CHAPTER III

DEMOCRATIC SOCIALISM: AN EVALUATION

As discussed in the previous chapter, in the decades of 1950s and 1960s, the Jamaican economy displayed periods of rapid economic and structural changes. With the 1950's there began a period of industrialization and emphasis on incentives to attract foreign capital. Thus, policy of industrialization by invitation did result in a rise in industrial growth in mining, manufacturing, tourism, transportation, construction and public utilities. There was a spurt in the rate of growth of gross domestic product (GDP) during the period stimulated essentially by foreign investment and exports, led by bauxite.

In the twenty years prior to 1972, approximately US $1 billion had flowed into Jamaica, especially in the multinational aluminum corporations that mined bauxite and refined alumina for export to the United States. More than 30 per cent of all domestic investment and nearly 25 per cent of all imports were financed by capital inflows. During this period, foreign trade as a proportion of the gross national product (GNP) had risen from 53 to 64 per cent during the period.
The process of industrialization produced several structural changes by 1972. The economy had become relatively diversified. The share of agriculture to the GDP decreased from over 32 per cent in 1950 to 9 per cent by 1972; manufacturing which accounted for below 7 per cent of the GDP had risen to 14 per cent; and construction rose from 4 per cent to 12 per cent. The mining sector contributed the most with Jamaica becoming one of the leading producers of bauxite during the 1970s.

The 'industrialization by invitation' had negative consequences as well. For instance, the fall in the share of agricultural output to GDP between 1950 and 1972 resulted in a further lowering in the standard of living of the masses and enhanced the dependence on import of food.

There was not much visible development in the rate of growth in other sectors, notably bauxite-mining. The capital intensive nature of the industries could not ameliorate the problem of unemployment. While there was a rise in the level of unemployment during this period, there was a decline in the absolute income of the poorest sections of Society. Added to these difficulties was the country's dependence on imported raw materials and energy to sustain the process of industrialization. Besides, the internationally integrated process of production together with the foreign
dominance served as additional obstacles to development and only accentuated the country's economic dependence of the 1950s and 1960s, fuelled largely by inflows of foreign capital which did not persist for long. This occurred partly because of conditions in the external sector on which the economy depended for its growth during the period. By the early 1970s the phase of expansion in the bauxite investment cycle had come to an end, which reduced the main source of growth. The unfolding international economic crisis of the early 1970s characterized by a sharp rise in the prices of energy, decline in growth within the developed countries particularly the US, accelerated worldwide inflation and increased rate of interest on international loans. All posed serious consequences for the strategy of development that was pursued by the PNP government of Michael Manley which assumed office in 1972.

This chapter is divided into three sections: The first section throws light on the development strategy of the govt. of Michael Manley. It delineates in detail the economic and political philosophy of the government, viz democratic socialism. As will be seen, democratic socialism was an outcome, largely of the protracted negotiations which the govt. had with the bauxite - alumina multinational corporations. This is dealt within the second section
within the context of bauxite policy. The final section, besides making an evaluation of democratic socialism, also deals with the impending economic crisis and the assistance sought from multi-lateral financial agencies, namely, the IMF.

Democratic Socialism

By early 1970s, the economic boom generated by the bauxite mining sector had almost come to a close. With a large multitude of the population faced with grim economic realities, there was a perceptible rise in social tension and political violence. In its wake, the overall disenchantment gave rise to the mushrooming of Black Power sentiments and Ras Tafari movements during this period. Taking note of the rising discontent, the PNP led by Michael Manley began to appeal to such sentiments by making use of the symbols of Ras Tafari culture and black pride. It was now being recognized that their conditions could be improved only by breaking the dependent nature of the economy, for which the policies and politics of the government need to move to a radical direction. In the ensuing elections of 1972, the PNP secured the largest majority ever obtained by either any political party under universal suffrage. The support base of the party was strongest among the middle class, the better off strata of the working class and among
the very wealthy.

During its first two years, the government initiated a number of moderate reforms which aimed at reviewing income disparities, and added to Jamaica's reservoir of skills, agricultural productivity and access to land. ¹ There was also a reorganization of state institutions which were placed under the control of representatives of the local capitalists close to the PNP. ² These measures had been taken to maintain the multi-class support base of the party.

Besides, the government also initiated studies pertaining to the possibilities of expanding social control over the economy. ³ A national commission, the National Bauxite

1. These included subsidies for essential food items, public works programmes, equal pay for equal work, the prohibition of various luxury imports, a programme that leased idle land to peasants, a literacy programme, training programmes and educational reforms.

2. For instance, Mayer Matalon, owner of the Industrial Commercial Development - a construction firm and one of the largest companies on the Jamaican Stock Exchange - was made chairman of the Urban Development Corporation. After the introduction of the bauxite levy, Matalon was placed in charge of the Capital Development Fund established by the government to invest the additional revenues. See, Fitzroy Amburseley, "Jamaica : The Demise of Democratic Socialism", New Left Review, (London), no. 128, July-August, 1981, p. 80.

3. In 1993, the government established the Jamaica Nutrition Holding, which among other things, was charged with importing some basic food items. In 1977, it was merged with the newly established State Trading Corporation (STC), which became the sole agency responsible for importing all basic food items, pharmaceutical, medical equipment, and building materials.
Commission (NBC), was set up to study the bauxite industry in order to re-orient its role in the economy. Though the bauxite industry had been an important source of economic growth in the 1960s, its contribution to the overall economy by its being an enclave industry with limited local participation. Also, given the fact that the industry being foreign owned, it was not possible to tax the commodity. In order to correct the anomaly, the NBC recommended, among other measures to increase revenues through a tax based on the price of aluminum ingot, and an equity share in the industry. The intention was to give a voice in the managerial decisions in the industry and in this way increase the stimulus the industry contributed to the whole Jamaican economy.

As the response of the bauxite companies to the recommendations was not favourable, the government after

4. Girvan has argued, "because of the peculiar problem of taxing a commodity which is not sold, but merely transferred between branches of the same company, the industry has been considerably under-taxed". See, Norman Girvan, Foreign Capital and Economic Underdevelopment in Jamaica, (Mona : University of the West Indies, 1971), p. 261.

5. Other important recommendations included: repatriation of lands owned by the bauxite companies; acquiring 51 per cent share in bauxite mining operations; establishment of the Jamaica Bauxite Institute (JBI); setting up of a cartel of bauxite-producing countries; and establishment of a smelter complex in cooperation with Mexico and Venezuela.
protracted negotiations was compelled to impose unilaterally a production levy of 7.5 per cent on all bauxite mined. The level of taxation was indexed to the price of aluminum ingot sold in the US.

Following the passage of the levy, negotiations were initiated with the foreign owned bauxite companies, which led to the government's securing a 51 per cent equity share in the industry. Though the ownership rights to the lands controlled by the bauxite companies were vested with the government, the ownership of bauxite was not. In short, though the government was able to increase the tax yield derived from the industry, it could not take important production decisions.

It was in the context of its negotiations with the bauxite companies that the government announced its commitment to democratic socialism. Though the motivation for the timing of this declaration remains unclear, the intention might have been to increase the government's bargaining capacity vis-a-vis the bauxite companies. If the government were to achieve its goals, it would have to mobilize as much support, and democratic socialism was the perfect way to
build that support. 6 Added to this was the international situation where detente had begun to replace the cold war as the determining framework of US foreign policy. 7 Side by side, there was also increasing demands by the developing countries for a new international economic order. Thus, both internal and international developments had played an important role in the commitment to democratic socialism.

With the adoption of democratic socialism, the PNP, which had given up socialism in the 1950s with the expulsion of radical members from the party, now in the 1970s began to move beyond traditional social democratic policies of mild reforms. Clearly a move to the left with many left-wing members occupying important posts in government, the PNP was inclined to a re-examination of the basic philosophy of the party in the light of prevailing circumstances both in Jamaica and the outside world. 8


8. On the political front, Manley had initiated the process of party building and ideological self-definition by inducing a number of younger political leaders emerging from the radical circles of Abeng -- a weekly newspaper published in the late sixties, where views ranged from liberal to radical revolutionary but had common grounds in the Black Power Movement -- into government.
Democratic socialism was defined as a political and economic theory under which the means of production, distribution and exchange were owned and/or controlled by the people. As a system, it stood for the end of exploitation and creation of society in which the wealth of the community was fairly distributed. Distinct from scientific socialism, its method was based on the alliance of classes around clear objectives. Even while rejecting capitalism as the system upon which to base the future of Jamaica, democratic socialism affirmed the right to own private property. What was being envisaged was the establishment of a mixed economy in which the public sector co-existed with the private sector, with the state exercising national control.

Democratic socialism did not envision nationalization, expropriation, or a substantial change in economic ownership. Instead, private enterprise and private foreign capital were welcome as long as it provided goods and services at reasonable prices, and was willing to enter into partnership with local private interests, the government or

10. Ibid.
11. Mandle, n. 6, p. 237.
both, as may be required by the government of Jamaica." The government was thus to assume an important role in the economy both in terms of providing direction and regulating the activities.

If the first two years of governance of the PNP was a continuation of a social democratic and liberal politics, 1974 marked a shift in the government's initiatives with the declaration of democratic socialism. Such a shift could be discerned not only in domestic policies, but international economic relations as well, which will be discussed subsequently.

Important initiatives undertaken as part of democratic socialism during this period were the policies pertaining to bauxite, employment generation and agriculture. As mentioned earlier, the government's strategy for dealing with the bauxite industry was to exercise local control over the development of the industry and to increase its resources. On the recommendations of the NBC, the government after discussions with public officials in the US, and the companies, decided to impose a production levy of 7.5 per cent in

12. Ibid.

13. In identifying countries with which the government shared socialist policies, the PNP government named Australia, Britain, Holland, India, New Zealand, Sweden, Tanzania and Zambia. Omitted from this but were Cuba, China and COMECON countries.
1974, later to be raised to 8 and 8.5 per cent in subsequent years.14 As a result, revenue from the industry increased from J $ 22.71 million in 1972 to no less than J $ 170.34 million two years later.15 At about the same time the government initiated steps for equity participation in mining operations. The government was to purchase all the company-owned funds, and retain a 51 per cent share in the mining operations. Simultaneously, the government took the lead in setting up the International Bauxite Association -- a cartel of bauxite producing countries -- eventually to increase revenue, besides aimed at reducing the monopoly of the multinational corporations.16

The bauxite policy of the PNP government was supported by the Jamaican capitalist class whose economic well-being, dependent on substantial imports of goods not only for


16. Other members of the IBA are Australia, Guinea, Guyana, Jamaica, Sierra Leone, Surinam and Yugoslavia.
personal consumption but an inputs for their manufacturing industries, was being threatened by a shortage of foreign exchange. Revenue that was coming from the imposition of the levy was channelised into a capital development fund (CDF), the purpose of which was to enhance the productive capacity of the economy. Management of this fund was also in private hands.

The response of the bauxite alumina companies to the government's bauxite policy was not favourable. Besides lodging protests with the International Centre for Settlement of Investment Disputes (ICSID), some of the companies curtailed production. By 1975 bauxite production was reduced to only 75 per cent of the rated capacity. The US government was approached by the companies to intervene on their behalf, and they began to transfer bauxite and alumina

17. Leading members of the capitalist class such as Meyer Matalon and Patrick Rousseau were appointed Chairman and Vice-Chairman respectively of the NBC which presided over the negotiations with the bauxite companies.

18. Again Matalon was in charge of the fund; the bulk of its budget was directed into the construction industry, to the particular advantage of companies owned by his fellow capitalists. See, Payne, n. 15, p. 28.

19. The ICSID is a World Bank centre for arbitration between nationals, i.e. companies of one state and the government of another. Companies such as Alcoa, Kaiser and Reynolds and had lodged protests for arbitration.
production for Jamaica to other parts of the world. While the Jamaican share of the world bauxite market fell from 19 per cent to less than 14 per cent between 1973 and 1976, that of countries like Australia and Guinea increased significantly.20

On the question of employment generation, a Special Employment Programme was launched in 1972 to harness public resources to hold down unemployment levels. By 1975, nearly 25,000 jobs had been created.21 An important legislation of the period was the introduction of a minimum wage of J $ 20,1 and provision of year-round employment in the sugar industry.

Yet another initiative of the PNP government to win over the support of the lower classes was in the field of land reform. Though the agricultural sector employed 60 per cent of the population, the income for each employed person was only one-third of the national average between 1960 and 1972. The major goal was the rapid restructuring of the rural economy. Referred to as the land [case project, the land reform programme involved leasing of small plots of


21. These included street cleaning, digging gullies, road construction, cutting trees, etc.
land to a system of cooperative farming. The intention of the government, besides providing land to the landless, was to pursue goals of import substitution to reduce dependence on food imports and increased agricultural production. Measures were taken to promote social ownership. Between 1973 and 1976, more than 47,000 small farmers had been allocated 10,000 acres of arable land on a 49-year leasehold basis. By 1980, more than 21,000 small farmers were placed on 39,500 of the 42,500 gross arable acres of land acquired by the government. Between 1972 and 1980, the production of domestic crops increased 0.8 per cent annually while that of exports crops declined at an annual rate of 6.1 per cent.

Further, the government, while welcoming foreign direct investment stressed the need for its proper utilization to ensure lasting results. It was made explicitly

---

22. The land lease project involved three stages: Land lease I involved leasing small plots of land for five to ten years, with the provision of credit for major soil conservation, seed, harvesting and transportation costs; land lease II provided farmers with long term leases up to 49 years; and land lease II was a cooperative farming programme.


24. Ibid.

25. Ibid.
clear that this was possible only by changing the structure of the economy and exerting national control over key sectors of economy, viz., the public utilities, mining, financial institutions and the sugar industry. Steps were also taken to acquire the local cement of flour companies. The government through this action intended to end the monopoly of the construction industry by the local capitalists. But this only led to a friction between the government of the local business.

In the meantime, the economy was gradually entering a crisis situation, with the rate of growth of GDP increasing at a diminishing rate initially and then falling by 4.1 percent in 1974. The foreign exchange reserves fell from US $ 146 million in 1971 to J $ 76 million in 1973. The reasons for the fall in economic activity were chiefly the impact of the international receiving rise in import prices, rising cost of borrowing, the end of expansion in bauxite alumina of tourism, and the consequent effects of all this on local investment of production. The government respond-

26. By 1975, the government had taken over the Barclays International Bank, public utilities including the Jamaica Public Service Company, Jamaica Omnibus Service, foreign-owned hotels and sugar estates belonging to Tate and Lyle and United Brands. For details, see Kaufman, n. 14, p. 90.

27. Ibid., p. 75 and p. 247.
ed by imposing a total import ban on 56 items, and restricted the import of fifteen others. The limited foreign exchange was to be spent on essentials. Measures were taken to check the drift from the land and to encourage farming, whereby spending on imported food could be curtailed.28

With declining capital inflows into the bauxite-alumina sector and a widening trade deficit, the government devalued the Jamaican dollar by 6.5 per cent in 1973 and pegged it to the US dollar. Such a step was taken to check the rapid erosion of Jamaica's foreign reserves.

By 1974 the government was facing serious problems trying to pay for its imports. The increased cost of imports, while the government was reducing them, resulted in a 20 per cent rise in the cost of living in 1974. Foreign reserves fell to US $100 million in the same year. During 1975, the government managed to attract loans worth over US $130 million from diverse sources.29


29. A $ US $38 million was arranged under the lead of the First Chicago Bank. A syndicate of twenty international banks put up the loans for capital expenditure in agriculture and forest development, the improvement of roads, the domestic water supply and the expansion of airports. The terms were over five years. Other institutions which provided funds included the Inter-
The government introduced an income and prices policy in October 1975 to bring down inflation from 21 per cent to a target of 16 per cent over the next 12 months. The import ceiling was lowered to J $ 900 million. In the first six months of 1976, the deficit rose to J $ 130.6 million, and so in July, the import ceiling was lowered again to J $ 820 million.

Other major problems faced by the government included the flight of over US $ 200 million at the end of 1976 by local businessmen. Further, an estimated 2000 out of a total of 10,000 professionals was indeed damaging especially since it occurred when the need was greatest for professional technicians of managers to cope with the ever-growing problems besetting the economy.

**Bauxite Offensive**

Among the first few acts initiated by the government of Michael Manley, the initial goal was a modest one of raising higher revenues from the bauxite sector. A national bauxite commission (NBC) set up had made important recommendations: repatriation of the lands owned by the bauxite companies; acquisition of 51 per cent ownership of the bauxite mining

""""""\[Continued...\]

American Development Bank, the World Bank and USAID. A US $ 50 million was offered in September with the Citicorp International taking the lead.
operations; establishment of the Jamaica Bauxite Institute (JBI); the formation of a cartel of bauxite producing countries; increased revenues through a tax based on the price of aluminum ingot; and the development of a smelter complex in cooperation with Mexico and Venezuela. The intention of the government was to end the enclave nature of the bauxite alumina industry as well as to raise higher revenues, besides government's equity participation in the industry. A fall out of the recommendations made by the NBC was the imposition of a production levy of 7.5 per cent on all bauxite exported or processed. Nationalization though suggested by some government experts, was ruled out on grounds of financial burden on the national exchequer and constitutional impropriety. As per a clause in the Jamaican constitution, compensation would have had to be paid at fair market value; thus, Jamaica would have had to bear a heavy financial burden for many years. Even without the constitutional clause it would not have been possible to do anything without breaking with the multinational bauxite-alumina companies for Jamaica lacked the technology and markets to develop its bauxite resources.

The decision to impose a production levy had been taken by the PNP government after prior consultation with both the Canadian and US officials. Manley personally met with his
Canadian counterpart Trudeau and US Secretary of State, Kissinger in an attempt to test what the reaction of the North American governments would be. Trudeau assured Manley that the Canadian government would not object as long as fair compensation was paid in case of nationalization and as long as the Canadian company, Alcan, was not treated differently from other companies. To Kissinger it was assured that the government's decision was purely economic and implied no political hostility to the US; and Jamaica recognized the strategic importance of bauxite to US and would never block its access to Jamaican bauxite. Though some of the US companies approached the State Department and made requests to have Jamaica blacklisted and its aid cut off, the US government decided not to retaliate. The PNP government also consulted with key interest groups unions, media, church leaders, private sector organizations to have a cross-class support on the question of the levy.

Negotiations with the companies was however not smooth. On the question of increasing revenues, it was clear that a unanimous decision would not be forthcoming. In order to strengthen its bargaining position, the PNP government passed a law in May requiring the companies to give the government all the information it required on their operations and imposing stiff penalties for failing to do so.
The government proposed a levy on bauxite based on the price of aluminum ingot in US. The initial offer was 8.75 per cent of the price of a ton of ingot, divided by the amount of bauxite required to make a ton, say about 4.3 tonnes, on aluminum prices up to 35 cents per pound; the levy would be raised for higher aluminum prices. The companies countered with an offer of 3 per cent, and mid-May they had rejected the government's compromise offer of 6 per cent. So, the government unilaterally imposed a levy of 7.5 per cent of the price of aluminum ingot retroactive to January 1974, which would be raised to 8 per cent and 8.5 per cent in the following two years. The levy was expected to yield $170 to $200 million in the period January 1974 to March 1975. Besides the levy, the companies were to pay a flat royalty of J$0.50 per ton on all production. Income taxes on bauxite production were suspended; but retained in the case of alumina production along with the levy.

Further, as a pre-emptive measure, the government followed the legislation on the levy with a bill giving the government the right to specify the quantity of any mineral to be extracted by any company over a given period of time. If the company did not comply, it would be responsible for the levy at the assigned quantity, its lease could be canceled, and it could face further penalties.
The companies reacted sharply by lodging complaints at the ICSID, whereupon it was announced that the government had already given notice to the ICSID of its withdrawal from the provision of the treaty covering natural resources.

After the imposition of the levy, negotiations with the companies continued over the acquisition of equity and bauxite lands. The signing of agreements with the companies led to the dropping of complaints with the ICSID. The agreements gave the government 51 per cent of Kaiser's and Reynold's Jamaican operations - companies involved in bauxite mining only 6 per cent of Alcan's and 7 per cent of Alan's combined mining and refining operations. The government also acquired all land owned by the companies, guaranteeing the companies supplies for 40 years and granting them a management contract for a renewable seven-year period. The government would also get an annual share of alumina equivalent to its share in ownership from Alcan for independent marketing and under a separate agreement Jamaica could barter part of its alumina with Alcan for aluminum, for which Alcan could act as a marketing agent. The terms of these agreements were favourable because book value was paid for land and mining assets. Payments were to be made over ten years at 7 per cent interest for the land and 8.5 per cent the equity. It had been estimated that revenues
would exceed the government's financial obligations to the companies after 8 years. In return the government agreed to lower the levy to its 1974 level of 7.5 per cent.

As regards the other recommendations of the NBC, a cartel of bauxite producing countries -- International Bauxite Association (IBA) was founded in 1973 with besides Jamaica, Australia, Guinea, Guyana, Sierra Leone, Surinam and Yugoslavia, as its founding members. With a share of 70 per cent of total world production of bauxite, and about 90 percent of world trade, the IBA's key function came to be the sharing of information and expertise, which strengthened the member countries in negotiations with the companies. After the imposition of the levy, NBC officials briefed the other IBA countries, most of which then adopted similar types of levies.

Another component of the bauxite strategy was the setting up of Jamaica Bauxite Institute (JBI). Its main purpose has been the development of local technological and managerial expertise, and thus of the domestic capacity to run the industry. Besides performing research, advisory, entrepreneurial and administrative functions, the Institute registered as a public sector company in 1976, acted on behalf of the government as a partner in joint ventures.

Regarding joint ventures as outlined by the NBC for
setting up of aluminum smelter complexes, agreements were concluded with the government of Guyana and Trinidad and Tobago, and Mexico and Venezuela. But both agreements were later shelved by the partner countries. Thus, a case of developing a fully integrated industry in cooperation with other countries did not bear fruit.

On the whole, Jamaica was able to increase its revenue from bauxite as a result of the levy. The revenue from the industry increased from J $ 22.71 million in 1972 to J $ 170.34 million two years later. This revenue was channelised to a capital development fund (CDF), the purpose of which was to enhance the productive capacity of the economy. The management of the fund was entrusted with Meyer Matalon, a prominent private businessman, who directed bulk of its fund into the construction industry, to the particular advantage of companies, owned by local capitalists. The response of the bauxite-alumina companies to the government's bauxite policy, however, was not favourable. Besides the lodging of complaints with the ICSID, it is found that both Jamaican bauxite production and the country's share of world production fell in the wake of the levy. By 1975 bauxite production was reduced to only 75 per cent of the rated capacity. Thus, while the Jamaican share of the world bauxite market fell from 19 per cent to less than 14 per cent between 1973
and 1976, that of countries like Australia of Guinea increased significantly.

The companies cut down on production between 1975 and 1978. This is reflected in a decline in bauxite's contribution to the GDP over the 1975-1978 period; thus forfeiting Jamaica's claim to the world's largest producer of bauxite (whereas Guinea, Sierra and Australia increased production). A recession had set in the bauxite industry worldwide, which brought with it a budget deficit crisis, as the PNP government continued to spend money on its social welfare programmes. The government was compelled by 1976 to reduce its spending. By taking recourse to such a measure, the government had very little chance of going ahead with its socio-economic development programme; consequence of which was anti-government demonstrations due to high rates of unemployment, poverty, inflation and food shortages among the lower classes. The PNP could have succeeded with its bauxite levy, had there been no retaliation from the US government as well as the companies. US government officials including the Secretary of State, Henry Kissinger, policy maker, US congress leader as well as the US press had vehemently opposed the bauxite levy. It was convinced by the US public officials that the Jamaican case would set a precedent for the formation of several other raw material
cartels against the developed countries. Others held the view that the PNP's actions were part of an expropriation strategy that is consistent with socialist and communist policies.

During the tenure of the PNP government, the public sector expanded rapidly, in terms of both expenditures and employment. Employment in the public sector increased by 45 per cent during the period, and the wage bill of the public sector increased in 1980 prices from J $ 552 million in 1972 to J $ 753 million in 1982. This rapid expansion was due not only to the ambition of the government to recapture the commanding heights of the economy, but also to the kind of population to favour certain groups to follow certain policies that are not necessarily growth enhancing from the standpoint of the economy.

By the end of the 1970s, the economy had registered high rates of inflation, a dwindling export sector, a widening gap between public expenditure and tax revenues, and a rapidly expanding external debt. Although negotiations with the IMF had already begun during the late 1970s, it was not until the shift in power took place in 1980 that the political authorities committed themselves to instituting economic reform.
Though the bauxite-aluminum industry had been a principal source of economic growth in the 1960s, its contribution to the overall development was limited by its being an enclave industry engaged in limited processing of bauxite in Jamaica itself. Apart from labour, this industry purchased very little from the local economy and rest of the materials its processing and production were brought from other countries. Hence, the Jamaican economy could not speed up its process of development.

The PNP government initiated negotiations with six North American bauxite-aluminum companies operating in Jamaica to change the context under which they functioned in the country. 30 The government had two important motives in this sphere: (i) the government wanted to increase the level of revenue received from the bauxite operations by the imposition of a production levy; and (ii) the government also wished to establish a governmental equity share in the industry. The bauxite aluminum companies stationed in Jamaica did not give a favourable response to the decisions of the government. The companies immediately retaliated either by curtailing production or by relocating their industries elsewhere, thus reinforcing a trend which had

30. The six North American companies were Alcoa, Alcan, Kaiser, Pechiney, Reynolds and Alusuisse.
begun in the beginning of the 1970s. As a matter of fact, the government did not have a decisive voice in the production and related activities of these multinational companies though the government could increase its tax over their industrial products.

Economic Policies of PNP: An Evaluation

As mentioned at the outset, the socio-economic programmes initiated by the PNP government with the objective of attaining redistribution with growth, had its impact on the fiscal budget. The fiscal data for the period 1972-1976, as seen in Table, show a spurt in total expenditure, which increased by over 21 per cent for four of the five years and by nearly 70 per cent in fiscal year 1974-75. If for the first two years of this period, the increase was due to the current account, - 1974-75, the capital account which increased by 150 per cent was the cause of the growth in total expenditure.

The increase in total expenditure from less than 25 per


32. in the last two years of the period, its rate of growth even exceeded that of current expenditure.
cent of GDP in 1972-74 to 42 per cent by 1976-77 reflected the growing importance of government in the overall economy. Such an expanded role was due in a large part to deficit financing or reflected in the growth of the deficit from less than 5 per cent to 15 per cent of GDP by 1976-77.

Of equal importance to the goal of an increased role of government in the economy was an expanded capital budget.\textsuperscript{33} The expansion in the capital budget which proceeded during the 1972-1976 period was financed largely by external sources of funds. These external funds were allocated to infrastructure and social service projects and programmes, which was never less than 90 per cent in four of the first five years.\textsuperscript{34} Such investments did little to enhance the productive capacity of the country to earn the much-needed foreign exchange, which further limited the ability to repay the loans contracted.

Besides, the deterioration in the fiscal budget by early 1976, there were also clear indications of a corresponding deterioration in the balance of payments. The deficits in the current account of the balance of payments


\textsuperscript{34} Ibid.
averaged 10 per cent of GDP in 1975-76.\textsuperscript{35} Prior to 1972, these deficits had been financed chiefly by inflow of direct foreign investment, but between 1972 and 1976 extensive foreign official borrowing, especially from foreign commercial banks, became the major source of finance. During the period 1972-75, nearly 40 per cent of the cumulative current account deficit was financed by commercial banks.\textsuperscript{36} In 1976, with the curtailment of external commercial lending to Jamaica, international reserves were utilized to cover the current account deficit. As a result of these actions, the external public debt of the country increased four-fold between 1972 and 1976 to about US $ 830 million and net official reserves fell by about $ 350 million to minus $ 230 million.\textsuperscript{37} Also, owing to the shortage of foreign exchange, the government had to restrict imports of nearly 370 items by 1980, giving rise to high levels of unemployment as domestic production declined. Besides, there was a flight of both human and investment capital out of Jamaica by


\textsuperscript{36} Ibid.

\textsuperscript{37} Ibid.
Thus, between 1972 and 1976, the expansionary fiscal policy of the government resulted in an increase in consumption expenditure from 78 per cent to over 90 per cent of GDP. Investment during the period declined from 31 per cent to less than 19 per cent. Together with a widened trade deficit as a result of the drying up of capital inflows, and a rising external debt, the current account deficit by 1975 increased by about $15.7 million to $283 million. With decline in export volume and inadequate receipts from tourism, led to the current account deficit and reached $303 million equivalent to 10.2 per cent of GDP in 1976. This deficit was financed by a draw down of international reserves of about $250 million, equivalent to

38. It has been estimated that by the end of 1976 nearly US $200 million had illegally been exported out of the country by local businessmen. Further, about 2,000 out of a total of 10,000 professional people had emigrated. See, Caroline Thomas, "Jamaica and the Search for Security in the 1970s" in Caroline Thomas, *In Search of Security: The Third World in International Relations* (Sussex: Wheatsheaf Books, 1987), p. 163.


40. Ibid.

41. Ibid., p. 379.

42. Ibid.
8.4 per cent of GDP. By the end of the year, the gross foreign exchange reserves had become virtually exhausted, in December the foreign exchange market was closed. In such compelling circumstances, with commercial lending not forthcoming, the government had no other option but to approach the International Monetary Fund (IMF).

The economic crisis of the 1970s which was the outcome of both internal and external factors, that is in the form of an expansionary fiscal policy and a foreign exchange crisis originating from increases in oil prices of recessionary tendencies in the major industrialized countries, left the PNP government with little option but to seek external finance from the international financial agencies, notably the IMF. During the period 1976-1980, two major agree-

43. Ibid.

44. Though Venezuela and Trinidad and Tobago provided same assistance, it was inadequate, with the reserves deteriorating fast, an oil tanker had to be turned back from Kingston harbour - 1976. In such a situation, it has been reported that the deputy governor of the Bank of Jamaica advised the government to seek a fresh mandate is to device a stabilization package.

45. Jamaica joined the IMF February 1963 under Article 8, agreeing to pay contributions in the manner of a developed country. By December, Jamaica external into a stand-by arrangement, under which the country was allowed to draw into the second credit tranche of its quota. The arrangement was conducted out of a desire to obtain the IMF's stamp of approval for the government's economic policies. In June 1973, another stand-by ar-
Prior to the elections held in December 1976, the officials of the government of Jamaica and representatives of the IMF had worked out a stand-by arrangement which stipulated, among others, a 40 per cent devaluation and a reduction in government expenditure.\(^7\) Decision on the arrangement however was deferred pending the final outcome of the election. The PNP went for the election and the arrangement was rejected. The left-wing within the party having gained supremacy began to exercise their influence on all policy matters.\(^8\) It was argued that the proposed devaluation apart from having social consequences would not lead to an increase in exports. The fall in commodity exports work attributed to problems within the industries, due to market forces. So also, if devaluation were to result in less foreign exchange earnings from bauxite, the situation would have been catastrophic. Instead of the IMF prescriptions, an economic policy was suggested by the government in January 1977 which included among others a wage freeze till July, import restrictions of tightening of exchange con-

---Continued...

...Continued...

rangement was concluded out of financial need. the IMF imposed quarterly performance tests were met of the agreement was fully utilized. Later, upto 1977, Jamaica availed low-conditionality facilities, viz., the oil facility and compensatory finance facility from the IMF. for further details see International Monetary
trols. Besides, a production plan was prepared involving peoples' participation of increased role of community level organizations in decision-making, as part of mobilizing resources to manage the economic crisis.

But the severity of the foreign exchange led the government to either ban or restrict the import of a number of commodities. The object was to stimulate domestic production to save foreign exchange. The government further introduced a dual exchange rate system whereby there was a devaluation of the currency which applied to non-basic imports for exports from sectors which were being encouraged to expand; the previous rate was maintained for government transactions, bauxite-alumina exports at the importation of basic foodstuffs and medicine. In effect, the new exchange rate system represented a partial devaluation of 37.5 per cent.

Though the government was able to get by without assistance from the IMF in the first six months, loans from external sources during the period proved to be highly

...Continued...


47. Thomas, n.38, p. 166.

48. For a description of the popularity of the left-wing in the PNP during the period, see Thomas, n.35, pp. 167-69.

127
inadequate. In such a situation, the government was compelled once again to renegotiate with the IMF.

Following negotiations with the Fund, a stand-by arrangement was agreed upon in July, involving about US $75 million. The IMF stipulated certain conditions for the disbursement of the loans. With the aim of reducing borrowing requirements and building up foreign exchange reserves, Jamaica had to increase domestic production, tighten demand management policies, to pursue a restrained income policy, to eliminate existing payment arrears, to liberalize the exchange and trade system. The availability of the loans, divided into two tranches, depended upon the fulfillment of the quarterly performance criteria based on the laid down conditionalities. Announcement of the loan paved the way

...Continued...

49. Ibid., p. 170.

50. In February, nearly 128 items were placed on the list of prohibited import commodities.

51. Davies, n.23, p. 85.

52. Thomas, n.36, p. 171.

53. The few loans that were obtained such as US $53 million from the European Development fund for the banana industry were inadequate, at Jamaica's foreign reserves were almost exhausted. Moreover, since commercial lending institutions often took their case from the IMF, Jamaica did not find it easy to obtain loans.


128
for loans from diverse sources.\textsuperscript{57}

The Fund agreed with government's dual exchange rate system and restrictions on imports. As could be seen from the trade data presented in Table, there was a sharp reduction in the adverse trade balance between 1976 and 1977 and a maintenance of a figure at or below US $ 200 million for the four year period 1977-1980.

In short, the stand-by arrangement further sought to bring the budget deficit into line with projected real resources without bank credit, and to attract external funds to permit a gradual adjustment in the balance of payments, and thereby to halt the rapid decline in economic activity. Substantial net foreign assistance equivalent to 5.5 per cent of GDP was expected to help finance the budgetary and current account deficits.\textsuperscript{58} The fiscal deficit relative to GDP was to be halved, though the current account deficit of the balance of payments was still programmed to run at 4.2 per cent of GDP.\textsuperscript{59} A high degree of fiscal restraint, as well as a severe income policy was adopted.

\texttt{\ldots Continued\ldots}

55. Thomas, n.23, p. 172.

56. The loan was divided into two tranches: US $ 44 million to be made available in 1977, and another $ 30 million in 1978. Available immediately in August 1977 was $ 22.4 million. The loan was equivalent to 121 per cent of Jamaica's quota in the Fund.
In the event, however, the expected wage moderation, fiscal adjustment, and external financing could not be achieved. Wage guidelines announced in July were modified under trade union pressure, and public sector pay increases were offered, all of which resulted in an increase in public expenditure. By December, it had become obvious that the restrictive stand-by targets for both the fiscal and external accounts would not be met. The net domestic assets of the Bank of Jamaica failed to be below the IMF stipulated ceiling of J $ 335 million, by just J $ 9 million, or 2.6 per cent. 60 To the IMF, such an expansion in domestic credit had financed the fiscal deficit which touched 16.3 per cent of GDP instead of the targeted 9.1 per cent, and had increased wage-price pressure. 61 Hence, the stand-by arrangement was discontinued; only the first tranche of US $ 22 million had been drawn, the second tranche of US $ 11 million due in December was not forthcoming. 62

---Continued---

57. These sources included the Netherlands, Venezuela and many commercial banks. A total of US $ 190 million was sought in external loan finance in 1977. See, Thomas, n.78, p. 172.


59. Ibid.

60. Thomas, n.33, p.175.

130
The IMF further stipulated that the linking of the wage rate to the exchange rate was to be the basis of a framework for a new programme. While conceding to the IMF demand, the government increased the minimum wage from J $ 20 to J $ 24, and increased subsidies to protect the poorer sections from the effects of devaluation. 64

Following intense negotiations, a three-year extended fund facility (EFF) was agreed upon in May 1978, involving US $ 250 million. 65 The agreement called for the unification of the dual exchange rate system with an immediate 15 per cent devaluation, to be followed by small monthly devaluations, to taking another 15 per cent. 66 It included proposals for price liberalization and to limit wage increases to a maximum of 15 per cent over the first two years. The fund insisted on a tax package involving new taxes on a range of commodities to yield $180 million in fiscal year 1978-79. 67 Further the size of the public sector world have to be

64. Thomas, n.38, p. 176.
65. This was equivalent to 270 per cent of Jamaica's quota.
restricted by eliminating current account deficit and reducing the overall deficit. The activities of the private sector were to be strengthened and increased, and state intervention minimised. The overall strategy to bring about economic growth was to be based on an exported growth strategy.

The accompanying monetary measures included an increase in the liquidity ratios of the banks to 40 per cent, ceiling on commercial banks loans and advances to the private sector of 10 per cent and above the amount in May 1978.68 The performance criteria included the conditions that the net domestic assets of the Bank of Jamaica increase by only 16 per cent to the end of the fiscal year.69

Unlike the earlier stand-by arrangement, the EFF besides involving a longer time period for adjustment, provided some concessions to the government, in the form of increased subsidies on imported food to offset the effects of devaluation.70

The objective of the EFF was to enhance fixed investment to 21 per cent by raising the level of savings, thereby

68. Boyd, n.66, p.22.
69. Ibid.
70. This amounted to about 2 per cent of GDP.
curtailing the share of consumption. Thus, reducing consumption and boosting exports, with a deflationary package involving devaluation and wage restrictions, were the main motivating factor behind the IMF policies.

A major portion of the loan package was to be allocated to the export sector by financing raw materials and machinery needed by Jamaican agriculture and industry. Besides, bringing down the trade deficit, the package also envisaged a significant amount to be used for servicing the debt obligations.

In short, the four of the EFF was on reviving economic growth. The emphasis was on reducing domestic consumption and increasing exports so as to improve the external account. The private sector was to be accorded a significant role in economic activity. To restore incentives to the private sector, price control regulations were relaxed and a series of small monthly devaluations along with wage restraint were instituted. All these measures were intended

71. Thomas, n. 35, p. 177.

72. A medium-term refinancing of 87.5 per cent of the amortization due foreign commercial banks by the public sector was arranged. The inflow under this refinancing operation amounted to about $73 million in the first year of the programme. A programme loan of $30 million was extended by the World Bank, besides a total of $53.5 million pledged by the Caribbean Group for Cooperation in Economic Development (CGCED).
to impose the competitiveness of the export sector. A necessary assumption was that no capital inflows would increase considerably.\textsuperscript{73}

Although the government carried out all the aspects of the EFF in the first year, May 1978 to April 1979, the economy did not stabilise. Instead, the current account further declined, real GDP declined by 1.6 per cent; and target set for tax receipts were not achieved.\textsuperscript{74} The government thus requested a revision of the agreement in order to obtain financing under the supplementary financing facility. The terms of the 1979 programme were similar to these under the previous year. By December, Jamaica failed to meet the programme criteria. Domestic credit expansion to support the government budgetary deficit had exceeded the allowable amounts.\textsuperscript{75} Besides, unable to secure re-financing of the major portion of the country's external commercial debts, Jamaica could not meet the target stipulated in the performance test resting to the net international reserves of the


\textsuperscript{74} Boyd, n. 66, p. 22.

\textsuperscript{75} Brown, n. 73, p. 40.
Bank of Jamaica. 76 Thus, after having received US $ 201 million under the EFF, the government was once again compelled to renegotiate the terms to secure a waiver from the December 1979 performance tests and an amendment of the programme to increase the amount of loans on grounds of higher import prices and interest rates. 77

Towards the close of 1979, the IMF agreed to a waiver from the quarterly performance tests on condition that Jamaican authorities undertake a major reorganization of the government administration, rationalization of public enterprises, and reduction of public expenditure to the tune of $ 300 million in 1980-81. 78 This would have meant a contraction of 26 per cent in real budget expenditure excluding

76. The failure has been attributed to a series of exogenous factors: natural calamities in June and September 1979 which led to a loss of US $ 20 million in export earnings, and required an additional expenditure of J $ 35 million; increase in international inflation to 14.5 per cent, amounting to an average 7 per cent increase in the price paid by Jamaica for its imported commodities, a sharp increase in international interest rates which amounted to an additional US $ 30 million interest payments on foreign commercial loans; additional payments of US $ 33 million due to rise in the price of oil. By the end of 1979, the foreign exchange gap soared to US $ 130 million. For details see, Paul, n. 37, P. 53; and Norman Girvan, Richard Bernal R. Wesley Hughes, "The IMF and the 'hird World : The case of Jamaica, 1974-1980", Development Dialogue (Upsala), no.2, 1980.

77. Paul, n. 67, p.53.

78. Girvan, et.al., n. 76.
debt-service relative to 1979-80. The government would have to institute the measures to effect one-half of the reduction before the waiver would be granted. These measures included a J$ 50 million cut in the wage bill of the central government to be undertaken through the retrenchment of up to 11,000 public sector employees. Further, the waiver would entitle Jamaica to one tranche, i.e., US$ 30 million of IMF resources only; the remaining would be conditional on the actions to effect the other $150 million of reductions.

Although the government attempted to work out a new agreement with the IMF by taking steps to reduce the number of its ministries from 20 to 13 and to improve the efficiency of major public enterprises, the negotiations for a waiver did not materialize. All the stipulated measures amounted to a major cut in the budget. The harsh conditions laid down in the form of further cuts in the current account of the budget was however unacceptable to the government. Following intense discussions within the PNP, the IMF pro-

79. Ibid.
80. Ibid.
81. Ibid.
82. Paul, n. 67, p. 53.
gramme was rejected. In its place, the government sought to implement an alternative programme, which in the short-run involved negotiations for re-scheduling of debts, energy conservation, increased local food production, promotion and development of tourism export industries, expanded production of bauxite and alumina, monitoring of prices, and the prevention of foreign exchange leakages. The long-term nature of the programme aimed at economic development and progress under self-reliance, to be achieved through hard work and discipline. But with the people already having had experienced the social and economic consequences of the IMF policies, on the one hand and the inadequacy of external sources of finance, on the other, the implementation of such an alternative programme stood questioned. This was reflected in the elections held in 1980, which resulted in the defeat of the PNP. The victory on the part of the JLP was an affirmation of continuation of IMF policies and programmes.

To understand the impact of the agreements, it would be worthwhile to look at some of the policy variables.

83. Ibid., p. 54.

84. One of the main issues in the election campaign was the role of the IMF in the economic life of Jamaica. The JLP won 53 of the 60 seats in Parliament.
The IMF policy resulted in a fall in real wages by as much as 35 per cent in 1978 alone. Government expenditure and the fiscal deficit in relation to the GDP were reduced sharply. The growth of bank credit was contained. International cost adjustment and demand management were to a large extent thus, successfully accomplished.

The programme had also envisaged better performance of external trade of payments and overall production. The value of imports contracted in 1977 as a result of tight import restrictions, but expanded in 1978 as the restrictions were liberalized. Export growth was substantial in 1977 as the bauxite-alumina industry picked up, but in terms of foreign currency, there was hardly any growth at all in 1978. This deficit on the balance of trade and payments was significant in 1977, but widened again in 1978. Inflows of capital from the IMF and from the refinancing operations of the commercial banks allowed imports to be licensed more freely and financed a larger deficit on trade and payments, but the exchange rate and demand management measures showed no effect on the performance of merchandise trade.

This was not surprising as Jamaica's exports were marketed under difficult conditions. In the case of bauxite-alumina, the devaluations had a perverse effect, in that the
companies brought in a smaller amount of foreign exchange in order to finance the purchase of local goods and services, especially the payment of wages and salaries. The savings to the companies amounted to approximately $30 million in 1978 or 5 per cent of the central bank's foreign exchange cash receipts in the previous year. In the case of sugar and bananas, the production problems in export performance remained. Manufacturing exports showed some buoyancy since the devaluations, but since their share in total exports increased more than 10 per cent and their share estimated import content around 65 per cent, even a relatively high rate of growth had little effect on overall export performance.

As far as imports were concerned, there was little evidence of substitution of domestic for imported commodities as a result of the price effects of the devaluations. Some substitution of domestic for imported foodstuffs did occur, and domestic agricultural output increased by a total of nearly 50 per cent over the two years, but this was thought to be more the result of the import restrictions and recurrent shortages of imported food, together with the effects of good weather. Thus, any effect on imports, occurred through income effects of price increases resulting in lower real consumption. The devaluations have achieved this through the price mechanism, rather than through a
process of physical rationing which had been proposed early in 1977.

Another major disappointment in the programme had been the failure of the investment rate to recover. While income contracted and operating surpluses increased as planned, these surpluses had not been converted into capital formation. In real terms, the investment /GDP ratio remained stagnant at about 12 per cent in 1978. This was partly the result of a foreign exchange constraint, as capital goods imports would be needed to convert financial capital into real capital. However, there was no evidence of significant demand for capital goods or of plans for investment projects on a significant scale. The general mood of the private sector was a 'wait and see' attitude. This attitude spilled over to the international commercial banks, which in September 1979 decided not to proceed with arrangements for a $700 within package for refinancing and incremental lending to Jamaica.

Even after two years of IMF agreements, GDP continued to decline in 1977 and 1978 and into 1979. Export growth continued to be sluggish, with the bauxite companies looking for substantial levy reductions, which were agreed to subsequently. Import costs continued to escalate under the impact of oil price increases and accelerating inflation in
the industrialized countries.

Besides, there were a number of consequences of the sharp decline in the standard of living of the population associated with the IMF programmes. One immediate result was a marked increase in labour market and marked stoppage due to causes other than wage disputes. The publicity rejected the wage guidelines both in 1978 and 1979.

Another effect has been an upsurging in immigration of professional personal and skilled workers. In 1977, the number of high level professionals emigrating to the US and Canada doubled, showing the effects of economic as well as political conditions.

The quality and scope of the social services, too, deteriorated, especially since the 1978 programme. Budget costs, and the loss of skilled manpower took a heavy toll. The 1979-80 budget instituted a reduction of expenditure of 12 per cent in real terms. The Ministry of Education "proposal to reduce the intake into high schools in September 1979, was abandoned under public pressure but it had laid off a number of teachers who were in temporary employment. The intake of the Jamaica Youth Corps, an employment and skill-training programme for school-leavers was reduced from 10,000 to 2,000 in 1979. The health services were in a state of collapse and in September 1979 the two largest
hospitals in the country were closed, due to the combined effects of machinery breakdown, lack of medical personnel, shortages of drugs and industrial action.

In the economy, the relative size of the government sector had been reduced. Further state interventions into productive activity had been more or less prohibited. The proposal to extend the coverage of the State Trading Corporation (STC) into other basic imported materials was abandoned in early 1978 as part of the IMF agreement. State expenses were controlled by means of a ceiling on commercial bank credit to them and the public utilities had been required to raise their rates in order to cover 30 per cent of capital expenditure through internal surpluses. Many public utilities, especially electricity and urban bus transport, had also shown reductions in the efficiency of their operations because of the combined effects of maintenance problems and industrial action.

To sum up, Jamaica's experience with the IMF in the late 1970s, brings to focus some critical issues. The PNP with a clear mandate in 1976 had attempted to implement its domestic policies, which represented a long-term view of a restructured society based on a more equitable distribution of wealth with the state accepting responsibility for the provision of basic needs. But it encountered growing eco-
nomic problems due to the international economic crisis together with retaliation by foreign and local interests. This culminated in the complete exhaustion of foreign reserves at the end of 1976, compelling the government to turn to the IMF for assistance. A two-year standby agreement was entered into with the Fund in July 1976. This was suspended by the Fund in December. In its place, a three-year EFF agreement was made in May 1978, but this agreement too, eventually collapsed when performance tests were carried out in December 1979. As a result of these agreements, the government made drastic changes in the nature of its economic policies. But the economy failed to recover. The foreign exchange situation deteriorated further, calling into question the inappropriateness of the standardized IMF approach. All the key sectors of the economy recorded negative growth rates, with a bunch of unemployment, inflation and foreign debt. The onset of the IMF programmes caused debt among the population, which reflected in the defeat of the PNP in the elections in 1980.

Any government may promise many things to the people but it is not essential that all those promises made to the people may be fulfilled in totality. There are various reasons for this limitation and especially, when a country becomes free from colonial exploitation, it will have to lay
the foundation to create infrastructure for the new nation building process. Immediately after Jamaica's independence, the country went for adopting a new form of government with party system as the basis of consensus and legitimacy based on the western model. Secondly, the economy had to face challenges from within and outside: the PNP in power, with its democratic Socialist ideology and policies, wanted to adjust itself to all its needs with in the limitations of the domestic economy, but the geo-political situation and the economic compulsions forced the PNP government to approach international economic agencies for aid, thereby sacrificing the PNP's policies. With these limitations in mind, the investigation is going to be carried out and result analyzed below.

The economic crisis of the 1970s which was the outcome of both internal and external factors, left the PNP government with little option but to seek external finance from the international financial agencies, notably the IMF. During the period 1976-80, two major agreements were con-
cluded with the IMF, that is, a stand by arrangement in 1977 and an extended fund facility (EFF) in 1978.

Prior to the election held in December 1976, the officials of the government of Jamaica and representatives of the IMF had worked out a stand by arrangement which stipulated, among others, a 40 per cent devaluation and a reduction in government expenditure. Decision on the arrangement, however, was deferred pending the final outcome of the elections. As a matter of fact, the PNP won the election and the arrangement was rejected consequently. The left wing within the party having gained supremacy began to exercise their influence on all policy matters. It was argued that the proposed devaluation, apart from having social consequences, could not lead to an increase in exports. The fall in commodity exports was attributed to problems within the industries, and market forces. Without the IMF prescriptions, an economic policy was suggested by the government in January 1977, which included among others, a wage freeze till July, import restrictions and tightening of exchange...Continued...
controls. Besides, a production plan was prepared involving people's participation and increased role of community level organizations in decision making as a part of mobilizing resources to manage the economic crisis.

The government gave enough protection to the international agencies from the socio-political crisis of important and powerful private sector mobilization and lower class interests. The state attempted to reduce class conflicts in the Jamaican economy to ensure middle class access to resources from outside the country. Simultaneously, outside resources were utilized to limit the power of the capitalists in the country and demobilized the lower class through various methods such as coercion, intimidation and violence. The international agencies, as a result, became more powerful than the domestic agencies.

The desire of the middle class to expand the influence of the state sector and the influence of the transnational corporations to acquire cheap labour, whereby to make huge profits created a new situation and basis for alliance. First of all, the transnational corporations wanted to introduce its technology, skills and expertise in Jamaica in

89 Ibid, p.170
90 Edie, n.73 p.69.
exchange for cheap labour and they looked for large scale profits at the cost of national interest of the country. Secondly, the PNP government wanted to make use of state resources for developmental functions and was committed to have state control of the economy for having dominance over other social class. These two motives do not seem, on the surface, paradoxical. But the real paradox lies in the structure of the exchange relationship between the TNCs and the political leaders. The TNCs did not allow local capital accumulation to develop in large scale and this was done through international economic and political structures. The Jamaican government was compelled to accept the terms and conditions of the bauxite TNCs because the government was afraid that retaliations might lead to withdrawal of investments.

Capitalist class acquired a lot of personal wealth by accepting political domination by the state authority for their own benefit. Black middle class support was used to further the interests of the capitalists. State power was used to ensure that economic development and the private economic interests of the Jamaican capitalist class would not pose a competitive threat to foreign interests.91

91. Edie, n.AB, p.79.
The Prime Minister Michael Manley attempted to narrow the gulf between the left and right but the result was not at all satisfactory. The Prime Minister thought that the radical rhetoric with certain reforms would lead to fundamental changes. However, enough attention was not paid to the implications of the new democratic socialist programme and also there was insufficient prioritisation of targets. Though left was strong at the party base, especially among the youth, it was weak in the cabinet, party executive and in the state bureaucracy.92

Democratic socialist policies of the PNP government was just a coverage to balance the forces both within and outside. The economic development and political ideology of PNP government are to be closely analysed by inter-relating them while evaluating the rise and decline of democratic socialism in Jamaica. The electoral defeat and the absence of economic growth are closely linked and the economic downfall was mainly the result of the foreign exchange crisis and IMF agreement. Jamaica had a dependent status in the world political and economic system mainly as a result of the structural factors such as the end of the bauxite investment programme, import price inflation, declining

export production, capital flight, and decline of tourism. Economic management decisions made by the PNP government led to the foreign exchange crisis. The post-bauxite levy economic package was the most important among them. They should have more focused on productive state sector investment rather than on distributive programs. The main reason for the failure to take this alternative 1974 was partly due to the lack of any comprehensive economic plan. This was the result of PNP's past non-ideological course of action.

The party had to depend mainly on foreign sources to sustain its economic development and thereby to bring about political stability in the country. Non-ideological and weak labour movement were other factors. The incapability of the government to balance the class forces and to bridge the gulf between various groups within the party coupled with the divisions within the trade unions can be attributed to as some of the reasons which led to the fall of the democratic socialist government of Manley. The PNP did not succeed in the area of movement building. Taking advantage of its position, the JLP mobilized the masses and appealed to their conscience to bring down the PNP government. The small size of the industrial working class was an obstacle to build a strong socialist government. The divisions in the working class, the union's partisan political alignment
and the absence of an ideological tradition are the result of a special historical legacy. Institutional fragmentation of the state and the weak bureaucracy are colonial factors. The institutional weakness of the state is the result of particular development model pursued after the Second World War. The absence of ideological commitment among the members of PNP further restricted the PNP's role of achieving democratic socialism. In many developing countries, the party in power played a predominant role in structuring the society and bringing about the social transformation process. In the case of Jamaica, the PNP in power could not organize the organizational structure which was necessary to link together a class alliance consisting of majority people of the country. Economic dependency reduced the state autonomy and limited the options of the state for implementing their programme of action.

The private sector depended on state protection for competing with imports and foreign capital. The state could not generate enough resources for infrastructural development for fundamental industries. The PNP government was locked up between the national interests and the pressures exerted by international agencies. This put the government in a difficult situation and on many occasions they had to compromise on their party ideology of interests.
There prevailed tension between the programme and the political practice of the PNP. A tug-of-war took place between the left, centre and right wings of the party. Michael Manley in his capacity as prime minister of party chief attempted to bridge the gap between the left and right. This effort was a total failure. Manley tried to reconcile a radical rhetoric with the belief that there would be fundamental changes in society. Sufficient attention was not given to the ramifications of the implementation process of the new democratic socialist programme of the party. There was much discussion on political mobilization; at the same time, mobilization often became an exercise in evolving support among the people on such issues and programmes which the government was already doing. The crisis that penetrated into the PNP could not be reduced by the party leadership. Therefore, the party leadership could not make clear decisions of priority. Many of the people were unemployed and the country could not feed itself. Many survived in very difficult situation. Distribution and services were in the hands of large monopolies, foreign corporations and among powerful individuals. Foreign corporations controlled the major export industry and banking. Business families of Jamaica dominated manufacture's various services of international trade. Opposition or socialization of the means of
production created hurdles to the party to function properly. The democratic socialist policies adopted in 1974 as explained in the coming years functioned as paradoxes of the PNP's socialism which is said to be the traditional social democratic efforts to bring about moderate reforms in order to maintain the status quo.
**TABLE 1**  
Central Government: Fixed Data, 1972-73 to 1976-77

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total Expenditure (J$m)</td>
<td>360</td>
<td>443</td>
<td>751</td>
<td>940</td>
<td>1165</td>
</tr>
<tr>
<td>2. Total Revenue (J$m)</td>
<td>292</td>
<td>348</td>
<td>564</td>
<td>662</td>
<td>654</td>
</tr>
<tr>
<td>3. Deficit (J$m)</td>
<td>-68</td>
<td>-95</td>
<td>-187</td>
<td>-278</td>
<td>-511</td>
</tr>
<tr>
<td>4. Total Expenditure as percentage of GDP</td>
<td>23.0</td>
<td>23.6</td>
<td>31.7</td>
<td>35.3</td>
<td>42.0</td>
</tr>
<tr>
<td>5. Deficit as percentage of GDP</td>
<td>-3.5</td>
<td>-4.3</td>
<td>-5.5</td>
<td>-9.6</td>
<td>-15.0</td>
</tr>
<tr>
<td>6. Rates of Growth (%)</td>
<td>21.6</td>
<td>23.0</td>
<td>69.5</td>
<td>25.1</td>
<td>23.4</td>
</tr>
<tr>
<td>(a) Total Expenditure</td>
<td>25.2</td>
<td>29.3</td>
<td>45.0</td>
<td>24.5</td>
<td>23.4</td>
</tr>
<tr>
<td>(b) Current Expenditure</td>
<td>12.1</td>
<td>6.6</td>
<td>150.126.6</td>
<td>24.9</td>
<td></td>
</tr>
<tr>
<td>(c) Capital Expenditure</td>
<td>6.6</td>
<td>150.126.6</td>
<td>24.9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* The Government's fiscal year runs April 1 to March 31.

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports</th>
<th>Trade Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td>642.6</td>
<td>391.3</td>
<td>-251.3</td>
</tr>
<tr>
<td>1973</td>
<td>676.6</td>
<td>390.2</td>
<td>-286.4</td>
</tr>
<tr>
<td>1974</td>
<td>935.9</td>
<td>706.2</td>
<td>-229.7</td>
</tr>
<tr>
<td>1975</td>
<td>1123.5</td>
<td>851.6</td>
<td>-271.9</td>
</tr>
<tr>
<td>1976</td>
<td>912.8</td>
<td>632.5</td>
<td>-280.3</td>
</tr>
<tr>
<td>1977</td>
<td>746.8</td>
<td>733.6</td>
<td>-13.2</td>
</tr>
<tr>
<td>1978</td>
<td>864.7</td>
<td>738.1</td>
<td>-126.6</td>
</tr>
<tr>
<td>1979</td>
<td>1002.8</td>
<td>814.7</td>
<td>-188.1</td>
</tr>
<tr>
<td>1980</td>
<td>1172.6</td>
<td>959.2</td>
<td>-213.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Mining</th>
<th>Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>149.8</td>
<td>199.8</td>
<td>344.4</td>
</tr>
<tr>
<td>1971</td>
<td>167.6</td>
<td>215.9</td>
<td>351.9</td>
</tr>
<tr>
<td>1972</td>
<td>170.7</td>
<td>232.1</td>
<td>384.9</td>
</tr>
<tr>
<td>1973</td>
<td>159.4</td>
<td>261.9</td>
<td>379.9</td>
</tr>
<tr>
<td>1974</td>
<td>162.7</td>
<td>297.3</td>
<td>386.5</td>
</tr>
<tr>
<td>1975</td>
<td>164.9</td>
<td>277.6</td>
<td>385.8</td>
</tr>
<tr>
<td>1976</td>
<td>166.3</td>
<td>183.3</td>
<td>373.0</td>
</tr>
<tr>
<td>1977</td>
<td>176.6</td>
<td>214.5</td>
<td>352.6</td>
</tr>
</tbody>
</table>