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Part Three

THE ECONOMIC DEVELOPMENT OF JAMAICA AND TRINIDAD AND TOBAGO IN THE 1970s

JAMAICA

1. Recent economic trends: Introduction and summary

In 1980 the gross domestic product at factor cost (GDP) decreased 3.5% according to preliminary calculations, marking the seventh straight year in which this indicator has either stagnated or declined.[1] Over the course of this period the GDP has dropped by somewhat over 18%, while the per capita GDP has sunk by well over 25% (see table 1).

In addition to the severe foreign exchange constraint that has depressed the level of output throughout this period, but especially since 1976, other factors which disrupted economic activity in 1980 were recurrent adverse weather conditions and an accentuation of the already turbulent social climate. Hurricane Allen caused big losses in agriculture, including the obliteration of between 75% and 90% of the banana trees that remained standing in the wake of Hurricane David in 1979, and overall agricultural production dropped almost 9%, following the 7% reduction in 1979. Manufacturing output fell over 5%, while construction activity plunged by one-fifth, owing in large part to a cutback in government-sponsored projects. Of the goods-producing sectors, only mining showed a gain (7.5%) in 1980. This performance was conditioned largely by the 26% rise in the relative international price of bauxite, although the reduction of the bauxite levy in late 1979 also may have played a role. As far as the rest of the economy is concerned, the level of production diminished about 2%.

As a result of the further contraction of economic activity, especially in agriculture, the rate of unemployment climbed well above 30% towards the end of the year, according to provisional estimates, while the rate of inflation accelerated from around 20% to 30%, owing in large measure to the pronounced intensification of external inflation. Indeed, the increase in the import price index (22.5%) was the largest since 1974. Another contributory factor, however, was the marked expansion of domestic credit, which maintained or even increased the level of domestic demand while domestic supply was declining. This occurred because the deficit of the central government was greater, and its foreign borrowing lower, than projected. In the circumstances, the authorities resolved to accomodate both the central government's financing requirements and the private sector's demand for credit, rather than reduce the availability of credit to the private sector and risk an even larger downturn in economic activity. Compensatory measures, such as ceilings on consumer credit (which were not respected) and price controls, were relied on to mitigate and repress inflationary pressures.

The balance of payments result for 1980 was perhaps less than hoped for but probably considerably more favourable than could have been expected when the government decided to break off negotiations for an interim standby agreement with the IMF in March. At the time the Bank of Jamaica possessed liquid reserves of only some US$ 25 million (or less than one week of

[1]In fact, it declined in every year of this period with the exception of 1977, when it was stationary.

Table 1

JAMAICA: MAIN ECONOMIC INDICATORS

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980(a)
A. Basic economic indicators										
Gross domestic product at factor cost (millions of dollars at 1970 prices)	1 318	1 447	1 463	1 406	1 384	1 298	1 298	1 294	1 237	1 194
Population (millions of inhabitants)	1.89	1.93	1.97	2.01	2.04	2.07	2.09	2.11	2.14	2.17
Per capita gross domestic product (dollars at 1970 prices)	697	750	742	700	678	627	621	613	578	550
	Growth rates									
B. Short-run economic indicators										
Gross domestic product	2.3	9.8	1.2	-3.9	-1.6	-6.2	-	-0.4	-4.3	-3.5
Per capita gross domestic product	0.1	7.6	-1.1	-5.3	-3.1	-7.5	-1.0	-2.2	-5.7	-4.9
Gross income (b)	1.2	11.4	-2.0	3.1	2.9	-9.2	1.9	-3.7	-6.0	-2.1
Terms of trade of goods and services	-2.7	3.8	-7.7	18.1	13.5	-8.1	6.5	-10.6	-4.5	3.2
Current value of exports of goods and services	4.4	13.2	2.5	63.3	6.7	-15.1	4.9	14.6	7.6	23.6
Current value of imports of goods and services	6.1	12.8	8.1	39.6	21.1	-13.8	-17.5	13.6	16.3	23.1
Consumer price index										
December - December	5.1	9.3	29.5	20.6	15.7	8.3	14.1	49.4	19.8	29.5
Variation between annual averages	4.6	4.6	19.8	24.4	17.4	9.6	11.4	34.9	29.1	26.8
Money	24.5	10.3	20.8	27.3	20.2	2.4	37.6	17.6	7.6	35.5
Wages and salaries (c)	...	7.3	-6.2	18.6	6.2	4.5	-7.8	-14.0	-12.0	...
Rate of unemployment (d)	...	23.2	21.9	21.2	20.5	22.4	24.2	24.5	27.8	29.5
Current income of government	13.3	16.1	21.2	48.8	23.8	-5.3	7.5	59.0	7.8	-2.3
Total expenditure of government	16.2	21.0	23.5	59.0	32.5	21.1	3.1	36.9	11.9	14.2
Fiscal deficit/total expenditure of government (d)	17.2	20.5	22.1	26.6	31.4	46.3	44.0	34.9	37.2	46.2
	Millions of dollars									
C. External sector										
Trade balance (goods and services)	-131.9	-151.9	-178.3	-49.2	-207.7	-193.0	50.1	66.1	-20.3	-19.0
Balance on current account	-166.8	-190.0	-240.3	-82.9	-287.8	-306.6	-73.1	-97.4	-153.0	-213.0
Variation in international reserves	25.6	-22.1	-65.0	67.1	-33.5	-186.8	-12.0	-55.8	-162.7	83.3
External debt (e)	148	210	354	528	706	965	1 052	1 236	1 495	1 607

Source: CEPAL, on the basis of official data.
(a) Preliminary figures.
(b) Gross domestic product plus terms-of-trade effect.
(c) Real wages and salaries.
(d) Percentage.
(e) Public debt plus State-guaranteed private debt; and use of IMF credit (disbursed only).

imports), while the economy faced an overall balance of payments deficit in the neighbourhood of US$ 300 million (or more than 10% of GDP), if the decline in output were to be held to manageable proportions. Yet it proved possible to maintain the existing volume of imports and record a surplus in the balance of payments (for the first time since 1974). Several developments were involved here: the 34% hike in the unit price of merchandise exports; the emergency arrangement to defer the amortization of loans falling due to foreign commercial banks; an upturn in official capital inflows; the further accumulation of arrears; and a sizeable increase in the foreign exchange earnings of the parallel economy. As a result, the current account deficit turned out to be US$ 213 million, or about half the amount that was originally forecast, and the overall balance of payments surplus was US$ 85 million, one-half of which corresponded to the accumulation of arrears and the other to a reduction in outstanding obligations with the IMF.

In February 1980, the then Prime Minister announced that elections were to be held ahead of schedule and as soon as possible, in order to resolve the basic economic issues facing the country in the wake of the suspension of access to the IMF's Extended Fund Facility (EFF) in December 1979 and the failure of the stabilization plan adopted in connexion with the EFF to halt the contraction of the economy. In March, the Goverment informed the nation that it had resolved to stop negotiations for a new agreement with the IMF, because it would be impossible to comply with the performance criteria sought by the Fund. An alternative economic programme, designed to maintain the existing level of activity until the elections were held, was then adopted. The elections took place in October and the governing party was defeated. The new Government indicated that it would seek a fresh accord with the IMF in the context of its strategy for economic recovery.

In addition to the discussion and analysis of the evolution of economic activity during the past year, this survey includes a description and interpretation of some of the outstanding aspects of the evolution of the Jamaican economy over the course of the 1972-1980 period.

2. Trends in economic activity

(a) *Total supply and demand*

The evolution of total supply and demand is shown in table 2, which gives the percentage breakdown (current prices) for 1970 and 1979 and the growth (in constant prices) of the main components in recent years. Only a few of the principal aggregates are available for 1980. During the year, total supply dropped by close on 3%, following no change in 1979 and a modest increase in 1978. In 1978 and 1979 the increase in the quantum of imports was large enough to offset the decline in the GDP, but the import volume could not be augmented in 1980, owing to the exacerbation of the foreign exchange constraint in the wake of the breakdown of the IMF accord and to a marked upturn in international inflation. Data on the evolution of consumption and investment in 1980 are not available, but indirect indicators strongly suggest that investment amounted for more than a proportionate share of the downturn in demand, following a partial recovery of investment activity in 1979.

As may be appreciated from the data in table 2, the structure of demand underwent big modifications over the course of the 1970s. The large increase in the participation of the external sector in the economy was accounted for by the systematic contraction of the GDP after 1973 and by the pronounced change in relative prices, rather than by any real increase in exports and imports. The reduction of the resource gap likewise occurred because of a variation in relative prices (i.e., due to the improvement of the terms of trade). The marked shift in domestic demand was first a cause and later a consequence of the depression of economic activity. Investment demand, which averaged around one-quarter of the product between 1950 and 1970, peaked in 1969/1970 when it soared to more than 31% of the product. It fell appreciably in 1971 (to 27.8% of GDP) and again in 1972 (to 25.5%), as the investment cycle in the mining sector came to a close and an expansionary phase in tourism waned. This presented a major challenge to the country, inasmuch as the high rates of growth of the economy during the preceding two decades were attributable in large part to the creation and successive waves of expansion of the mining industry and tourism.

The new government elected in 1972 expected to offset the autonomous reduction in investment and foreign capital inflows by an expansion of public sector capital formation financed by external borrowing, and by big joint venture projects with foreign firms in oil refining and with other countries in bauxite. Initially, it was possible to mitigate the extent of the decline in investment and capital inflows. Between 1972 and 1975 in spite of a notable rise in consumption, the investment coefficient was maintained relatively high and international reserves at adequate levels, through a big increase in the government capital expenditure programme, foreign borrowing, the internationalization via the Bauxite Levy of a sizeable proportion of the mining sector rents that had previously accrued to foreign-owned bauxite companies, and a marked improve-

Table 2

JAMAICA: TOTAL SUPPLY AND DEMAND

	Percentage breakdown (a)		Growth rates (b)		
	1970	1979	1978	1979	1980
Total supply	137.4	150.4	1.3	-	-2.6
Gross domestic product at market prices	100.0	100.0	-0.5	-2.0	-3.5
Imports of goods and services	37.4	50.4	6.1	5.2	0.4
Total demand	137.4	150.4	1.3	-	-2.6
Domestic demand	104.2	101.6	-3.9	-2.3	...
Gross domestic investment	31.6	19.0	7.8	16.7	...
Gross fixed investment	31.4	17.6	2.5	20.4	...
Changes in stocks	0.2	1.4	122.4	-20.2	...
Total consumption	72.6	82.6	-5.4	-4.9	...
General government	11.7	19.6	3.9	-0.2	...
Private	60.9	63.0	-8.1	-6.5	...
Exports of goods and services	33.2	48.8	19.7	2.0	-2.3
Income terms of trade			7.0	-2.6	0.9

Source: Jamaica, Department of Statistics, National Income and Product, 1979; Bank of Jamaica, Report and Statement of Accounts, 1980.
(a) Current prices.
(b) Constant prices.

ment in the terms of trade. In the meantime, however, the oil refinery project was cancelled as a result of the petroleum crisis, and the multinational aluminium project did not get beyond the planning stage.

On another front, investment by the local private sector had begun to decline in the wake of escalating wage settlements. Then, in 1976, a severe economic crisis broke out. As output and income plunged, both the private and public sectors moved to protect existing levels of consumption, and that year investment fell below 17% of GDP (against almost 24% in 1975) and international reserves were virtually exhausted. In 1977 the economy remained depressed, but the prevailing level of consumption was maintained even though real wages and salaries were slashed. The rate of investment dropped to less than 12%, and net savings became negative.[2] Subsequently, one of the primary aims of economic policy was to reduce consumption in favour of investments and exports. Some success was achieved, as investment rose to 17.6% of the product (in 1979) and the resource gap diminished (in 1978) but the objective of halting the decline in output and commencing economy recovery was not achieved.

(b) *Evolution of the main sectors*

(i) *Introduction.* In 1980 all of the goods-producing sectors, with the exception of mining, registered production declines. The decreases ranged from over 5% in manufacturing to close to 9% in agriculture and as much as 20% in construction. On the other hand, mining output rose 7.5%. Overall, the value of output in the goods-producing segment of the economy dropped about 6%. A breakdown of the results for services is not available, but the total value of production of services contracted somewhat less than 2% (see table 3).

The systematic contraction of the level of economic activity since 1973 has affected every major sector of the private area of the economy with the exception of agriculture, which expanded appreciably until the severe weather conditions of 1979 and 1980. On the other hand, some of the service subsectors (e.g., transportation, storage and communications) were still producing more at

[2]Between 1975 and 1977 investment was cut by more than one-half in real terms.

Table 3

JAMAICA: DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of constant Jamaica dollars			Percentage breakdown		Growth rates		
	1978	1979	1980(a)	1970	1980	1978	1979	1980(a)
Total gross domestic product	1 973	1 934	1 866	100.0	100.0	-0.4	-2.0	-3.5
Goods	807	767	720	45.1	38.6	0.6	-5.0	-6.1
Agriculture	187	174	159	7.5	8.5	9.4	-7.0	-8.6
Mining	149	147	158	6.9	8.5	1.4	-1.3	7.5
Manufacturing	333	316	299	17.5	16.0	-4.9	-5.1	-5.4
Construction	138	130	104	13.2	5.6	3.0	-5.8	-20.0
Basic services	153	158		6.3		0.7	3.3	
Electricity and water	24	22		0.8		4.3	-8.3	
Transport, storage and communications	129	136		5.5		-	5.4	
Other services	1 013	1 009	1 146	48.6	61.4	-1.3	-0.4	-1.8
Commerce and finance	403	370		25.7		-4.5	-8.2	
Real estate and business services	210	216		9.8		-3.2	2.9	
Public administration and defence	344	363		9.1		4.6	5.5	
Miscellaneous services (b)	56	60		4.1		-3.4	7.1	

Source: Jamaica, Department of Statistics, National Income and Product, 1979; Bank of Jamaica, Report and Statement of Accounts, 1980.

(a) Preliminary figures.

(b) Includes miscellaneous services and household and private non-profit institutions, less imputed service charges.

the end of the decade than in 1973, but no complete sector recorded growth over the course of this period. The reductions in output were especially marked in construction (60% between 1971 and 1980); in commerce (40% between 1972 and 1979); and manufacturing (25% between 1973 and 1980). In contrast, the value of production in the public area of the economy climbed over three-quarters in the period in question.[3] Initially, the expansion of the public sector was intended to stimulate and complement growth in the private sector. Subsequently, the Government indicated that the public sector would assume a much greater role in the economy, in connexion with the pursuit of its objectives in the areas of growth and employment, income distribution, and external economic relations, but by the middle of the decade the course of events had placed the public sector in a position in which it was struggling to offset the decline in private sector output. The size of the reductions to be counter-balanced, the numbers of entrepreneurs, managers and skilled workers to be replaced, and in particular the magnitud of the foreign exchange gap to be filled, however, made this task impossible to achieve, in spite of the fact that the Government was able to increase substantially its command over domestic resources and mobilize a considerable amount of international sympathy.

(ii) *Agriculture.* In 1979 Jamaica was ravaged by recurrent floods caused by heavy rain, including the especially intense flooding provoked by Hurricane David in June. Losses in agriculture were extremely high.[4] Especially hard-hit was the banana subsector, as approximately

[3]Between 1970 and 1979, the proportion of GDP accounted for by the public sector rose from 9.1% to 18.8%.

[4]The following quatation extracted from a special study on the effects of the June 1979 rains sheds light on the severity of the flooding and recalls the devastation major hurricanes can wreak on small island economies: "The year 1979 was the wettest year for the decade of the 1970s. There were four periods of heavy rainfall and of these the ones on June 12 were the most severe in terms of the amount and the effect on the spatial economy. Flash floods, debris wash and landslides disrupted physical communications, destroying or blocking roads and bridges and completely cut off the Western end of the

one-third of the banana stands was simply annihilated. Also, the harvesting operations in sugar cane were disrupted. Overall, more than 20 million dollars' worth of exports were foregone, while as a whole the crop losses translated into a reduction of almost 7% in the sector's output (see table 4). Furthermore, the flood damage to farm installations and rural infrastructure, which was appreciably greater than originally estimated, continued to hamper farm operations and reduce crop yields into 1980. As a result, by the end of the first half of the year it was estimated that total output would fall at least another 2% in 1980. And then Hurricane Allen struck the island in August. Preliminary tabulations suggest that the extent of the destruction of property and the loss of output was even more severe than that of the previous year. Damage to farms and infrastructure was placed at well over J$ 500 million (J$ 1.78 = US$ 1), while the devastation of crops translated into a loss of exports valued at some US$ 30 million. The banana subsector again bore the brunt of the onslaught: this time, however, fully three-quarters of the stands were wiped out. Moreover, the havoc wreaked on coffee farms was just as intense.

Production data for the principal export crops are given in table 4. As may be seen, with the exception of citrus, which turned in a strong performance, all of the commodities shown suffered substantial downturns. In the case of bananas (exports only) the drop amounted to 46%; in that of coffee, more than 55%. The outputs of copra, cocoa and pimento decreased by proportions ranging from 14% to 25%. The decline in sugar cane, however, was under 8%, or substantially less than the 19% reduction registered in 1979. Greater losses in 1980 were avoided only because the bulk of the crop had already been harvested when Hurricane Allen hit the island.

Overall, the preliminary data reveal that the cutback in production approached 9% in 1980, following the 7% contraction of the previous year.

Given the existing dearth of resources on the one hand, and the extreme dislocations caused by the weather on the other, public and private efforts were directed mainly at overcoming emergency situations and restoring damaged or destroyed production capacity. In the case of banana acreage, the damage made necessary two massive replanting operations, the second of which was initiated shortly before the end of the year. Owing to the multiplicity of needs and acute scarcity of resources, several urgent problems could not be fully attended to. Thus, for instance, in some areas plant diseases began to spread: sugar cane was plagued by rust and smut disease, bananas by leaf-spot blight, and tobacco by blue mould disease. However, in the last quarter, when the resource constraint eased somewhat, a rehabilitation programme in agriculture was began. Under it some 120 000 acres of sugar cane, or about 80% of the area currently devoted to the crop, are to be replanted with disease-resistant varieties. The programme also financed the replacement of the destroyed banana stands.

While the pronounced decreases suffered in 1979/1980 forced total agricultural output back to the levels recorded at the beginning of the 1970s, it may be recalled that between 1972 and 1978

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island from vehicular traffic. Reports vary as to the actual volume of water which fell. The estimated return period for similar or greater rainfall in the four western parishes ... varies from 50 to 150 years.

The rains gave rise to about 125 separate bodies of water; of significance was the flooding in Chigivell where water rose to 8.25 feet. At New Market the lake which was formed attained a maximum height of 11.168 feet. The town became non-functional as houses and public buildings were inundated or submerged. In all, the June rains resulted in damage to a land area of approximately 975 square miles (almost a quarter of the area of the island). Between 130 000 and 160 000 persons were directly affected in some 1 150 villages and towns. The death toll was forty-one.

It has been assessed by the Geological Survey Department that no feasible drainage system could have adquately coped with the large volumes of surface run-off generated ...

The Ministry of Works estimated that islandwide damage to roads and bridges, for which they are responsible, amounted to 20 million dollars ... (This damage) created dislocation in many communities which were cut off by inundation, landslips, breakaways of the roadside and roads which were completely washed away ...

Damage to railways in the West was estimated to be 1.2 million dollars ...

Approximately 60-70% of the water systems in the West were rendered non-operational and many others were badly damaged.

It is estimated that most of the damage to housing was due to flash floods simply washing away houses."

Jamaica, National Planning Agency, *Economic and Social Survey, Jamaica, 1979*, Jamaica, 1980, pp. 271-276.

Table 4

JAMAICA: INDICATORS OF AGRICULTURAL PRODUCTION
(1970 = 100)

	1977	1978	1979	1980(a)	Growth rates 1977	1978	1979	1980(a)
Index of agriculture, forestry and fishing production	114.0	124.6	116.1	106.1	7.9	9.3	-6.8	-8.6
Agriculture	134.0	158.3	149.7	...	9.1	18.1	-5.4	...
Export	74.6	84.3	75.1	...	-17.8	13.0	-10.9	...
Domestic	151.0	181.5	175.3	...	25.1	20.2	3.4	...
Livestock	109.5	105.6	93.7	...	8.3	-3.6	-11.3	...
Forestry	78.2	45.5	29.8	...	-9.2	-41.8	-34.5	...
Fishing	115.6	115.6	94.6	...	2.8	-	-18.2	...
Production of some important export crops								
Sugar cane (milled)	3 252	3 641	2 965	2 744	-11.1	12.0	-18.6	-7.4
Bananas (b)	80	75	69	33(c)	3.8	-6.3	-8.0	-45.9(d)
Citrus (e)	63	69	50	79	-3.8	10.0	-27.8	58.2
Pimento	2 022	2 585	1 255	943	-52.8	27.8	-51.5	-24.9
Copra	3 090	1 927	1 835	1 577	-39.1	-37.6	-4.8	-14.1
Cocoa	4 502	4 493	3 416	2 627	2.6	-0.2	-24.0	-23.1
Coffee	1 208	1 504	2 267	1 011	35.6	24.5	50.7	-55.4

Source: Jamaica, Department of Statistics, National Income and Product, 1979 and Production Statistics, 1979; Jamaica National Planning Agency, Economic and Social Survey, 1979; and data supplied to CEPAL.
(a) Preliminary figures.
(b) Exports only.
(c) January-October only.
(d) January-October 1980 compared to January-October 1979.
(e) Oranges and grapefruits only.

the production performance of this sector —in contrast to that of the rest of the economy— was on the whole satisfactory and —in the case of crops destined for the domestic consumption— impressive. Furthermore, it showed a notable improvement over that recorded in the previous decade.

During the course of the 1960s as a whole the agricultural sector (including forestry and fishing) stagnated in per capita terms, even though the rate of growth of the population was relatively modest. Agriculture proper, in fact, registered a reduction in total output in this period, owing mainly to an acute contraction of export commodities but also to a generalized drop-off in crop production in the second half of the decade. Thus, the outputs of sugar cane and bananas, the first and second most important crops, plunged from 500 000 to 370 000 tons and from 235 000 to 134 000 tons, respectively, between 1965 and 1970. As a consequence of the stagnation of total production per inhabitant and the rise of 3.4% per annum in gross domestic income per capita in the 1960s, Jamaica became, for the first time, a net importer of agricultural products in 1970. This turnaround, which persisted in subsequent years, was one of the important underlying factors involved in the progressive deterioration of the balance of payments that commenced with the foreign exchange squeeze in the second half of 1972 and the devaluation of the Jamaican dollar at the beginning of 1973, about a year before the initial round of oil price hikes in December 1973.

Some of the causes of the decline of agriculture were explored in previous economic surveys. Suffice it to note here that an intensive structural and geographic shift of the population led to a shortage of labour at wages which farmers, if not estate-owners, could offer without producing at a loss, notwithstanding the exceptionally elevated and increasing level of unemployment prevailing in the economy as a whole. This, coupled with the declining marginal fertility of the land, an inadequate allocation of resources to support activities —which led to a gradual multiplication and intensification of institutional and infrastructural bottlenecks and thus rising production costs, and diverse policy measures that placed agriculture at a competitive disadvantage, left the sector in a position in which it was unable to respond adequately to changing market conditions. Moreover, with the recurrent adverse weather conditions in the last half of the 1960s, output fell appreciably.

In view of the highly unsatisfactory production performance of agriculture and its repercussions on rural poverty, growth of urban population and unemployment, and the balance of payments on the one hand; and the sector's considerable potential for output growth, as suggested by the underemployment of both land and labour and good-to-excellent market opportunities on the other, the Government which assumed power in early 1972 resolved to attach high priority to increasing agricultural production.

Following an exhaustive study of the sector commissioned by the Government and carried out by the World Bank and a team of experts headed by Arthur Lewis, a host of measures designed to overcome agricultural stagnation were acted on. The most important among these included the extensive reorganization and upgrading of the Ministry of Agriculture and other agencies responsible for making agricultural policy and providing support services to the sector; stepped-up central government investment in infrastructure; the expansion and reorientation of credit as a function of market opportunities; an integrated rural development project; the "land-lease programme", designed to match idle and abandoned farmland with underemployed farm labour; and the rehabilitation of the sugar industry.[5]

The degree to which each of these and other measures were implemented varied substantially, but as from 1974 and especially from 1976 onward the execution of a host of policies, programmes and projects was interrumpted or delayed by the loss of professional staff, the growing frequency and length of strikes, the acute shortage of foreign exchange and, eventually, budgetary cutbacks. One of the most successful programmes, in terms of the proportion of the agricultural labour force benefitted and the production gains realized, was the "land-lease programme". Between 1972 and December 1979 some 36 500 farmers and agricultural labourers —a number equivalent to fully 19.5% of the population economically active in agriculture in 1970 and 23.5% in 1979 benefitted from the "land-lease" scheme under which the Government acquired arable but idle farm land for leasing to underemployed farmers and selected landless agricultural labourers. In addition it provided necessary support services to the beneficiaries, including guidance in the selection of the output mix.[6] As well as encouraging more efficient utilization of land and labour, the authorities sought to increase the output of crops aimed at satisfying the domestic demand for food, and in this respect they achieved substantial advances, to the extent that the appreciable expansion of domestic agriculture (i.e., those crops consumed domestically) is attributable to the "land-lease" and other programmes. In any event, the output of domestic agriculture climbed almost 82% between 1970 and 1978, and until the second half of 1979 this notable gain more than compensated the marked cutbacks in food imports forced by the foreign exchange crisis and thus permitted the maintenance of generally adequate food supplies at approximately constant relative prices.

In contrast, efforts to arrest the deterioration of export agriculture were unsuccessful. Thus, sugar cane output had already dropped an additional 15% between 1970 and 1978, before the sharp contraction suffered in 1979/1980. Forestry output, together with construction activity, fell drastically from 1974 onward, while the output of the livestock and fishing subsectors rose only marginally between 1970 and 1978. Overall agricultural output rose somewhat less than one-quarter between 1970 and 1978, and because of the appreciable reductions in both 1979 and 1980, the level of production in 1980 was a mere 6% above that recorded in 1970.

(iii) *Mining*. The volume of output in the bauxite industry rose 7.5% in 1980, following a modest downturn in 1979. The increase in bauxite production was somewhat less than 6%, while

[5]For further details on these and other programmes, see, for example, Jamaica, National Planning Agency, *Economic and Social Survey of Jamaica, 1972*, Jamaica, 1974, especially pp. 130-131.

[6]Over 67 500 acres, or about 31% of the arable land identified as abandoned in the 1970 agricultural census, had been incorporated into the programme as of December 1979.

that of alumina expanded 18% (see table 5). Nevertheless, owing to the dramatic production cutbacks of 1975/1976, the output of the former was still 19%, and that of the latter 12%, below the respective peak production levels recorded in 1974.

The improvement of the sector's production performance in 1980 may be attributed mainly to the upturn of one-quarter in the relative international price of bauxite, but it is also due to the apparent resolution of long-standing differences between the Government and the transnational corporations which control the industry. In this latter regard the most important development was the agreement concerning the modification of the Bauxite Levy in late 1979. Previously, this levy, which was imposed by the Government in 1974 following inconclusive talks with the bauxite corporations on new contracts, was applied at the rate of 7.5% of the average realized price of primary aluminium, divided, by a factor of 4.3, which is the rate of conversion of bauxite into aluminium.

Under the new accord, arrived at through negotiations between the Government and the corporations, the revised levy is linked to the world market price of aluminium and to the rate of utilization of capacity (in each enterprise).

As the average realized price of aluminium rises, the marginal levy declines. Up to 53 US cents per pound, the levy is 7.5%; between 53 cents and 58 cents the levy drops to 6.8%, and at higher prices a dual formula is applied involving a base, or "cap" price. Between 58 cents and 63 cents, the cap price is 58 cents; between 63 cents and 68 cents, it is 59 cents; and so on. A cap price of 58 cents or 59 cents draws a base levy rate of 6.8%; higher cap prices draw a base levy rate of 6.5%. The difference between the cap price and the average ralized price is assessed at a rate that commences at 5% in the 58 cents to 63 cents range and falls to 3% in the 83 cents to 88 cents range (where the cap price is 63 cents and the base levy is 6.5%).

Table 5

JAMAICA: MINING PRODUCTION

	Thousands of metric ton			Growth rates		
	1978	1979	1980	1978	1979	1980
Bauxite	11 736	11 505	12 150	2.6	-2.0	5.6
Alumina	2 114	2 096	2 475	3.2	-0.9	18.1
Gypsum	135	66	...	-35.4	-51.1	...

Source: Jamaica, Department of Statistics, Production Statistics, 1979, and Central Bank of Jamaica, Statistical Digest, January 1981.

These rates also vary according to production levels: as output rises above a floor equal to 85% of each firm's capacity, the marginal levy likewise decreases. Up to the floor level production is assessed at 100% of the rates quoted above. For the first increment of 200 000 tons above it the levy is reduced to 75% of the rate applicable given the average realized price. For the next increment of 400 000 tons, the levy is reduced to 50% of the applicable rate. The assessment on further increases will be subject to negotiation.

According to the agreement, the new levy system will be reviewed in January 1980, or when the average realized price reaches 85 cents, whichever occurs first.

In order to compare this somewhat involved formula with the previous straight 7.5% levy, the price of aluminium and the expectations of its future evolution prevailing at the time the new agreement was reached (October 1979) must be taken into account.

First, it may be noted that the price of aluminium in the world market has risen continuously since 1972 and has been above 53 cents —or the level at which the levy falls below 7.5%— since the third quarter of 1977. Between then and the fourth quarter of 1979, the price climbed more than 39%, to 74.5 cents, or the level where the next to lowest levy rates obtain under the new formula. At that price, and assuming capacity utilization were 85%, the effective levy would be

5.95%. Furthermore, the price prospects for aluminium in the foreseeable future are highly favourable, owing mainly to the increasing substitution of aluminium for other, heavier metals.

In the light of these factors, the new levy system represents a substantial concession to the bauxite corporations. It translated into a reduction of more than 20% in the levy rate at the moment the agreement was concluded, and will permit the bauxite companies to capture a progressively increasing proportion of the expected windfall gains. In exchange, the firms made informal committments to expand production and capacity.

In 1980 aluminium prices averaged 85.4 cents or some 22% more than in 1979. At that price the levy fell to 5.52%. Nevertheless, owing to the marked increase in price and the sizeable upturn in production, the nominal value of the revenue from the levy decreased by only 3.5%. In the third quarter of 1980 the international price of aluminium surpassed the 85 cents mark that would normally trigger a new round of negotiations over levy rates under the October 1979 agreement. Because of the pressing obligations associated with the elections in October 1980 and the resultant change in administrations, however, the negotiations were postponed until 1981. Presumably it was the same confluence of events that led the bauxite corporations to delay the implementation of their informal committments to expand capacity.[7] On the other hand, the appreciable reduction in the levy rate may have encouraged the firms to expand output in 1980. But, as suggested at the outset of this section, the principal inducement seems to have been the steep rise in aluminium prices.

The creation and expansion of the bauxite industry was the principal source of the 6.5% per annum growth obtained between the early 1950s and the early 1970s in Jamaica. During this period the increases in the rate of investment (in several years over 30% of the product); the level of capital inflows (which accounted for an average of 32% of total investment); the growth of exports (6.8% per year), and the growth of the overall external sector (7.5% per year) were all generated primarily by successive cyclical expansions (roughly in 1953/1957, 1961/1965 and 1967/1972) in the bauxite sector. Thus, in addition to the direct (over 18%) and indirect (e.g., via the stimulation of the construction industry) contribution to growth, the product and capital flows that the sector occasioned entailed both a large and persistent deficit on the current account and a sizeable and consistent surplus on the overall balance of payments. During the course of the last expansionary phase in bauxite —the final year of which coincided with the first election of the previous Government— the extent of the sector's contribution to the 7.4% per annum growth of total output and to the buoyancy of the external sector (gross reserves almost doubled) assumed even greater proportions. In effect, investment in bauxite and alumina alone accounted for fully one-third of investment; the increase in its product provided almost 27% of the rise in the GDP; and the increment in the value of bauxite and alumina exports provided more than two-thirds of overall export growth. And in 1973/1974, when the rest of the economy began to contract in the wake of the pronounced acceleration of inflation, a marked drop in construction-related investment, and the stagnation of import volume, mining output still climbed an additional 26%.

In the light of these facts it can be appreciated that the bauxite corporations' decision to slash production was a heavy blow to the economy. The real value of the industry's output plunged 21% in 1975; the following year it dropped a further 21%. The rest of the economy was in fact recovering from the 1974 recession when mining production first tumbled. In 1976, however, output in the rest of the economy dropped almost 6%, as import volume was compressed more than 16%, and at the end of the year operations in the foreign exchange market were suspended because the gross international reserves were nearing depletion.

While other factors, such as the international recession, the multiplication of petroleum prices, labour/management disputes and an explosion in Alcoa's alumina refinery (1976) also incided in the severe cutback in bauxite mining and refining in 1975/1976, the principal factor involved appears to have been the extremely adverse reaction of the transnationals to the

[7]In this connexion, it may be mentioned that long-planned construction by the Government of a US$ 550-600 million, 600 ton refinery at South Manchester was delayed once again because the required additional financing —some US$ 250 million— did not materialize.

Government's decision to enact the bauxite levy (which was followed by the Caribbean producing countries but not other major producers). With respect to the question of its effects on corporate investment in the sector, however, it should be noted that the various companies did not have any existing plans to undertake a further expansion of their respective mining and refining capacities in Jamaica. Indeed, and notwithstanding the last round of expansions there in 1967/1972, the bauxite firms had begun intensive development of sources outside Jamaica (and outside the Caribbean in general) in the mid-1960s, even though Jamaica was the lowest-cost producer. As early as 1971 Australia had already overtaken Jamaica as the world's principal producer of bauxite, and by 1974 it accounted for 24.4% of world supply, against the 18.7% share originating from Jamaica. On the other hand, the controversy over the levy definitively precluded any additional transnational investment in Jamaican bauxite.

The value of mining output (in constant terms) not realized between 1975 and 1980 —calculated as the difference between actual and 1974 production— equalled an average of 2.5% of GDP in that period.[8] In terms of GNP, the proportion falls to 1.6%, owing to the remittances of profits which the added production would have occasioned.[9] In spite of the dimensions of these losses they were more than offset by the total value (in constant terms) of the bauxite levy collected during the period. In effect, levy income exceeded the value of production lost by almost 37% and was more than double the proportion that would have remained in Jamaica.[10] But these resources were not employed to enlarge the mining industry's production capacity, nor directly utilized in development projects, as was originally intended. Instead, the course of events made necessary the use of the levy income to finance part of the fiscal deficit.

(iv) *Manufacturing.* Preliminary data show a downturn in excess of 5% in manufacturing in 1980 (see table 6). The sector's output had declined systematically since 1976, with the cumulative reduction approaching 25%. Moreover, the level of output in 1980 was about 16% below the 1970 figure. The depression of manufacturing accounted for almost 26% of the drop in GDP experienced between 1973 and 1980 and well over 33% of that registered between 1975 and 1980. The results for some specific products in 1980 are shown in tables 7 and 8. However, data on performance by subsectors are not yet available. As of 1979, eleven of the sixteen principal industrial branches were producing less than in 1970. The proportions involved ranged from -51% (furniture and fixtures) to -9% (food). Moreover, the real extent of the cutbacks was generally even greater, because production peaked around 1972/1973 in most branches. In this connexion it may be observed that the only branch to reach its maximum production level in 1979 was tobacco and tobacco products.

Between 1960 and 1972 five other sectors of the economy registered growth rates greater than that of manufacturing. Nevertheless, the 6.3% per annum increase obtained in that sector was higher than the economy-wide average. Also, manufacturing accounted for one-sixth of the expansion of GNP —a contribution which was surpassed only by that of mining— while it provided over one-third of the jobs created during the period and the increase in manufacturing employment was equivalent to fully 84% of the net gain in jobs.

Owing to diverse factors, such as the dearth of opportunities to achieve economies of scale, the country's brief industrial history, and incentives schemes that encouraged the manufacture of a broad range of products, the industrial sector that developed in Jamaica depended heavily on the external market for input supply and on the internal market for output demand. Thus, in 1972, for example, imports attributable to the sector totalled about one-half of the value of its production, while the domestic market absorbed some 83% of the value of its output. In that same year the sector's imports gave rise to almost 28% of total imports, but manufactured exports provided only slightly over 13% of total exports. The trade deficit thus generated by the sector was equivalent to

[8]In 1974 the sector's output reached almost 94% of capacity.

[9]The ratio of profit remittances to product was taken from the 1970/1973 accounts. The data are from the World Bank.

[10]If the comparisons are limited to 1975-1980, the above figures become 7% and 72%.

more than one-third of the value of its output, and equalled the entire amount of the overall trade deficit.

Given these characteristics, the subsequent depression of manufacturing activity is traceable primarily to developments in the rest of the economy, namely, the collapse of investment demand in construction and mining; the balance of payments crisis; and the deflation of consumer demand. Thus, the close of investment cycles in construction and mining, together with the first squeeze on the balance of payments, led to a decline in manufacturing growth from almost 12% in 1972 to less than 1% in 1973 and in 1974 the sector's output dropped 3.5%. With the transitory let-up in the pressure on the external sector, which translated into a 5% rise in import volume following two years of stagnation, manufacturing rebounded slightly to record an increase of somewhat more than 2% in 1975. However, the full-fledged balance of payments crisis that surfaced in 1976 forced a reduction in import volume amounting to fully 37% in 1976/1977. This severe blow, which was accentuated in 1976 by the first important reduction in the domestic demand for consumer goods, provoked a decline in manufacturing of 5% in 1976 and almost 7% in 1977. In 1978/1979 the additional 9% decrease was a result mainly of the deflationary policies adopted under the IMF accords. The intensification of the severe slump in manufacturing activity in 1980 was as much a consequence of the persistent contraction of domestic demand as of another marked cutback in the supply of imported intermediate inputs.

Table 6

JAMAICA: MANUFACTURING OUTPUT BY SUBSECTOR
(1970 = 100)

	1977	1978	1979	1980	Growth rates			
					1977	1978	1979	1980
Index of manufacturing production (1973)	100.6	95.7	90.8	85.9	-6.8	-4.9	-5.2	-5.4
Food (1972)	117.9	108.1	91.3		2.3	-8.3	-15.5	
Sugar, molasses and rum (1965)	80.3	78.2	77.6		-17.2	-2.7	-0.8	
Alcoholic beverages (1975)	134.8	140.0	138.3		-2.3	3.9	-1.2	
Non-alcoholic beverages (1974)	106.3	96.8	85.9		8.3	-8.9	-11.3	
Tobacco and tobacco products (1979)	122.7	118.5	131.0		0.2	-3.4	10.5	
Textiles and wearing apparel (1973)	101.0	92.9	67.6		-6.6	-8.0	-27.2	
Leather and leather products (1978)	135.8	174.3	162.6		5.2	28.4	-6.7	
Footwear (1970)	75.5	62.7	53.1		9.9	-17.0	-15.3	
Wood, wood and cork products (1977)	226.3	140.4	121.7		26.4	-38.0	-13.3	
Furniture and fixtures (1972)	83.5	64.3	49.2		-3.4	-23.0	-23.5	
Paper and paper products, printing and publishing (1975)	103.6	108.3	139.0		-20.9	4.5	28.3	
Petroleum refining (1970)	64.5	59.6	71.3		-15.0	-7.6	19.6	
Chemicals and chemical petroleum rubber and plastic products (1973)	120.9	128.2	115.5		-13.2	6.0	-9.9	
Non-metallic products (1972)	76.0	70.4	65.5		-5.6	-7.4	-7.0	
Metal and fabricated metal products, machinery and equipment (1973)	76.4	70.9	57.7		-21.5	-7.2	-18.6	
Other manufactures (1970)	69.7	72.1	89.9		-17.0	3.4	24.7	

Source: Jamaica, Department of Statistics. National Income and Product, 1979.

In the 1973/1976 period the sector's performance was also hampered by an appreciable fall in the real exchange rate. The steep rise in the costs of production at the prevailing (nominal) rate of exchange reduced the international competitiveness of Jamaica's manufactured exports, and this, in conjunction with the severe limits on the supply of imported inputs, occasioned the closure of a large number of firms that produced for the external market under a free trade zone-type of arrangement. Between 1972 and 1976 the value of manufactured exports as a proportion of the value of total manufactured output dropped from 17% to 13.6%.

Finally, factory operations were prejudiced also by the migration of professional, technical and skilled manpower, industrial unrest, recurrent disruptions of basic services and, in 1976 and 1980, by the atmosphere surrounding the election campaigns.

Policy initiatives directed mainly or partly at halting the decline of this sector were focused almost exclusively on improving export performance. They included the successive devaluations of the Jamaican dollar between 1977 and 1979, which translated into a rise of almost 39% in the real exchange rate. This notable adjustment doubled the extent of the decline recorded between 1973 and 1976 and left the real exchange rate at its highest level since World War II. Also, the Government created the Certified Exporters Scheme, designed to ensure that producers geared to the export market, or those capable of meeting a specified level of exports, receive priority in the disbursement of foreign exchange for import needs. Finally, the Government obtained from the World Bank a sizeable loan to set up and finance an Export Development Fund (EDF). This revolving fund was used to cover the foreign exchange requirements of certified exporters. According to World Bank records, 80 firms, accounting for some 75% of the export volume of non-traditional exports, had made use of the EDF by December 1980. In addition to directly expediting the international transactions of exporters, the EDF also permitted firms to obtain better terms from overseas suppliers and from the Jamaican branches of foreign commercial banks.

In 1977 and 1978 exports of manufactures remained sluggish, but in 1979 the current value of manufactured exports climbed well over 32%. No comparable data for 1980 are yet available. However, it appears that little or no further growth took place.

(v) *Construction.* According to the preliminary figures on GDP, the value of construction output dwindled more than 20% in 1980. Selected indicators of construction activity are contained

Table 7

JAMAICA: INDICATORS OF MANUFACTURING ACTIVITY

	Thousand of metric tons			Growth rates		
	1978	1979	1980(a)	1978	1979	1980(b)
Production of selected manufactures						
Sugar	292	283	226	-1.0	-3.1	-14.7
Flour (wheat)	49	42	47	-10.0	-13.4	35.1
Animal feeds	21	203	169(c)	6.6	-3.8	-
Rum and alcohol (d)	17	18	18(e)	-5.1	7.1	6.1
Fertilizers	30	31	16(f)	38.5	4.4	21.1
Petroleum products (d)	1 173	1 371	982	1.6	16.9	-20.9
Textile fabrics (g)	9 330	5 944	2 986(f)	16.4	-36.3	15.9
Indicators of manufacturing production						
Electricity sales to industry by public utilities (h)	635	588	527	-	-7.3	-2.8
Industrial employment (i)	79	74	73	3.4	-6.9	-2.9

Source: Jamaica, Department of Statistics, Production Statistics, 1979, and Statistical Digest, January 1981.

(a) January to November.
(b) January-November 1980 with respect January-November 1979.
(c) January-October.
(d) Millions of litres.
(e) January-September.
(f) January-June.
(g) Thousands of metres.
(h) Millions of KWH.
(i) Thousands.

in table 8. As may be seen, the production of two of the main building materials, cement and steel, contracted by one-third and one-sixth, respectively, during the twelve months ending in November 1980. The marked drop-off in cement was caused by the recurrent shut-down of the kilns at the Cement Company because of the inability to obtain spare parts. The scarcity of cement in turn forced reductions in other firms that supply materials (e.g., concrete blocks and tiles) to the construction industry. The contraction of the domestic production of building components was aggravated further by the appreciable reduction in the supply of imported construction materials. As a result of the big drop in construction, employment in the sector was slashed by more than one-third (see again table 8).

The level of construction output had spurted ahead by almost 21% in 1970, as the last expansion of capacity in mining and tourism peaked. In 1971, however, the value of the sector's output rose less than 1%, and construction activity commenced what was to become a relentless contraction, notwithstanding a substantial increment in residential building in the middle of the decade. In 1980, the value of the construction GDP was a mere 40% of that recorded in 1971. After having dropped 15% between 1971 and 1973, when the rest of the economy expanded by over 14%, the persistent decrease in construction accounted for over 30% of the fall in the total product between 1973 and 1980.

While overall building activity systematically declined, housing completions rose from approximately 3 000 per year at the beginning of the 1970s to a high of 6 837 in 1977. In 1978, however, the total dropped to 4 876, and in 1979 4 940 units were built. No data for 1980 are yet available. Of the residences completed in the 1977/1979 period, 76% were constructed by the public sector.

In spite of the stepped-up effort in housing development in the 1970s, the pronounced shift in the age distribution of the population led to the doubling of the number of families formed as the decade progresses, so that the annual increment in the housing deficit registered a marked expansion.

Table 8

JAMAICA: INDICATORS OF CONSTRUCTION ACTIVITY

	1978	1979	1980(a)	Growth rate		
				1978	1979	1980(b)
Production of selected buildings materials						
Cement (c)	294	225	135	-11.7	-23.5	-33.5
Paint (d)	5 513	5 782	...	17.7	4.9	...
Steel (c)	14	10	8	37.9	-30.3	-16.2
Bagasse board (e)	6	60	...	-83.0	963.0	...
Employment (f)	33	32	24	-0.3	-3.0	-34.6

Source: Jamaica, National Planning Agency, Economic and Social Survey, 1979, and Statistical Digest, January 1980.
(a) January-November only.
(b) January-November 1980, compared to January-November 1979.
(c) Thousands of metric tons.
(d) Thousands of litres.
(e) Thousands of cm2.
(f) April of each year.

(vi) *Tourism.* Following the recuperation of the tourist industry in 1978 and the achievement of a record number of tourist arrivals in 1979, the total number of visitors through October 1980 was 6% less than in the corresponding period of the previous year (see table 9). The traditionally volatile short-stay (one or two nights) and cruise-ship segments of the market accounted for this downturn as the first category dropped almost two-thirds and the second about one-sixth. On the other hand the number of long-stay visitors (three or more nights) showed a slight increase. Partly for this reason, but mainly due to a rise in average spending per tourist, estimated tourist expenditures climbed almost 31%. This development, however, largely reflected price inflation. Full-year data from the travel account of the balance of payments reveal an increment of slightly more than 1% in current US dollars, and a decrease of well over 18% in constant dollars.

The determinants of the recession in tourism in Jamaica in 1980 are broadly similar to those that led to the severe depression of 1976/1977. First, owing to the marked reduction in the growth of the developed market economies, particularly in the United States, where the product dipped 0.2%, and in Great Britain, where it declined 3%, and to the new rounds of fuel price hikes, tourism in the Caribbean as a whole fell about 2% in 1980. This negative panorama was further exacerbated by the upsurge in violence and disturbances associated with the continued deterioration of the economy and the election campaign in Jamaica, with the consequent effects on the image of the country as a destination for vacations. The 11% reduction in the real exchange rate of the Jamaican currency in terms of US dollars may also have influenced the decline in the number of tourists from Jamaica's principal market, although the country's price levels became highly competitive again following the huge exchange rate adjustments of the 1977/1979 period.

The total number of tourists increased somewhat more than 6% per annum in the 1960s in Jamaica. However, the number of long-stay visitors climbed well over 13% per annum, and by the second half of the decade the average hotel room occupancy rate surpassed 67%. In view of these and other developments, such as the rise of charters and group travel associated with the entry into service of the jumbo jets, and of the absence of convention-type hotels on the island, in the late 1960s the Government resolved to actively encourage a major enlargement of hotel capacity. For this purpose it obtained in 1968 the enactment of the Hotel Incentives Act. This initiative provided for the waiver of import duties on capital goods and exemption from taxes on profits for ten to fifteen years for the erection of hotels with 350 or more rooms. Also, the central government decided to make available government guarantees on loans raised to finance hotel projects.

Largely in response to these incentives, the total number of tourist rooms more than doubled between 1968 and 1973. In 1970, when hotel building activity attained its zenith, the room capacity was augmented by fully 22%, and while the rate of increase thereafter tailed-off progressively, additions were sufficient to lead to a rise of at least 10% in each of the folowing four years.

In the meantime, the growth of overnight tourism remained strong (10%), but was in no case sufficient to cover the massive expansion in hotel rooms. Consequently, between 1968 and 1973 the average room occupancy rate plunged from 66.8% to 48.1%, and when the number of tourists peaked in 1975, the occupancy rate was down to only 43.5%. In 1976, the occupancy rate tumbled to 32.2% in the wake of the drop of 18% in tourist arrivals and the completion of the final projects commenced under the Hotel Incentives Act. The bottom was reached the ensuing year, when the number of visitors contracted a further 18%. The fact that the occupancy rate only fell to 28.1% was due to the bankruptcies which had resulted in a 9% contraction in the supply of rooms. A greater cutback was avoided because the Government decided to take over and subsidize a number of facilities that otherwise would also have closed.[11]

Thus, the inordinate expansion of capacity in the late 1960s and early 1970s had already depressed the average occupancy rate below the breaking point prior to the severe 1976/1977 slump. Marginal operations —including many of the new projects— were flirting with bankruptcy before 1976.

The pronounced reductions in tourist arrivals in 1976 and again in 1977 would appear to be attributable primarily to the notable deterioration of the media image of Jamaica in the principal tourist markets. And as in 1980, this factor may be traced to the intensification of violence in Jamaica during the electoral campaign, and to the deterioration of Government-to-Government relations. But also of importance was the steady decline of the real exchange rate of the Jamaican

[11]The number of rooms decreased another 5% in 1978.

Table 9

JAMAICA: INDICATORS OF TOURIST ACTIVITY

	1978	1979	1980(a)	Growth rates		
				1978	1979	1980(b)
Total visitors (c) (d)	533	594	457	37.9	11.4	-5.8
Long stay (c) (e)	370	401	334	45.3	8.3	2.3
Short stay (c) (f)	12	26	9	14.3	117.5	-63.7
Other (c) (g)	151	167	114	24.9	10.5	-15.7
Hotel room occupancy rate	40	48	46	38.4	20.0	0.4
Average length of stay (h)	9	9	9	-2.3	3.5	-8.3
Estimated expenditure (i)	148	194	215	41.8	31.1	30.6
Direct employment (j)	10 166	11 707	...	21.1	15.2	...

Source: Jamaica, National Planning Agency, Economic and Social Survey, 1979, and Bank of Jamaica, Research Department, Statistical Digest, January 1981.
(a) January-October only.
(b) January-October 1980, with respect to January-October 1979.
(c) Thousands.
(d) Excludes nationals residing abroad.
(e) Three or more nights.
(f) One or two nights.
(g) Includes cruise-ship passengers and members of the armed forces.
(h) Nights.
(i) Millions of current Jamaica dollars.
(j) In hotels, guest houses and cottages.

dollar in terms of US dollars between 1973 and 1976, because the United States provided around 80% of Jamaica's tourists at the time.

In spite of the 1976/1977 experience, and thanks to the remarkable rebound of 1978, the total number of tourists arriving in Jamaica in 1979 was 43% above the 1970 figure, or about half the growth rate recorded in the Caribbean as a whole. On the other hand, overnight visitors in 1979 were still slightly below the record 1974 level, and 1980 tourist expenditures, as measured in constant US dollars, were 12% less than in 1970 and 29% less than 1972, as the peak level was registered prior to the first devaluation of the Jamaica currency in 1973. Finally, in 1980 the occupancy rate remained excessively low (46%).

(c) *Employment and unemployment*

Notwithstanding a high rate of economic growth and a modest rate of growth of the working-age population in the two decades ending in 1972, the relative and absolute levels of unemployment recorded very substantial increases in Jamaica. During the 1960-1972 period the asymmetry between the evolution of the product and the evolution of employment became increasingly pronounced: in fact, in the final years these two variables moved in opposite directions. Simultaneously, the steady stream of emigration of skilled technical and professional personnel, together with appreciable shifts in the structure of production, led to a growing shortage of skilled and managerial labour.

The disarticulation of the labour market from the expansion path of the economy and the marked division within the labour market between the unorganized unskilled segment and the highly organized, high wage one had a profound impact on the formation of both the short-term economic policy and the long-term development strategy of the Government elected in February 1972.

In 1960 the rate of unemployment in Jamaica stood at 13.0% (9.0% for males and 19.2% for females). In the 1960s total economic growth averaged 5.5% per annum, while per capita growth averaged 4.0%. After emigration, the average annual increase in the labour force attributable to the expansion of the working-age (15-64) population was a mere 0.4%. If it had not been for the massive net emigration which took place and affected principally those of working age, the growth of the population aged 15 through 64 would have reached the figure of 3.6% per annum, or nine times greater than the actual rate. Part of this outflow was offset by a pronounced rise in the female labour force participation rate. But the overall annual increment of the labour force remained at the relatively low figure of 1.4%. A total of 94 500 individuals thus entered the labour force during the decade.

But high economic growth and low labour force growth was not accompanied by an improvement in the employment situation. Net job creation amounted to some 51 000, or less than 1.0% per year. As a result, the rate of unemployment climbed to 17.6%: 10.7% for males and 26.5% for females. The number of persons affected by unemployment rose by a total of 49%, or 4.6% per year.[12]

In the meantime, the high natural rate of growth of the population (3.1%), combined with the large-scale emigration of labour force members, led to a notable rise in the dependency ratio, which climbed between 1960 and 1970 from 834 to 1 065 (per 1 000 working-age inhabitants), and in 1970 children under 15 constituted 46% of the population. Moreover, the elevated vegetative growth of the population in the 1960s meant that the rate of growth of the labour force would accelerate appreciably in the 1970s, unless emigration were to register a systematic, proportionate increase. On the other hand, the pattern of the depletion of the labour force through emigration created a serious imbalance between experienced and inexperienced workers. The number of people of prime working age actually decreased between 1960 and 1970. Furthermore, the confluence of the population and emigration trends would exacerbate dramatically the proportion of this imbalance in the 1970s.

[12]The labour force data are from the Jamaica National Planning Agency, *Economic and Social Survey*, various years; and the World Bank.

Before proceeding further, account should be taken of the particular manner in which unemployment is officially defined in Jamaica. In this connexion, the National Planning Agency has observed: "In the Jamaican situation, unemployment levels include both active job-seekers as well as non-seekers, that is, persons who made no effort to find a job during the survey week but who indicate that they wanted work and were available to accept it. This approach has been judged to be more appropriate for the local context in view of the very high proportions of non-seekers among the unemployed, and because it is recognized that in situations of chronically high unemployment job-seeking activity is not a sufficient indicator of availability for work. In October 1979 about 41% of all unemployed males and 70% of all unemployed females were classified as non-seekers, while the highest levels of job-seekers were recorded in the urban parishes of Kingston and St. Andrew. Job-seeking activity is clearly related to personal judgements as to the likelihood of finding a job, as well as to the existence of formal agencies for securing employment. Whereas 29% of the unemployed labour force lived in the Kingston and St. Andrew area in October 1979, some 38% of all active job-seekers were found in those two parishes.

It should be noted that the inclusion of non-seekers leads to a wider definition of unemployment than is used in many countries, and that it does serve to provide a higher estimate of the labour force and of the unemployed." (Jamaica, National Planning Agency, *Economic and Social Survey, 1979, op.cit.*, p. 162.)

Thus, while the rate of unemployment (and the labour force) as defined in Jamaica are not directly comparable with unemployment rates obtained under the conventional concepts, the Jamaican authorities consider that the broader definition of unemployment is the one most relevant to the characteristics of Jamaica's labour market.

If the unemployment and labour force data are modified to correspond to the most common usage, that is, if those who want to work but were not actively seeking work when interviewed are excluded from the labour force and from the unemployed, the rate of unemployment diminishes appreciably. In 1972, the first year for which it is possible to make this adjustment, the unemployment rate becomes 14.5% versus 22.9% according to the official definition. The large difference stems from the fact that 58% of the unemployed females and 14% of the unemployed males were not actively seeking work.

It is important to note that the proportion of unemployed who actively seek work does in fact decline as the rate of unemployment decreases. Thus in 1979, when unemployment officially reached 27.8%, around 70% of unemployed females and 41% of unemployed males did not actively look for work.

The 1960 census, from which the 1960 unemployment rate is taken, did not make a distinction between those who were or were not actively seeking work. It merely tabulated those who wanted to work. Consequently, the magnitude and direction of the trends in the 1960s remain identical under either concept of unemployment, unless the substantial rise in the labour force participation rate detected between the 1960 (population census) and 1968 (first labour force survey) data is attributed to the possibility that in 1960 non-seekers were excluded from the labour force. In the 1970s the situation is straightforward. The adjusted unemployment rate declines from 62.2% of the official unemployment rate (1972) to 47.2% (1979).

As these developments began to materialize, the limited capacity of the economy to generate a net again in employment along the existing growth path simply vanished. Thus, while output expanded more than 26% between 1969 and 1972, total employment actually declined by 1%. This breakdown, together with the acceleration in the growth of the labour force despite an upturn in emigration gave rise to a 40% leap in the number of unemployed and the unemployment rate soared to 23.2% (see table 10). Male unemployment was 14.3% and female unemployment was 35.3%, which unemployment in the 14 to 24 age bracket was 40.9% (30.2% for males and 54.4% for females).

In addition to its direct consequences, the intensive increase in unemployment made for a deterioration in the already highly skewed distribution of income and created a climate in which crime and other social ills flourished.

On the face of it, the explanation of the inability of the economy to create enough jobs to meet even the minor increment of the labour force in the 1960/1972 period is straightforward: the growth of the product was concentrated in sectors in which the relative share of total employment is modest, the capital costs of job creation high, or the employment elasticity low. At the same time, the elasticity of employment in the sectors which account for the lion's share of jobs became negative. Suffice it to note here that the 150% expansion of bauxite mining and refining, which accounted for more than one-sixth of the rise in GDP and thus constituted the principal source of growth, generated a mere 3 500 jobs: sufficient to absorb just 3.7% of the new labour force entrants. On the other hand, employment in agriculture, which provided 41% of total employment in 1960, contracted by over 13%. The extent of the decrease surpassed by 4.6 times the total employment in mining in 1972.

On another level, the lack of correspondence between growth and employment was in large part attributable to the intensive exploitation of the country's abundant natural endowment in minerals and tourism: not only did these low-employment activities attract the largest part of economy-wide investment, but also their development depressed the level of relative profitability in the rest of the economy. In manufacturing this effect was largely offset by the array of policies adopted to foment industry. But agriculture was not compensated, under circumstances in which the profitability of the full utilization of the island's natural resources in agriculture was already in decline.

Employment and unemployment were also affected by the changing characteristics of the labour supply. The marked imbalance that developed in the labour force as a result of emigration in the 1950s and 1960s aggravated unemployment to the extent that: (i) the general level of employment was a function of the ratio of experienced workers to inexperienced workers; and (ii) it altered the relation between the overall supply of labour and the general level of wages and costs in the economy. Also relevant to the latter question were the repercussions of the creation of cases of high-wage employment (in mining) on the economy-wide wage structure. Large-scale rural to urban migration, for its part, led to a regional disequilibrium in the labour market, whereby unskilled labour was in short supply in agriculture, yet unemployed in the urban areas. Finally, it may be added that the long-run situation of high unemployment in Jamaica is partially rooted in sociological and demographic factors that have impinged on the conformation of an unusually high rate of labour force participation in relation to the working-age population.[13]

In the light of the grave situation and the dramatic implications of the impeding surge in the growth of the labour force, the administration which assumed power in early 1972 placed a very high priority on the creation of jobs.

To this end a host of initiatives were undertaken: (i) first, and perhaps most important, was the reorientation of the growth strategy as a function of job creation: that is, as a function of the

[13]Approximately half the households in Jamaica are headed by females. This, coupled with the consistently high levels of emigration of labour force members in the past four decades, has led to an extraordinary rate of participation of women in the labour force. In 1979, for example, some 80% of the women of working age appear as labour force members, while over 47% of the total labour force is composed of females. (Jamaica, National Planning Agency, *Economic and Social Survey, 1979, op.cit.*)

Table 10

JAMAICA: EMPLOYMENT AND UNEMPLOYMENT
(1969 = 100)

	1972	1973	1974	1975	1976	1977	1978	1979	1980(a)
Labour force	106.3	107.6	109.5	114.5	118.0	121.5	125.4	127.3	130.2
Employment	99.0	102.0	104.7	110.5	111.1	111.8	114.8	111.6	113.0
Agricultural (b)	86.9	86.7	96.8	97.4	104.8	104.8	110.4	99.7	...
Mining (c)	133.3	137.3	149.0	146.0	153.9	144.1	116.7	149.0	...
Manufacture	115.1	116.4	117.3	118.8	108.1	110.5	111.5	107.9	...
Construction	92.4	98.6	95.0	105.7	89.9	78.1	78.0	75.6	...
Transportation and communication (d)	116.0	121.0	121.0	144.1	143.8	134.9	133.8	133.8	...
Commerce	124.6	129.3	112.8	119.3	117.8	129.0	136.1	131.2	...
Public administration	123.6	130.7	138.9	180.0	194.5	203.5	198.8	201.2	...
Other	89.4	91.4	90.6	95.2	82.5	80.9	82.9	92.5	...
Unemployment	140.1	134.0	131.9	133.2	150.2	167.3	175.1	200.9	218.6
Rate of unemployment	23.2	21.9	21.2	20.5	22.4	24.2	24.5	27.8	29.5

Source: Jamaica, National Planning Agency, Economic and Social Survey, various years; and the World Bank.
(a) Estimates based on Statistics for the first half-year.
(b) Includes forestry and fishing.
(c) Includes quarrying and refining.
(d) Includes public utilities.

sectors capable of making the largest contribution to employment. Apart from long-term planning, this involved the implementation in 1972 of a set of policies known as Operation GROW, designed to stimulate growth and employment in agriculture; (ii) a package of measures designed to address the labour force imbalance on the one level, and the expected shift in labour demand, on the other. It consisted of training and literacy programmes and the establishment and upgrading of various social services in rural areas, including employment information offices; (iii) the creation of employment through public sector work programmes; and (iv) the implementation of an expansionary fiscal and monetary policy.

Between April 1972 and April 1975, the labour force increased at an annual average rate of 2.8%, against only 1.7% in the previous three-year period and a mere 1.4% in the 1960s. This radical upturn was a product not only of the expected bulge in the number of labour force entrants but also of a 60% plunge in net emigration. Nevertheless, the number of jobs created was not only sufficient to absorb this sudden influx, but even to effect important reductions in the number of individuals affected by unemployment. This was accomplished by augmenting employment 3.8% per year, providing a total of 82 000 new jobs in the three-year period. This figure may be compared with the 31 750 jobs added to the market in the twelve years ending in April 1972.

The outcome of the above trends was a decline in the rate of unemployment from 23.6% to 19.9% —the lowest rate recorded since 1969. Male unemployment dropped from 14.3% to 11.1%, and female unemployment from 33.2% to 31.2%.[14]

The turnaround in the employment situation mainly reflected the expansion of employment in the public sector, including public works projects, together with an appreciable rise in the number of jobs in agriculture. Indeed, employment continued to expand in the face of the downturn in output in 1974, and again in 1975 was almost solely a consequence of special public works programmes and increases in the regular public administration. The 44% enlargement in the labour force financed by the public sector between April 1974 and April 1975 was made possible by the enactment of the bauxite levy and the special tax on windfall gains in the sugar sector, which together led to a 62% leap in central government revenues in that fiscal year.

[14]If the size of the labour force had continued to grow at the same pace as in the 1969/1972 period, the overall rate of unemployment could have been reduced to 17.4%.

Contrary to expectations the economy did not recover quickly from the 1974/1975 recession. Employment continued to expand, but not enough to prevent the rate of unemployment from inching up over the course of the ensuing year. When output receded sharply between April and October of 1976, and the public sector was no longer in a position to offset the consequent loss of jobs, the rate of unemployment soared from 20.5% to 24.2% (see table 10).

The persistent decline of the product and the deterioration of public finances, was not, however, accompanied by a further aggravation of unemployment until the second half of 1978. In fact, by April of 1978 the rate of unemployment declined to 23% thanks to an appreciable expansion in agricultural employment.[15]

Unemployment rose sharply once again in the second half of 1978, and following a downturn in the first half of 1979 it climbed drastrically to 31.1% in October of that year. In addition to the progressive contraction of the economy, the implementation in mid-1978 of highly restrictive monetary and income policies under the second IMF agreement conditioned the evolution of employment in this period. The exceptional upswing in unemployment in the second half of 1979 was largely a repercussion of the effects of flooding on agriculture, however.

Disastrous weather conditions in the second half of 1980 likewise propelled the rate of unemployment well beyond the proportion attributable to the reduction of output. Thus, while 27.9% of the labour force was whithout a job in April, 31.5% was in that position in October 1980.[16]

Statistics by age and sex are not available for 1980, but in October 1979 male unemployment reached 19.9% and female unemployment 43.5%. Over 34% of males and 63% of females aged 14 to 29 were unemployed.

When the then Prime Minister announced that the Government had resolved to discontinue negotiations for a new agreement with the IMF in March 1980, one of the main justifications he cited for this decision was that the additional budget cuts sought by the IMF would lead to a further 11 000 unemployed.

Between April 1972 and April 1980 employment increased 17.7%, while the product declined by a similar proportion. About one-half of the expansion in employment took place in agriculture, two-fifths in public administration, and the remainder in commerce. During this period the increase in overall employment averaged 1.8% per annum, against 0.45% between 1960 and 1972, when the product climbed over 90%.

3. The external sector

(a) *Introduction*

When the government decided to terminate the IMF talks in March 1980, the Bank of Jamaica possessed a mere US$ 25 million in liquid reserves under circumstances in which the economy faced a projected current account deficit of some US$ 390 million, or 13.5% of the GDP, if the anticipated contraction in the product were to be limited to 2.5%. This, however, implied a US$ 300 million overall balance of payments deficit unless additional external finance were to materialize. Otherwise import volume would in fact have to be slashed by a larger proportion than planned, with the result that the decrease in output would be greater than originally contemplated.

[15]The rate of growth of the labour force also slowed at this time due to an upsurge in net emigration. But this type of development may have aggravated, rather than eased, the panorama, as was suggested in connexion with the discussion on the evolution of employment in the 1960s.

[16]Sectoral figures for October 1980 are not available. However, it may be noted that between April and October 1979 employment in agriculture dropped 14%. This decline appears to be wholly attributable to flood damage and disruption, inasmuch as the level of agricultural employment in April 1980 returned to the April 1979 level. In any case, the fall in agricultural employment in April-October 1979 accounted for 70% of the increase in unemployment in that period.

In spite of a decrease in export volume and an increase in import prices and interest rates beyond the dimensions projected, the country managed to avoid external insolvency and internal collapse through a combination of fortuitous circumstances: an unforeseen increment in official capital inflows; an emergecy agreement with overseas commercial creditors; and an upturn in the foreign exchange earnings of the parallel economy. In fact, the overall balance of payments registered a surplus of some US$ 83 million, after taking into account a US$ 42 million reduction in outstanding obligations with the IMF. This was the first time since 1974 that a surplus had been achieved.

The current account deficit turned out to be US$ 213 million (7.3% of the GDP), which was substantially more than in 1979, but markedly less than expected. The current value of exports of goods and services rose almost 24% thanks to a 34% hike in the unit price of merchandise exports. The increase in the current value of imports of goods and services was about the same and likewise reflected price bahaviour. As a result, the deficit on the commercial account was somewhat smaller than in 1979, instead of the expected four-fold increase. On the other hand, payments of profits and interest rose more than anticipated, to US$ 267 million, equivalent to fully 9.2% of the GDP.

The actual current account outcome translated into a reduction of US$ 120 million in the originally identified gap in the overall balance of payments. This, together with unanticipated capital inflows from both formal and informal sources and an increase of US$ 43 million in arrears, was responsible for the accumulation of US$ 42 million in gross reserves. From another point of view, it may be observed that the increase in total foreign exchange inflows made it possible to keep the decline in import volume, and hence the decrease in the product, in the neighbourhood of the proportions planned for.

In the light of the failure to reach a new agreement with the IMF and the size of the projected payments gap, the actual performance of the external sector was remarkable. On the other hand, it continued to be mired in crisis: gross international reserves were still insufficient to cover a month's supply of imports of goods and services, while the renewed accumulation of arrears endangered the existence of the remaining sources of supplier credits.

The development and evolution of the crisis is outlined in table 11. The first signs of strain surfaced in the final months of 1972 and continued throughout 1973. The immediate cause was the steep downturn in private direct foreign investment, coupled with an acceleration in the growth of imports. The decrease in foreign investment in the bauxite sector was not accompanied by moderation in import growth because a midly expansionary fiscal policy and a liberal monetary policy, together with a revaluation of the Jamaican dollar *vis-à-vis* the US dollar, stimulated the demand for imported consumer goods. In 1973 price rises, import controls, devaluation, and a slowdown in the growth of credit combined to reduce imports in real terms. But a decided worsening of the terms of trade led to a further deterioration in the balance of payments. As a result, by the end of that year gross international reserves were sufficient to cover only 1.5 months of imports, versus 3.4 months in 1971.

In 1974 the panorama improved substantially notwithstanding the dramatic increase in the value of imports, the tripling of interest payments on the foreign debt and the second successive downturn in earnings from tourism. In effect, the current value of merchandise exports leaped by more than 90% on the strength of an unprecedented rise in international prices. Simultaneously, the Government enacted the Bauxite Levy, which slashed the outflow of profits on foreign capital by two-thirds. As a result of the above developments, the current account deficit was reduced to 3.5% of the GDP, compared wit 12.6% in 1973 and an average of 10.4% between 1969 and 1972. Private foreign investment continued to taper off and short-term capital flows turned highly negative, but long-term credits received by both the public and private sectors offset most of this difference. The overall capacity to import climbed 17%, but the increase in import volume was limited to 3%. Consequently, international reserves climbed almost 50%. But in terms of the prevailing cost and level of imports, the improvement in reserves was appreciably less (see again table 11).

In spite of further large gains in export prices the 1974 turnaround began to lose impetus the following year, as an intensification of the principal adverse trends was accompanied by a marked reduction in export volume.

In 1975 foreign direct investment became negative (as late as 1971 it had been equivalent to fully 11.3% of GDP), while payments of interest on the foreign debt doubled to almost US$ 44 million, compared to a mere US$ 8 million just two years earlier. Furthermore, the flight of capital, which first became apparent the previous year, assumed considerable proportions. Nevertheless, net capital inflows reached a new high in nominal terms, owing mainly to the loans contracted by the public sector. In the meantime, the deficit on the trade account quadrupled, primarily because of a 20% plunge in export volume, but also because of another substantial rise in import prices and the persistence of the recession in tourism. The pronounced contraction in export volume, it will be recalled, reflected the decision of the bauxite corporations to slash production in response to the Bauxite Levy.

Table 11

JAMAICA: CAPACITY TO IMPORT, IMPORT VOLUME AND INTERNATIONAL RESERVES
(1970 = 100)

	1972	1973	1974	1975	1976	1977	1978	1979	1980
Purchasing power of exports of goods and services	112.7	106.7	129.0	122.3	100.8	99.3	106.2	103.4	104.3
Purchasing power of net imports of capital (a)	72.9	80.3	74.4	98.6	38.8	(b)	(b)	10.1	21.5
Capacity to import	106.1	102.4	120.0	115.9	90.7	79.7	84.1	88.1	90.7
Import volume (c)	114.1	113.9	117.7	126.7	106.0	82.1	87.0	91.6	91.9
Gross international reserves (d)	97.8	59.2	75.4	52.7	15.8	18.8	20.1	20.9	27.5
Gross international reserves/ imports (e)	2.4	1.5	1.8	1.2	0.4	0.6	0.6	0.6	0.8
Current account deficit/ gross domestic product (f)	10.6	12.6	3.5	10.0	10.3	2.2	3.6	6.4	7.3

Source: CEPAL, on the basis of official data.
(a) Defined here in the difference between the global balance and the commercial balance plus the use made of IMF credit. (See the balance-of-payments data in table 15).
(b) Less than zero
(c) Goods and services.
(d) Deflated by the price index of imported goods and services.
(e) Months of imports of goods and services obtainable with the level of reserves and imports of each year.
(f) At the prevailing rate of exchange.

The deficit would have reached enormous proportions —or import volume would have had to be compressed— if it had not been for an additional 34% advance in export prices. Even so, however, the current account deficit rose from 3.5% to 10% of the GDP.

While relatively less than the record 1973 deficit and even somewhat smaller than the 1969/1972 average, the relation between the deficit and the structure of demand in 1975 was appreciably different from the one prevailing in the earlier period. Between the mid-1960s and early 1970s the large current account deficits were associated with high rates of both investment and savings, and this pattern reached its zenith when investment climbed to almost one-third and savings more than a quarter of the product in 1969 and 1970. Consumption was then around only 70% of output. Between 1970 and 1974, however, the investment coefficient tapered off, while consumption rose to about 78% of the product, and in 1975 consumption climbed to 82.5% of the product, while savings fell to less than 15%.

This shift in the allocation of income between consumption and savings is traceable to a substantial modification in the distribution of income in favour of wage earners, a surge in inflation to a rate well above nominal interest rates, and an expansionary fiscal policy.

One of its main effects was to maintain the demand for imports in spite of the evaporation of the large foreign investment inflows; that is to say, when investment declined, one of the factors that prevented the deficit on the current account from contracting was the stimulation of consumer demand for imports. On the other hand, it should be emphasized that 85% of the doubling of the current value of imports between 1971 and 1975 was accounted for by price inflation —at constant prices imports increased only 18%.[17]

In 1975 the capacity to import contracted slightly more than 3%, but the volume of imports rose close to 8%. As a result gross international reserves dropped 30% to a level sufficient to cover only somewhat more than one month of imports (see again table 11).

As 1976 unfolded, both the capacity to import and the payments position deteriorated steadily, and by the end of the year the authorities suspended foreign exchange transactions in order to avoid the total depletion of the gross reserves.

In 1976 the full effects of the international recession were thus finally manifested in Jamaica's external sector, as foreign demand for the country's principal exports, including tourism, contracted appreciably. The price of sugar, for instance, plunged 60%. At the same time, labour-management disputes and technical problems in the bauxite/alumina sector reduced the supply of mineral exports, while domestic strife aggravated the depression in tourism. As a result of these circumstances the value of the exports of goods and services declined by US$ 166 million, or by more than 15%.

In the meantime, a 50% jump in interest payments on the external debt and a cut-off of private transfers on the one hand, and a more than 50% reduction in net short and long-term capital inflows on the other, pushed the net contribution of total capital flows to the capacity to import close to zero. However, this heavy blow was partially offset by the use of IMF credit under the petroleum and compensatory facilities and loans from other official sources.

The decline in exports and in capital flows translated into a drop of fully 22% in the overall capacity to import, and since the 17% reduction in import volume was somewhat less,[18] the global balance of pyaments suffered a record deficit of US$ 187 million, equivalent to 6.3% of the GDP. The result was the virtual exhaustion of gross reserves: indeed, the net international reserves fell below zero. The current account deficit —10.3% of the GDP— was, on the other hand, similar to the one experienced in 1975. From this angle, the rundown of reserves appears as the counterpart of the paralyzation of commercial bank lending to Jamaica. In any case, the economy was squeezed between impending bankruptcy and an abrupt cutback in supply. The product decreased more than 6% and gross national income dropped almost 11%.

In the following year (1977) the precarious external payments situation improved considerably, thanks mainly to a remarkable 23% contraction in import volume, but also to a 15% increment in the current value of merchandise exports. The overall trade account in fact registered a surplus —the first one in the post World War II era. This performance, together with a partial recovery of private transfers, permitted reduction of the current account deficit to a level equivalent to 2.2% of the GDP. But the inflow of long and short-term capital once again decreased sharply, with the result that even this modest deficit entailed another, albeit small, deficit in the overall balance of payments. However, gross reserves rose slightly because of the use made of IMF credit.

The enormous reduction in imports —which clearly bore the brunt of the attack on the crisis— was accomplished through a combination of severe controls, an incomes policy, increased taxes and devaluation. And in the second half of the year the Government added to its arsenal a programme of fiscal and monetary restraint under a two-year US$ 75 million stand-by agreement with the IMF. However, this accord was terminated in December and the scheduled US$ 15 million

[17]In this connexion, it should be emphasized that these data are highly sensitive to the choice of the base year, which in this case is 1970, owing to the radical change in relative prices in 1974. If the prices prevailing in 1974 are used, the quantum of imports did not increase at all in this period.

[18]The volume of merchandise imports was actually compressed by 20.5%.

credit instalment cancelled when one of the performance criteria was not met. This setback also held up the disbursement of a large World Bank loan and a loan package negotiated with a group of commercial banks. The interruption of this agreement thus largely explains why the dramatic turnaround in the current account was not accompanied by any improvement in the capital account.

Most of the principal external aggregates evolved about the same in 1978 as they did in 1977. Thus, another surplus was achieved on the overall trade account, but once again the net movement of capital flows was negative, and the small current account deficit did not translate into a surplus on the overall balance of payments. In fact the deficit on the balance of payments widened. The small gain in gross reserves was made possible by the use of credit under a new agreement with the IMF.

On the other hand, for the first time since 1974 the capacity to import did not contract, thanks mainly to a major recuperation by tourism, but also to a modest recovery of mineral exports. The small increment in import capacity was matched by an expansion in import volume, following the enormous contraction of the previous three years.

In spite of a new downturn in the income terms of trade and an actual outflow of funds on the capital account, the country was able to augment import volume by an additional 5% in 1979 without depleting the gross reserves, thanks to a large infusion of IMF credit. But as had occurred with the first accord, the Government failed to comply with one of the performance criteria and the agreement was cancelled in December.

In early March 1980, the negotiations for an interim one-year agreement with the IMF were deadlocked over the question of the extent of further budgetary cutbacks and the effects of these on employment. At this juncture, the Government received a report from the Ministry of Finance indicating that by September at the latest the country would be unable to comply with the net international reserves performance test (the same one it had failed to pass in December). In the light of this, and owing to the further unemployment the new accord would entail, the Government resolved to break off the talks and call early elections. The alternative short-term economic programme it adopted rested on a crucial assumption: that the existence of a balance of payments gap would bring forth the necessary finance. And, in fact, the course of events did accomodate to Jamaica's external financing requirements, without the IMF agreement: the inflow of funds on the capital account was not only sufficient to finance a current account deficit equal to 7.3% of GDP —the largest since 1976— but also to cover the repayments to the IMF and attain a surplus on the overall balance of payments for the first time since 1974. Furthermore, the net inflow on the capital account turned out to be the largest, in constant terms, since 1975: over three times the level of 1977, and over five times the level of 1978. As already mentioned, 1979 saw a net outflow. After accounting for the movements of IMF credit, the net flow in 1980 was still one-third larger than in 1979, four-fifths larger than in 1978, and well over twice the 1977 one.

(b) *Merchandise trade*

(i) *Exports.* The improvement in the overall balance of payments in 1980 was in large part attributable to the performance of the bauxite sector. In effect, the total value of bauxite and alumina exports climbed over 29% (see table 12). While the volume of alumina exports climbed 15% to its highest level since 1974, the chief factor here was the 39% leap in international prices (see table 13).[19] The evolution of the other main traditional exports was not favourable. The value

[19]In this connexion it is of interest to note that bauxite is the mineral whose value has best stood up to the petroleum price onslaught. Between 1973 and 1980 the price of bauxite multiplied 3.5 times, while its relative international price rose almost four-fifths. It thus managed to retain about one-third of its value in terms of petroleum through 1980, with 1965 as the base year. If 1970 were chosen as the base, the deterioration is greater (over four-fifths). On the other hand, over the period 1974-1980 the price of bauxite in terms of petroleum did not decrease at all, in spite of the 1979/1980 round of petroleum price hikes. In the same period the price of tin in terms of petroleum declined close to one-third; and that of iron ore, over one-half.

of banana exports dwindled to US$ 10 million (from US$ 18 million in 1979), owing to the massive destruction of plantations by Hurricane Allen. For its part, the value of sugar exports expanded less than 1% notwithstanding the tripling of the international price of sugar and the 23% adjustment of the EEC price. As has occurred for the last several years, Jamaica was unable to fulfill its quota with the EEC in 1980 and for this reason could not take advantage of the sharp rise in the free market price, the shortfall in production in 1980 being provoked by poor weather.

Table 12

JAMAICA: EXPORT OF GOODS, FOB

	Millions of dollars			Percentage breakdown		Growth rates		
	1978	1979	1980	1970	1980	1978	1979	1980
Total	795	815	992	100.0	100.0	7.6	2.5	21.7
Main traditional exports	649	639	810	75.8	81.7	8.7	-1.5	26.8
Alumina	418	368	552	38.9	55.6	10.8	-12.0	50.0
Bauxita	171	214	201	26.7	20.3	6.8	25.1	-6.1
Sugar	60	57	57	10.2	5.8	-	-5.0	-
Other exports	146	176	182	24.2	18.3	12.1	20.5	3.4

Source: Bank of Jamaica, Report and Statement of Accounts, 1980; and Jamaica Department of Statistics. External Trade, 1979.

(ii) *Imports.* The value of imports (CIF) rose over 19% in 1980, or somewhat less than that of exports (see table 14). The sole cause of this movement was external inflation, inasmuch as the import quantum did not vary.[20] In this respect, the outstanding development was, of course, the jump of two-thirds in the international price of petroleum. In last year's *Survey* some of the effects of the oil price revolution on the Jamaican economy were explored. Suffice it to recall here that the economy is very energy-intensive, due primarily to the energy consumption of the bauxite sector, while at the same time 99% of the island's commercial energy supply comes from imported oil. The further marked increase in the price of oil was thus a heavy blow, particularly in the light of the severe constraints operating on the availability of foreign exchange in the economy. The increase in the oil bill accounted for 70% of the rise in the value of imports, and absorbed 41.5% of total imports in 1980, against only 22.8% just two years before.[21]

The substantially higher expenditures on food imports, for their part, were made necessary by the large reduction in agricultural production.

Together, the much enlarged outlays for energy and food resulted in a cutback in the nominal expenditure for other imports (see again table 14).

(iii) *The terms of trade.* In 1980 the terms of trade index, with 1970 as the base year, showed a gain of about 6%, and thus stood close to one-fourth higher than in 1970. On the other hand, it remained some 7% below the high registered in 1975 (see table 15).[22]

[20]The volume of merchandise imports in fact dropped 7%.

[21]Petroleum and petroleum products make up virtually the entire value of mineral fuel imports.

[22]As was discussed in connexion with the evolution of the import volume in the introduction to this section, the use of 1970 as the base year results in a distortion of the post-1973 situation in countries in which petroleum constitutes a relatively larger share of exports or imports. In the case of Jamaica the evolution of the terms of trade would appear much less favourable if the base year were chosen so as to take account of the dramatic shift in relative international prices in 1973/1974.

Table 13

JAMAICA: NOMINAL AND RELATIVE PRICES OF BAUXITE
(1965 = 100)

Year	Nominal price	Relative price (a)	Price of bauxite/ price of petroleum
1966	112.6	107.1	112.6
1967	130.4	119.1	130.4
1968	133.7	116.8	136.8
1969	131.6	109.4	136.8
1970	131.6	103.2	134.7
1971	153.8	113.9	123.9
1972	165.5	115.9	115.8
1973	188.4	120.3	92.8
1974	223.3	123.7	30.4
1975	327.0	159.5	40.6
1976	364.2	159.3	42.1
1977	418.7	161.5	44.9
1978	429.9	145.2	45.0
1979	473.9	142.3	37.1
1980	659.8	178.8	30.6

Source: IMF, International Financial Statistics, various volumes.
(a) Nominal price deflated by world prices.

Table 14

JAMAICA: IMPORT OF GOODS, CIF

	Millions of Jamaica dollars			Percentage breakdown		Growth rates		
	1978	1979	1980	1970	1980	1978	1979	1980
Total	865	1 003	1 196	100.0	100.0	10.4	16.0	19.3
Food	169	130	192	17.2	16.1	26.1	-23.5	48.2
Mineral fuels	197	335	470	6.4	39.3	-12.2	70.3	40.2
Manufactured goods	222	221	205	26.1	17.2	29.9	-0.3	-7.1
Machinery and transport equipment	110	143	139	32.3	11.6	16.7	30.5	-2.9
Other	167	174	190	18.0	15.8	7.0	4.1	9.2

Source: Bank of Jamaica, Report and Statement of Accounts, 1980; and Jamaica, Department of Statistics, External Trade, 1979.

(c) *Services trade*

The modest surplus on trade in non-factor services was more than offset by the outflow in respect of profits and interest. Receipts from tourism stagnated in 1980, but other non-factor services showed a large expansion. In the meantime, remittances of profits climbed markedly, and exceeded US$ 100 million for the first time since the enactment of the Bauxite Levy, while interest payments on the debt continued to rise at a fast pace. The sum of profits and interest payments equalled an unprecedented 9.2% of the GDP in 1980. On the other hand, private transfers remained buoyant as Jamaicans residing overseas responded to the distress caused by Hurricane Allen.

(d) *The current account position and its financing*

The outcome of the movements on merchandise and services trade was an overall current account deficit of US$ 213 million, or 7.3% of the GDP (see table 16). This was the third successive

Table 15

JAMAICA: MAIN FOREIGN TRADE INDICATORS

	1975	1976	1977	1978	1979	1980(a)
	Annual growth rates					
Exports of goods						
Value	7.5	-18.4	15.2	4.5	2.5	21.8
Volume	-19.5	-10.4	2.2	2.5	-4.9	-9.1
Unit value	33.6	-9.4	12.8	2.0	7.8	34.0
Imports of goods						
Value	19.5	-18.4	-15.8	12.5	17.7	20.2
Volume	5.2	-20.5	-20.5	4.8	5.9	-2.1
Unit value	13.6	2.6	6.0	7.3	11.1	29.5
Terms of trade	18.2	-11.6	6.4	-4.7	-2.9	6.4
	Indexes (1970 = 100)					
Terms of trade	134.4	118.8	126.5	120.5	117.0	124.4
Purchasing power of exports of goods	137.3	108.7	117.6	114.8	106.5	105.8
Purchasing power of exports of goods and services	122.3	100.8	99.3	106.2	103.4	104.3

Source: CEPAL, on the basis of official data.
(a) Preliminary figures.

year in which the current deficit increased both as a percentage of the product and in real terms, following its drastic reduction in 1977. But it remained modest in comparison to the ones sustained prior to 1977, when the average deficit equalled about 10% of the GDP.

Complete information on the breakdown of the financing of the deficit in 1980 is not yet available. However, provisional data of the Bank of Jamaica reveal that net public sector borrowing amounted to US$ 120 million, or about 40% of the net inflow on the capital account. Precise figures on gross borrowing have yet to be published, but it may be mentioned that the Government raised well over US$ 100 million from various OPEC nations. Of this amount, US$ 50 million came from Libya, while US$ 38 million represented advances under the Venezuelan petroleum loan facility.[23]

A significant proportion of the difference between the overall net movement of capital and the net borrowing of the public sector apparently originated from the parallel economy.[24]

For the first time since 1974, a surplus was registered on the overall balance of payments. One half of this was absorbed by the debt with the IMF, while the other half was used to augment the gross reserves. However, the increase in gross reserves may be viewed as being offset by an increment of virtually the same amount in arrears. In any event, the extent of the expansion of arrears was less than 40% of that originally anticipated.

(e) *External indebtedness*

Following an expansion of two-fifths between 1977 and 1979, the external debt outstanding rose by 7.5% to slightly more than US$ 1 600 million in 1980,[25] but after allowing for the increase

[23]Bank of Jamaica, *Report and Statement of Accounts, 1980*, Kingston, 1981.

[24]Estimates of the size of the parallel economy vary widely, but there is general agreement that the foreign exchange it generates made an important contribution to financing the observed current account deficit. Strictly speaking, these foreign exchange inflows are payments for illicit exports. Hence, the current account deficit was in fact less than the recorded one by an amount equal to the value of these exports.

[25]Note that the external debt as defined in table 17 excludes public and State- guaranteed debt having a maturity of less than one year and private debt not guaranteed by the State. In 1980 the debt on these accounts totalled approximately US$ 200 million.

Table 16

JAMAICA: BALANCE OF PAYMENTS
(Millions of US dollars)

	1974	1975	1976	1977	1978	1979	1980(a)
Exports of goods and services	1 030	1 099	933	979	1 122	1 208	1 492
Goods FOB	752	808	660	760	795	815	992
Services (b)	278	291	273	219	327	393	500
Transport and insurance	60	74	77	69	100	114	150
Travel	133	129	106	72	147	195	198
Imports of goods and services	1 079	1 307	1 126	929	1 056	1 228	1 511
Goods FOB	811	970	791	667	750	883	1 061
Services (b)	268	337	335	262	306	345	450
Transport and insurance	162	193	171	148	182	203	300
Travel	21	52	59	12	10	11	10
Trade balance	-49	-208	-193	50	66	-20	-19
Profits and interest	-68	-103	-116	-138	-178	-203	-267
Profits	-47	-59	-50	-38	-92	-82	-115
Interest	-21	-44	-66	-100	-86	-121	-152
Unrequited private transfer payments	34	23	2	15	15	70	73
Balance on current account	-83	-288	-307	-73	-97	-153	-213
Unrequited official transfer payments	-9	5	4	5	10	10	9
Long-term capital	226	228	144	46	-32	-9	...
Direct investment	23	-2	-	-7	-27	-26	...
Portfolio investment	-1	-4	4	-	-	-	...
Other long-term capital	204	234	140	53	-5	17	...
Official sector (c)	107	154	129	48	172	71	...
Loans received	119	159	160	96	275	174	...
Amortization payments	-7	-4	-29	-47	-104	-111	...
Commercial banks (c)	-	-	-	-	-	-	...
Loans received	-	-	-	-	-	-	...
Amortization payments	-	-	-	-	-	-	...
Other sectors (c)	97	80	11	5	-177	-54	...
Loans received	89	115	57	33	-	-	...
Amortization payments	-14	-21	-29	-37	-177	-54	...
Basic balance	134	-55	-159	-22	-119	-152	...
Short-term capital	-49	95	9	56	40	1	...
Official sector	5	26	48	-9	-	-	...
Commercial banks	-12	2	5	-	5	3	...
Other sectors	-42	67	-44	65	35	-2	...
Errors and omissions	-15	-83	-34	-48	26	-15	287
Counterpart items (d)	-3	9	-3	2	-3	3	...
Global balance	67	-34	-187	-12	56	-163	83
Total variation in reserves (- sign indicates an increase)	-67	34	187	12	56	163	-83
Monetary gold	-	-	-	-	-	-	-
Special Drawing Rights	2	1	4	-16	12	5	1
IMF reserve position	-	-	-	-	-	-	-
Foreign exchange assets	-62	58	88	3	-19	-8	-41
Other assets	-7	-25	31	3	-	-	...
Use made of IMF credit	-	-	64	22	63	166	-42

Source: 1975-1979: International Monetary Fund, Balance of Payments Yearbook, (magnetic tape, March 1981); 1980: CEPAL, on the basis of official data.

(a) Preliminary figures.

(b) Services also include other official and private transactions, but exclude profits and interest.

(c) In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

(d) Includes counterpart items in respect of monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

in gross reserves, the net position registered an increase of less than 5%.[26] Owing to the modest increment in money terms and to an acceleration in international inflation, the external debt decreased —for the first time in a decade— by 12% at constant prices. It also declined in relation to the product: from 62.4% to 55.3% at the prevailing rate of exchange, and from 53.4% to 48.1% at the real rate of exchange. This was also the first year since the 1960s in which the debt/product ratio fell.

Measured in terms of the exports of goods and services, the burden of debt service lessened for the second consecutive year, thanks to both the expansion of exports and to an interruption in the growth of debt payments. On the other hand, interest on the debt continued to absorb an even larger proportion of the GDP, due mainly to the persistent contraction of the product (see table 17).

Table 17

JAMAICA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1970	1972	1973	1974	1975	1976	1977	1978	1979	1980(a)
Debt (b) (millions of US dollars)	129	210	354	528	706	965	1 052	1 236	1 495	1 607
Gross reserves (millions of US dollars)	139	160	127	190	126	32	48	59	63	105
Debt index (1970 = 100)										
Current prices	100	163	274	409	547	748	816	958	1 159	1 246
Constant prices	100	155	242	267	409	543	556	609	667	585
Debt/gross domestic product										
Prevailing rate of exchange	9.2	11.7	18.5	22.1	24.6	32.3	38.7	49.1	62.4	55.3
Real rate of exchange (c)	9.2	11.6	17.6	23.5	27.3	38.3	39.0	44.0	53.4	48.1
Debt service (percentages) (d)										
Exports (e)	0.5(f)	1.4	3.6	4.1	7.3	13.3	22.2	25.1	24.2	21.7
Gross domestic product (g)	0.4(f)	0.1	0.4	0.9	1.5	2.2	3.7	3.4	5.0	5.2
Debt sources										
Official lenders	41.0	37.1	36.2	29.9	27.8	41.9	45.6	53.8	66.8	68.9
International organizations	22.7	16.6	11.0	7.9	7.7	7.8	9.6	12.8	13.2	16.6
IMF	-	-	4.2	3.1	2.2	8.3	10.2	14.6	23.5	19.2
Governments	18.3	20.5	21.0	18.9	17.9	25.8	25.8	26.4	30.1	33.1
Private lenders	58.6	62.9	63.8	70.1	72.2	58.1	54.4	46.2	33.2	31.1
Debt uses										
Interest	56.5	23.0	10.6	16.2	24.0	20.7	43.1	24.0	23.6	68.6
Amortization	43.5	30.9	12.2	14.8	14.6	21.7	56.9	41.4	28.3	32.4
Investment	-	25.8	54.3	16.1	61.4	-	-	34.4	34.1	-
Consumption	-	20.3	22.9	52.9	-	57.6	-	0.2	14.0	-
Average rate of interest	...	8.3	8.3	9.7	9.5	7.7	6.4	6.8	7.7	...
Average maturity (h) (years)	...	9.4	12.8	15.9	11.5	14.3	15.2	17.6	17.7	12.2

Source: CEPAL, on the basis of data provided by the World Bank, IMF and the Bank of Jamaica.
(a) Preliminary figures.
(b) Disbursed public and State-guaranteed, private debt and use make of IMF credit.
(c) Trade weighted.
(d) From the balance of payments.
(e) Amortization and interest payments as a proportion of exports of goods and services.
(f) Receipts.
(g) Interest payments as a proportion of gross domestic product.
(h) On commitments of each year.

The main developments affecting the external debt situation in 1980 included the break-off of talks with the IMF, the conclusion of an emergency agreement with the country's commercial creditors, and an upturn in the flow of credits from official sources other than the IMF.

The March decision to terminate negotiations for a new accord with the IMF not only closed the door to the additional use of IMF credits, but entailed a reduction in the outstanding obligations with the Fund over the course of the year, and this accounted for the slowdown in the growth of the

[26]It should, however, be recalled that the increase in gross reserves in 1980 was achieved by allowing arrears to accumulate. The total of US$ 120 million in arrears at year's end exceeded the holding of gross reserves.

external debt in 1980. Thus, whereas Jamaica received IMF credits totalling US$ 73 million in 1978, and US$ 171 million in 1979, it effected amortizations of US$ 43 million on this account in 1980 (see table 18).

The Government managed, however, to augment net borrowing from other sources by an amount sufficient to cover repayments on its debt with the Fund and make up for most of the hypothetical inflow that would have been available had a new arrangement been reached with the Fund.[27]

Table 18

JAMAICA: USE OF IMF CREDIT (a)
(Millions of US dollars)

	1975	1976	1977	1978	1979	1980
Credit tranche drawings, ordinary	-	-	23	25	16	7
Compensatory drawings	16	46	48	62	98	94
Buffer stock drawings	-	-	-	-	1	-
Extended facility, ordinary	-	-	-	55	102	87
Extended facility suplementary	-	-	-	-	103	99
Oil facility drawings	-	34	36	38	31	21
Total	16	80	107	180	351	308
Net yearly flow	-	64	27	73	171	-43

Source: International Monetary Fund, International Financial Statistics, Vol. 34, May 1981.
(a) Cumulative totals.

The principal factors involved here were the temporary scheme to refinance the public and State-guaranteed debt owed to foreign commercial banks, and an increase in loans from official lenders.

In mid-1979 the Government had negotiated an accord with the banks to postpone 87.5% of the principal payments falling due between April 1979 and April 1981. The deferred sum was converted into a 3.5 year loan, with payment commencing in April 1982 but the existence of the agreement depended on Jamaica's compliance with the following conditions: (i) the amortization of the balance of the debt as it matured; (ii) the timely cancellation of interest charges on the entire debt; and (iii) the satisfaction of the quarterly performance criteria under the IMF agreement then in force, which was scheduled to last until April 1981. Consequently, the refinancing arrangement was placed in jeopardy when Jamaica failed the performance tests in December 1979, and the Government's decision to end negotiations for an interim agreement with the Fund in March was tantamount to the repudiation of the arrangement. Nevertheless, in April the Government persuaded the bankers' bargaining team (Steering Committee of Bankers) to allow the refinancing

[27]The use of the term "hypothetical" stems from the fact that the receipt of the full amount (US$ 135 million) of the credit under the agreement being discussed in early 1980 with the IMF would have been contingent on the fulfillment of certain performance tests over the course of the year. However, as noted previously, the Ministry of Finance authorities were convinced that one or more of the tests would be failed by September at the latest. And in this connexion it should also be reemphasized that the magnitude of the net borrowing that actually materialized could have been less if an agreement had been concluded with the Fund. The bibliography on the IMF-Jamaica relationship in the period under review is lengthy. The principal sources consulted here include: Bank of Jamaica, *Report and Statement of Accounts* (especially 1978, 1979 and 1980); R.L. Bernal, "Transnational Commercial Banks, The International Monetary Fund and Capitalist Crisis in Jamaica 1972-1980" (paper presented at the Conference on Finance Capital and Dependence in the Transnational Phase: A Latin American Perspective, Instituto Latinoamericano de Estudios Transnacionales y Centro de Estudios Económicos y Sociales del Tercer Mundo, Mexico City, March 4-7 1980; N. Girvan, R.L. Bernal and W. Hughes "The IMF and the Third World: The case of Jamaica 1974-1980", *Development Dialogue*, 1980:2; G.R. Kincaid, "Fund aids Jamaica to restart its economic growth", *IMF Survey*, 22 December 1980, and "Conditionality and the use of Fund resources, Jamaica", IMF, *Finance and Development*, June 1981, Vol. 18, No. 2; People's National Party "The Way Forward. An Alternative Self-Reliance Economic Path Prepared by the People's National Party", Kingston, Mimeo, 1980.

scheme to remain in force, subject to monthly reviews and the payment of interest charges on deferred debt each month instead of every six months, and in September the Steering Committee agreed to the suspension of all debt amortization for the rest of the year. The deferred loans were rolled over on a monthly basis.

The previous and revised schemes permitted a reduction in principal payments totalling more than US$ 62 million in comparison to the previous year. These temporary savings, together with the increase in loan receipts from official lenders, equalled over 90% of the IMF credits extended to Jamaica in 1979, and amounted to almost four times the repayments made to the Fund in 1980. On the other hand, the inflow of capital from formal sources did in fact fall short of the level the authorities sought, and given the rise in interest rates, turned out to be insufficient to cover the servicing of the debt in spite of the decrease in amortization (see again table 17). The injection of foreign exchange from informal sources more than offset this gap. In the case of central government finances, however, the shortfall placed the burden of the financing of the large fiscal deficit on the domestic banking system.

The evolution of various aspects of the external debt over the course of the 1970/1980 period is traced in table 17. As may be seen, in 1970 Jamaica was in an unusual position for a middle-income country: it was a net creditor with the rest of the world. This situation turned around in 1972, however, and between that year and 1976 the external debt multiplied 4.6 times in nominal terms (and 3.5 times at constant prices) while the gross international reserves plunged by four-fifths; the debt/GDP ratio climbed from 11.6% to 38.3% at the real rate of exchange; and amortization and interest payments as a share of exports leaped from 1.4% to 13.3%. Subsequently, the growth of the debt slowed markedly: it rose two-thirds between 1976 and 1980 in nominal terms and merely 8% at constant prices, while in the meantime holdings of gross reserves increased. However, the debt climbed from 38.3% to 48.1% as a proportion of the product, and interest on the debt absorbed more than 5% of the GDP in 1980, versus 2.2% in 1976 (and 0.1% in 1972).

In the first period, running from 1972 to 1975, the most important factor in the expansion of the debt was the stepped-up central government investment programme. Initially, this programme, as well as the decision to finance an important part of it through foreign borrowing, arose mainly as a response to the end of the investment cycle in the mining sector. Also of importance, however, was the expansion of social programmes on the one hand, and the attractive external debt terms available to the country, on the other. Subsequently, the progressive enlargement of the budget became a reaction to the generalized downturn in investment and in the overall level of activity. The appeal of financing a substantial proportion of the growing fiscal deficit from external sources was reinforced by the intensification of balance of payments problems. Thus, almost 53% of the increase in the external debt between 1972 and 1975 went to finance part of the capital expenditure programme of the central government. The other half of the growth of the debt was divided between financing diverse investment projects in the rest of the public sector and hotel expansion in the private sector.[28] While the foreign borrowing that took place in this poeriod was thus channelled into ivnestment, an analysis of the destination of the almost five-fold increase in the external debt from the perspective of the expenditure patern of the economy as a whole reveals a different picture. As may be observed in table 17, the implied distribution of the increment in debt shows that around one-fifth of it went into consumption in 1972 and 1973, while in 1974 fully one-half of the total external loans received financed current consumption. On the other hand, in 1975 all net borrowing financed investment.[29]

[28]These private debts were guaranteed by the public sector under a programme implemented by the previous administration to encourage the expansion of capacity in tourism.

[29]The analysis of the uses of debt follows from the observations that interest and amortization have the first claims on loans receipts and that *ex-post*, net borrowing finances consumption to the extent that it exceeds the increase in investment (as occurred in 1972 through 1974).

The following year —one of profound crisis for the economy— marked the end of the period of rapid growth of the external debt and the beginning of the one in which the central government used foreign loans to help finance its current expenditures. For the 1976/1980 period as a whole, the accumulated current deficit exceeded total available foreign financing to the central government by 54.5%.[30] In only one year, 1978, were foreign loan receipts sufficient both to cover the gap on the current account and to finance an appreciable proportion of capital expenditures.

As far as the overall economy was concerned, the results were mixed. Thus, in 1976, when the GDP dropped by more than 6% and gross national income by almost 11%, over half of the large increment in the foreign debt was diverted to consumption. In 1977 the total net borrowing was in fact slightly less than the interest charge on the past debt. In 1978 and 1979, on the other hand, somewhat more than one-third of the much enlarged inflow was devoted to investment. In this connexion, it is interesting to juxtapose the reallocation of private expenditure in favour of investment in 1978 and especially in 1979, with the emphasis placed by the Government on the maintenance of current consumption, and to compare this pattern with the one that emerged in 1972/1974, when the increase in public investment was accompanied by the eventual diversion of an appreciable share of foreign loan receipts to consumption purposes in the private sector.

From the very outset commercial banks constitute the principal source of Jamaica's foreign borrowing, and by 1975 private lenders held over 72% of the country's outstanding foreign debt (see again table 17). This distribution of course raised the average rate of interest and shortened the maturity structure of the debt in comparison to one in which greater reliance is placed on official sources. Furthermore, it appears that the rate of growth of the external debt in the first half of the decade was so rapid that it exceeded the ability of the public sector to prepare projects fast enough to take advantage of the lower cost financing that otherwise could have been requested from official lenders. In any event, in what was both a reaction to the economic crisis and a factor which severely aggravated it, the foreign banks ceased all lending to Jamaica in 1976, and over the course of the ensuing four years their principal aim was the repatriation of their investments in the country.

In 1976 Jamaica applied for and received access to the IMF's oil facility and compensatory drawing scheme (available in order to deal with shortfalls in export earnings). All told, it obtained US$ 64 million from the Fund that year (see table 18). These resources, together with the loans acquired from other official lenders (including US$ 55 million from Trinidad and Tobago), temporarily counterbalanced the interruption of commercial bank lending. Nevertheless, by December of 1976 the deterioration in the external payments situation had reached the point where the authorities were forced to close the foreign exchange market in order to avoid the imminent exhaustion of liquid reserves. Following on-and-off negotiations with the IMF and the adoption of a series of measures to confront the economic crisis, the government and the IMF reached agreement in August on a two-year stand-by arrangement. Under this accord Jamaica would have access to US$ 75 million, or 121% of its Fund quota (but only 1.4% of its GDP), over the course of a two-year period, provided it satisfied the performance criteria used to assess the progress of the stabilization programme to be adopted.[31] However, after just one disbursement this stand-by arrangement was suspended in December when Jamaica failed to meet the performance test relating to the net domestic assets of the Bank of Jamaica. Thus the country actually obtained a much smaller amount of IMF credit than in 1976, when the use of the compensatory and oil facilities in fact had not entailed any binding conditionality. Furthermore, this failure undermined a potential loan package with a group of commercial banks and postponed disbursements from a sizeable World Bank loan. Finally, the Government was unable to mobilize additional support of any magnitude from bilateral sources. In consequence, and despite the sacrifices

[30] The sum of ordinary and extraordinary foreign borrowing by the Government was slightly greater than the current deficit in the central government's budget. However, the extraordinary receipts (the IMF credits), were not directly available to fund the Government's budget deficits.

[31] The specific policies and performance tests adopted under this and ensuing agreements are described in the final section of this survey.

entailed in the reduction of the current account deficit from 10.3% to 2.2% of the GDP, only a marginal improvement in the overall balance of payments was obtained, since the total amount of borrowing was not quite sufficient to cover amortization and interest payments (see again table 17).

Following another prolonged round of strenuous bargaining a new agreement was put into place in May of the following year. This time Jamaica would have the option of purchasing SDR 200 million (then about US$ 240 million) under a three-year Extended Fund Facilitiesd (EFF). In exchange, the country's authorities were to adopt a package of drastic measures designed to turn the economy around. As usual, the release of credits would depend on the progress of the stabilization programme as measured by the results of the performance tests.

The yearly installment available under the EFF worked out at 3.2% of the GDP, or well over twice the proportion available in the previous agreement, but still much too modest an amount to restore the quantum of imports to the level obtaining prior to the balance of payments crisis, or even to the depressed volume of 1976.[32] Consequently, it was clear that an additional and very substantial sum of external resources was needed to arrest the contraction of output and facilitate the growth of exports, and considerable efforts, including in particular the EFF itself, were undertaken by the Government and the IMF to attract this support. Mainly as a result of these, the Caribbean Group for Co-operation in Economic Development was founded in June 1978. At this time Jamaica received loan pledges totalling about US$ 54 million from donor countries and it also benefited from a US$ 30 million programme loan from the World Bank. On the other hand, the response of the private international financial community was less than expected, as it was limited to the refinancing of 87.5% of the public and State-guaranteed debt. No new loans were obtained, and as a result net borrowing from this source was negative. The total response (exclusive of IMF credits) amounted to US$ 107.4 million on a net basis in 1978. This was equivalent to 4.0% of the GDP, a somewhat greater proportion than the one absorbed by interest payments on the external debt.

In 1978 the balance of payments showed some improvement over 1977, in spite of a deterioration of the terms of trade and a sharp upturn in profit remittances, as it was possible to augment import volume by 6% and maintain the current account deficit at about the same modest level as in 1977, while decreasing arrears and increasing marginally the gross reserves. Notwithstanding this, and the satisfaction of the various performance criteria of the stabilization programme in both September and December, the economy continued to deteriorate, and indeed the rate of decline was in fact steeper than in 1977. Import volume needed to be raised much more, and in the absence of a dramatic turnaround in exports or the materialization of a massive foreign investment project, this meant that the country needed to obtain access to a much larger amount of external finance. But this was not to be the case.

Events in the first half of 1979 unfolded along a similar course. The quarterly performance tests were met, import volume rose moderately without leading to a reduction in reserves, and the economy continued to contract but at an even faster pace. In June the Government and the IMF agreed to modify various aspects of the stabilization programme in the light of the obtained and pending results. Simultaneously, Jamaica was able to benefit from a recent liberalization of the limits on the use of IMF credit. Thus, during the final two years of the EFF, Jamaica would be eligible to draw US$ 340 million from the Fund instead of US$ 160 million. In addition, US$ 80 million was to be disbursed in the first two months. The level of financing in the June 1979 to June 1980 period would have been equivalent to 7.1% of the 1979 GDP.

Even this greatly expanded availability of IMF credit did not provide the full amount of support required to halt the decline of the economy, but it was hoped and expected that it would induce complementary flows from other sources. In particular, it was believed that the private

[32]Between June and December of 1978 the Fund provided an additional US$ 14 million under the Compensatory Financing Facility. In 1978, Jamaica made use of US$ 73 million in IMF credits, an amount equivalent to 2.9% of the GDP (see again table 18).

international financial community would reconsider its lending policy. These expectations were also based on Jamaica's observance of the performance criteria during the first year of the EFF. Finally, as it had done the year before, the IMF supported the Government's efforts to acquire additional external finance. The results were disappointing, however. Other official lenders stepped-up their lending, but the foreign banks elected to continue to withdraw their existing debt from the country. In June the previous refinancing agreement, with some minor alterations, was extended for the remainder of the EFF programme.[33] However, in September the banks rejected Jamaica's proposal to carry out a refinancing of its entire commercial debt and provide a new loan package of US$ 200 million. This setback together with a series of new blows to the economy, including the severe floods, the new round of oil price hikes, an increase in interest rates and the paralyzation of bauxite mining for a lengthy period in the second half of the year, not only made unavoidable the continued disintegration of the economy, but paved the way for the failure of the performance tests in December and the cutting-off of the IMF resources.

(f) Exchange rate regimes

Table 19 shows various indexes of nominal and real exchange rates for the Jamaican dollar in the 1960-1980 period. The first is based on the United States dollar and United States prices; the second on the SDR and the price level of industrialized countries; and the third, on the currencies and prices of Jamaica's trade partners.[34]

Until 1970, all of the real exchange rate indexes moved in the same direction. Between 1960 and 1965 the Jamaican dollar became overvalued, especially in relation to the US dollar, owing to the faster pace of domestic inflation. On a trade-weighted basis the degree of overvaluation was less, and amounted to only 5% over the course of the five-year period. Subsequently, the real rate of exchange rose, and in 1968 soared well above 100 in each index. Here the principal factor was the devaluation of the English pound sterling, to which the Jamaican dollar was then linked by law. Between that year and 1970 the real exchange rate declined somewhat, but remained slightly undervalued. In 1971 there was a parting of ways between the US dollar index, on the one hand, and the SDR and trade-weighted indexes, on the other. Thus, the real exchange rate as measured in terms of US dollars and prices continued to drop, and in 1972 fell below 100, but measured in terms of SDRs and on a trade-weighted basis, it went in the opposite direction, and in 1972 it approached 120 on the SDR index and 102 on the trade-weighted one. These contrasting movements took place within the context of the international monetary crisis of 1971. Following the abandonment of the Bretton Woods Agreement and half a year of "controlled floating", the world's major currencies were realigned in the Smithsonian Agreement of December 1971. During this period of uncertainty in the international monetary system Jamaica moved to break the legal tie that bound its currency to the pound sterling, but elected to continue to link its dollar with the pound for the time being. As a result, the revaluation of the pound against the US dollar led to a proportionate revaluation of the Jamaican dollar with respect to the US dollar. This appreciation amounted to somewhat less than 2% in 1971 and somewhat more than 2% in 1972, and translated into a similar decline in the real exchange rate in 1971 and one of 3.5% in 1972, in terms of US dollars and prices. On a trade-weighted basis the nominal exchange rate of the Jamaican currency varied a mere 1% between 1970 and 1972, because its revaluation in terms of US dollars was virtually counterbalanced by its depreciation in relation to the currencies of other trade partners. In terms of the SDR, however, it experienced a considerable net depreciation. These results were accompanied by increases in the respective real exchange rates (see again table 19).

Against a background of growing stress in the balance of payments, and the marked instability of the pound sterling, in January 1973 the authorities decided to devalue the Jamaican

[33]In 1978 the banks had provided fresh loans to cover the amortization of 87.5% of the debt maturing that year, but in 1979 this was changed to deferment of the amortization of the same 87.5% of maturing loans, no new loans being provided.

[34]See the notes to table 19 for greater details.

Table 19

JAMAICA: EVOLUTION OF NOMINAL AND REAL EXCHANGE RATES
(1960 =100)

Year	Nominal exchange rate indexes					Real exchange rate indexes (f)				
	Jamaica dollars per									
	US$(a) (1)	SDR(b) (2)	EW(c) (3)	IW(d) (4)	TW(e) (5)	US$(a) (6)	SDR(b) (7)	EW(c) (8)	IW(d) (9)	TW(e) (10)
1965	100.0	100.0	98.9	97.7	98.3	92.3	97.6	95.8	94.3	95.1
1966	100.0	100.0	98.8	97.7	98.3	93.2	98.7	97.2	95.5	96.4
1967	102.5	116.2	100.9	99.9	100.4	95.3	114.8	99.4	97.6	98.5
1968	116.7	116.2	110.6	109.3	110.0	106.8	112.4	106.9	104.8	105.9
1969	116.7	116.2	111.1	109.6	110.3	105.9	111.0	105.9	103.7	104.8
1970	116.7	116.2	111.5	110.2	110.9	102.1	106.7	102.9	100.1	101.5
1971	117.7	119.1	110.5	109.4	110.0	100.1	111.0	103.1	100.4	101.8
1972	117.0	129.5	109.8	109.5	109.7	96.6	119.6	103.3	101.0	102.2
1973	127.3	153.5	126.8	127.3	127.1	97.4	127.2	107.3	106.0	106.7
1974	127.3	155.8	126.2	126.1	126.2	86.8	117.4	96.3	94.7	95.5
1975	127.3	149.0	125.7	124.8	125.3	80.8	106.0	92.7	90.0	91.4
1976	127.3	147.9	120.1	119.0	119.6	78.0	103.4	87.1	84.3	85.7
1977	153.9	167.5	143.9	143.3	143.6	90.2	114.4	102.3	99.2	100.8
1978	208.6	313.8	198.4	202.8	200.6	97.4	176.1	113.8	112.9	113.4
1979	247.4	328.6	241.3	246.7	244.0	99.5	155.2	119.4	118.1	118.8
1980	249.5	318.1	258.7	261.9	260.3	89.8	125.4	118.6	115.7	117.2

(a) United States dollar.
(b) Special Drawing Right unit.
(c) Weighted by export shares, 1968/1972, as follows (in percentages): United States 46.3; Great Britain 25.1; Canada 10.6, Norway 9.4; Sweden 2.9; Trinidad and Tobago 1.4; Bahamas 1.2; Guyana 0.8; West Germany 0.6, Barbados 0.6; Netherlands 0.5; Japan 0.4; and Switzerland 0.2 (note that the remnant was allocated proportionately to the top five export markets.)
(d) Weighted by import shares, 1968/1972 as follows (in percentages): United States 43.6; Great Britain 22.4; Canada 9.1; Venezuela 5.3; West Germany 3.6; Japan 2.7; New Zealand 2.0; Australia 1.8; Trinidad and Tobago 1.7; France 1.6; Italy 1.4; Netherlands 1.3; Belgium 0.8; Hong Kond 0.8; Switzerland 0.7; Sweden 0.6; Norway 0.3; and Guyana 0.3 (note that the remnant was allocated proportionately to the top five import suppliers).
(e) Weighted by shares in overall trade. See (c) and (d) above.
(f) Nominal exchange rates (columns 1 through 5) divided by the relevant relative price indexes (i.e., Jamaica prices with respect to United States prices, etc.).

dollar with respect to all currencies and fix its new value in terms of US dollars. One month later a 10% devaluation of the US dollar was announced, and the Jamaican currency thus experienced a further devaluation *vis-à-vis* currencies other than the US dollar or ones pegged to the dollar.

These developments translated into increases in the nominal exchange rate of almost 14% in terms of US dollars, of 16% in the trade-weighted index, and of close to 19% in terms of SDRs. However, the real exchange rate *vis-à-vis* the US dollar rose less than 1%, remaining only slightly overvalued. On the other hand, in terms of both SDRs and the basket of currencies of the country's trade partners, the Jamaican dollar rose appreciably in 1973 —the fourth straight year in which both of these indexes recorded increases.

In 1973 the three indexes thus varied considerably: the US one equalled 97.4, the SDR one, 127.2, and the trade-weighted one, 106.7. This last index was made up of 107.3 on the export side and 106.0 on the import one.

Between early 1973 and mid-1977 the authorities elected to leave the Jamaican dollar fixed (at US$ 0.909), in spite of a notable acceleration of domestic inflation relative to inflation in all of the country's principal export and import markets except Great Britain. Consequently, each of the real exchange rate indexes declined systematically, and by 1976 the Jamaican currency was seriously overvalued, both in terms of US dollars and on a trade-weighted basis. It remained slightly overvalued *vis-à-vis* the SDR, but the extent of the fall in the real exchange rate since 1973 was virtually the same in this case as in the others.

In April 1977 a dual exchange regime was introduced. The existing rate, now called the basic rate, was retained for transactions involving the Government, the bauxite sector, essential consumer goods and intermediate inputs. A devalued or "special rate" was applied to all others. As a result, the average real exchange rate *vis-à-vis* the US dollar was raised by almost 16%; *vis-à-vis* the SDR, by about 11%; and on a trade-weighted basis by a proportion approaching 18%.[35]

The currency remained overvalued (by an average of 10%) with respect to the US dollar, but the dual regime effectively eliminated the full extent of the overvaluation of the trade-weighted exchange rate. It remained, however, about 6% below the high registered in 1973. The degree of overvaluation with respect to the SDR returned to a level close to that prevailing in the early 1970s (see again table 19). In January 1978 the basic rate was devalued by 13.6% and the special rate by a further 5.2%. This devaluation followed the breakdown of the IMF Stand-by Arrangement in December, and constituted a prelude to the protracted negotiations for an Extended Fund Facility Agreement (EFF) in the first half of 1978. As part of the EFF accord that was finally concluded in May, Jamaica was to unify the basic and special exchange rates and undertake an immediate further devaluation of 25%. Moreover, the authorities agreed to devalue the currency an additional 15% over the course of the first year of the EFF programme. These devaluations were adopted at the insistence of the IMF. The Fund maintained that they were necessary in order to restore a competitive correspondance between domestic and international input and output prices and hence, to re-establish the balance between the supply of and demand for external resources. Furthermore, it was argued that the deterioration of the external payments situation and the reticense of the international financial community had reached such proportions that the measures to be taken should be immediate and drastic: hence the 25% devaluation. A restrictive incomes policy, deflation of the fiscal budget and curtailment of the growth of the money supply were also undertaken in order to ensure the effectiveness of the devaluation and to strike a balance between supply and demand in the economy as a whole. In this scenario, the expected increases in exports and capital inflows, together with the large injection of credit from the EFF, would permit an increase in import volume consistent with economic recovery and a surplus in the overall balance of payments.

In response to the questions that arise here, it should first be re-emphasized that the dual exchange regime had the effect of restoring the cost/price competitiveness of the economy in relation to its trade partners as a group. The additional devaluation in January 1978 measurably reinforced this situation. However, the Jamaican currency did remain overvalued in US dollars. From this angle, the May devaluation only appears appropriate insofar as the US dollar is concerned. On a trade-weighted basis, it was clearly excessive, as may be seen by reference to table 19.[36]

To the extent that the devaluation was in fact superfluous, it merely engendered inflation. Hence, the most relevant question are : Did the medicine lead to a cure? How did exports and the overall balance of payments evolve in the wake of the May and ensuing devaluations?

With regard to exports, the most germane concept is their net change, in constant prices. The sole available measure here is the foreign exchange budget of the Bank of Jamaica, because it is the only gauge of the amount of foreign exchange actually returned to the economy by sales abroad. On the other hand, its use does introduce a source of bias, inasmuch as not all of the foreign exchange circulating in the economy necessarily passes through the Bank of Jamaica.

An examination of the foreign exchange budget shows the following. Returns from merchandise exports declined over 7% in current prices between 1977 and 1978. In constant prices the decline was 9%. This decrease reflects the reduction in foreign exchange receipts from bauxite and alumina exports. The gross value of bauxite and alumina exports in fact rose, but the devaluation lowered the domestic costs of production in terms of foreign currency. Consequently, the bauxite

[35]These figures refer to the difference between annual averages for 1976 and 1977.

[36]The May and subsequent mini-devaluations, together with the depreciation of the US dollar *vis-à-vis* major currencies, translated into a leap in the real exchange index in SDRs of fully 54% (to 176) in 1978. In terms of the major markets of the world, Jamaica's goods and services thus became extremely undervalued.

companies returned less foreign exchange to the economy. On the other hand, the net receipts from tourism climbed over 36%. Nevertheless, the May and later devaluations were accompanied by an overall decline of 3.5% in the net receipts from the exports of goods and services in 1978. In 1979, the net returns from merchandise exports rose 3% in current prices but fell 3.4% in constant prices. However, the net receipts from the total exports of goods and services increased somewhat less than 5% thanks to the further 40% expansion in the return from tourism.

Between 1977 and 1979, the real exchange rate increased by 18% on a trade-weighted basis. The response of the export sector was an increment of 1% in the foreign exchange returned to the economy, at constant prices. The juxtaposition of these two figures does not necessarily imply that the exchange rate policy favoured by the IMF was a failure. On the other hand, it would appear to be much more problematic to argue that these figures suggest that it was a success.

Yet, it has been observed that while devaluation does not appear to help the trade balance, it does engender an improvement in the overall balance of payments.[37] It was indeed expected that the aggressive exchange rate policy would induce a return of capital flows to Jamaica. But this did not take place, as was discussed in the preceding section.

The poor response of exports and of the international financial community made it impossible to augment import volume by an amount sufficient to halt the contraction of the economy. The main effect of the devaluations, then, was to accelerate inflation.

The monthly devaluations of the Jamaican dollar were continued until May 1979. On a trade-weighted basis the real exchange rate index reached almost 119 in 1979, or the highest level in the post-war era. In 1980, this index declined about 1%.

4. Prices and wages

(a) *Prices*

In 1980 the proportional increase in the average level of consumer prices declined for the second consecutive year; yet the rate of inflation intensified considerably. Thus, the average annual rise in price levels approached 26%, against 29% in 1979 and almost 35% in 1978. But the rate of inflation, as measured by the variation between the December consumer price indexes, climbed to 29.5%, versus about 20% in 1979 (see table 20). As occurred the previous year, the categories in which inflation was greatest in 1980 were food and beverages, and fuels. Food prices climbed by one-third in each of these years, mainly in response to the considerable production losses sustained in the wake of recurrent adverse weather conditions. Fuel prices soared 46% in 1979 and 41% in 1980, owing primarily to the increased cost of imported petroleum, but also to appreciable reductions in subsidies.

Price stability in Jamaica was interrupted in 1973, when the average increase of the consumer price index shot up to 20%, or more than four times the ones recently experienced. The outbreak of inflation was engendered by both external and internal factors. Thus, import prices rose well over 8% that year, following increments of less than 4% in 1971 and 1% in 1972. This increase, together with the involuntary and programmed devaluations of the Jamaican dollar, caused import prices in domestic currency to rise by almost 26%. This alone directly accounted for six-tenths of the increase of 20% in the general price level, given the share of imports in domestic supply. It likewise caused severe upward pressures on price formation in the rest of the economy. Between 1970 and 1972, in contrast, the domestic cost of imports had advanced a mere 3%, owing to the stability of import prices and the involuntary appreciation of the Jamaican currency. This played an important role in the stability of domestic prices in these years, especially in the light of the build-up of inflationary pressures of domestic origin. But the unintentional appreciation of the

[37]See, for example, M.A. Miles, "The Effects of Devaluation on the Trade Balance and the Balance of Payments: Some New Results", *Journal of Political Economy*, Vol. 87, No. 3, June, 1979, pp. 600-620.

currency, in conjunction with other factors, such as a brusque upturn in the expansion of domestic credit and the uncertainty caused by the disarray prevailing in the international monetary system, gave rise to growing strains on the balance of payments, in response to which, in January 1973, the authorities raised the exchange rate and fixed the Jamaican dollar in terms of US dollars. Subsequently, the currency was subjected to a further devaluation when the US dollar was devalued.

On the domestic side, an unusually large expansion in credit in 1972 eventually led to an upsurge in consumer spending and money supply growth. In that year, the price situation remained stable, partly because output and domestic supply rose markedly (9.8% and 11.3%, respectively) and more than gross national income, and partly because of a major decline in the net international reserves. In addition, the stabilizing effects of these developments were reinforced by the course of external prices and of the exchange rate. But in 1973 the environment underwent a radical change. Real interest rates began to decline about as fast as the domestic prices of imports began to rise. On the other hand, the rate of growth of output slowed abruptly, and for the year as a whole amounted to just over 1%. Agricultural output, in fact, dropped 6% and the production of food fell by close to 8%. Simultaneously, import volume was slashed in a move designed to stem the loss of international reserves. As a result, domestic supply did not increase at all.

In the meantime, the growth of credit was cut in half, while the net international reserves continued to shrink notwithstanding corrective measures. Moreover, virtually the entire amount of the increase in credit was spent. From another angle, the resulting upturn in the growth of the money supply in spite of the marked decline in the growth of factors of expansion appears as a lagged response to the bulge in credit in 1972.[38] In any event, the surge in the supply of money ran up against the stagnation in the supply of goods and services.

Finally, the abrupt inflation in prices provoked and escalation in wage demands from the highly-organized labour force, giving rise to a price-wage spiral which was not to run its course until 1977. In 1973, unit wage costs rose more than 14%, against 2% in 1972. However, compared to 1972, the major factor in this leap was not the increase in money wages, but the drop in labour productivity.

In the following year inflation intensified, soaring to more than 24%. Import prices shot up fully 35%, and almost two-thirds of the rise in consumer prices may be traced directly to this factor. Export prices climbed at an even faster pace, however, permitting the doubling of the net international reserves in spite of the much enlarged outlays for petroleum imports. As a result, the rate of growth of the money supply climbed to 27%, even though the expansion of credit was reduced for the second consecutive year. In addition, the large gain in the terms of trade allowed income to increase while output was contracting.

The pronounced heightening of inflation and inflationary pressures in the external sector was accompanied by mounting tensions on the domestic side. Output commenced its rapid downward trend in 1974, sliding by 4%, and the efforts to shore-up the balance of payments position and the large increases in import prices precluded an offsetting hike in the supply of imports, so that domestic supply tumbled by 3%. But the enactment of the Bauxite Levy, together with the notable improvement in the terms of trade led to a rise in gross national income of more than 8%.

This marked disproportion between the changes in supply and demand was accompanied by only a marginal increase in savings, as the increase in gross national income was transmitted throughout the economy via leaps of 60% in government spending and 50% in money wages and salaries. Consequently, it exerted a decided upward pressure on price levels.

Looking at the cost side, this extraordinary rise in wages, in conjunction with a substantial decline in labour productivity, translated into a 60% increase in unit wage costs.

[38] In 1972, the factors of expansion registered an increase of over 19%, due entirely to the 37% growth of credit. That year the money supply increased 10%, or about the same as the product. In 1973, the factors of expansion increased only 7%, with credit rising 18%, but the supply of money jumped almost 21%.

In the light of all these developments, it is rather remarkable that the rate of inflation was limited to 24%. Food output did recover in 1974, and also the rate of exchange declined, but it appears that it was price controls and subsidies which played the biggest role in mitigating the enormous and varied tensions to which the level of prices was subjected.

The following year witnessed a let-up in inflation, thanks primarily to the sizeable reduction in external price increases and a large rise in domestic supply, coupled with the stagnation of gross domestic income, but also to a further small decrease in the exchange rate. The increase in import prices dropped from 35% to 12.5%, involving a rise in the overall price level of somewhat more than 5%, versus 16% the year before. In the meantime, domestic supply climbed almost 9%, against an increment of only 1.4% in gross national income. This turnaround virtually offset the extent of the disequilibrium experienced in 1974. Finally, the exchange value of the Jamaican currency appreciated an additional 1%.

On the other hand, government spending and unit wage costs continued to expand very rapidly. In the case of the Government, however, the potential inflationary effects of the rapid growth of its expenditure in 1975 were in part counterbalanced by the major loss of international reserves and the contraction of income in the private sector. But the further 24% hike in nominal wages was not compensated by gains in labour productivity, which in fact dropped by 7%. The resultant one-third expansion in unit wage costs emerges as the major inflationary factor in 1975. Between 1973 and 1975, unit labour costs more than doubled.

In 1976 gross national income declined some 11%, while the liquid reserves were almost exhausted. The severe deflation of the economy, together with a steep decline in external inflation and an appreciation of the US dollar against other major currencies, permitted a reduction in the rate of inflation to 9.6%. The marked contraction of gross national income more than offset the fall of over 9% in domestic supply, due to a substantial deterioration in the terms of trade. At the same time, the increase in import prices was so small (3%) that the decrease in the exchange rate (5%) led to a decline in the cost of imports in domestic currency which implied a direct decrease of 1% in the overall price level. Furthermore, the virtual depletion of the international reserves kept the increase in the money supply to just 2% in spite of the doubling of credit to the Government. Consequently, the fact that the level of prices rose a further 10% must be attributed to the momentum of previous years, transmitted primarily via wages. In effect, unit wage costs climbed a further 23% in 1976.

Notwithstanding the considerable imbalance between the changes in supply (-7.3%) and demand (1.9%), an increase of 20% in the exchange rate, and a jump of 38% in the money supply, the rate of inflation drifted up less than two percentiles, to 11.4%, in 1977. Three factors moderated the effects of these pressures of the level of prices. Firstly, import prices rose less than 7%, while the output of food leaped 25%. But the most important countervailing force was the abrupt curtailment of wage inflation. After climbing 162% over the course of the previous three years unit wage costs rose less than 3% in 1977.

Domestic supply and gross national income evolved in a balanced fashion in 1978. Moreover, the output of food rose a further 20%. Import prices registered an average increment similar to that of the previous year. The growth of the money supply was pared back to less than 18%, a rate substantially below the one consistent with the magnitude of the expansion of nominal GDP, while the increase in nominal wages was limited to 12%.

Yet, inflation intensified drastically. The average annual change in prices soared to 35%, while the December 1978 consumer price index soared more than 49% above the December 1977 one, the principal determinant of this unprecedented rate of inflation being the 40% devaluation of the Jamaican dollar. To that shock was added the effects of the liberalization of pricing policy in most areas of the economy. In this respect, a share of the acceleration of inflation in 1978 was the counterpart of the past repression of price increases, and the bulge in money supply growth in 1977 may also have exerted an effect on prices in 1978. In any event, more than one-half of the jump in prices in 1978 may be traced directly to the devaluation.

In 1979 prices continued to advance at a rapid although somewhat slower pace. The exchange rate was on average almost 22% higher than in 1978, and this, together with an increase of almost 11% in import prices, explains six-tenths of the rise in domestic prices. Again, income declined more than domestic supply. However, in contrast to the enormous gains achieved in 1977/1978, food production dropped some 3%. Money supply growth was reduced to below 8%, or about half the expansion of the nominal GDP. The advance in unit wage costs, on the other hand, amounted to somewhat more than 20%.

In 1980 the average change in the level of prices eased somewhat further, but the rate of inflation picked up over the course of the year. The main determinant of this acceleration appears to have been the 23% escalation of import prices, although a host of other inflationary factors were present. Thus, the average exchange rate moved up a further 7% and, as occurred in 1979, food production contracted while price controls on food were liberalized. Moreover, the rate of growth of the money supply accelerated markedly to 35.5%, as the projections of the central government deficit and the supply of extraordinary foreign finance turned out to be way off target. Finally, wage demands and settlements rose appreciably subsequent to the breakdown of the IMF-Government EFF agreement.

Table 20

JAMAICA: EVOLUTION OF INTERNAL PRICES

	1975	1976	1977	1978	1979	1980
	Variation between annual averages					
Total	17.5	9.7	11.2	34.8	29.1	26.9
Food and beverages	17.8	8.9	9.4	36.8	33.4	33.3(a)
	Change December-December					
Total	20.6	15.7	14.1	49.4	19.8	28.6
Food and beverages	19.8	15.5	12.3	54.1	24.5	33.7

Source: Jamaica, Department of Statistics, Consumer Price Indices, Annual Review, 1978, 1979 and data supplied to CEPAL.
(a) January-November 1980 with respect to January-November 1979.

(b) *Wages*

Much has already been said about the evolution of wages, details of which appear in table 21. Sustained by a jump of almost 10% in labour productivity in the economy as a whole, real wages rose more than 7% in 1972, but virtually the entire amount of this gain was forfested in the wake of the advent of inflation in 1973. Over the course of the ensuing three-year period, however, the labour force managed to obtain a one-third hike in real wages and salaries, notwithstanding systematic declines in output and labour productivity. Subsequently, real wages and salaries were forced to move in the same direction as output and productivity by devaluations and wage controls.

The outbreak of inflation in late 1972/early 1973 provoked an immediate escalation of wage demands, strikes and wage settlements. Real wages deteriorated only because two-year contracts were the norm: about half of the organized labour force did not have the option of negotiating that year. The contracts which were renewed involved wage increases ranging from about 25% in transportation, storage and communications, to over 50% in mining. In 1974 the average nominal increase reached an incredible 50%. In consequence, real wages soared by almost 19% even though the rate of inflation intensified. This enormous advance took place alongside a 4% drop in the gross domestic product and a decrease of well over 6% in total labour productivity, although the extent of the disproportion was tempered by the large expansion of gross national income. In fact, between 1971 and 1974 the 19.4% change in the index of real wages and salaries was not much greater than the 17% change in gross domestic income. But the gains in money wages and salaries in both 1975 and 1976 continued to outdistance the (by then declining) rate of inflation in circumstances in which labour productivity continued to descend at a very fast pace. Furthermore, the gross domestic product did not rise in 1975 and fell sharply in 1976.

As a result of the divergence between the evolution of wages and of output, in 1976 real wages stood almost one-third above the 1973 level, while labour productivity was one-third below it. An interpretation of this marked contrast is beyond the scope of this survey, inasmuch as it would involve a lengthy discussion of the peculiar institutional characteristics of the Jamaican labour market and of the effects of the political change of 1972 on the Jamaica labour movement. In any case, this asymmetry evaporated in the 1977/1979 period.

Efforts to curtail the escalation of wage settlements beyond the variation in the cost of living got underway in August 1975. They were part of a package of corrective measures whose aim was to offset the effects of the international recession and the shift in the pattern of demand on the balance of payments and on growth.

In the absence of the sought-for agreement with the trade unions on an incomes policy, the Government established temporary guidelines for the private sector and commercially operated public enterprises which were to be in force from September 1975 to March 1976. For workers earning less than J$ 7 000 per annum, real wages would be restored to the level prevailing in the last contract to expire before June 1973. For those earning between J$ 7 000 and J$ 12 000 per year, a ceiling equal to the highest increase obtained in the first group was established. For those earning between J$ 12 000 and J$ 16 000 per year, increases could not exceed one-half the highest increase received in the first group. All salaries above J$ 16 000 were to be frozen. This moratorium applied to all types of emoluments.

Table 21

JAMAICA: NOMINAL AND REAL WAGES, EMPLOYMENT, LABOUR PRODUCTIVITY AND UNIT WAGE COSTS
(1971 = 100)

	1972	1973	1974	1975	1976	1977	1978	1979	1980
Nominal wages and salaries (a)	112.2	126.1	189.2	233.7	269.0	275.1	308.6	365.3	-
Real wages and salaries	107.3	100.6	119.4	126.8	132.5	122.1	105.0	92.4	-
Exployment	100.0	103.0	105.7	111.6	112.2	112.8	115.9	112.7	112.7
Labour productivity	109.8	107.9	101.0	94.2	87.8	87.4	84.5	83.2	80.3
Unit wage costs	102.2	116.9	187.3	248.2	306.2	314.8	365.1	439.1	-

Source: Jamaica, National Planning Agency, Economic and Social Survey, various years, and the World Bank.
(a) Between 1971 and 1973, based on the industrial wage index. Between 1973 and 1979, based on the median weekly income of income earners.

These guidelines were in fact highly restrictive, inasmuch as only a relatively small share of the labour force was then earning less in real terms than in June 1973. At the same time, they were designed to diminish the disparity between incomes. In this connexion, three other steps were taken: the implementation of a national minimum wage; the freezing of the rate of profits at a proportion equivalent to the average for the previous three years; and the limitation of dividends before taxes to 7% of net work for a period of one year.

Following a new round of negotiations between the Government and the trade unions the wage and salary guidelines were extended, with some modifications, for a one-year period beginning in March 1976. The changes and additions included the following. Wage and salary increases, where permissible, were restricted to a maximum of J$ 10 per week, unless the amount required to restore real earnings to the June 1973 level was larger. Also, other exceptions were possible if certain stipulations concerning profitability, productivity and hardship were met. On the other hand, most allowances and fringe benefits were to remain at the levels existing at 1 September 1975. Finally, wages and salaries of employees of the central government and statutory boards were frozen.

Following its re-election, the Government instituted in January 1977 another set of policies to deal with the worsening economic crisis. With respect to wages and salaries, the existing guidelines were maintained, with several adjustments that had the effect of returning to the more restrictive features of the original guidelines, while retaining the more stringent aspects of the March 1976 ones. In addition, the moratorium on wage and salary hikes in the central government and statutory bodies was extended to 31 March 1978. The Government renewed its commitment to a restrictive incomes policy in April, when it introduced the dual exchange rate, and in July, when it entered into the standby agreement with the IMF.

There was a lag in the effectiveness of the successive guidelines in bringing the inflation of wages in the economy as a whole to a halt, but the size of wage settlements was compressed in 1975 and again in 1976,[39] and in 1977, when inflation accelerated once more and the average increase in money wages was limited to about 2%, real wages and salaries were cut by an average of almost 8%.

As part of the Extended Fund Facility (EFF) agreement of 1 May 1978, increases in wage contracts expiring after that date were limited to 15% per year, for a two-year period. This ceiling applied to all categories of emoluments, and to both the private and public sectors. The purpose of this restraint was to ensure that the simultaneous devaluation of the Jamaican dollar restored the real rate of exchange to the level prevailing in the early 1970s. In this respect it was more than successful. As regards the effect of the programme on wages, suffice it to note that the index of real wages and salaries plunged 14% in 1978.

For the second year of the EFF, the ceiling on wages and salaries was lowered to 10%, in conjunction with the suspension of the monthly devaluations. In contrast to the outcome in 1978, the variation in money wages in 1979 surpassed the limit. But the momentum of the inflationary process unleashed by the marked devaluation of the currency raised the average 1979 price level so far above the 1978 one that real wages were compressed a further 12%. At that point they were 30% below the 1976 high, and substantially lower than at the beginning of the decade. Another, albeit smaller, decline appears to have taken place in 1980.

5. Economic policy

(a) *Introduction*

The Jamaican electorate opted for change in 1972, voting into power the party which had been in opposition since Independence in 1962. The priorities of the new administration were defined in large part in function of the factors which had prompted the election outcome. The burgeoning unemployment crisis, the deteriorating distribution of income, the lagging coverage and quality of social services, and the widening housing deficit were problem areas into which the new Government thus intended to channel a major share of public resources. Also, it was by then clearly appreciated that past demographic trends were on the verge of translating into a radical surge in the growth of the labour force. This of course greatly heightened the concern over the employment crisis and, together with the growing social tensions it was engendering, created a sense of urgency about dealing with it. As far as the longer term was concerned, it was recognized that the existing expansion path of the economy would have to be modified appreciably, inasmuch as it had proven incapable of generating enough jobs to satisfy even the very modest increment in the labour force registered over the previous decade. This, in conjunction with the multiple problems provoked by the massive rural to urban migration then taking place explains the prominence of agriculture in the Government's development plans. The long-term development programme was also conditioned by the need to face up to the impending decline in investment and in foreign capital inflows arising from the recent completion of a major investment cycle in

[39]As far as the central government was concerned, real wages and salaries —which had increased much less than those in the private sector— were slashed appreciably in 1976 and were left only slightly higher than in 1972.

mining and the approaching conclusion of one in tourism. Another important factor in the formation of development plans was the decision to seek greater autonomy from the course of events in the international economy. In this connexion, it was envisioned that the acquisition of assets in the foreign exchange earning sectors of the economy would play an important role.

The agenda thus included a set of difficult challenges, but the possibilities of success seemed to be reasonable. For more than a quarter of a century the international economy had grown year after year at a very fast pace without inflation and the Jamaican economy had behaved in exactly the same manner. Furthermore, the consistent expansion in the output of goods and services, together with a tradition of sound fiscal and monetary management, had placed the public sector in a position to finance a relatively ambitious capital investment programme without resorting to advances from the Central Bank. Over the course of the 1960s current savings financed about half of a capital expenditure programme that fluctuated around a figure equivalent to 6% of the GDP.[40] The other half was financed principally through bond issues on the highly developed local capital market. External capital markets, including multilateral development banks, had yet to be tapped on more than a token scale. Foreign reserves were then at an all-time high and in fact were greater than the external debt.

The confluence of pressing needs and propitious conditions thus impelled the country towards an experiment with a new set of policies. But the international environment was on the verge of a succession of crises that would pound the Jamaican and other small open economies throughout most of the decade. The monetary crisis had in fact already surfaced, although much more was still to come, while the petroleum and food crises were just around the corner. Soon to follow was the outbreak of international inflation and the subsequent recession. The end of the decade would be plagued by another round of petroleum price hikes and international stagflation. As it turned out, the times were not favourable for social experimentation in a small, fragile and highly vulnerable economy. Yet, for several years the attempt was made. By 1977, however, the principal focus of attention was on how to stop the economy from contracting, and by the end of 1980, when a new government was elected, the principal preoccupation was avoiding total economic collapse.

At the outset of its term in office in February 1972 the new administration implemented and expansionary fiscal policy and set about drawing up plans for a much enlarged capital expenditure programme.[41] Current expenditures were augmented and redirected in favour of social programmes, especially in the area of employment and low-income housing. The increase approached 27% in nominal terms and more than one-fifth in constant prices, and was the largest increase in any one year since Independence. Current receipts were bery buoyant, owing primarily to the 10% expansion in output, but they were less than projected and thus not sufficient to prevent an appreciable deterioration in current savings. On the other hand, capital outlays were raised by much less than intended. Consequently, current savings still covered more than one-third of capital spending, while the overall deficit was smaller than planned. As in the past, domestic borrowing financed the lion's share of the deficit. The level of foreign borrowing was similar to that of the previous year.

The effects of the expansionary fiscal policy on output and employment met or even surpassed expectations. Perhaps the principal unintended effect was a marked upturn in imports and a deterioration in the balance of payments. The large expansion of government spending led to an upswing in bank liquidity and lending, and the resulting increase in consumer demand translated into a rise in the import bill beyond the extent implied by the growth of domestic output. This, together with a steep decline in foreign investment and the uncertainties over exchange rates, brought about a steady reduction in the international reserves. In response the

[40]These figures refer to the central government. For the public sector as a whole, savings averaged 5%, and investment 10%, of the product.

[41]Fiscal and monetary policy is described in the Bank of Jamaica's annual *Report and Statement of Accounts*. Unless indicated otherwise, the data in this section are from that source.

monetary authorities introduced some remedial measures in July, including higher interest rates, an increase in the statutory liquid assets ratio, and a reduction in discounts from the Central Bank. Subsequently, a ceiling on credit expansion was established. At that juncture (October) the commercial banks were almost fully lent-up, and interest rates were on the rise. On another front, a temporary ban on the importation of automobiles and of some other postponable imports was put into effect. Finally, in January, the authorities moved to relieve the growing stresses on the balance of payments by devaluing the currency and pegging it to the US dollar.

In 1973 government spending increased almost 25%, or somewhat less than in the previous year. However, in constant dollars the increment was only 4%, since the inflationary process had already commenced. Income rose by a somewhat smaller proportion. Consequently, savings declined for the second consecutive year as a proportion of the product (see table 22). Capital spending was hiked by about one-fifth, but again the size of the increase was less than planned. The overall deficit expanded by a quarter, and for the first time it was financed principally from foreign sources, in order to offset part of the gap left in the wake of the completion of the investment cycle in the bauxite industry. In this connexion the authorities took several additional steps, including arrangements for a major foreign investment project (in oil refining) and the negotiation of a standby agreement with the IMF.

Table 22

JAMAICA: SOME FISCAL RATES
(Percentages)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980(a)
Current revenue/gross domestic product	19.6	20.2	20.0	23.9	24.5	22.3	21.8	27.6	26.4	23.0
Direct taxes/current revenues	...	...	45.6	50.0	33.9	40.0	33.0	27.7	29.2	30.0
Bauxite levy/current revenues				16.4	19.5	13.2	16.9	25.8	20.8	25.1
Current expenditures/gross domestic product	15.9	17.9	19.6	22.7	24.1	28.4	27.9	30.5	30.3	27.8
Wages and salaries/current expenditures	...	...	28.7	28.1	28.0	25.6	27.4	24.5	25.6	25.7
Current transfers/current expenditures	...	...	41.8	46.5	44.6	44.6	43.7	43.5	37.9	37.5
Interest payments/current expenditures	...	...	9.1	11.9	10.6	12.6	16.0	18.6	24.6	24.0
Savings/gross domestic product	3.7	2.3	0.4	1.1	0.5	-6.1	-6.0	-2.8	-3.9	-3.9
Savings/gross domestic savings	33.2	25.5	3.6	13.7	5.9	307.1(b)	454.9(b)	-190.1	-107.3	...
Capital expenditures/gross domestic product	7.8	7.6	5.9	9.7	11.7	13.2	11.1	12.0	11.8	8.4
Capital formations/capital expenditures	...	...	47.1	44.7	46.4	35.4	37.9	32.2	30.9	38.2
Capital formations/net fixed investment	...	...	17.6	34.6	37.2	61.9	158.4	90.5	42.7	...
Total expenditures/gross domestic product	23.6	25.5	25.5	32.5	35.7	41.6	39.0	42.4	42.1	36.1
Fiscal deficit/gross domestic product	4.1	5.2	5.5	8.6	11.2	19.3	17.2	14.8	15.7	12.2
Domestic financing/gross domestic product	2.2	4.0	2.4	6.1	7.4	16.2	16.5	7.6	12.8	4.5
Banking system/domestic financing	...	...	43.6	32.8	59.3	73.9	46.6	47.4	57.3	57.9
Gross national debt/gross domestic product	...	26.7	27.0	30.4	33.1	41.0	60.5	75.4	77.5	76.6
Foreign debt/gross national debt	...	33.3	34.2	41.2	44.3	39.9	26.8	41.9	42.0	38.3

Source: Bank of Jamaica, Report of Statement of Accounts, various years, and the Work Bank.
(a) Budgeted amounts.
(b) Both central government and economy wide savings were negative.

Following some easing of tensions in the first half of the year, the international reserves began to dwindle rapidly from July onwards as a result of a shortfall in exports stemming from a deterioration in the terms of trade, a renewed upsurge in the growth of credit, and the belief that the currency would be devalued again. In response, the Government had resort to the IMF standby agreement. In addition interest rates and the liquid assets ratio were raised further. Moreover, in November the Central Bank was empowered to control quasi-bank operations that were affecting the money supply. Quasi-bank institutions had expanded their activities appreciably in the last few years, and it was their lending that had largely annulled the effects of the credit restraints applied to the commercial banks.

It was against this background that OPEC announced the enormous hike in the price of petroleum. At the time the Bank of Jamaica observed that: "The impact of this additional foreign exchange bill on a severely weakened reserve position was anticipated to be well nigh unmanageable".[42]

The year 1974 thus began on a note of impending crisis. An immediate and energetic response was forthcoming, however, as in January a comprehensive and far-reaching programme was introduced to deal with the crisis. First, the rise in the oil bill was anticipated by a special tax on petroleum products, while deliveries of gasoline were cut by 25%, with the savings to be exported.[43] Also a national energy conservation programme was outlined. On another front, existing restrictions on imports were tightened and amplified, with a view to releasing foreign exchange to cover part of the higher cost of petroleum imports. Most consumer goods were thus subjected to quotas and licensing. Exchange control regulations were also strengthened. Monetary policy was made more restrictive, in order to shift the structure of demand by reducing consumption in favour of savings and lowering the demand for imports. For this purpose, the entire range of interest rates was moved up, and new credit ceilings established. On the fiscal side, spending was to be held below budgeted amounts and reliance on bank financing reduced. Borrowing by statutory bodies and public enterprises would be pared back. The revenues that would not be received because of the reduction in imports were to be made up through special taxes on luxury consumption and on alcoholic beverages. Moreover, in a move to improve the management of the economy, a cabinet-level economic council with responsibility for the formulation of economic policy was established. Finally, several schemes to increase export earnings were formulated. In this connexion, it was expected that the upcoming contract negotiations with the bauxite companies would result in an increase in the share of mining sector earnings retained by the economy.

Following several months of inconclusive talks with the bauxite companies, the Government enacted the Bauxite Act, whereby a levy was assessed on bauxite extracted after January 1. That year (1974) the country received US$ 116 million from the levy, or slightly less than the US$ 123 million increase in the oil import bill. In addition, royalties were increased and arrangements made to acquire part ownership in the industry. In the interim the prices of Jamaica's exports were in the process of climbing to over 90% above the average prevailing in 1973.

Output had begun to lag in 1973, and with the set of policies implemented in January 1974 it actually began to decline. Simultaneously, inflation accelerated. Given the dramatic upturn in foreign exchange earnings and government revenues, on the one hand, and the interruption of growth on the other, the authorities not only resolved to loosen or lift most of the restrictive measures, including the reduction in petroleum supplies, but also to undertake a massive increase in spending. Thus, in the fiscal year beginning in May, current expenditures were boosted 45% and capital expenditures 100%. Even after allowing for inflation the increase in total expenditures still amounted to 28% in constant terms. The expansion in revenues was not much less spectacular, as it approached 20%. As a consequence, nominal savings tripled rising to 1% of the GDP, but the budget deficit climbed to an amount equivalent to 8.6% of the GDP, against 5.5% in 1973 (see

[42]Bank of Jamaica, *Report and Statement of Accounts, 1973*, Kingston, 1974, p. 6.

[43]The export plan concerned petroleum products refined in Jamaica.

again table 22). Most of the deficit was financed from domestic borrowing, but foreign borrowing was also important, and for the first time ever the Government relied on the Central Bank to cover more than a token share of its deficit.[44]

Instead of translating into an upturn in domestic output, however, the government spending programme and the relaxation of credit and other controls brought about a large expansion of imports. In January it was planned that imports would be limited to J$ 645 million; in May this ceiling was raised to J$ 725 million; and by December the final figure amounted to J$ 851, versus J$ 604 in 1973. Nevertheless, the overall balance of payments showed a surplus for the first time in two years, thanks to the Bauxite Levy and the improvement in the terms of trade, and reserves reached a new all time high.

On balance, the view that prevailed was that given the gravity of the crisis, the performance of the economy was very satisfactory.[45] Yet, in retrospect it now seems clear that an important opportunity was lost at this juncture. The timely and energetic measures to reduce the consumption of petroleum, together with the Bauxite Levy revenues and the windfall export gains, could have made it possible to confront the petroleum crisis with a less costly and more durable solution. Instead, the petroleum conservation measures were laid aside, the resources from the Bauxite Levy were diverted to uses other than the expansion of export capacity, and the unexpected export earnings were fittered away on consumer imports.

The evolution of the economy in the first half of 1975 turned in mixed results. The balance of payments showed a small surplus, in spite of the steep decline in mining and a recession in tourism, thanks to the continued buoyancy of the prices of Jamaica's exports. On the other hand, output continued to lag as the prolonged depression of private investment and the marked reduction in mining and tourism offset gains in other sectors. But the decline in the rate of unemployment persisted, and in April it fell below 20% of the labour force for the first time since the late 1960s. The deceleration in the rate of inflation also was sustained in spite of enormous wage settlements. This was the context when the Government decided to introduce another sizeable increase in spending with the fiscal year beginning in April. Overall expenditures were slated to expand 28%, or about 10% in real terms. On the other hand, revenues were projected to rise even more, with the result that in constant prices and as a share of the product the deficit would be about the same as in 1974. In short, the 1975 budget represented a continuation of the policies adopted in May of the previous year, whereby aggressive fiscal measures and a greatly expanded public investment programme (including the acquisition of assets in the private sector) were directed at offsetting the decline in private sector investment and reflating the economy so that unemployment would continue to fall, while the preoccupation with the external sector and prices was relegated to a secondary plane. In this approach, the public sector would need to rely on the domestic capital market for a much larger amount of support than had hitherto been the case. But it was felt that his would not lead to any significant dislocations, inasmuch as private sector

[44]That year net domestic borrowing by the entire public sector amounted to 2.9% of GDP (overall public sector savings were much higher than central government savings). According to a World Bank study, the public sector could borrow a sum equivalent to almost 4% of GDP from the domestic financial system without creating notable inflationary pressures or an inadequacy in the supply of credit available for the private sector.

[45]In the Bank of Jamaica's words: "The year 1974, which at the beginning threatened to be one of the most disruptive for the Jamaican economy, ended with a fair degree of stability as a result of the economic policies adopted by the authorities. The serious payments problem posed by the increase in oil prices was offset by increased earnings from the bauxite industry following the imposition of the new levy. In light of the fact that many other countries, developed and developing, had to contend with massive problems of recession, unemployment, inflation and balance of payments deficits, the performance of the Jamaican economy in 1974 was creditable. Modest economic growth was achieved, the rate of inflation showed some indication of slowing down in the last quarter, some progress was reported in the area of unemployment, while the balance of payments recorded an overall surplus of some J$ 54 million.

Unlike 1974, therefore, 1975 began with a more relaxed atmosphere. The crisis of the previous year had been defused and there was general expectation that the gains recorded in 1974 would be consolidated, if not expanded. To this end there was a further relaxation in monetary policy by the reduction of the Bank Rate in February 1975 as a continuation of the policy of gradual reflation begun in late 1974". Bank of Jamaica, *Report and Statement of Accounts, 1975*, Kingston, 1976, p. 1. Note that subsequent revisions of the national accounts indicated a decline in GDP in 1974.

investment demand was waning. Should unitended secondary effects of this or other aspects of the expansion of the public sector arise, they would be handled by controls.

As it turned out, expenditure rose more, and revenue less, than envisioned, not only because output failed to respond to the stimulus of government spending, but also due to the repercussions of the international recession, unanticipated wage hikes, and the unplanned takeover of failing businesses (mainly in tourism). Thus, the fiscal deficit climbed to 11.2% of GDP, against a projected figure of 8.8%. Consequently, net domestic financing equal to more than 7% of GDP was required, and the Bank of Jamaica was called on to provide over-two-fifths of that amount (see again table 22).

While the large budgetary deficit did not have much effect on output, nor for that mater on private sector access to domestic credit, it translated into an immediate surge in imports and, together with the stagnation of exports, led to a marked deterioration of the current account. In the interim the flight of capital had begun to accelerate, and when the Government announced in July that it would be taking steps to shore up the balance of payments, an unprecedented outflow of foreign exchange took place, in the belief that the currency was to be devalued. In August and October a series of remedial measures were taken. The deterioration in the external payments situation was to be halted by restraining the escalation in wages and in prices (through an incomes policy and price controls) and encouraging savings (via changes in the tax laws, and the establishment of a National Housing Trust to be financed from mandatory employer and employee contributions). But these measures proved insufficient to stem the loss of reserves, and in February 1976 a set of more restrictive and wider-ranging policies was announced. In the area of monetary policy, interest rates and liquidity ratios were raised, and Central Bank lending to commercial banks was reduced. Also, commercial banks were to cut back on consumer credit. On the fiscal side, a tax package designed to curb consumption and raise revenues totalling 3% of GDP was introduced, while the temporary wage guidelines were beefed-up and extended for an additional period of one year. Furthermore, direct controls were to ensure that imports were slashed by one-fifth. Simultaneously, arrangements were made for loans for balance of payments support from foreign commercial banks, while an application for access to the IMF's Oil Facility was presented.

During the course of the year the economy was subject to a series of setbacks that prevented the stabilization of the external sector in spite of the fact that imports were reduced by the intended proportion. Prominent here were the fall in export prices, the further reduction in mineral exports, the cessation of foreign commercial bank lending, bad weatherd, and the virtual paralyzation of tourism. In addition the general expectation fo a devaluation of the currency persisted throughout the year. In the meantime the severe contraction in import volume led to a big drop in production, and unemployment rose from 20.5% to 24.2% of the labour force between April and October. In the circumstances the Government's finances threatened to spiral out of control. Revenues declined, while expenditures climbed by one-fourth. As a result, a current deficit equal to 6.1% of GDP was sustained, and the overall fiscal deficit soared to 19.3% of GDP. To cover this enormous gap, domestic resources equal to 16% of GDP had to be mobilized. The lion's share was provided by the Bank of Jamaica. This massive increase in credit to the Government did not lead to inflation, however, as it was offset by a major loss of reserves, and the money supply rose only 2% in nominal terms. In fact, without the enormous creation of credit that the deficit implied, the money supply would have contracted systematically.

One week after the December elections, in which the Government was returned to office with a much larger majority than in 1972, the foreign exchange market had to be closed to prevent the exhaustion of liquid reserves. Towards the end of January (1977) exchange operations were resumed under a new set of controls, and at that time additional policy initiatives were taken to deal with the balance of payments crisis and get the fiscal budget under control. The import bill was to be reduced by a further 30%, while all other exchange outflows were limited to authorized transactions. To ensure compliance with these directives the Bank of Jamaica began to monitor and control all foreign exchange flows in the economy. Consumption taxes were again increased appreciably, and the wage guidelines were made more stringent.

In April a fresh set of measures, including a dual exchange rate, a cut in government expenditure and a halt to deficit financing by the Bano of Jamaica, were announced. Also, an Emergency Production Plan was formulated, geared to boost the output of essential consumer goods and exports. Finally, the Government decided to negotiate a standby arrangement with the IMF, and in August a two-year US$ 75 million porgramme was hammered out. In return for this balance of payments support the Jamaican authorities agreed to pursue a programme similar to the one already in place, but with more restraint in fiscal and monetary matters. The fiscal deficit was to be sliced in half instead of by one-third, and government domestic borrowing reduced even further. Also, targets for improvement in the external sector were established. Progress would be checked on a quarterly basis by performance tests relating to net foreign reserves and net domestic assets of the Bank of Jamaica, net banking system credit to the public sector, outstanding arrears, and foreign borrowing.

There was considerable improvement in the economy in 1977. The three-year decline in the product was halted, although no growth was recorded. Particularly, encouraging was the large gain in agricultural output and the marked increase in the production of food. For its part, gross national income actually increased 2%, by virtue of an improvement in the terms of trade. Also, the rate of unemployment stabilized, while inflation did not accelerate very much, notwithstanding the large devaluation. Important, in this regard, was the complete curtailment of wage inflation, while a reduction in the government deficit and in the creation of credit eased the pressures on both the level of prices and on the balance of payments. In this latter connexion the first trade surplus of the post-war era was recorded, and this made it possible to trim the current account deficit from more than 10% of GDP to just over 2%, in spite of a marked accentuation of the depression in tourism.

On the other hand, the capital account refused to respond to the stabilization programme, and partly for this reason, but also due to a shortfall in central government revenues, the net domestic assets of the Bank of Jamaica exceeded somewhat (by 2.5%) the permissible level on the day the performance tests were scheduled to be applied. Consequently, the standby arrangement was suspended, and Jamaica was prevented from drawing the second credit installment. Instead of renegotiating this accord, however, the authorities decided to seek access to the Extended Fund Facility (EFF). In January the dual exchange rate was devalued by an average of 10%, and negotiations over the characteristics of the stabilization programme that would be adopted in connexion with the EFF got underway. However, a mutually satisfactory accord proved difficult to reach, as there was much disagreement over the question of the need for further devaluation, and over the appropriate relation between exchange rate adjustments and incomes policy. Finally, faced with growing shortages, large external debt amortizations and a deteriorating social climate, in May the Jamaican authorities agreed to the IMF stabilization programme.

In exchange for access to US$ 240 million from the EFF, the Government agreed to implement what amounted to a new economic policy. The market and the private sector were now to be relied on to turn the economy around. Thus, the maze of controls that had been erected in response to the various successive crises was to be phased out, the size of the public sector was to be reduced, and every effort was to be made to regain the confidence of, and stimulate output in, the private sector. Simultaneously, a drastic deflation of consumption was programmed, and the resources thereby released were to be channelled into the external sector via a realignment of relative prices.

The main policy measures involved the devaluations; the restriction on wage increases; reductions in the current and overall government budget deficit; and the dismantling of controls on prices and transactions. Targets for the principal macro-variables were fixed, and a set of quarterly performance tests were designed to monitor the progress towards these objectives. As usual, the targets were not binding, but the breach of a performance test implied the immediate suspension of the agreement. The tests and the results turned in by the economy are shown in table 23.

Table 23

JAMAICA: EFF PERFORMANCE TESTS AND RESULTS
(Millions of Jamaica dollars)

	1978				1979			
	I	II	III	IV	I	II	III	IV
1. Net foreign assets of Bank of Jamaica (a)								
Ceiling		-335.0	-300.0	-300.0		-425.0	-425.0	-370.0
Actual	-317.0	-318.3	-279.0	-289.5	-319.1	-381.6	-419.6	-496.7
2. Net domestic assets of Bank of Jamaica								
Ceiling		440.0	445.0	480.0		900.0	925.0	940.0
Actual	403.0	405.2	393.6	424.6	708.2	866.9	924.5	1 064.1
3. Net banking system credit to the public sector								
Ceiling		930.0	1 010.0	1 110.0		1 070.0	1 105.0	1 125.0
Actual	841.0	856.8	887.0	1 021.5	992.4	1 059.1	1 072.2	1 265.0
4. Outstanding arrears								
Ceiling		80.0	60.0	40.0				
Actual	82.0	79.2	48.8	30.4				
5. Foreign borrowing								
Ceiling (1 to 5 year loans)						60.0	60.0	60.0
Actual						0.9	4.5	12.9
Ceiling (1-12 year loans)						110.0	110.0	110.0
Actual						0.1	21.2	41.1

Source: Bank of Jamaica, Report and Statement of Accounts, 1978 and 1979.
(a) Including outstanding arrears.

The net foreign assets test measures the evolution of the balance of payments. The net domestic assets test gauges the central government's use of Central Bank credit. The test concerning net banking system credit to the public sector is meant to check the adequacy of credit to the private sector. At the same time all of these tests imply constraints on policy. Finally, the original EFF agreement also included a timetable for clearing up outstanding arrears. For the second year of the programme no specific requirements in this regard were included, although arrears continued to affect the net international reserves test. On the other hand, certain limits on foreign borrowing were added.

During the course of the first year of the programme all of the performance tests were met, although in the case of net foreign assets compliance sometimes required the curtailment of exchange outflows. Adjustments in the area of wages, profitability, relative prices, consumption, the real rate of exchange and administrative controls also proceeded more or less according to plan. On the other hand, there was some slippage in the fiscal targets, as revenues failed to increase by the projected amount. The most important setbacks, however, had to do with the evolution of output and the balance of payments. Thus, after showing no growth in 1977, the GDP declined 0.4% in 1978 and over 4% in 1979, as private sector investment, exports and the capital account of the balance of payments failed to respond as expected. The approximate equilibrium established in the balance of payments in 1977 was maintained in 1978 and 1979 only by the temporary expedients of continuing to repress imports and using IMF credit. Indeed, at the existing level of foreign exchange inflows the maintenance of equilibrium in the external sector made the decline of output virtually inevitable. On the other hand, the devaluations, relaxation of price controls and reduction of subsidies sent the level of prices spiralling upwards.

In the light of the persistence of the severe foreign exchange constraint, and taking advantage of a recent liberalization of the ceilings on the use of Fund resources, the IMF augmented its support to Jamaica to US$ 340 million in the final two years of the stabilization programme. At the same time, the targets, performance tests and policies were modified. The monthly devaluation of the exchange rate was ended, but the limit on wage increases was lowered from 15% to 10%, and more restrictive monetary policies were adopted. On the other hand, the fiscal targets were liberalized somewhat. On another front, the Government agreed to forge a "social contract" with business and labour, whereby maximum co-operation and consensus on crucial economic and social matters would be sought. Also, negotiations on the question of the modification of the Bauxite Levy and the foreign debt were commenced.

These initiatives met with some success. In particular, the dispute between the government and the bauxite companies over the levy apparently was resolved. But talks with the foreign commercial banks failed. That setback, together with escalating oil prices and interest rates, on the one hand, and an unexpected decline in exports stemming from flood damage in agriculture and a strike-related shutdown of mining operations on the other, made it impossible to satisfy the December 1979 net foreign assets test (see again table 23). Simultaneously, the evolution of the fiscal variables was straying way off target, partly because the anticipated upturn in economic activity refused to materialize and government revenues consequently fell short of the anticipated level, and partly because spending overshot budgeted amounts in the wake of the floods, the increase in interest payments and unexpected wage increases. As a result of this and the inability to acquire the hoped-for amounts of foreign financing, the Government absorbed a much greater amount of domestic resources than planned, and the permitted levels of net banking system credit to the public sector and of the net domestic assets of the Bank of Jamaica thus also were surpassed (see again table 23).

The failure of the foreign assets test triggered the suspension of the EFF accord. Notwithstanding the drastic measures of the stabilization plan and the unprecedented levels of IMF credit, it had proven impossible to overcome the foreign exchange constraint. The choice facing the authorities was to either implement more severe deflationary policies or lose access to IMF resources.

(b) *Fiscal and monetary policies in 1980*

In early February the then Prime Minister announced to the country that elections were to be held towards the end of 1980, or well over a year ahead of schedule. The purpose of calling early elections was to resolve as soon as possible basic questions concerning the future course of the nation, in the light of the failure of the IMF stabilization plan to lead to a recuperation of economic activity, of the suspension of access to the EFF and the inability to reach a new understanding with the IMF, and of the spreading breakdown of social order. In late March the cabinet, acting on the recommendation of the executive committee of the governing party, resolved to end negotiations with the IMF, and at the same time an alternative economic programme was outlined to the public.

As early as the previous September it had been clear that the December performance tests would not be met. Consequently the Jamaican authorities and IMF officials had entered into discussions over what steps would have to be taken to move the targeted variables back towards the established paths, and to secure a waiver from the December performance tests so that the agreement and scheduled credit drawing would not be interrupted. Also, the possibility of augmenting the amount of credit to offset the unanticipated exchange outflows was considered. Simultaneously, however, there was a growing consensus in the governing party that substantial costs but no benefits were being incurred under the IMF programme.

By December, agreement on such questions as the reorganization of the central government and of public enterprises was reached, but the size of the budgetary cutbacks continued to be disputed. Eventually, the Jamaican authorities decided to seek instead a one-year interim standby agreement, in connexion with the decision to hold elections before the end of the year. In the meantime an alternative economic programme was drawn up. And when the Minister of Finance determined that the performance test figures sought by the IMF under the interim accord would be violated by September at the latest, the Government resolved to follow an economic programme that excluded the IMF.

Table 24

JAMAICA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Fiscal year (a)				Growth rates			
	1978	1979	1980(b)	1980(c)	1978	1979	1980	1980(d)
1. Current revenue (e)	1 037	1 118	1 241	745	59.0	7.8	11.0	-2.3
Tax revenue	737	823	886	...	51.1	11.7	7.7	...
Non-tax revenue	30	61	40	...	-21.2	103.3	-34.4	...
Transfers from capital Development Fund (f)	268	233	312	...	143.6	-13.1	33.9	...
2. Current expenditure	1 143	1 283	1 438	1 088	37.2	12.2	12.1	15.8
Wages	280	328	363	...	22.8	17.1	10.7	...
Goods and services	154	152	170	...	35.8	-9.3	11.8	...
Interest payments	212	315	345	...	59.6	48.6	9.5	...
Current transfers	497	487	561	...	38.5	-2.0	15.2	...
3. Savings on current account (1-2)	-106	-165	-198	-343				
4. Capital expenditure	451	499	434	371(g)	35.7	10.6	-13.0	-8.2
Capital formation	146	154	166	...	15.4	5.5	7.8	...
Other	305	345	268	...	48.1	13.1	22.3	...
5. Total expenditure (2+4)	1 594	1 782	1 872	1 459(g)	36.8	11.8	5.0	8.6
6. Fiscal deficit (1-6)	-557	-664	-631	-641(h)				
7. Financing								
Domestic financing (net)	287	541	233	523	-41.7	88.5	-56.9	17.3
Banking system	136	310	135	419	-40.8	127.9	-56.5	12.5
Non-bank	151	231	98	104	-42.6	53.0	-57.6	41.7
Foreign financing (net)	270	122	398	122	1 179.1	-54.8	226.2	336.8
Other	-	-	-	4				

Source: Bank of Jamaica, Report and Statement of Accounts, 1980, and the World Bank.
(a) The fiscal year covers the period April to March. Thus the fiscal year 1978/1979 is shown under 1978, and so on.
(b) Budget estimates.
(c) Provisional outturn, April to December.
(d) April-December 1980 compared to April-December 1979.
(e) Includes capital revenues.
(f) Bauxite levy.
(g) Includes amortizations.
(h) Excludes amortizations.

This alternative economic programme consisted of two parts. One dealt with the long-run strategy of economic development, and the other with the short-term policies designed to contain the expected deterioration of the economy within tolerable limits, while the election issues were resolved.

The main goals of the short-term programme were to minimize the decline of output and employment whithout accelerating the rate of inflation, and to ensure adequate supplies of essential consumer goods. Targets were set for the product (-2.5%) and inflation (20%, or the same as in 1979), and the required performance levels in the balance of payments, public finance and money supply were identified. Above all, the viability of the programme hinged on mobilizing a supply of foreign exchange sufficient to plug the gap left in the wake of the breakdown of the IMF accord. Otherwise, imports would have to be slashed and the decline in output thus would be greater, while the burden of financing the government deficit would be shifted to the domestic banking system. The latter would lead either to an excessive creation of credit and hence additional inflationary pressures, or an inadequate supply of credit to the private sector, and hence an additional reduction in output. Alternatively, government spending could be reduced, but this also would entail a further contraction in the product and in employment.

In the circumstances, every effort was made to minimize the outflow and maximize the inflow of foreign exchange. Exchange controls were strengthened and the sources and uses of foreign exchange monitored on a continuous basis. An emergency external debt deferral operation with the commercial banks was arranged, and emergency measures, such as the plan to increase payments arrears by over US$ 100 million, were implemented. Finally, the Government sought extraordinary financing from bilateral sources.

In the area of fiscal policy, expenditures were to be increased by an amount consistent with the maintenance of existing levels of employment and the targeted increase in nominal GDP. The current account deficit would thus be similar to that of the previous year, but the overall deficit would be reduced from 16% to 12% of GDP. Since only minor increases in taxes were contemplated, this entailed reducing capital expenditure to keep the rise in overall spending below the expected rate of inflation. It was hoped that about two-thirds of the finance needed to cover the fiscal deficit would be provided by external sources (see again table 22).

Monetary policy was designed to dampen inflationary pressures, ease the strains on the balance of payments, and provide an expansion in credit sufficient to finance the planned level of economic activity. In January the bank rate, prime lending rate and savings deposit rates were all raised, although they remained appreciably below the rate of inflation. In February, a Deposit Scheme for Payments Arrears was established to mop up excess liquidity arising from the demand for foreign exchange that could not be met on a current basis, and to ensure an orderly liquidation of accumulated arrears as foreign exchange became available. Such a scheme had been used in connexion with the EFF programme in 1978, but this time interest would be paid on the deposits. In March, ceilings on consumer credit equal to the amounts outstanding on 31 December 1979, were established. Finally, the voluntary 40% liquid assets ratio for commercial banks that was introduced in 1979 on a temporary basis was extended through 1980.

Fiscal and monetary measures were reinforced by an incomes policy and price controls. The 10% lid on wage increases introduced at the start of the second year of the EFF programme was retained, while price controls were amplified and rigorously administered.

The fiscal accounts for the April-December segment of the 1980/1981 fiscal year are shown in table 24. As may be seen, significant variations occurred in relation both to the comparable period of the previous year and to the budgeted amounts. Current revenue was about 2% below the 1979 intake, and over 19% below the corresponding budget estimates. Current expenditures exceeded the 1979 ones (by 16%), but were virtually the same as planned. The resulting deficit on the current account was almost twice that of 1979 and two-thirds more than that envisioned for the entire fiscal year. Capital expenditure, on the other hand, was held below both the 1979 level and the planned level. In the latter case, the cutback amounted to one-fourth. Nevertheless, the overall deficit for the April-December period was already larger than projected for the entire fiscal year. This, together with the failure to mobilize foreign financing of the magnitude hoped for, led to much greater reliance on the domestic banking system, and especially on the Bank of Jamaica, than had been intended.[46] Net borrowing from the domestic banking system between April and December was equivalent to over 8% of the GDP for 1980 as a whole. Consequently, as the year progressed the monetary targets had to be modified. The decision taken was to accomadate both the public and private sector demand for credit and thus maintain the output and employment targets, while sacrificing the inflation one. In this manner the expansion of domestic credit reached over 34%, or much more than originally intended: that is to say, much more than would have been consistent with the projected levels of output and inflation.[47] As a result, the increase in the money supply approached 36%, notwithstanding a further appreciable deterioration in the net international reserves and a major increase in savings and time deposits (see table 25). The actual rate of growth of money was about four-fifths greater than planned, and this was probably a major factor in the acceleration of the rate of inflation over the course of the year.

[46]While the foreign exchange gap in the balance of payments was closed only a small proportion of the offsetting inflow was available to the central government.

[47]In this connexion, it should also be noted that the commercial banks exceeded the credit ceilings by an appreciable margin.

Table 25

JAMAICA: MONETARY BALANCE

	Balance at end of: (millions of Jamaica dollars)				Growth rates		
	1977	1978	1979	1980	1978	1979	1980
1. Money	494	581	625	847	17.6	7.6	35.5
Currency outside banks	182	173	220	260	-4.9	27.2	18.1
Demand deposits	292	397	410	457	36.0	3.3	11.5
2. Factors of expansion	1 122	1 106	1 251	1 831	-1.4	13.1	46.4
Foreign assets (net)	-246	-626	-845	-983	-	-	-
Domestic credit	1 368	1 732	2 096	2 814	26.6	21.0	34.3
Government (net)	691	914	1 128	1 619	32.3	23.4	43.5
Official entities	117	130	161	223	11.1	23.8	38.5
Private sector	560	688	807	972	22.9	17.3	20.4
3. Factors of absorption	628	525	626	984	-16.4	19.2	57.2
Quasi-money (savings and time deposits)	570	665	793	996	16.7	19.2	25.6
Other items (net)	58	-140	-167	-12	-	-	-

Source: International Monetary Fund, International Financial Statistics, Vol. 34, No. 9, September 1981.

Measured against the initial targets, the performance of the economy was rather disappointing. Yet, given the yawning foreign exchange gap, the very adverse weather conditions, and the extremely turbulent social climate that developed in anticipation of the election results, the performance was creditable. In any event, it was about the same as was turned in under the IMF stabilization plan.

In the October elections the governing party was defeated, and the new administration indicated that a fresh agreement with the IMF would be a principal component of its plan for economic recuperation.