imports should be phased out. With a rejection of the tenor of the Mission's report, relations with the main multilateral agencies soured and loan disbursements were suspended.

The adjustments over the 1983-1985 period and , in particular, the shift towards establishing and maintaining export competitiveness, placed jamaica in good stead when external conditons began to improve in 1986. Oil prices and foreign interest rates fell, tourism inflows grew while the market for bauxite/alumina strenghtened. By January 1987, the Government had reached a new 15-month agreement with the IMF as well as rescheduling arrangemnts with bilateral and commercial creditors. From then up to the onslaught of Hurricane Gilbert, the economy enjoyed a sustained period and rate of expansion unprecedented since the early 1970s.

As the economy grew, several structural measures were consolidated. Tariffs were lowered, the income tax system was simplified, some exchange controls were relaxed and a series of reforms were made to the financial system. The object of these latter moves was to disentangle the financing needs of Government from the stance of monetary policy and allow for the market determination of interest rates. Reserve ratios were lowered to the level of a prudential cash reserve, the administration of the savings deposit rate was discontinued while the management of liquidity relied almost exclusively on open market operations conducted by the Bank of JAmaica. The overall fiscal deficit fell to 5.6% and 5.4% of GDP in 1986/87 and 1987/88 respectively including a small surplus in Central Government in the latter year. The bulk of the remaining deficit lay in the exchange and interest rate related cash losses of the BOJ - largely a legacy of the earlier sharp adjustment. The current account of the balance of payments also fell, reaching a sustainable 3.3% in 1986/87, rising slightly to 4.8 in 1987/88.

The macroeconomic environment in the two years prior to Hurricane Gilbert in September, 1988 represented a period of stability which was particurarly conducive to export expansion. With the exchange rate virtually fixed, inflation fell and remained below 8% per annum, interest rates fell in the newly liberalized financial environment while the bouyancy in the tourism and manufacturing sectors increased the inflows of foreign exchange. Export agriculture also began to show some positive response to the initiatives under the Government-run AGRO21 programme in the areas of vegetables, ethnic crops and hortculture. Coffee, bananas and sugar also showed stronger earnings due both to world market conditions and to the output effect of the reorganization, investment and exchange rate driven incentives brought about by the sustained real depreciation.

Hurricane Gilbert shattered this nascent recovery by disrupting production in most sectors for several months. Even when electricity and water supplies were restored, the task of clearing land and roads, replanting, rebuildng and restocking delayed the resumption of regular industrial output. Following closely after,. in the early months of 1989, were national political elections and a change of government. The disruption of production, the uncertainty of political change and the surges in government spending and in imports threw the financial markets into turmoil. By March 1989, arrears had begun to appear in the official foreign exchange market with regularity and a parallel market with a reported rate differential of about 10% from the official market was in operation. Successive attempts to support the official market by announcing additional supplies failed to allay fears of an imminent slide , which slide eventuallly occured. Awash with "reinsurance" deposits, the public bid up the exchange rate from J$5.50/US$1 in February 1989 to J$6.18 in October, at which time the authoriries took the decision to suspend the Auction System and to tighten demend management sufficiently to support a fixed rate of J$6.50/US1. Despite the general recovery in production and exports within a year after the hurricane, foreign exchange flows into the oficial market fell behind demend, ~~creating~~ further arrears and ~~further~~ undermining confidence and creditworthiness. By January, the exchange rate was devalued to J$7/US$1 and remained at that rate until September of that year despite the continued accumulation of payments arrears.

In an effort to shore up the Jamaica Dollar, the authoriries were forced to reverse some of the reforms made in the financial sector. Non-cash liquid asset ratios and high interest rates returned, followed later by credit ceilings, peneltíes on encashment of securiries and heavy penal rates on overdrafts/liquidity support at the Central Bank. Inflation rose to over 20% in 1989/90 and threatened to explode with the further removal of subsidies on basic foods and anticipatory pricing by importers and distributors.

With the promise of support from the IADB, the lenghtening delays in delivering foreign exchange to importers and the repeated failure to determine and maintain the "right" exchange rate, the authorities opted in September, 1990 to decentralize the foreign exchange market and to establish a sysytem of interbank trading. At the same time, some exchange control measures were also relaxed to allow for the functioning of a privatized system. Bank of Jamaica continued to purchase the receipts of traditional exports, tourism and official loans, buying from the commercial banks about 25% of their intake (at the outset) to satisfy official obligations. Importers would submit their requests to the commercial banks who would make these payments from their own purchases or obtain funds from other dealers.

Although macroeconomic policy was being formulated in line with a Fund-supported financial programmme over the 1990/91 period, with a consistent ex ante matching of public sector financing with private sector demand and external flows, much of the focus of economic analysis around that time was on the workings of the foreign exchange market. Within the first year of its adoption, the exchange rate moved from J$7.00/US1 to $J14.00/US$1 on the eve of full liberalization in September, 1991. But behind this depreciation was a desire to accelerate domestic investment and boost output and exports beyond programmed levels. The public sector deficit was higher than programmed as investment ran ahead of supporting external financing and the receipt of divestment proceeds and was financed instead by domestic borrowing. Monetary policy was relaxed with a phasing out of the liquid asset reserve requirements for commercial banks and interest rates were allowed to fall sharply. As inflation rose(from 28% in 1990/91 to over 100% for 1991/92) the public hedged by hoarding foreign exchange while pressure on the exchange rate mounted. An attempt to stabilize the rate by dealers in June/July 1991 was futile as informal brokers effectively circumvented the official market. By mid-September 1991, banks were having increasing difficulty in purchasing foreign exchange in sufficient quantities owing in part to the growing premium paid in the parallel market.

In light of these developments, on September 25, 1991, at least six months ahead of its plans, the government eliminated all restrictions on current transactions and on most capital transactions. Obligatory repatriation and/or surrender of foreign exchange to the banking system was discontinued, although any currency conversion still had to be carried out by an authorized dealer. Foreign currency deposits since that time can be freely maintained by Jamaicans in local (or overseas) banks.

Between the abandonment of exchange controls and mid-April 1992, the exchange rate depreciated from J$14.00 to J$28 but has since appreciated and has stabilized at about J$22 since June. Daily foreign exchange purchases by the banks averaged US4.2m in early 1992, up from US2.2m at the outset of liberalization. A small premium of about 1% is said to exist in the parallel market (down from some 40% in September 1991) mostly related to non-recorded activities.

As the exchange rate has stabilized, domestic inflation has also slowed. Indications are that for the current fiscal year, prices should rise by 20% to 30% as compared with some 106% in 1991/92. A 15-month Standby Agreement was successfully completed in September and negotiations are in the final stages for a 3-year Extended Fund Facility which both sides anticipate will be the last of the regular requests for support to be submitted to the Board of the IMF.

B: Sector Policies

Perhaps the main difference between stabilization policies and structural adjustment policies is the heavier weight placed on supply-side measures in programmes designed under the aegis of the latter. For while the need to regularise macroeconomic imbalances is beyond dispute, IMF type programmes by themselves have been shown to have definite and often sharp deflationary effects without necessarily sowing the seeds for higher medium term growth. In pursuing joint stabilization/adjustment policies in the 1980s, the authorities envisaged a strong production base and growth in net exports into the next century founded on the strength of agriculture, tourism, export manuacturing and offshore services. Much of the multilateral financial support including three Structural Adjustment Loans and two Sector Adjustment Loans from the World Bank were secured on the basis of the potential for growth in these sectors.

Agriculture

Government had the ability to influence agricultural production in a direct way as well as through incentive structures. Of the island's 2.7 million acres, some 800,000 acres were Government owned. Added to this were its control of financial institutions, marketing enterprises and professional staff. It therefore had several levers at its disposal.

A rationalization of land use was first promulgated. The policy adopted with respect of government-owned land was to first complete an appraisal of the extent of Crown lands, assess their agricultural capability by soil type, contour, elevation, irrigation and micro-climate. Thereafter, AGRO21, a Government-owned entity, was established to administer the lease of land suitable for large scale development of non-traditional crops. Smaller lots which had been occupied by small farmers were to be sold to these tenants allowing them to access loan financing secured by titles and to invest in expanded production with greater confidence. By 1988, about 30,000 acres had been leased to large-scale operators and 41,000 acres sold to small cultivators. The land use policy also included the monitoring of leased government-owned land to ensure compliance with agreed uses and production targets, the upgrading of irrigation systems and the supervision of a soil conservation and re-afforestation programme.

An effort was also made to restructure the production of the major export crops. Sugar production had been in secular decline since a peak output of 506,000 tons in 1965 and had fallen below 200,000 tons by 1982. The main reasons for the decline were falling world prices, deteriorating quality and yields, the inefficient operation of the main plantations by workers co-operatives and declining factory efficiency. The industry had become increasingly non-viable and progressively nationalized in the 1970s as the major private sugar companies withdrew from estate production. The policy pursued during the 1980s was to target output at 240,000 tons - a level deemed sufficient to meet domestic demand and export quotas, abolish the sugar co-operatives and close non-viable government factories. Processing was centralized in upgraded factories and management improved.

Banana exports, also in long-term decline, were especially hard hit by Hurricane Allen in 1980. The replanting/recovery programme emphasized the use of modern technology in planting material and handling on large-scale plantations.

Other components of the approach to major exports included market related pricing formulae for sugar and bananas, and the partial deregulation of the marketing of export crops. The establishment of a competitive exchange rate and subsequently a mechanism for its preservation were expected to propel the export drive. Privatization would provide the capital, the management and the drive to take advantages of the new opportunities for profit.

The remaining pillars for agricultural restructuring were the provision of credit- at subsidised rates- through the establishment of the Agricultural Credit Bank, the divestment of large government owned agro-industrial entities and the boosting of support services.

Tourism

Given the need to strongly complement bauxite/alumina earnings and to reverse the slide in arrivals of earlier years, Government policy in the tourism sector was stated as follows: "to aggressively market Jamaica as a premier tourism destination; to improve the local tourism product through upgrading of accomodation and recreational facilities; to develop training programmes aimed at upgrading the skills of industry workers; to improve the infrastructure needs of the industry; to increase the air and ground transportation capability; to privatise the operations of Government-owned hotels and to create a climate of confidence for investors in the industry."

The implementation of this policy was reflected over the period in the capital budget of Central Government which included the funding of the Jamaica Tourist Board. The sector benefitted immensely from the devaluation/divestment policy as the island became a relatively cheap destination for both visitors and investors. Local investment in villas and apartments was also spurred by the attractive returns to be made in the sector even in advance of the provision of adequate supporting roadworks, water, sewage and housing for workers in the sector. By 1985, however, tourism had surpassed mineral exports as the largest earner of foreign exchange in Jamaica.

Manufacturing

Over most of its history, the devlopment of the manufacturing sector in Jamaica has been based on the strategy of import substutution. The imposition of high tariff barriers and quantitive restrictions of imports of competitng products served to provide these enterprises with a protected local market. It was envisaged when this strategy was originally adopted that, at some point, a number of these industries would eventually expand into producing for external markets. With an estimated 60% import content in the output of these enterprises, the savings envisaged by the import-substitution mode eventually turned out to be marginal. Additionally, with very few exceptions, the producers in the sector concentrated all their productive resources on meeting the local and CARICOM demand without developing the efficiences needed to break into third country markets. Consequently, the manufacturing sector remained a net user of foreign exchange. The theme of the reorientation strategy became competitiveness.

The centerpiece of the Government's strategy for the whole economy was devaluation and the maintenance of a competitive dollar. As stated earlier, by 1985 the Jamaica dollar had undergone a devaluation of nearly 40% in real effective terms. With the concomitant restraints on wages, the relative profitability of exporting rather than producing for the local market was drastically altered. Tenants in the free zones were wooed by the sharp fall in wages (in US$ terms) and the supporting infrastructure such as newly built factories for lease and modern shipment facilities as well as the 807/CBI legislation in the USA.

Other changes affecting manufacturers were the following: corporate income taxes were reduced from 45% to 33.3%; a tariff reform programme reduced and simplified the duty structure on imports to levels eventually adopted by CARICOM. Producers who exported their output to Third Countries would receive a rebate of 7.5% of the value of the shipment which represented the approximate cost of duties which had been paid on imports. This was later discontinued in anticipation of the General Consumption Tax which automatically exempted all exports from indirect taxes.

The sector -wide incentives also included preferential access to credit, preferential access to US and Canadian markets (for certain goods under CBI and CARIBCAN) and administrative arrangements to reduce Government bureaucracy. Investment promotion overseas was also a large item of Government expenditure in seeking to spur the growth of the sector.

4. SKETCHES OF THE OUTCOME

A perennial guage of the degree of transformation and resource reallocation taking place in the Jamaican economy has been the level of expenditure and use of funds by the public sector. The large deficit (16.5% of GDP) at the beginning of the period was thought to epitomize the degree of inefficiency and scope for reform in the economy. In addition the financing of this deficit was problematic and unsustainable. Where domestic financing predominated, rapid .increases in money supply and inflation ensued. On the other hand, foreign financing implied the growth of external debt and future debt servicing obligations which would stymie growth prospects along the way. The reorganization and management of public finance thus became a major theme of stabilization and adjustment measures over the 1980s.

TABLE 1
EVOLUTION OF PUBLIC SECTOR BALANCES
(in percent of GDP)

	1983/84	1985/86	1988/89	1990/91
Central Govt.	-15.8	-5.3	-3.1	1.4
Selected Entities	-1.2	-1.1	-3.6	0.8
Bank of Jamaica	-1.9	-6.9	-5.9	-5.0
Other	-0.7	0.1	-0.8	-1.1
Total	-19.6	-13.2	-13.4	-3.8

But for the bulge in expenditure in hurricane year 1988/89, the data show a sharp reduction in the overall public sector borrowing requirement as a proportion of GDP. Central Government and the public entities have in some years run surpluses to partly offset the losses of the Central Bank. Indeed, the balance sheet of the BOJ has come to reflect a postponement of paying the financial cost of the adjustment process. The Bank's losses are made up mainly of the exchange losses on debt incurred at more appreciated exchange rates as well as the recurring interest expenses of servicing a large stock of deposit liabilities to the private sector (assumed through Open Market Operations) Transferring these expenses to the Central Government on a current and on-going basis would require a greater tax effort and/or further retrechment which cost would be immediately felt by taxpayers.

Given the thrust of earlier policies towards import substituting manufacturing, domestic versus export agriculture and public sector leadership in the economy, an index of the success of policies to reverse that process ought to be a change in the structure of output, in the volume and composition of trade and in the relative size of the public sector. Even where the relative size of the sectors have not yet changed, indicators of investment in new activities should reflect the intention of policymakers. More precisely, the expectation would be that as output increases, more and more of that increase would take place in export agriculture, export manufacturing and foreign exchange earning on linked services.

TABLE 2
SECTORIAL CONTRIBUTION TO GDP

(in percent)

	1975	1980	1985	1990
Agriculture	7.3	8.3	8.9	7.8
ow Export Agri	(1.5)	(1.3)	(1.3)	(1.1)
Mining	7.3	8.9	5.2	7.5
Manufacturing	18.4	15.4	16.3	16.9
Construction	9.8	5.4	5.7	7.7
Govt. Services	12.3	19.2	18.2	14.6
Other Services	44.9	42.8	45.7	45.5
Total	100	100	100	100
memo:				
Real GDP ($1974)	2152.6	1828.8	1836.2	2184.4

The table above sets out the main sectorial composition of GDP as drawn from the National Income and Product Accounts. It should be noted that the data does not allow for a detailed breakdown of production of exportables in agriculture and manufacturing nor of Tourism GDP. "Export Agriculture" in the National Accounts refers to the traditional exports of bananas, sugar, citrus, coffee, pimento and coconuts.

The first point to note from the table is that GDP in 1990, after some fifteen years of effort, had only just surpassed the level of output attained in 1975; and in comparing these two end-points, the structure of the economy appears remarkably similar. From a per capita point of view, the population in 1975 was an estimated 2.04 million moving to 2.4 million in 1990 thus throwing a different light on the apparent recovery.

Two differences between the 1980 structure and that of 1990 are worth commenting upon. First, the share of the public sector in total output has fallen significantly after having risen sharply between 1975 and 1980. This reflects not only the retrenchment, rationalization and divestment policies of the 1980s, but also the fall in real wages as represented by the GDP of that sector. The change in the financial structure of Government is discussed later in this section. Directionally, however, the fall in the dominance of Government in the economy was intended and is continuing.

Manufacturing output relative to the total has also shifted over the period. This is significant not only because of its employment implications but also because the incentive structure over the period favoured export manufacture. The largest advantages would have accrued to those companies with extensive domestic linkages, such as food processing and furniture. With the competitive edge of the CBI, CARIBCAN and CARICOM factored in, the rise in manufacturing would be expected to be reflected in the volume and composition of non-traditional exports.

TABLE 3
NON-TRADITIONAL EXPORTS BY SITC SECTIONS
(In Millions of US Dollars)

	1980	1985	1990
Food	15.0	29.3	37.8
Bev&Tobacco	19.9	19.6	19.6
Crude Materials	4.4	3.8	7.8
Minerals,Fuels	16.0	27.9	16.5
Animal,Veg. Oil	0.1	0.03	0.03
Chemicals	14.9	16.9	24.2
Manf. Goods	14.0	7.7	17.0
Mach.&Trnsp.	6.0	2.8	4.3
Misc. Manf	19.6	46.2	95.9
~~Total~~ Non-Trad:	110.0	154.1	223.1
memo:			
Total Exports	959.3	568.6	1157.5

Table 2 above shows a doubling of non-tradiotional exports over the decade of the 1980s moving from about 11% to 19% of merchandise exports. Their importance heightened with the fallout in the bauxite/alumina market in the mid 1980s. The bulk of the increase was represented by food products and in apparel (included in "Miscellaneous Manufacturing"). These totals also exclude the output from the offshore manufacturing "free zones" which have represented the bulk of the new jobs created in manufacuring over the period.

While the increase in nontraditional exports may have appeared encouraging, the value of these exports would seem paltry given the potential for exploiting concessionary trade arrangements as well as the sacrificial bending of the incentive system towards the sector which had occurred. The possible non-market impediments and the alternatives for investors over this time are taken up in the concluding section.

Another sector which had been programmed for restructuring was agriculture. Based on National Income and Product data, value added in agricultue rose through the 1980s when compared with 1980 as a base year. In 1987, Agricultural GDP was 9.5 percent higher in real terms than the outturn in 1980 and 1983. Output fell in 1988 and 1989 mainly as a result ~~of~~ hurricane related dislocation but rose sharply again in 1990. Value-added in agriculture in 1990 was 10.8 percent higher than in 1983, but in historical perspective, it was still 5.0 percent lower than the performance of 1978.

Structural Adjustment as applied to agriculture means a shift away from reliance on a narrow range of traditional export crops to a diverse mix of nontraditional products in varied markets. At the same time, farm operations in traditional areas would be made more efficient and marketing operations more flexible.

TABLE 4
TRADITIONAL EXPORT CROP PRODUCTION AND EXPORTS

	PRODUCTION			VALUE (US$mn)		
	1980	1987	1990	1980	1987	1990
Sugar ('000lt.)	242	188	294	54.4	73.8	85.8
Banana exp (m.t)	33	34	61.1	10.5	18.9	37.6
Coffee ('000 box)	250	371	261	4.5	8.4	3.3
Pimento (l.t)	1255	2355	2518	3.9	4.9	5.7
Citrus (m.t.)	4996	9567	11918	1.8	4.8	4.7
Cocoa (l.t)	1369	2600	2068	4.5	4.6	3.3
				79.6	116	146

Source: PIOJ

As indicated in Table 3, the value of traditional agricultural exports gradually increased during the 1980s. Moving from around US80.0m in the base year, earnings fell ~~slig~~htly in the following year and ~~grew~~ thereafter to reach US145m in 1990. The two main exports, sugar and banans have benefitted from improved international prices as the relationship between value and volume exported suggests. Banana production has expanded rapidly in recent years while the quality has improved by virtue of better techniques in planting and handling and the concentration of export cultivation on large capital intense farms. Consequently, the rate of rejection by shippers has fallen from 22.0 percent in 1980 to below 1.0 percent at present. Other traditional exports have increased in output and value prior to setbacks occasioned by the 1988 hurricane.

For all but cocoa, which has been beset with quality control problems, farm gate prices for traditional agricultural exports inreased faster than the general rate of inflation as represented by the Consumer Price Index. In contrast, the farmgate prices for domestic crops barely kept pace with the CPI. As a consequence the intra-sectoral terms of trade shifted markedly in favour of export crops. The most outstsnding case, that of bananas, has attracted heavy investment, its attractiveness being partly reflected in the market value of the shares in the privatized marketing company. A combination of rising international prices, local deregulation, credit availability and currency devaluation have thus contributed to the increased profitability of these crops.

The value of non-traditional exports tripled between 1982 and 1987 (5.9m to 18.9m) and subsequently fell to 15.7m in 1989 and 1990. Production peaked in 1986 led by large volume increases in vegetables and in fruits. The volume of non-traditional exports in 1990 was about half of the 1986 out-turn as by then the major Government-private sector joint export venture had gone out of business.

The summary indicators of change in the sector point to the following: Over the decade of the 1980s, agricultural exports moved from US$82m in 1980 to US146m in 1990. Of this US$63m change, sugar accounted for US31. and bananas US27m, most of which occured in 1990. By comparison, exports in 1988 were US130m and US$102m in 1989. The importance of agriculture as a foreign exchange earner has fallen from 10 percent of total exports in 1977 to 7 percent . Earnings remain concentrated in sugar and bananas as non-traditional exports have waxed and waned. Price incentives have certainly been provided. The slow response con be traced to micro problems - marketing, finance, security, technical support, and so on.

Overall, then, the macroeconomic and sectorial statistics point to a slow but definite trend towards private sector-driven expansion in the production of exportables induced by the incentive structure in the economy. The social impact of these changes have not been as positive. Successive devaluations have widened income disparities and eroded living standards, most visibly among the "middle classes". Consumer prices have averaged over 16% per annum over the 1980-90 period with significant surges in the past three years while wages were limited to increases 10 to 15% over the same span. These ceilings were generally observed especially in the public sector. It is also noteworthy that 55% of the consumer basket consists of basic food items.

Other effects of the programme have been less documented. The rationalization and general reduction in Government has reduced access to income subsidies, health, educational and housing services, further aggravating the real decline in wages. Law enforcement, roads and other economic infrastructure have also suffered frm a lack of funding the consequene of which has been to sour the investment climate and slow the growth in output as well as adding grist to the mill of political agitators.

From an even broader perspective, the turnaround in the preadjustmment trends appear even more embryonic. Despite the massive inflows of official credit (the stock of official debt has moved from US$1.7b in 1980 to US$4.4 in 1990) and the injection of domestic financing into new production, the feasible growth rate over the medium term has been assessed by the authorities and the multilateral agencies to be no more than 3% - 4% per annum. Such rates of growth pale in comparison to the Newly Indurializing Countries of the world. Even without the cross-country comparison, the growth of income implied by these projections does not accord with the expectations developed by a population accultured ~~to~~ a North American lifestyle. Given the widening disparities in income and the slow overall growth in output, the social climate over the medium term may not be characterized by the calm consensus needed to support the adjustment process.

That process has so far yeilded a structure which leaves the economy as vulnerable to external shocks and world prices as it has always been. The dependence on traditional exports and tourism has hardly been dented by a competitive manufacturing sector while the pursuit of policies which lean towards free trade has undermined domestic food production and the stability of rural communities. Structural adjustment has not until now given the traditionally fragile balance of payments any significant gain in strength.

Other long term defeciences and structural obstacles have remained: economic and social infrastrucutre remain "third world", the debt problem is a major perennial hurdle and the efficiency of investment remains low. This latter problem is also related to lingering welfare-influenced work attitudes, urban and praedial crime and other non-price barriers to investment and growth.

5. WHAT HAVE WE LEARNT?

The foregoing review of the processes and the outcome of Structural Adjustment in Jamaica is not exhaustive. The determination of the extent of any structural change that has taken place can be improved by a fuller examination of the composition and direction of trade, an analysis of investment patterns and a closer comparison of the structure of protection before and after policy changes. This broad sweep of the past decade however has thrown light on some of the burning adjustment issues typically encountered such as the desirable pace of adjustment, the prioities, the social and economic costs and the approach to planning.

One postulate which seems to be supported by Jamaica's experience is that a viable set of macroeconomic parameters needs to be installed early in the process. Put in other words, the fiscal and balance of payments adjustments which are consistent with macroeconomic balance should be frontloaded and maintained. Thereafter, fiscal policy should be the main stabilizer of the economy with market based monetary measures as fine tuning instruments. The overuse of monetary policy as a substitute for fiscal adjustment creates long term distortions in the interest rate structure, in asset prices and inflation, all of which cloud the signals being sent to the investing public. In this context, a strong and independent central bank can anchor the financial system in a bedrock of prudential and monetary sanity and prevent the postponement of fiscal reform. This kind of stability and assurance is now being sought as evidenced by deliberations surrounding a regional monetary institution and parallel discussions around strenghtening the Bank of Jamaica.

The speculative opportunities created by an unsettled macro environment tend to neutralise sector policies by diverting resources into inflation-safe assets such as real estate and foreign currency denominated holdings. On the other hand, as seen in the 1986-88 period, the economy does respond to production incentives more readily where the economy appears stable. In such an environment of balanced/sustainable policies with a foreign exchange market that clears at a stable rate, free trade and free capital flows need not be feared and can be treated as standard steps in the direction of building a competitive and integrated economy.

The stability conducive to a strong supply response to adjustment requires a large measure of socio-political consensus. This has raised the question as to whether revolutionary change can occur in the economy without a corresponding political change. The kind of transformation in the economic system which Jamaica is nursing was implemented by decree in Bolivia as a full package of policies and institutions and, in this example, appears easier to introduce where political power is heavily concentrated and military support assured. The process of social and economic change in Eastern Europe is not as clearcut in this respect; in these cases, political systems which were not consistent with the deregulation of economic behaviour were replaced. A viable approach in a parliamentary democracy seems to one which allows for be the widest practicable canvassing of opinion and support, coordinated by a planning agency. This has been the approach of the West Indian Commission and has recently been adopted with encouraging results in Jamaica in discussing national issues such as constitutional reform. The process of charting structural change in the economy is equally pervasive and would have benefitted from wider input and involvement. An earlier socio-political consensus might have made a significant difference to the pace of investment and reform.

Central to this consensus is a resolution of the proper role of government. An obvious drag on the adjustment process throughout the 1980s was the conflicting roles of government as a redistributor, subsidizer and regulator on the one hand, and an efficient enabler ~~and de~~regulator on the other. ~~This was at~~ the heart of the disagreement with the recommendations of the Tripartite Mission. Emphasis on the one role or the other would swing with political ratings while the threat of a reversal of policy was always a consideration in the minds of investors. Only since the onset of the 1990s has there been a strong assurance of bipartisan commitment to the current path of development.

A related issue which has arisen in assessing the pace and the path taken is whether a deregulated and transparent price system by itself leads to the right resource allocation decisions; or whether the economy needs to be guided by an indicative plan. In either case, a vibrant system of financial intermediation would be required to lubricate the process. Generally speaking, there has been no shortage of domestic credit and, by many accounts, a large resovoir of foreign exchange deposits held abroad by residents.

What has been posited as contributing to the dissipation of resources is that the entire adjustment process has lacked a unifying theme or rally-cry (such as say, indurialization by 2000) with measurable, time-bound targets for plant installation, product development, market penetration, manpower training and so on; and that the approach to sector planning requires wide scale consultation guided by a longer term view. This approach would in the process address in an orderly way the gaps left by public sector withdrawl from the provision of certain social and economic services and would have more sharply defined the opportunities available to the private sector. As it turned out, many of the sector targets were determined by a central group of planners and were expected to be achieved by another group of people pursuing private goals. There have been many success stories. The disappoitments for the most part are related to the independently formed expectations of the authorities.