REGIONAL PROGRAMME OF MONETARY STUDIES

Central Banking In A Mixed Economy

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CENTRAL BANKING IN A MIXED ECONOMY

INTRODUCTION:

The evolution of a theoretical framework to analyse the operations of a mixed economy has not yet emerged. Indeed, the concept of a "mixed economy" defies a precise definition for all economies are mixed, but some more mixed than others. However, in general terms, a mixed economy can be referred to as one which is characterised by a combination of both private and public ownership of the means of production with some measure of control by the Government. In this context, there may not be a clear demarcation of the role and size of the public sector. It is evident that rationale for public sector ownership of the means of production is influenced by political ideology, but contrary to popular belief the increasing role of the public sector in the domestic economy is not necessarily an indication of a "socialist transformation" but rather the emergence of "state capitalism" where market forces govern the production and distribution of goods and services. Thus, the distinction between public sector and private sector is only in terms of ownership.

The Central Bank which is at the apex of the financial system of a country plays a crucial role in servicing the system of production and exchange. It is therefore important to analyse the role of the Central Bank to determine the nature and extent of its functions in economies which are more mixed than others - i.e. where the public sector operations can influence economic activity in the country.

The economy of Jamaica is mixed and both the public and private sectors make significant contributions to the Gross Domestic Product of the country. This paper attempts to examine the experience of the Central Bank in Jamaica in servicing the needs of both the public and private sectors. The first part of the paper will examine the rationale for public sector involvement in the production and exchange of goods and services. The second part will discuss the extent to which the Jamaican economy is mixed. / the third part will evaluate monetary policy in Jamaica over the last decade in relation to the public and private sectors and the final section will give the summary and conclusions.

II. RATIONALE FOR PUBLIC SECTOR OWNERSHIP AND CONTROL OF THE DOMESTIC ECONOMY

Economic planning represents one of the instruments which a Government may use to attain its goals in a mixed economy, but it should be used with great care to ensure complementary development in the public and private sectors. It has been argued that

> "A government aiming at the balanced economic development of the country, i.e. a rise in both national and 'per capita' income, a better distribution of income between members of the collectivity, the elimination of any differences in income between the various 'production sectors' and between the different 'regions' of the country, must not fail to refer to a 'theory' of economic development and fluctuations, in working out the practical measures of such development. In other words, it must inevitably have recourse to adequate explanation of the actual process whereby the country's development can be achieved and which it must always keep in mind when adopting any particular measure of economic policy. Failure to refer to adequate economic theories can produce little but 'wishful thinking', or possibly an orgy of statistics. It is urgent, however, to revert to strictly 'economic' matters and problems, for statistics are only the instrument we use for analysing economic problems. Unfortunately, we are frequently so preoccupied with the instrument that we tend to overlook the precise economic aim that was in view, and instead of studying economic problems we become engrossed in economic statistics.
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> The economic development of a region or a country cannot be 'automatically translated into practical terms. Economic development can only be achieved by the untiring efforts of both the private sector and the responsible authorities, working together to create a whole series of 'internal' and 'external economies' for production undertakings. The appropriate combination of these two types of economy can bring about circumstances which are 'favourable' to production activities and will have the effect of increasing the real income, both national and per capita, and consequently of increasing the effective demand for goods and services.
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> Demand does not indeed increase with an increase in population. Effective demand can only increase if there has first been an increase in the country's real income. To achieve this result, it is necessary to understand the processes whereby it is possible to establish the 'internal' and 'external economies' for the production undertakings".

The Government, therefore, has to have a very clear conception of the practical means whereby it can promote the economic development of a country. These consist of:

(1) The development of infra-structure: roads, parts, drainage and irrigation systems, power systems, all of which will produce radical changes in the structure of the country and help to attract private investment.

(ii) The production of general public services: administration of justice, defence of territory, public security, education and public health.

(iii) The production of special public services - i.e. those which can be sold by units for the purpose of promoting the consumption of "services" such as transport, postal, telegraph and telephone communications and electricity. Production and distribution of these services by the state are deemed necessary in order to ensure that the prices of these services are as low as possible and available to all sections of the community.

(iv) The production in certain cases, of goods and services in competition with the private sector to ensure that monopolistic tendencies in the private sector are curtailed and high mark-ups for essential goods and services are reduced.

(v) taxation and appropriate utilisation of savings available in institutions such as commercial banks, insurance companies, finance corporations and provident funds; economic policy in all its many aspects.

In countries such as Jamaica, there are additional reasons for public sector involvement in the domestic economy which include:

(vi) Protection of employed labour force in private entities that were considered no longer economically feasible.

(vii) To protect foreign exchange earnings in industries which were adversely affected by world economic conditions.

(viii) The decision of foreign and local investors to close down operations such as hotels that were built with government guaranteed loans.

Thus in some cases, the public sector ownership and control were not by design but rather by default. We would also like to mention that many transnational companies preferred to either sell their enterprises to the government or to enter into partnership with the government since this transfers some of the risks involved to the Government and guaranteed in most cases a better rate of return to the investors. In many cases, private foreign investors would only invest in third world countries provided that the host Government is prepared to have joint ventures - i.e. combination of state capital and private capital.

The rationale for a mixed economy is therefore primarily to promote the economic development of the country. However, to promote the economic and social development of a country, it is neither necessary nor desirable to eliminate personal initiative. In many developing countries, strong arguments have been put forward for state ownership of land in order to solve some of the structural problems associated with the development of the agricultural sector. We have to point out, however, that whether the ownership of land and also the means of production are in private hands or taken over by the state, the process of development remains the same as regards both the initial impetus and success in stages through which it must pass. The experience with state farms in Jamaica and other Caribbean countries is tangible proof that public ownership of farms or other enterprises has not resulted in these enterprises becoming more productive. In fact, experience has shown that the reverse is true in most cases.

It can be argued, therefore, that whatever the political regime, the action of the state is certainly a necessary condition but by no means a sufficient one to promote the economic development of the country. In a mixed economy, economic development can be best achieved when rational economic planning which reinforces the interdependence of the public and private sectors and contributes to greater efficiency both in the public and private sectors and does not in any way run counter to freedom, but on the contrary serves to guarantee it.

III. HOW MIXED IS THE ECONOMY OF JAMAICA?

Jamaica has been classified as a mixed economy. In order to measure the degree to which an economy is mixed, we could use the following indices:

(a) The proportion of public sector contribution to G.D.P.

(b) The proportion of public sector ownership of the means of production and distribution.

(c) The proportion of the workforce employed in the public sector.

(d) The extent of public sector control of the domestic economy.

Public Sector Contribution to G.D.P. in Jamaica

Table 1 below, shows the contribution of the public sector to the G.D.P. of Jamaica over the period 1969 to 1977.

Table 1

Public Sector Contribution to G.D.P.

Year	GDP (Constant Prices - 1974) J$mn.	Central & Local Govt. - % GDP	Public Enterprises - % of GDP	Total % of G.D.P.
1969	1,792	7.6	N.A.	N.A.
1970	2,019	8.1	N.A.	N.A.
1971	2,069	7.7	N.A.	N.A.
1972	2,260	8.2	N.A.	N.A.
1973	2,259	9.9	N.A.	N.A.
1974	2,265	11.1	N.A.	N.A.
1975	2,244	11.8	N.A.	N.A.
1976	2,094	14.9	8.9*	23.8
1977	2,011	14.3	9.2*	23.5

*Estimated by author on the basis of ownership (excluding Mining Sector)

Source: National Income & Product 1977 - Department of Statistics.

On an overall basis, it is estimated that just over one-fifth of G.D.P. is produced by the Public sector. On the other hand, the Central and Local Government expenditure as a percentage of G.D.P. has been growing as shown in Table 2 below:

Table 2

Central and Local Government Final Consumption Expenditure as % of GDP

Year	GDP at Constant Prices - 1974 J$mn.	Govt. Final Consumption Expenditure - Constant Prices J$mn.	Govt. Final Consumption Expenditure as % of G.D.P.
1969	1,792	99.2	5.5
1970	2,019	141.3	7.0
1971	2,069	157.4	7.6
1972	2,260	193.3	8.6
1973	2,259	276.2	12.2
1974	2,265	386.2	17.0
1975	2,244	482.5	21.5
1976	2,094	595.5	28.5
1977	2,011	654.4	32.5

Source: National Income & Product, 1977 - Department of Statistics

For central and local government, we find that in 1977 while that sector's contribution to G.D.P. accounted for only 14.3%, its final consumption expenditure amounted to 32.5% or nearly one-third of G.D.P. The public sector activity in ~~terms of its expenditure~~ by the cnetral and local government is of much significance to the private sector, not only in the form of taxation but also in the creation of demand for goods and services.

The lack of adequate data does not permit us to use the other indicators mentioned above as a crude measure of the public sector's involvement in the Jamaican economy.

IV. CENTRAL BANKING OPERATIONS IN JAMAICA

In the management of a mixed economy, there is greater need for strict co-ordination of state action. The mechanisms used for economic management include:

(i) taxation

(ii) Government Expenditure, including subsidies

(iii) state enterprises in the production sector, and

(iv) Monetary Policy conducted by the Central Bank

In this section we will examine the role of the Central Bank in relation to both the private and public sectors. The Central Bank is, in itself, a public sector institution designed primarily to regulate money and credit in market economies. However, central banks are also of greater importance in centrally planned economies where market forces are not completely dominant in the allocation of resources and where there is a limited role for the private sector. In mixed economies, however, the Central Bank is required to simultaneously cater for the needs of both the public and private sectorsin terms of allocation of credit and foreign exchange, and to develop capital market and other types of economic and financial institutions to promote economic development.

In many instances, the Central Bank has to strike a balance between the competing needs of the public sector and private sector and maintain a position of impartiality. Above all of this, the Central Bank must ensure by its policies that there is a steady growth in real savings in both the public and private sectors. If economic development is to be financed on a really permanent basis, there must be a steady growth of real savings and an effective accumulation of fresh capital in the concrete form of establishment of "stocks".

The view is widely held that the banking system can promote the creation of savings by the "establishment of deposits" and the expansion of investment. However, we should distinguish between the "real aspects" and the "monetary aspects" in the growth of savings. The creation of deposits does not necessarily give rise to an increase in real savings which can be transformed into the capital essential for the economic development of a country.

A more realistic course is, therefore to broaden and increase the efficacy of the money and capital markets in the mobilisation and allocation of financial resources. Financial instruments have to be designed to suit the liquidity and investment needs of individuals and institutions and appropriate interest rate policy designed in terms of mobilisation and allocation of savings, changes in the financial legislation etc. are all important factors in the promotion of the growth of real savings. To achieve a better organisation of the money and capital markets, there must inevitably be co-ordination of investments - private and public - in order to avoid perturbing the operations of the money and capital markets and the working of the banking system.

In a mixed economy, therefore, the role of the Central Bank becomes very crucial in creating the balance between market and non-market forces and in promoting economic development.

During the last decade, the Central Bank in Jamaica has played an important part in accommodating the needs of both the public and private sectors and in initiating action to improve overall economic performance.

In its operations, the Central Bank has relied on traditional monetary policy tools and has also developed new techniques for dealing with the economic and financial problems facing the country.

The Central Bank concentrated heavily on the development of new institutions. Some of these are:

(i) The Jamaica Stock Exchance

One of the objectives of the Bank of Jamaica is to foster the development of money and capital markets. Prior to the establishment of the Bank of Jamaica, many investors were forced to seek outlets in overseas markets for investments in equities and there was limited trading in local equities which were available to the market.

After a series of discussions on the part of the Bank of Jamaica with existing stockbroking firms and a Ministry of Finance representative, the Jamaica Stock Exchange Limited was formed in August 1968 and was opened for business in February of the following year.

The Jamaica Stock Exchange Limited is a limited liability company with the sole right of operating stock exchanges in Jamaica. This company is governed by a Board of Directors under the chairmanship of the Governor of the Bank of Jamaica along with four stockbrokers, a representative of the Ministry of Finance and a representative from a commercial bank.

Day to day operations of the Stock Exchange are controlled by a Council which is elected by the members and regular meetings are held to deal with the admittance of new members, listing of companies, conduct of members, and formulation as well as amendments of rules.

In 1969, trading commenced with four stockbrokers and 23 listed companies. At the end of the year, the number of listed companies increased to 34, while three new stockbrokers were admitted, although an original member resigned. A new member was admitted in 1970, but there was also another resignation. In 1973 there were four active members but the number of members was reduced to three in 1974 when two stock-broking firms merged.

The volume and value of trading in ordinary and preference shares declined from 19.4 mn. units for $10.7 mn. in 1974 to 6.9 mn. units for a value of $5.35 mn. in 1975 largely as a result of delisting following the Nationalization of J.O.S. and Jamaica Public Service Company.

The decline in capital market activity in 1976 indicated the decline in economic activity and the decline both in terms of volume and value was the greatest since 1970. There was trading in Jamaica Telephone Stock and Corporate loan stocks.

The performance in 1977 was even less encouraging as the volume and value of stocks traded declined 51.4% and 54.4% respectively, while the index was lowered by 21.1%. During 1977, trading in two stocks (B and E group and Caribbean Cement Company) were suspended. The former was delisted after liquidation and the latter at the request of the Government after it gained controlling interest. Two new brokers were admitted and one resigned.

The fluctuations in terms of volume, prices, listed companies and broker members can be clearly seen in the table below:

Table 3

Year	Active Members	Listed Companies	Volume (000)	Value $000	Index
1969	6	34	7,450	6,501	93.27
1970	6	34	5,058	3,907	75.93
1971	5	40	8,483	6,363	72.89
1972	4	40	12,133	9,672	77.52
1973	4	44	9,450	7,314	78.32
1974	3	41	19,400	10,683	61.97
1975	3	40	6,930	5,345	63.19
1976	7	43	5,660	2,826	49.27
1977	7	43	2,187	1,290	38.88

(ii) The Jamaica Export Credit Insurance Corporation Limited (JECIC)

The Jamaica Export Credit Insurance Corporation was incorporated as a wholly owned subsidiary of the Bank of Jamaica in June 1971 and became operational in December of that year. The company was capitalised at $250,000 with an issued capital of $100,000.

This Corporation was established to promote export trade by insuring Jamaican firms against non-payment when Jamaican goods and services were sold abroad. The Corporation, therefore, provides a service which is not available from commercial insurance companies. All persons or corporations carrying on business in Jamaica are eligible for export credit insurance.

JECIC may insure contracts involving consumer goods and miscellaneous general commodities sold on short credit terms for a maximum of 180 days. Once the exporter has protected his foreign receivables, he is free to conduct his export activity with greater flexibility and can compete vigorously for overseas markets, entering even those he might otherwise consider too risky.

The main risks covered under JECIC's policies of insurance are:

(i) Insolvency of the foreign buyer;

(ii) Failure of the buyer to pay the exporter within six months after due date the gross invoice value of goods which he has duly accepted;

(iii) Repudiation by the buyer which does not result from a breach of contract by the exporter;

(iv) Blockage of funds or transfer difficulties which prevent the Jamaican exporter from receiving payments;

(v) War or revolution in the buyer's country;

(vi) Cancellation or non-renewal of an export permit and the imposition of restrictions on the export of goods not previously subject to restrictions;

(vii) Any other course outside the control of both the exporter and the buyer arising from events occurring outside Jamaica.

There are two types of policies:

(i) A Contracts Policy - which protects from the time an exporter receives the order until it is paid; and

(ii) A Shipments Policy - which protects an exporter from the time of shipment only.

JECIC normally covers a maximum of 80% of the amount of the loss, with the exporter required to assume the remaining 20%. In the case of repudiation by the buyer, the exporter is required to bear a first loss equal to 15% of the gross invoice value of the goods, JECIC bearing 90% of the balance of the loss.

Premiums are based on the class or type of goods sold, the countries to which they are shipped, the credit terms, the volume of the exporter's annual sales and the spread of risk afforded JECIC. Total premiums established in respect of all risks will not exceed 1% per J$100 of insurable exports.

In 1975, the functions of the Corporation were extended by the introduction of a guarantee scheme whereby the Corporation would guarantee the payment for goods exported provided the transaction was insured with the Corporation.

(iii) The Jamaica Development Bank

The Jamaica Development Bank was established in September 1969. Its role is to foster economic development by its assistance in the establishment and growth of productive enterprises. The Bank assists persons in establishing, carrying on or expanding development enterprises by granting loans, participating in share capital and providing other forms of financial and technical assistance. The specific objectives of the J.D.B. are:

(1) to fill critical gaps in Jamaica's financial system;

(2) to supplement scarce domestic funds with loans from overseas sources;

(3) to assist in channelling domestic savings into productive investments; and

(4) to stimulate private sector growth and encourage the expansion and development of entrepreneural activities.

The Bank initially had an authorised share capital of $10 mn. of which $6 mn. was subscribed by the Government and $4 mn. by the Bank of Jamaica.

At present the J.D.B. has an authorised share capital of $20 mn. which has been subscribed jointly by the Government and the Bank of Jamaica. This capital is supplemented by resources from the World Bank, the Inter-American Development Bank, the Canadian International Development Agency and other international financial agancies.

For the first five years of operation, the J.D.B. made loans amounting to over $41 mn. to 448 enterprises within the industrial, agricultural and tourism sectors. There has been a gradual shift in emphasis from larger loans in favour of developing smaller enterprises, consequently the Development Venture Capital Financing Limited was established in 1973 as an affiliate of the Bank to provide equity and loan capital to small viable enterprises which would be considered risky by traditional commercial lending standards. A maximum of $50,000 is provided by the Development Venture Capital Financing Limited to facilitate the purchasing of machinery and equipment.

The major criteria used for granting loans are based on project viability and prospective contribution to the domestic economy in terms of employment, foreign exchange, import substitution, expanding the base of Jamaican ownership and facilitating linkages between enterprises. In the case of small loans, more emphasis is placed on market prospects, profit potential and quality of management. Funds obtained from foreign sources are available only to Jamaican-owned and controlled companies.

The minimum size of loans for industrial and tourism projects is $10,000 and $15,000 for agricultural enterprises while the maximum amount available to any single enterprise is $500,000. Lending rates vary between 7% and 12%. The J.D.B. has a close working relationship with commercial banks.

During 1977, the J.D.B. continued its expansionary programme and acquired a net of J$28 mn. in financial resources. A loan expansion of J$18 mn. was financed from these resources. The industrial sector was the main recipient of loans in 1977 and accounted for 48.1% of total loans outstanding. Loans to the agricultural sector increased by J$7.2 mn. In 1977 the agricultural sector accounted for 25% of total loans and the tourism sector 16.6%.

The Central Bank has also developed the following financing schemes to boost exports and to aid agriculture and small businesses.

In respect of exports the following measures were taken:

(i) Banker's Export Guarantee Scheme

This facility was introduced in November 1975 in order to further stimulate the export of manufactured goods from Jamaica. By using this facility, the exporter is provided with increased resources for the financing of exports.

To qualify for this facility, the exporter must have obtained insurance from the JECIC, the exporting company must be a Jamaican company with controlling interest held by Jamaicans, and the goods must be bona-fide manufactured in Jamaica and not merely repackaged for re-exporting from Jamaica. An advance of 80% of the total gross invoice of goods exported is made to the exporter by the commercial banks at an interest rate of 6%, for a maximum period of 180 days.

On the 1st September, 1975, the fund available for the financing of an exporter's receivables was increased to J$7.5 mn. by the Bank of Jamaica. In 1976, bills totalling $6.4 mn. were rediscounted while an amount of J$4.6 mn. was repaid. By 1977, rediscounts had increased to J$8.8 mn. and J$8.2 mn. had been repaid.

Table 4

J$

	1975	1976	1977
Amount outstanding at beginning of year		61,415	1,897,399
Rediscounted during year		6,412,058	8,831,864
Repaid during year		4,576,074	8,179,327
Amount Outstanding at close of year	61,415	1,897,399	2,549,936

(ii) The Export Credit Facility

This scheme was introduced in April 1974 and is similar to the Banker's Export Guarantee Scheme, except that loans are for a maximum of three months at 5% interest and are not guaranteed by the JECIC. Funds up to $8 mn. are available under this facility on a yearly basis. Between 1974 and 1977, advances increased from $5.3 mn. to $9.6 mn. However, larger amounts were advanced in 1975 and 1976 when compared with 1977. The table below shows actual advances and amount outstanding for the years 1974 to 1977.

Table 5

J$

	1974	1975	1976	1977
Amount Outstanding at beginning of year		2,065,954	2,796,188	2,629,568
Advances during year	5,329,279	14,456,253	11,748,490	9,601,916
Repaid during year		13,726,019	11,915,110	10,455,096
Amount Outstanding at close of year	2,065,954	2,796,188	2,629,568	1,776,388

(iii) Pre-shipment Financing Facility

The Bank of Jamaica introduced a pre-shipment Financing Scheme in 1976 through the Jamaica Export Credit Insurance Corporation Limited, to make funds available for the purchase of raw materials required for the manufacture of goods intended for export overseas. The advance to the exporter is not allowed to exceed 60% of the f.o.b. value of the order and notes should be endorsed in favour of the Bank of Jamaica. These loans are for a maximum period of 90 days. A similar procedure applies in the case where the exporter is purchasing local raw materials.

Upon the Bank of Jamaica undertaking to grant the facility the commercial bank will be advised that the funds have been placed to the credit of its account with the Bank of Jamaica and that it is in order for the exporter's account to be credited with the like amount. The repayment of this pre-shipment facility will be guaranteed to the commercial bank by the JECIC. Funds are available to exporters at the rate of 10½% per annum but the commercial bank's account with the Bank of Jamaica will be debited at the rate of 9½%.

If, before the maturity date of the note, the exporter is unable to ship the entire order on which the financing was based, the commercial bank will prepare a promissory note under the B.E.G.F. for the portion of the order which is ready. This note will be forwarded to JECIC for rediscounting.

In order to qualify as a participant in the scheme, the following conditions must be satisfied:

(a) The exporter must obtain insurance from the JECIC.

(b) The exporting company must be a Jamaican company with Jamaicans holding controlling interest.

(c) The goods must be bona-fide manufactured in Jamaica and not re-packaged or re-exported from Jamaica and the percentage of value added must at least meet minimum requirements necessary for CARICOM certification.

(d) The borrower must be in good standing with his commercial bank.

The table below summarizes transactions that were undertaken in 1976 and 1977.

Table 6

J$

	1976	1977
Outstanding at beginning of year		997,459
Advances during year		3,228,317
Repaid during year		3,492,097
Amount Outstanding at close of year	997,459	733,679

(iv) Small Businesses Financing Scheme

A special scheme was extablished by the Bank of Jamaica in collaboration with the commercial banks whereby proprietors of small businesses may benefit from short and medium term loans for the purchase of land necessary for the operation of the business and for capital expenditures to purchase, modernize or improve their businesses and/or working capital.

Under the scheme, loans made by commercial banks to proprietors of small businesses are guaranteed to the extent of 50% by Premier Investment Corporation Limited (a wholly-owned subsidiary of the Bank of Jamaica). In order to qualify for a loan, proprietors must operate a business enterprise with an annual turnover of not more than J$300,000. Categories of business which qualify are manufacturing, wholesale trade, retail trade, services, construction, transportation or communication.

Interest payable on these loans is 1½% over the prime lending rate. A limit of J$25 is set for loans for equipment, improvement and working capital. Working capital loans may not exceed $10,000.

Maximum periods for loans are 10 years for Real Estate, 3 years for new movable equipment, 2 years for used movable equipment, six and four years respectively for new and used fixed equipment and five years for working capital.

Some form of security which is acceptable to the commercial bank must be provided before loans are approved. Loans for equipment require a down-payment of 20% of the cash purchase price and loans for Real Estate require a downpayment of 10% of the cost of the project, market value of the land and/or buildings being acquired. Applications are considered by commercial banks and approvals depend on their own judgement.

Banking System Credit to the Public Sector

In Jamaica there are some 1,760 registered public entities in almost every area of economic activity. However, most of these entities are merely regulatory and do not compete for credit from the banking system. Public sector credit requirements originate primarily from Central and Local Government and from 23 major public enterprises such as the public utility companies and the Government owned sugar companies. At the end of 1977, the Net Domestic Credit of the Banking system was distributed as follows:

	J$mn.	%
Net Domestic Credit by the Banking System	1,281	
Net Public Sector Credit from the Banking System	752	58.7
Net Private Sector Credit from the Banking System	517	40.4
Other	12	0.9

Although the public sector only contributes around 23% of G.D.P. we find that it absorbs some 58.7% of total banking system credit. However, some $383 or more than half of this amount was obtained from the central bank. However, to the extent that Banking System Credit is being channelled to the public sector - $369 mn. from commercial banks at the end of 1977 - it can be argued that the public sector is gradually "crowding out" the private sector. This situation, however, is due to sluggish loan demand by the private sector and commercial banks tend to invest their excess liquidity in short-term Government paper.

The increasing reliance on Banking System credit by the public sector and, in particular, Central and Local Government is of major concern to monetary policy and already limits have been placed on public sector credit to reduce effective demand and protect the balance of payments.

Public Sector Foreign Exchange Requirements

The acquisition of local and foreign enterprises by the state usually results in additional strain on the local and foreign resources of the state. While it may be less difficult to provide the domestic resources it is not easy to find the foreign exchange necessary, not only to pay for the enterprises but to manage them.

For example, the acquisition of the utility in Jamaica required substantial amounts of foreign exchange to pay for the enterprises and to meet the overseas debts of these enterprises. It can be argued that, to the extent that overseas debt of these companies were guaranteed by Government, there is no additional burden. However, a large part of the debt of the public utility companies was not guaranteed by the Government but at any rate, foreign exchange would be required to repay these debts when they fall due.

It can be argued that the cost of acquisition including debt liabilities can be met out of future profits, but the pricing policy of these enterprises often create the need for subsidies from Government. It should be noted also that most of these enterprises fail to generate foreign exchange.

In addition, we have noted that while these enterprises are under private ownership, especially private foreign ownership, they tend to raise their working and debt capital. When the Government acquires these enterprises, it usually has to assume that responsibility thus putting additional strain on the limited foreign exchange resources of the country and increasing the Government debt. Experience has shown that countries with balance of payments problems are finding it difficult to raise loans on the international capital markets and in such circumstances it may not be prudent from a foreign exchange point of view for Government to acquire local and foreign-owned enterprises. Control of these enterprises would appear to be more appropriate than ownership. The resources used for these purposes can then be diverted to develop new areas of the economy and provide more jobs, expand exports, increase infrastructure and increase the rate of economic growth.

CONCLUDING REMARKS

In this paper, we have touched on some issues relating to Central Banking operations in a mixed economy. It would appear that the operations of the Central Bank in a mixed economy is not significantly different from that of a mere market oriented economy. Public ownership of the means of production and exchange is not necessarily in conflict with market forces. In fact, state enterprises which pay attention to market forces tend to be more efficient and actually generate surpluses.

We have also argued that on account of foreign exchange constraints, it may be more prudent to "control" rather than "own" production enterprises. In this context, the innovations in the use of monetary and fiscal policies are very important. The Central Bank as a "regulating" institution would have to assume a more positive role and frame policies which are more development oriented.

The Central Bank in Jamaica has responded to developments in the mixed economy in Jamaica by creating new institutions, devising new monetary techniques and responding to the needs of both public and private sectors in promoting the economic development of the country.

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