POLICY TOWARDS CAPITAL FLOWS AND THE JAMAICAN BALANCE OF PAYMENTS

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In international monetary economics, one of the central questions as it relates to an individual economy has to do with the maintenance of balance of payments equilibrium simultaneously with internal balance.[1] Internal balance entails maintenance of full employment along with a stable price level. This is thus merely an imaginary state for most underdeveloped countries. Nevertheless, even if the population does not openly rebel as a result of unemployment and the poverty it produces, the country's balance of payments problem has to be tackled at some point as international creditors require payment. Effectively, this is tackling the problem of the foreign exchange constraint in the so-called development process.

For Jamaica, a country with a tendency to persistent balance of payments problems, it is important that a well considered and articulated policy be implemented. Indeed, the situation demands coherent attention from coordinated agencies of government policy. In the modern period, as early as 1961, we find the following comment in the Department of Statistics' "Balance of Payments of Jamaica":

> It may be of some interest to note that to carry a deficit is characteristic of Jamaican Trade, and that the last occasion on which it showed a positive balance was in 1922."[2]

*The author wishes to acknowledge the kind assistance of Mr. Winston Carr, acting Director of Research of the Bank of Jamaica, in providing access to worksheets that were indispensable in making sense of the data.

The balance of payments next shows a positive balance on visible trade in 1963, reverting to deficit thereafter. Thus, only on two occasions in over half a century since 1922, has this occurred.[3]

It would seem to be clear therefore, that unhindered market forces will not tend to alleviate the balance of payments problems. The correction of the continuing deficit will have to be a matter of specific policy. Although there exist a myriad of measures in isolation or combination, to deal with this problem, in balance of payments theory, three distinct types of mechanism can be isolated. Analytically, these mechanisms can cover any combination of measures. These three mechanisms are:

1. Exchange rate adjustment;
2. Foreign exchange control; and
3. Adaptation or restructuring of the domestic economy to accommodate the foreign exchange constraint.

The present paper has as its focus, capital flows in the Jamaican balance of payments. Section one deals theoretically with the impact of international capital flows on the balance of payments. Section two attempts to chart the behaviour of the balance of payments and influence of capital flows in particular, from the late 1950's. Section three brings together the earlier discussion with a focus on policy. Section four is in the nature of concluding remarks.

Section I

It is appropriate to begin with as simple and concise a definition of capital as possible. We refer here, to monetary claims, internationally acceptable as payment for goods, services or debts. As such, we refer to financial flows which, to effect a transfer of resources from one country to another, require a counterpart of real flows. Definition ?

Assume there is an autonomously motivated inflow of capital into Jamaica, what impact is it likely to have on the balance of payments and what is the transmission mechanism likely to be? To answer this question, first requires us to know the nature of the capital inflow, for different types have potentially different impact.

We can break down capital flows thus:

1. Short-term portfolio for
   (a) Trade Credit
   (b) Acquisition of financial assets
2. Long term Portfolio
3. Long term Direct for
   (a) Demand oriented production
   (b) Supply oriented production.

1.(a) In the case of short term capital flows for trade credit, the initial impact on the balance of payments is straight-forward. There is an equal and opposite movement in the current account on merchandise trade. In many cases, there is no actual movement of funds but rather merely an increase of the foreign liabilities of private firms in Jamaica. These are financial flows.

Alternatively, if the trade credit goes through the channels of the Commercial banking system, there can be an increase in the domestic money supply if a bill is discounted and settled by credit creation. Such an increase in money supply however, is only transitory if the foreign creditor is immediately paid.

1. (b)Short-term portfolio capital flows into Jamaica for the acquisition of financial assets increase the foreign liabilities of Jamaica. Simulatneously they provide financing for any incipient deficit in the current account. In addition however, depending on the commercial banks lending policy and the impact of the central bank's policy on credit creation, there can be an increase in the money supply through net domestic credit creation by the banking system.

Given some marginal propensity to consume imports there is going to be an increase in current account payments to cover the increment in imports. Further to this, as the maturity dates arrive, repayment of capital and interest generate outflows of foreign exchange via the balance of payments.

Both these cases tend to reflect independently motivated or autonomous transactions carried out in the private sector without reference to balance of payments considerations. There can of course be accommodating official capital flows of a short term nature. The general impact of these is the same, except they can be viewed as ex-post developments.

2. Long term private portfolio capital, a relatively unimportant magnitude in the modern period, responds to interest rates. In a perfect competitive world, in the limit, these lead to interest rate equalization. The assumption is generally made that capital flows from low to high interest rate areas raising the level of interest rates in the lending and lowering it in the borrowing country.

The impact of the capital inflow on the balance of payments of the borrowing country, can then be analysed in two stages, initially an increase in foreign liabilities and a form of financing for a possible current account deficit. Assuming however, balanced trade to begin with, it is the transfer process that comprises the second stage of the analysis. There are two questions, firstly how does the capital inflow affect aggregate expenditure in the domestic economy and secondly, how does a change in expenditure affect the trade balance.

In a Keynesian world, the movement of interest rates is a key to this process, for in the link with the marginal efficiency of capital, the lower interest rate associated with the capital inflow calls forth new investment, multiplier effects as governed by the foreign trade multiplier then aid the transfer process. Of course, the new investment can exceed the capital inflow if complementary activity is induced.

It is the marginal propensities to import of the two countries that provide the theoretical mechanism linking changes in expenditure and changes in the trade balance. Thus, the nature of the expenditure turns out to be important in determining the effect on the trade balance. For instance, expenditure on wages and construction should lead to less imports than say expenditure on heavy machinery.

3(a) Direct foreign investment for demand-oriented production refers to foreign investment in the domestic economy, controlled by the investor and geared primarily to satisfying domestic demand. Such investment, aside from its initial impact on the balance of payments, will tend to lead to significant increases in imports of raw material if it is import-substituting. The composition of imports is thus altered, even if not the magnitude.

This type of capital inflow sets up significant future charges on current account through, investment income, royalty and other payments. It also tends to increase the import dependence of the economy - this has been painfully clear in the Jamaican economy of the seventies.

3(b) Supply-oriented direct foreign investment is motivated by demand in foreign markets. It refers to foreign investment controlled by the investor used essentially in production for export. The classic case of such investment is in the extractive industries such as bauxite in Jamaica. The simplest and also as a result the most uninteresting from the point of view of impact on the balance of payments, is the one in which the inflow covers the importation of plant and equipment. In this case, the transfer is immediate.

The point of interest rather is the induced changes in domestic expenditure, its impact on the balance of payments and thelong-term consequences of the investment. As Singer noted as early as 1950:

> "Economically speaking, they [the foreign investments] were really an outpost of the economies of the more developed investing countries. The main secondary multiplier effects, which the textbooks tell us to expect from investment, took place not where the investment was physically located but (to the extent that the results of these investments returned directly home) they took place where the investment came from."[4]

This has been the weight of much of the discussion on foreign investment by Caribbean economists.[5] It can be summed up, not without some injustice to the depth and breadth of the discussion by the following quotation again from Singer.

"... the specialization of underdeveloped countries on export of food and raw materials to industrialized countries, largely as a result of investment by the latter, has been unfortunate ...(a) because it removed most of the secondary and cumulative effects of investment from the country in which the investment took place to the investing country; and (b) because it diverted the underdeveloped countries into types of activity offering less scope for technical progress, internal and external economies taken by themselves, and withheld from the course of their economic history a central factor of dynamic radiation which has revolutionised society in the industrialized country."[6]

This is the reality of the impact of such foreign investment, regardless of the arguments and controversy generated by those who see foreign investment as the engine of growth. It certainly has the capacity to be, but the question is whether, given its nature as it takes place in underdeveloped countries, it can really be.

Implied in the foregoing arguments is the fact that these foreign investments are primarily meant to transfer resources from underdeveloped, to industrialized countries. It is this process of transfer that will be reflected in the balance of payments. In the current account, the level of exports will rise as output goes to parent or other subsidiary company. As in the other cases, so with the level of imports governed by the marginal propensity to import. More importantly, over time investment income becomes a charge on foreign exchange earning capacity, that cannot be manipulated by the government under the IMF rules of the game.

In summing up this discussion, it should be noted, that the inherent inter-relatedness of the various items in the balance of payments make it impossible to identify or predict the precise import of any one item. Theoretically, it is possible to determine the nature of effects and their direction.

Section II

The graphs of Charts 1 to 3, present the behaviour of capital flows and other relevant items in the balance of payments. They are constructed from the Jamaican balance of Payments data. For the period 1957-1977, the balance on current account, items A through D of Table I, was in surplus once - in 1963. Net capital movements have always been positive though not necessarily autonomous. From chart I, it can be seen that the change in reserves tended to be positive moreso than negative with two significant declines in 1972-73 and in 1976.

The transfers associated with capital inflows are thus being effected through the mechanism of the marginal propensity to import. The performance of the economy as reflected in the balance of payments cannot however, be divorced from the specific policies aimed at encouraging import-substituting industrialization. In addition, there is the powerful argument that the required rate of capital formation to achieve development and increases in employment cannot be met by domestic savings alone.

By any standards the rate of capital inflow into Jamaica has been high. Private long term capital inflows show four peaks (chart 2). In the late 1950's and early 1960's, the mining sector and distribution were the chief recipient with the main sources being the U.S., U.K. and Canada. Throughout the period covered, the mining industry has been the recipient of the greatest proportion of inflows. In addition however,

> "... significant amounts have also been invested in the public utility companies, manufacturing and the tourist industry. These inflows have been in the form of plant and equipment supplied by controlling overseas companies, undistributed earnings, loans and debentures and share capital in resident enterprises. [More importantly] over 90 per cent of these funds represent direct investment inflows mainly in the form of plant and equipment and liabilities to overseas controlling companies."[7]

We shall return to this point in the discussion of section three. Presently anotherfeature of note, was the significant decrease in private capital inflows in 1972 and the actual net outflow in 1976. The 1972 decline has been attributed to the competition of expansion projects in the mining industry whereas the 1976 net outflow has been attributed to the liquidation of trade credits, capital flight in response to political uncertainty and a reduction of inflows for the same reason. There is no doubt that political factors, which in great measure constitute that 'confidence' so often mentioned in discussion of foreign investment, are important in the decision making process. This seems self-evident but a quotation from the Vice President and Treasurer, Kaiser

Aluminium and Chemical Corporation, in which he noted that:

> "The initial decision by Kaiser to participate in the Alpart project and to make the necessary financial commitments was on the basis that political risk insurance was available and would be obtained. This was so stated to the Kaiser board of directors, the Government of Jamaica and to the various lending institutions."[8]

helps demonstrate the point.

Furthermore, in this process, as Girvan among others, has noted, when it comes to investment of international corporations in underdeveloped host countries, the bargaining process is lopsided - weighted in favour of the investing firm. In this process, it ought also to be borne in mind that the international corporation is also in a very real sense, backed up by all the influence of its home state. Thus, Senator Church pointed out, that OPIC turned out effectively to be sealing an identity of interest as between investing firm and the U.S. government to such an extent that the firm had "much less incentive... to get along in the host country".[9] OPIC furthermore has access to CIA profiles and makes judgements on this information.[10]

Many more bits of evidence can be brought to bear on the question. The weight of the argument however, points to the view that in dealing with, or rather in attempting to control the behaviour of investment of the international corporation, host governments are at a severe disadvantage. One cannot merely look at the economic performance of the economy for the causal elements of the investment decision.

One proviso should be mentioned however, This is the fact that over time, in the bargaining process, the relative strengths of investing firm and host country government has a tendency to change. This change in given circumstances, will most likely be in the favour of the host. With an investment in fixed capital not yet amortized the investing firm should be weakened in some sense.

It is also useful to consider the behaviour of capital movements in relation to flows of investment income. This can be seen in chart 3, again for the period 1957-1977. Investment incomeis treated net of domestic taxes and covers interest, profits, including undistributed profits and dividends. For purposes of the balance of payments, these are treated as if they are paid out, with a contra-entry reflected in the capital account, i.e. as if they were new foreign capital inflows. This is really a question of definition and the laws governing foreign investment since it is the rightto repatriate investment income that makes it eligible for such treatment.

This would seem to be one of the areas of conflict between host country and investing firm. Investment income is earned from the local production process. It is realized as financial assets or claims which are then at the disposal of the firm. Abstracting from all the problems of determination of its magnitude through transfer pricing and so on, there is still the need in the host country, for foreign exchange in light of balance of payments considerations, as opposed to the need of the firm to allocate its resources based on profit maximisation at a global level. It will merely be coincidental if this objective leads to re-investment in the host country. As such, the outcome must necessarily be the result of bargaining and some form of compromise.

For twelve of the years covered, investment income exceeds private capital inflows. It is analytically inconsistent to relate annual inflows of capital to investment income. Obviously income is generated by past rather than current inflows. For balance of payments purposes however, it is just this relationship that turns out to be important. Yet, with fore planning for the achievement of balance of payments equilibrium, there should be some predictable relationship between past inflows of capital and the expected outflow of investment income.

We have noted that it is characteristic of the Jamaican economy, to carry a deficit on visible trade. What we have not done is to isolate the distribution of imports which in part, must be financed by capital flows. In chart 4, total imports 1957-1977 and its distribution by principal sections are graphed. (See Table 3 as well). The principal characteristic of the economy's structure of production which is seen in foreign trade statistics is the feature that economists of varying persuasion argue, needs to be changed. Production is geared to external demand and demand geared to foreign production - the legacy of historic specialisation has an inertia proving thus far to be insurmountable.[11]

One notable feature is the abrupt increase in the value of imports of raw material supplies in the 1970's, the fuel component of which is substantial. This increase reflects not increased production in the import-substituting industries, but rather adverse movements in the terms of trade. It furthermore highlights the degree of dependence engendered by policies of import substitution as they have operated in the local economy. In relation to policy towards foreign investment, the two are inseparable, hence need to be considered inter-dependently.

Unfortunately, a detailed breakdown of private short-term capital flows was unavailable for the period covered at the time of writing. These flows however, include primarily, currency and bank deposits, foreign control government securities, trade credits and other financial assets. Trade credits represent a significant proportion of such flows, but short-term accommodations are provided by the commercial banking system.[12]

These capital flows serve the purpose of bridging the gap between inflows of foreign capital investment and the current account deficit. They facilitate a transfer hence influence the balance of payments usually when the pressure of local demand builds up via imports and the balance of payments, control measures become necessary. It is noteable that for the first time in a decade, the value of imports fell from the previous year. This occurred in 1976 and was a result of specific control measures.

In summarising this section, we can isolate the main influences on the balance of payments over time as firstly the tendency for the terms of trade to move against Jamaica. Partly this is as a result of the autonomous movement in import prices but also partly because of devaluations induced by performance in the balance of payments itself. Secondly there is a tendency for foreign capital inflows, through the marginal propensity to import, to predispose the economy to deficits on visible trade. They also set up current account charges of significant magnitudes for investment income. Table I presents selected categories of the balance of payments for five yearly averages and the year 1977, in current values, while Table II, shows the significance of payments for technology.

The deficit on merchandise trade has climbed steadily, changing abruptly to surplus in 1977. This result, far from signifying an improvement in the performance of the economy, is merely a reflection of rigid controls generating massive shortages, distortions such as motor car prices rapidly approaching those of dwelling houses and a black market in all sorts of commodities - essential and non-essential.

Table I also shows the continuing overall current account deficit and falling reserves from 1972, during which period, official capital inflows take on major comparative signifiance. Even in this period of attempted accommodation of the current account deficits reserves continued to fall. The corollary, and our major focus, is of course the fact that net capital movements cease to cover the foreign exchange gap on average from 1972.

Capital inflows or rather the nature of the bulk of these investments porpotuato the structure of production and demand based on the questionable static comparative advantage thesis and dependency generating import substitution. They did not and do not induce the activity of complementary industrial growth. Table III consists of the principal sections of imports as five yearly averages by value and percentage distribution. It is to be noted that Consumer goods, with food being of major signi-cance, make up more than half the value for 1957-1966, declining thereafter and being supressed in 1977 to 12.8 per cent. Raw materials and capital goods were generally in the range of 20 to 30 per cent, increasing from 1972 onwards but reflecting controls and supression of demand rather than expansion of the industrial sector.

TABLE I.

Balance of Payments: Selected Categories 1957-1977
Five Yearly Averages J$M .

Category	1957-1961	1962-1966	1967-1971	1972-1976	1977
Merchandise (Net)	-24.1	-11.7	-71.6	-130.8	+85.C
Investment Income (Net)	-16.1	-34.8	-63.9	- 71.2	-125.6
Current A/C Balance	-19.5	-16.7	-92.4	-193.1	- 61.9
Net Capital Movements	21.5	18.6	106.3	127.4	51.7
Official	1.0	5.1	5.6	63.8	- 5.4
Private	20.5	13.5	100.7	53.6	57.1
...	...				
Change in Reserves*	- 2.0	- 2.0	- 17.3	66.3	14.6

* - = Increase

Source: Calculated from "Balance of Payments of Jamaica" Department of Statistics and Bank of Jamaica, various issues.

TABLE II.

Significance of Technology Payments JSMn.

	Items	1973	1974	1975	1976
I.	Returns on Direct Foreifn Investment	46.3	43.2	54.7	46.5
	Technology Payments as a percentage	25%	35%	51%	60%
II.	Total Income on Foreign Investment	69.4	85.3	114.0	116.6
	Technology payments as percentage	17%	18%	24%	24%
III.	Foreign exchange earnings by the Manufacturing Sector	48.5	63.8	70.9	82.0
	Technology payments as percentage	24%	24%	39%	34%

Source: Arthur, O.S. "The Commercialization of Technology in Jamaica" ISER, IDS (Guyana)Mimeo. p. 108.

TABLE III

Value and Distribution of Principal Sections of Imports 1957-1977 Five Yearly Average J$Mn and Percentage

Cagegory	1957-1961 Value	1957-1961 %	1962-1966 Value	1962-1966 %	1967-1971 Value	1967-1971 %	1972-1976 Value	1972-1976 %	1977 Value	1977 %
A. Consumer Goods	66.7	51.0	88.3	50.5	116.2	31.6	177.2	23.2	99.9	12.8
Food	30.4	23.5	40.6	23.2	49.7	13.6	93.0	12.2	52.3	6.7
Other Non-durable	-	-	-	-	33.6	9.1	40.9	5.4	24.7	3.2
Durable	36.3	28.0	47.7	27.3	32.9	8.9	43.3	5.6	22.9	2.9
B. Raw Materials	29.3	22.6	38.9	22.2	124.1	33.7	366.5	48.1	510.1	65.2
Fuels	13.0	10.0	17.2	9.8	27.8	7.5	133.8	17.6	223.2	28.5
Other	16.3	12.6	21.7	12.4	96.3	26.2	232.7	30.5	286.9	36.7
C. Capital Goods	33.3	25.7	47.6	27.2	126.8	34.5	218.2	28.6	171.6	21.9
Construction Materials	-	-	-	-	26.0	7.1	65.0	8.5	70.3	9.0
Transport Equipment	-	-	-	-	21.0	5.7	41.3	5.4	15.3	1.9
Other Machinery Equipment	-	-	-	-	79.8	21.7	111.9	14.7	86.0	11.0
Total:	129.3	100.0	174.8	100.0	367.1	100.0	762.0	100.0	781.5	100.0

Source: "Balance of Payments of Jamaica", Department of Statistics and Bank of Jamaica various issues.

Note (1) Totals and Percentages may not agree with sub-categories due to errors in rounding.

(2) Breakdown for capital goods not available for years 1957-1966.

Capital flows thus facilitate transfers but not necessarily the kinds that foster growth of domestic productive capacity. Furthermore, they have done little to alter the pattern of income distribution or increase levels of employment. The possible spread effects are short-circuited through the very balance of payments they are supposed to help improve.

In the longrun, in feedback mechanisms, a continuing balance of payments crisis remains masked even in face of rising export earnings in current values, until capital inflows decrease. The classic IMF measure of devaluation and reduction of domestic expenditure is shunned for direct controls which tend to be more effective than devaluations.[13] Though there may be a transitory effect, the import dependence of the economy forces the system to a lower level equilibrium with unemployed resources. The disequilibrium cannot be remedied and on calling in the IMF, devaluation, suppression of domestic expenditure - in short, the well known package,[14] is implemented. There is a breathing space, but breathtakingly short as the fundamental problems of restructuring the economy cannot be actively pursued under such conditions.

Section III

In Jamaica, there has been regardless of political pronunciations, an essentially open door policy on foreign investment. To go into the justification of this, would be to restate deliberations adequately covered elsewhere by a number of writers.[15] The aim was industrialisation, which would increase employment, skill-training and entrepreneurial techniques, reduce import-dependence, aid in solution of the balance of payments problem - in short internal economic development.

That this has not been achieved, is not at issue. At issue is the role of foreign investment and what policies could be pursued to foster internal development. Our focus being the balance of payments, the question might be posed thus: How ought capital flows to be treated in order that they relieve the foreign exchange constraint over time?

Two short answers are: Receive them as gifts (voluntarily given) or confiscate them, alternatively, ban them and rely solely on domestic production. Perhaps there are other extremes. Both these however, are ultra-unrealistic, the solution resting in this case definitely somewhere in between, given the political direction of the government. There was one other proposed alternative, that of a break with the capitalist west and linkage with the communist or rather socialist block. If this were an alternative, it certainly was not seriously entertained on pursued.

Given what seem to be the parameters, we have to return to the former proposition. If we look at the recent Ministry Paper 13 of May 1978, we find a restatement of policy turning essentially on the encouragement of foreign investment. It proposes to encourage capital inflows for the following reasons:

(1) Inflows in and of themselves enable coverage of current account shortfalls. They must also

(2) Increase domestic income and employment;

(3) Increase foreign exchange earnings or savings; they must also

(4) Transfer technology and know-how to the local society.[15]

Given our discussion of section I and recalling the balance of payments performance outlined in section 2, one is left at a loss to find out why, in 1978, it is thought that the outcome of this policy is going to be any different than it has been in the past. Or can it be that we are merely marking time, going through the motions of dealing with the problem?

Take the most favourable set of conditions - world-wide economic expansion, zero political risk in Jamaica and abundant foreign capital inflows. Our major proposition now states:

> If the nature of Private capital inflows does not change, even under the guidelines of Ministry Paper 13, it is likely that balance of payments problems will ensue, certainly with the next downward world

cycle or as absorbptive capacity of Jamaica defined by foreign investors, reaches its limit - whichever first occurs.

The basic flaw in the policy derives from viewing capital inflows in segregation from the mechanisms of resource transfer - both to effect the real transfer associated with the capital inflow and the financial and real transfers associated with repayment of capital and its earnings over time. Unless inflows are of such a nature that they generate new capacity that produce a rate of growth of output larger than the rate of repayment for amortization and interest - in such a way that imports are displaced or exports increased over time - there is bound to be a foreign exchange crisis in the future.[16]

The policy on foreign investment is the counterpart of indicative planning on a national scale for the domestic economy. Consider the following cases based on the four major aspects of the policy.

Case 1. Capital flows increase domestic income and employment.

On the first round, the capital flow itself requires a current account deficit for the transfer. Additionally as domestic income increases imports rise in accordance with the high marginal propensity to import. It is thus not sufficient to welcome capital flows which increase domestic income and employment, rather it must do so, for balance of payments purposes, by generating genuine local production facilities to satisfy local demand. Alternatively it must do so in competitive exports, with government policy in supporting spheres channelling use of the proceeds from such exports into more domestic activity rather than merely as financing for imports.

Are these realistic suppositions? They are not, and there is no evidence in the history of foreign investment in the post-war. period to suggest this. Those investors that operate to satisfy the local economy will find it grossly uneconomic (from their point of view) to begin a venture from scratch so to speak, based on and using the resources of local conditions. The extractive industries will remain enclaves with government's use of revenues determining the outcome - this is a political/economic decision.

Case 2. Capital flows increase foreign exchange earnings and/or increase foreign exchange savings.

This can be done in one of two ways, increasing exports or displacing imports. In the former, the same argument with respect to use of proceeds as in case I holds. The terms of trade are also of importance. If imports are displaced, the outcome fits policy. The likelihood of this is questionable given the past.

Case 3. Capital flows transfer technology and know-how to the local society.

If they do so at all, it is at high cost (see Table 2). Of foreign exchange earnings (J$82Mn) by the manufacturing sector, some 34 per ecnt represented payments for technology in 1976.

In 1976 also, some 60 percent of returns on direct foreign investment were paid out as technology payments. The current view is that the above proposition does not hold for Jamaica in particular and the third world in general.

There still remains an inherent conflict of interest as between foreign direct investor and host country governments and people. Only a process of bargaining in which suitable compromises can be worked out will ensure participation in close to a 'fair' share by the domestic economy. This is done, as noted in section 2, in an asymmetrical process. In the short-run, knowledge of world-wide conditions governing technology payments, and comparative production costs should prove useful in this process. There is however, the additional difficulty of individually competitive positions of third world countries for such investment.

Recognition of the above leads one to believe that for transformation, private direct foreign investment should be minimised in those spheres where a domestic competence exists. Funding of an official nature and/or bi-lateral agreements involving a suitable quid pro quo ought to be arranged for domestic production.

The treatment of investment income as an item of the current account subject to no controls should be challenged and argued in the international bodies. The interdependence of the world economy should be used as a basis for arriving at suitable

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arrangements for covering such payments in times of balance of payments crisis.

The foregoing discussion is certainly not exhaustive. Time constraints ruled out a full consideration of short-term capital flows. To take the analysis further, it would seem useful to build a model that can handle at least the short-run dynamics of the interplay of inflows of capital and the balance of payments. Hopefully, this will be facilitated by the present initial statement of the problem.

NOTES

1. Even the concept of equilibrium is subject to controversy but it is not our purpose to go into that here. Machlup [9] provides a very useful discussion.

2. [5] p. 5

3. To note this fact is not of course, to know its cause. One of these, is the tendency for the terms of trade to move adversely to Jamaica coupled with the high marginal propensity to import. All of this can then be traced back to the structure of the economy and the unequal international economic relations to which Jamaica is subject.

4. Singer, H.W. [11] p. 475.

5. For instance the work of Girvan [7] Beckford [1] and Best [2] to mention but a few.

6. Singer H. W. [11] p. 477.

7. "The Balance of Payments of Jamaica 1964-1970" Bank of Jamaica p. 24.

8. Statement of Mr. Hobbs, in [13] p. 155.

9. Senator Church, statements in [13] p. 141.

10. [13] p. 210-211.

11. See Best, [3], Beckford [1] and Thomas [12] for instance.

12. Short-term accommodation cannot usefully be separated from the commercial banks lending policy but consideration of this is not our purpose here.

13. See Demas [4] for a theoretical discussion.

14. See Payer [10(a)] pp. 32-38; and for Jamaica the IMF Agreement, Ministry Paper 10, of the Ministry of Finance, May 1978.

15. See for instance Girvan [7], Best [2], Lewis [8] and Beckford [1].

16. Domar [3], has an early discussion of the reverse of this problem for the U.S. economy during the period of the "so-called" dollar shortage. He concluded thus:

> "It should at least be possible to equalize the rates of growth and interest on public investment alone by the simple expedient of raising the rate of growth of new loans to the level of the interest rate charged. The inflow and outflow of government funds will then gradually balance, and a revolving fund will come into existence from which new loans can be made at an increasing (absolute) rate, and yet without any additional Congressional appropriation... a wise foreign economic policy" p. 809

Trouble is, it is merely formally possible!

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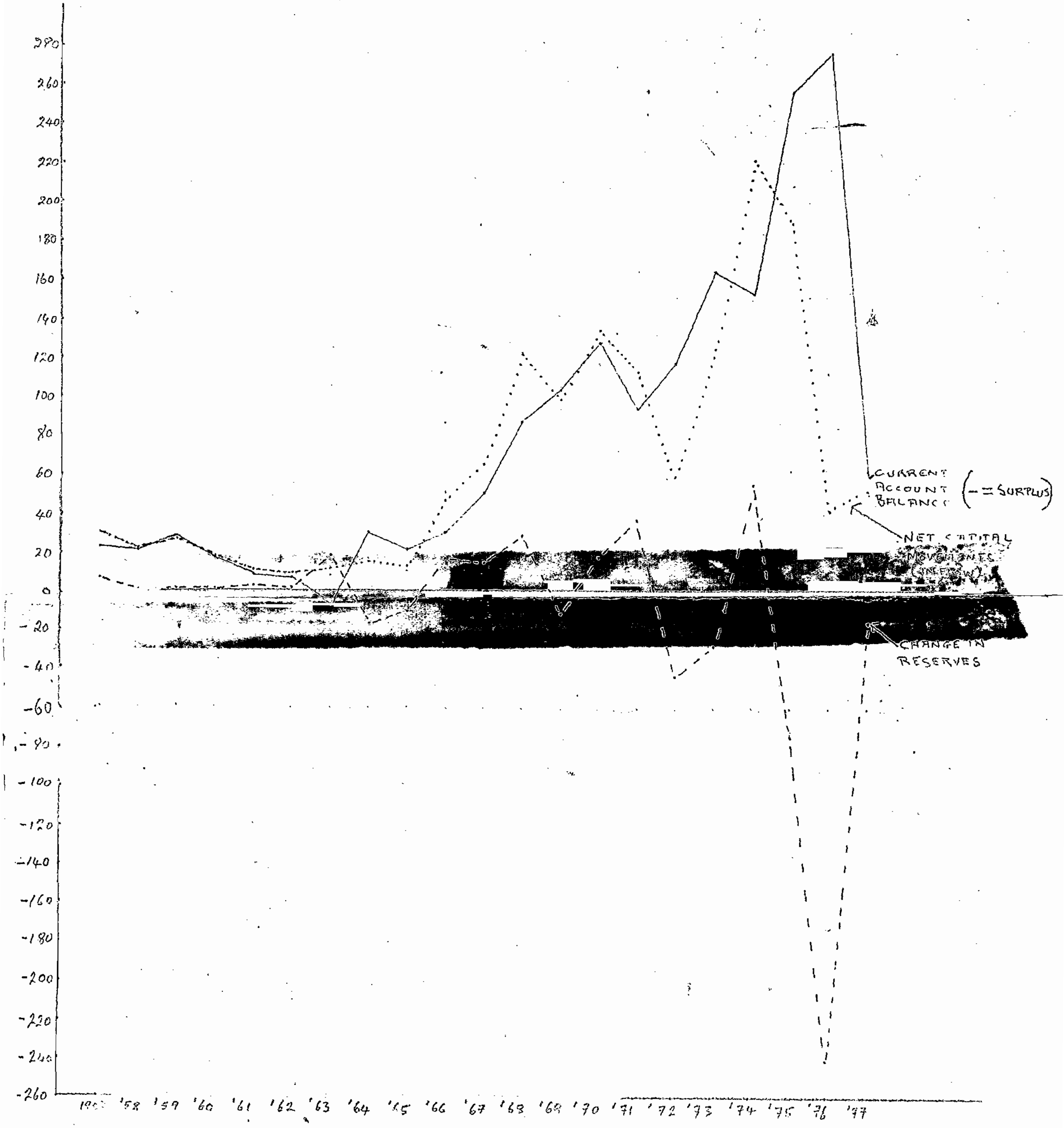
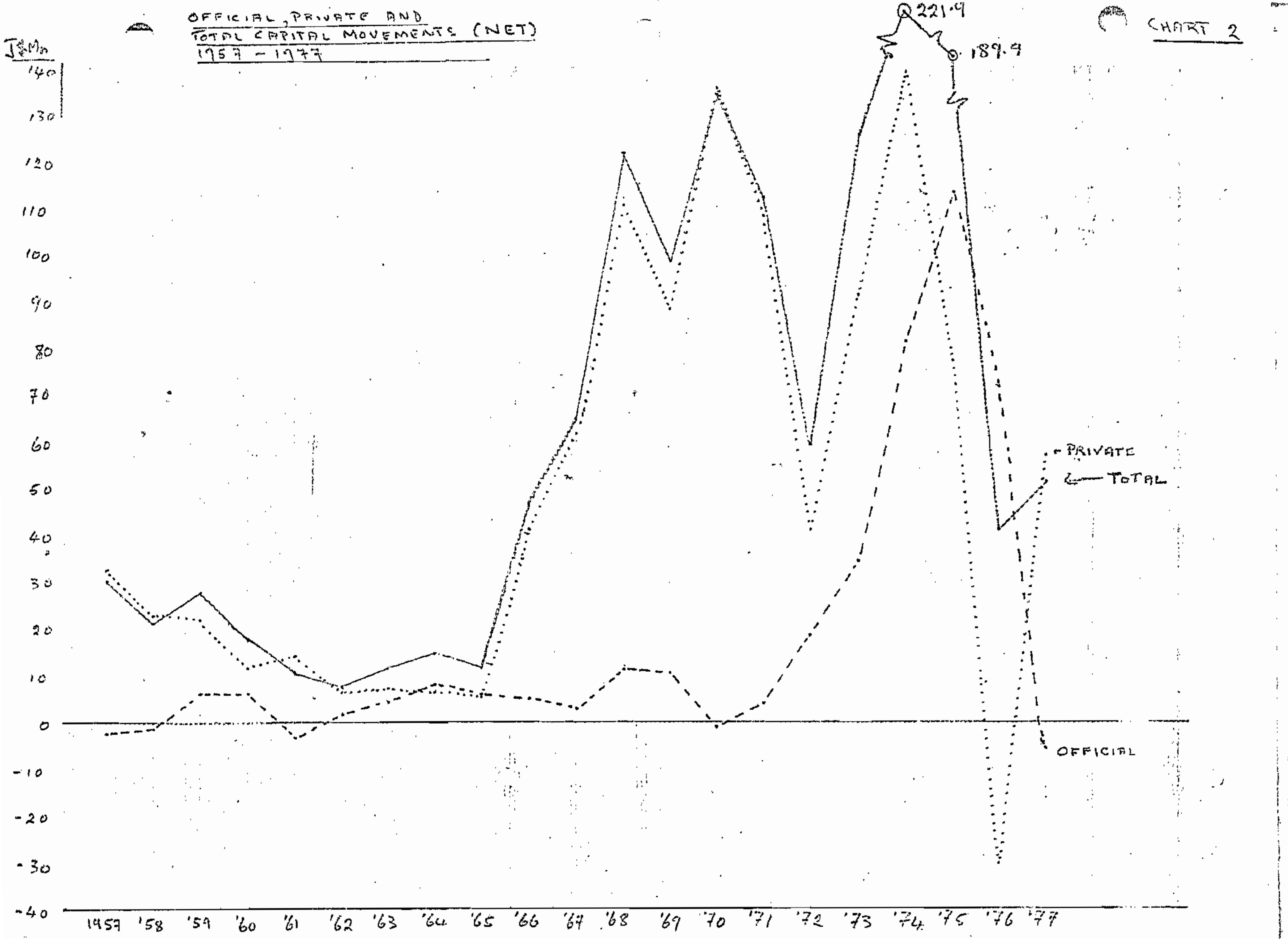
JEMn

CURRENT ACCOUNT BALANCE
NET CAPITAL MOVEMENTS AND
CHANGE IN RESERVES 1957-1977

CHART I

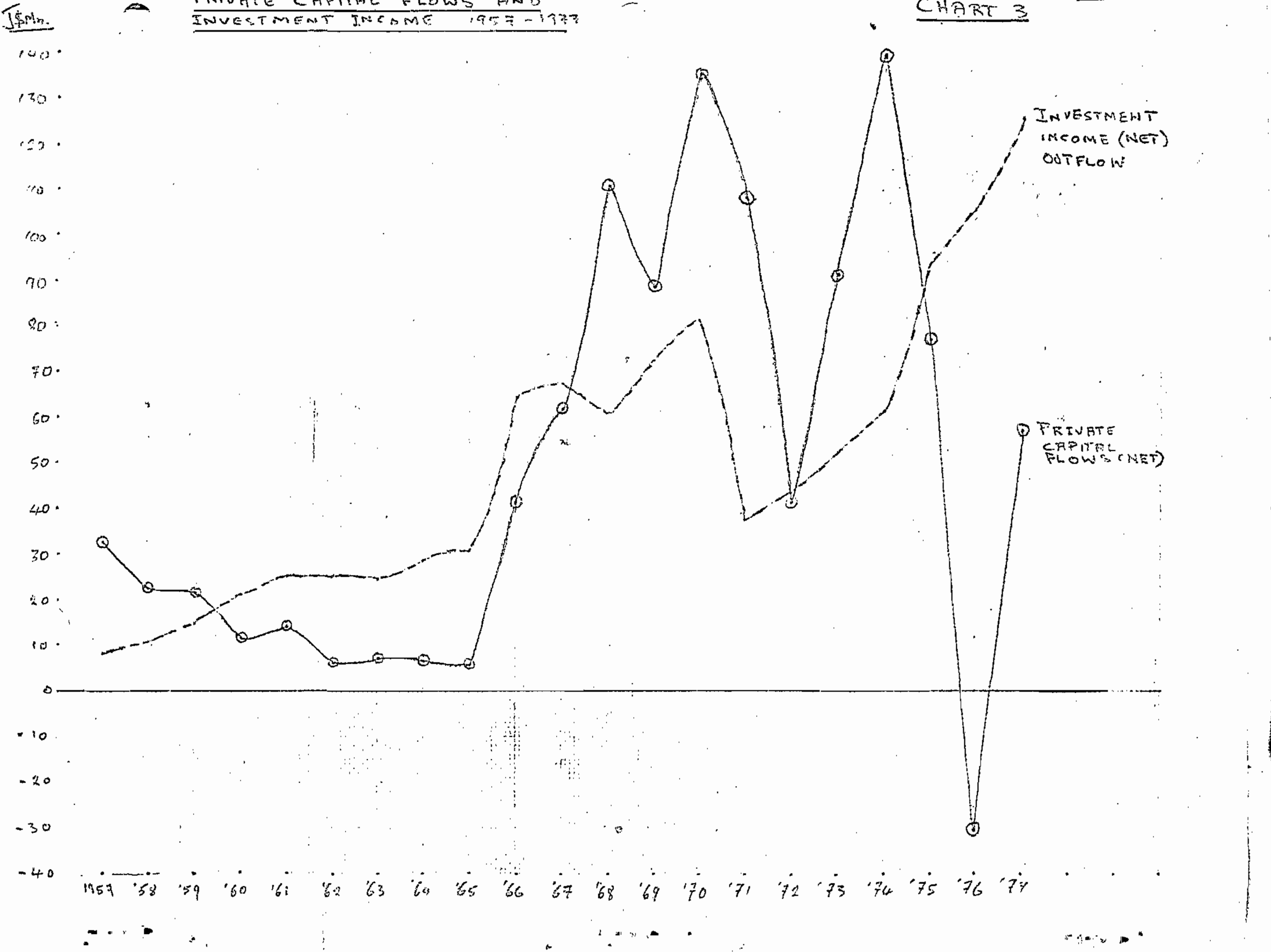


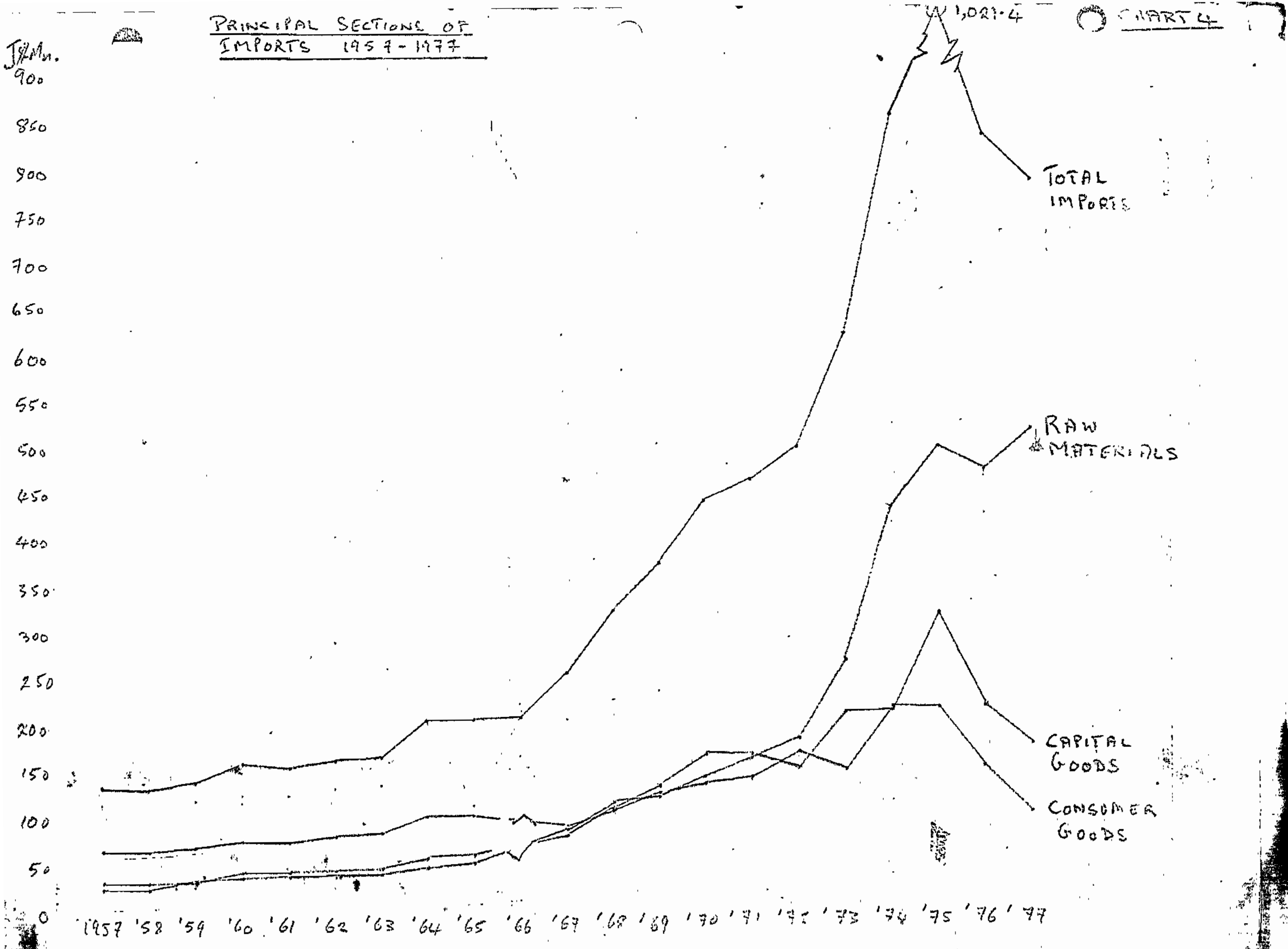


OFFICIAL, PRIVATE AND
TOTAL CAPITAL MOVEMENTS (NET)
1957 - 1977
CHART 2
J$Mn
140
130
120
110
100
90
80
70
60
50
40
30
20
10
0
-10
-20
-30
-40
1957
'58
'59
'60
'61
'62
'63
'64
'65
'66
'67
'68
'69
'70
'71
'72
'73
'74
'75
'76
'77
221.9
189.9
PRIVATE
TOTAL
OFFICIAL

CHART 3

PRIVATE CAPITAL FLOWS AND INVESTMENT INCOME 1957 - 1977





NOTE Distribution from 1966 unavailable at time of writing.