CHAPTER IV

STRUCTURAL ADJUSTMENT AND ITS IMPACT ON JAMAICAN ECONOMY

The 1980 elections was of great importance not only to Jamaica but in the Western capitalist world as well. The PNP government under Manley could not maintain a cordial relationship with the United States. Thus the victory of Jamaica Labour Party (JLP) led by Edward Seaga in the elections was well received by the western capitalist world, especially the United States. Jamaica was described as a functioning pluralist democracy.¹ The JLP pursued a policy both within and outside, that was different from that of the Manley administration. The present chapter is divided into three sections. The first section describes the development strategy of the Jamaica Labour Party. The second section portrays, and the final section brings out the impact of SAP measures on the overall economy with a description of JLP’s liberal economic policies.

¹. This view was expressed in the Financial Times (London) November 4, 1980.
Development Strategy of IMF Jamaica Labour Party

The JLP led government of Edward Seaga which assumed office in 1980 emphasized the need for an outward-oriented development strategy with private enterprise as the key to economic growth. Such a strategy called for restructuring of the public sector, greater access to foreign direct investment, and an anti-Cuban orientation in foreign policy. The major priorities of the government were to secure financial aid for the economy, to re-establish a strong US-Jamaican relationship to attract massive foreign investment, and to stimulate free enterprise at home under competitive market conditions. In this regard the export-based Puerto Rican model of the 1960s was revived and further elaborated.²

In pursuit of these objectives, the government launched a policy of development linked to the international economy. The foreign exchange crisis, as obtained from the late 1970, required the government to secure financial assistance from both bilateral and multilateral sources. It was understood that finalization conclusion of an agreement with IMF would pave the way for other substantial loans, notably, from the World Bank, international commercial banks, and through the

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2. Under this model, the foreign investors imported all their inputs except labour and produced eventually for export.
In an attempt to foster closer relationship with US, the JLP government served diplomatic relations with Cuba in October 1981 on the ground that Cuba was interfering in Jamaica's internal affairs. Practically, the whole of the economic strategy was based upon strong ties with US. 3 Seaga spoke of the need for a massive recovery programme for the Caribbean on the lines of Marshall Plan. This line of argument helped to produce the Caribbean Basin Initiative (CBI) subsequently announced by Reagan. In this context it would be appropriate to discuss CBI and its impact on Jamaica given the peculiar geo-political situation.

The CBI was a unilateral policy announced by President Ronald Reagan in 1982 to promote US perceived interests in the region by providing duty-free entry to select numbers of products into the US market. It was designed in the context of revolutionary turmoil in the Central American-Caribbean region in the 1980s. It focused on bilateralism and promo-

3. Edward Seaga was the first foreign head of state to visit the White House after the election of Ronald Reagan as President of the United States.
tion of private investments. 4

Rather than delving at large on the historical background, it would suffice to state that as in the 1960s, issues of perceived national security had begun to dominate US foreign policy. This is exemplified by the emergence of socialist and left-wing governments in Grenada, Guyana, Jamaica and Surinam in the 1970s which compelled US government to increase its military presence in the Commonwealth Caribbean region since 1979.

Added to this was the economic crisis confronting the Jamaican economy, which became the point of political confrontation between the major opposition party, viz. JLP led by Edward Seaga and the pro-Cuban government of Michael Manley. Seaga accused Manley government of pursuing the Cuban model of development "where regimentation rather than personal incentive governed production and personal and civil rights and freedoms were greatly restricted" and further that Kingston "had become the subversion capital of

4. Except for a brief interlude in the latter part of the 1960s and early years of the 1970s, when President Richard Nixon pursued a low profile policy towards the entire Latin American and Caribbean region and during the tenure of President Gerald Ford (1974-1977), US has maintained a watchful and active posture towards the region. Both during the administrations of the presidents Jimmy Carter (1977-1980) and Ronald Reagan (1981-1988), the Commonwealth Caribbean had been perceived as an area where volatility and the propensity for collective unrest are constant because of socio-economic factors.
the Caribbean." As a means to mitigate the economic crisis facing the region and containing the alleged spread of 'communism', Seaga proposed what has been described a mini-Marshall plan for the region in October 1979, which among others, prescribed investment incentives and free market access to US and a larger role for the businessmen of the region.

The ideas put forward by Seaga found much favour with the Reagan administration. Besides endorsing the views of the Seaga government for the economic development and political stability of the region, the Reagan administration considered Jamaica and the Eastern Caribbean as of great interest to US objectives in the region, and therefore, deserving economic assistance in US foreign assistance programmes.

Thus the CBI when announced in February 1982, was a unilateral US programme. CBI emphasized more on trade and investment and not so much on official aid. The principal feature of CBI includes a "one-way free trade" for the exports of all products, except textiles and apparel from

the Caribbean countries for a period of twelve years.6

The tax provisions of CBI are aimed at encouraging US private investment in the region. References are made of the services provided by the Overseas Private Investment Corporation (OPIC) -- a US-based corporation which provides political risk insurance for US investors abroad. These measures are meant to increase the economic incentives to US investors and to reduce political risks attached with such investments.

In short, the CBI was drawn up as an economic and military assistance programme in that it offers to increase economic aid, investment incentives, trade concessions, technical and military assistance to select countries and US possessions in the Caribbean basin. The assistance under the programme is focused largely on strengthening the private sector. Further, the international financial institutions such as the IMF, World Bank, and the IDB and their regional affiliates such as the CGCBE and Central American Group remain instrumental in the coordination and management structure of the assistance programmes under the CBI.

The thrust of the CBI to replace the existing mixed

6. Sugar received a limited duty-free treatment under CBI as US insisted on protecting the existing US domestic sugar price support programme.
economy approach with reliance on the private sector may aggravate social tensions; while the role of the state in the productive system in the Caribbean was not the result of any deliberate philosophy but because no development was being undertaken by the private sector." 7 Further the decline in US investments over a period of time and an unprecedented rate of US divestment overshadows CBI's developmental goals. It should also be noted that ever since inception of CBI, the prices of traditional exports have been on the decline. The consequence of which has been a fall in exports from the region.

In short, "the CBI as initially conceived fitted the Reagan administration's geo-political view of the Caribbean basin sketched in terms of East-West conflict. It blended opposition to Soviet expansionism with regional developmentalism and the president's free enterprise philosophy ... In sum, the view predominating the Reagan administration was that a major border of the United States threatened to consist of hostile states. The United States, therefore, had a vital interest in preventing economic collapse or the creation of Marxist-Leninist regimes in these poor neigh-

7. Polanyi-Levitt, n.s, p. 265.
bouring countries."^8

no improvement is recorded in the levels of unemployment but
the period between 1986 1987 witnessed important decreases
in unemployment. There took place a shift from employment
in the public sector to self-employment and most of these
jobs did not give job security and an income to have minimum
standard of living.

Impact of CBI

The US has been inclined to favour those countries
adopting structural adjustment policies with privileged
access to CBI investment. Jamaica was chosen as a CBI
showpiece and amply illustrates the consequences of the
approach. Chosen for overwhelmingly political reasons to do
with the conservative orientation of the Jamaican president
in 1980, Jamaica was also quick to adopt structural adjust­
ment and negotiate with the IMF.

CBI became effective in the midst of the structural
adjustment programme which included deregulation,l the
dismantling of import controls and lowering the value of the
Jamaican currency. The result of the policies together was
to increase the weight of foreign enterprises in the economy
over local capital. Local manufacturers lost market to

8. G. Pope Atkins, *Latin America in the International Political
cheaper imports and, especially in textiles, the most dynamic sector of Jamaica's export industries, foreign-owned firms expanded to take up the opportunities for export. Manufacturing had expanded to employ 12.8 per cent of the labour force by 1987. But the social cost of the model have been high - increasing unemployment, poverty, malnutrition, etc. Jamaica's vulnerability appear increased as the main centres of decision - making for its economy have shifted outside the country. Jamaica is suffering from a process of 'economic recolonization' according to Jamaican economist Carl Stone.

The impact of CBI in terms of countering the recession in the developing economies of the region in the 1980s has been limited. This can be measured by the fact that in countries such as Jamaica where it was most felt, economic recovery, even understood simply in terms of macroeconomic growth was very modest. GDP per cápita grew marginally in the period 1984-1989 between 0.35 per cent and 1.3 per cent per annum.

The limited impact of CBI on Jamaican economy could be understood within the context of the structural adjustment programme being implemented by the country.
Stabilization to Adjustment

When the JLP government led by Seaga assumed office in 1981, they had inherited an economy which showed negative or declining rates of growth in every sphere. The real per capita income declined 30 per cent of J $ 1019 in 1974 to J $ 717 in 1980.⁹ In the same period, per capita consumption expenditure fell 25 per cent, from $ 588 to $ 440.¹⁰ Despite expansion of public sector employment, the rate of unemployment increased from 23 per cent in 1972 to 28 per cent in 1980. Import dependence went up from 46 per cent of GDP in 1974 to 53 per cent in 1980. Declines were recorded in banana and sugar output, and manufacturers as well. The 1980 budget deficit amounted to J $ 986 million or the tune of 120 per cent of GDP, and the current account deficit was J $ 296 within.¹¹ The total external debt of the country stood at US $ 440 million. It was in such situation of severe balance of payments crisis, mounting debt and overall decline that the JLP government drew up programme for strategically adjusting the economy under the guidelines of the IMF.

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¹⁰. Ibid.

¹¹. Ibid.
and World Bank. The broad intent of the programme was to liberalize the economy and reduce the role of the government, besides diversifying the structural composition of the economy and stabilizing the balance of payments.

A three-year EFF was agreed upon in April 1981. Compared with the IMF arrangements that was in force during the Manley period, the present EFF was mild in its conditionality. It did not include any conditions relating to devaluation, reductions in public sector employment or entertainment of public sector expenditure. Targets were fixed for the reduction of the government's budgetary deficit and improvements in balance of payments performance, based upon optimistic projections regarding rates of growth of GDP, with output improvements forecast for most sectors of the economy. To facilitate high growth rates, a policy framework was worked out which aimed at reducing the government's direct and regulatory involvement in the economy. The policy framework included, among others, gradual removal of import restrictions, divestment of state enterprises, and a general revision of the incentive structure in an effort to

promote private sector export led growth.

The programme aimed at expanding exports and to initiate changes in agricultural and industrial policy that would encourage expanded growth and employment. Nearly 40 per cent of the total resources was disbursed in the first year itself. Having borrowed four-fifths of the funds, the government was, however, not able to meet the targets of the EFF agreement and it had to be abrogated in September 1983. The budget deficit continued to hover around 14 to 15 per cent of GDP as in the late 1970s. There was an expansion of imports, financial largely by foreign aid. There was an increase in the rate of growth of investment from 16 to 21 per cent of GDP. The rate of increase in the consumer price index fell from 29 per cent in 1980 to 4.6 per cent in 1981 thanks to the surge in imports. In the meantime the government had contracted a loan from the Compensatory Financing Facility (EFF) in 1982 to compensate for loss in export and tourism earnings of the previous year.

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13. ibid.
14. ibid.
15. ibid.
The adjustment of the first two years, 1981-82, based on a strategy of relaxation of import regulations and aid was, however, short-lived. The balance of payment problem had aggravated with fall in traditional and non-traditional export earnings, insufficient domestic savings and foreign investment, and trade account deficit leading to shortage of foreign exchange. The fiscal and external balance deteriorated further in 1983. Owing more to political compulsions, the government was not able to affect reductions in current expenditure, and whatever modest gains they did achieve were all offset by the increase in interbank payments caused by the increase in public debt. The overall deficit rose from 12.4 per cent of GDP to 15.8 per cent by 1979-80. While the policy of relaxation of controls led to a surge in imports, exports remained stagnant. Thus the balance of payments situation was further aggravated by an outflow of capital to the tune of US $300 million; a loss of US $326 in international reserves and was US $91 million in arrears on accumulated payments. In such compelling circumstances, the IMF, World Bank and USAID urged the Seage government to consider devaluation and tightened


17. Ibid., p. 196.
fiscal and monetary management of the economy.

Left with no other option, Seaga called for an election in total violation of an inter-party agreement. With the PNP staying away from the polls, Seaga was able to implement the harsh authority measures stipulated by the international lending agencies.\textsuperscript{18} The new agreement reached with IMF and World Bank in late 1983 was significant for it laid down conditions for reducing aggregate demand and eliminating wasteful expenditure.

In June 1984, the IMF approved a one-year stand by arrangement worth SDR 64 million or $66 million for Jamaica.\textsuperscript{19} The programme aimed at quickly stabilizing the economy and restoring conditions where the planned structural reforms could be implemented. A further SDR 72.6 million or $78.5 million.\textsuperscript{20} CFF was sanctioned to make up for a loss in alumina and bauxite export earning. Among the important components of the stand by arrangement were:

(a) reduction in fiscal deficit from 17.5 per cent of GDP to 7.6 per cent;

(b) Credit restrictions;

\textsuperscript{18} It had been decided that before the next general elections the electoral roll would be revised and the anomalies removed.

\textsuperscript{19} Foreign Affairs and National Defence Division, n.\textsuperscript{12}, p. 118.

\textsuperscript{20} Ibid.
(c) unified flexible exchange rate;
(d) trade liberalization; and
(e) rescheduling of Jamaica's external debt.

Though the fiscal deficit was contained at 6.4 per cent of GDP by 1985, there was no marked improvement on the balance of payments front. The economic situation was further complicated with persistent deterioration in the alumina and bauxite sectors. A standby loan worth SDR 115 million or $117 million was approved for Jamaica in July 1985 to deal with the balance of payments problems. The government agreed to further reduce its deficit, to tighten monetary and credit expansion and to use the flexible exchange rate mechanism to cut the current account deficit in its balance of payments. It was also agreed to implement other policies designed to promote structural change and economic diversification. In conjunction with the stand by arrangement, the foreign banks agreed to reschedule all of Jamaica's commercial debts falling due in the ensuing two

22. Foreign Affairs and National Defence Division, n. 12, p. 118.
23. Ibid.
years.

The government had significantly reduced the size of its current account deficit in the recent period but an inadequate flow of capital worsened its balance of payments position. A 15-month stand by worth SUK 85 million or $ 110 was approved in March 1987 to facilitate the restructuring process and further reducing the balance of payments deficit. Further, an immediate loan of SUK 40.9 million or $ 52.9 million was approved by the Fund from its CFF to offset reduced alumina and bauxite export earnings. The government, on its part decided to contain its budget deficit through reduced spending and higher taxes on petroleum, to maintain tight monetary policies and restrain inflation, and to implement an income policy aimed at restraining wage adjustments both in the public and private sectors of the economy.

A 15-month standby arrangement involving SUK 82 million or $ 110 million was approved in September 1988. The arrangement called for a further reduction in the fiscal deficit through sustained revenue growth, but allowed for

24. It was also agreed at a Paris Club meeting in July 1985 to reschedule most of Jamaica's bilateral medium and long-term debt. Loans from Paris club members and the international commercial bank were rescheduled in May 1987 with principal repayments deferred to March, 1990. A further Paris Club rescheduling took place in October, 1988.
expenditure increases to improve the economic infrastructure for export-led growth and to rehabilitate the social infrastructure in order to alleviate poverty. The programme further called for a slowing in the growth of credit to the private sector in addition to incomes and exchange rate policies designed to avoid a decline in Jamaica's competitiveness. An additional SDR 36.4 million was provided by way of emergency assistance following the devastation caused by a hurricane, and the programme was extended to May 1990.

In January 1993, the IMF approved a credit under the EFF for Jamaica, authorizing drawing of up to the equivalent of SDR 109.1 million (about $151 million) over the next three years in support of the government's economic and financial programme. The new credit follows a 15-month stand-by credit that expired in September 1992, under which Jamaica drew the equivalent of SDR 43.7 million or about $61 million in support of its economic programme.

The government's medium term economic recovery programme from 1992-93 - 1995-96 aimed at raising the rate of economic growth to 3-3 1/2 a year, reducing the rate of inflation and strengthening the country's international reserves. The programme also aimed at raising public sector saving, lowering the debt burden, and contemplate pursuing a flexible exchange rate policy. Besides, steps were to be taken
in order to reduce the size of the civil service and accelerate the process of privatization.

Jamaica's first Structural Adjustment Loan (SAL I) was agreed upon in 1982, providing US $76.2 million in balance of payments support. This was followed in 1983 by SAL II, providing US $60.2 million. A third loan, SAL III, was provided in 1984, amounting to $50.5 million. Besides, the World Bank also made three export development funds (EDF) worth $31.5 million, $37.0 million and $30.1 million for 1979, 1981 and 1983 respectively. These loans were meant to assist the government's adjustment programme through financing a revolving fund which would discount commercial loans made to non-traditional manufacture and agricultural exporters. Further, in 1987 two sector adjustment loans (SECAL) were made to support the structural adjustment process. A trade and finance sector adjustment loan for 40 million was designed to improve the performance of exports and industry and to strengthen the financial sector, whereas a $20 million public enterprise sector adjustment loan was designed to support the government's efforts to monitor the

25. Foreign Affairs and Defense Division, n.42, p. 121.
26. Ibid.
adjustment process in the public sector.

SAL I payable in 17 years at 11.6 per cent interest annually was meant to support the government's structural adjustment programme. Its major objectives were to correct structural weaknesses by putting unutilized capacity to work particularly in those sectors that would produce foreign exchange earnings, and by adjusting industrial and agricultural policies to expand production. The loan financed the import of raw materials, intermediate goods, consumer goods, capital equipment, and spare parts. Some of the areas of structural weaknesses identified were savings and investment policies, balance of payments difficulties agricultural sector policies; and industrial sector policies. Such a strategy was expected to "stimulate economic growth through an expansion in exports, both through higher capacity utilization and by providing new investments. Further, the strategy called for a gradual reduction in the role of the public sector, and for a parallel strengthening of the private sector."

27. Foreign Affairs and Defense Division, n. 2, p. 121.
28. Ibid.
29. Ibid.
SAL 11, being an outgrowth of SAL 1, financed a wide range of raw materials, intermediate goods, capital goods and spare parts and it included fifth policy area, viz. public administration. The action programme for this area included measures to improve the staffing of important government positions, to improve financial management, and to audit several government agencies.

The third structural adjustment loan drawn up in Nov 1984, being a continuation of SAL 1 and 11 financed imports of raw materials, intermediate goods, non-luxury consumer goods, capital equipment, and spare parts. It also included a sixth area, viz. energy.

As regards compliance of the government to the programmes, World Bank maintained that the action programmes were satisfactorily implemented though the economic results were not as expected. Several reasons such as the international recession and low demand for aluminum and bauxite, the government's inability to reduce the fiscal deficit, and the government's intervention to prevent the parallel exchange rate from rising too rapidly were cited for the poor economic performance.

In fact, the Seaga government's strategy to structurally adjust the economy attracted a large measure of international support, including programmes with the IMF, bilateral
balance of payments support from USAID and SALs from the World Bank. Complementing the demand management of the IMF supported stabilization programmes, the SALs totaling US $190 million addressed policy issues in areas such as trade and payments, savings and investment, industry, agriculture, public administration and energy.

The two main areas of reform activity centred on the trade regime and the public sectors' savings performance. Initially, the government did not agree to an adjustment of the exchange rate. However, by late 1982, the need for some depreciation of the currency became imperative. In January 1983 a parallel exchange market operated by the commercial banks was introduced, resulting in an immediate devaluation of 55 per cent of the parallel market rate to J $ 2.76 per US $ 1.00. Such a two-tier system was replaced in November 1983 by a unified rate determined at twice-weekly foreign exchange auctions. By the end of 1984, the rate of exchange was J $ 5.00 to US $ 1.00 and it. This represented a 19.30 per cent devaluation.

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Another area of policy reform was in the system of quantitative restrictions (QRS) and import licensing. Aimed at stimulating export-orientated industrial growth, it was decided to remove 364 QRSs. Progress on this front was rapid, such that by January 1984, 186 restrictions had been removed. By April 1985, licensing was abolished on all imports and the remaining QRSs were removed, except for those items imported by the Jamaica Commodity Trading Company (JCTC), items restricted for health and security reasons, and some domestic food crops. The above moves towards a liberalised trade regime were accompanied by the establishment of an export incentive system. Exporters of non-traditional products to countries outside the Caribbean Community and Common Market (CARICOM) were permitted to retain 50 per cent of their hard currency earnings. In addition, EDF was to advance to exporters ion, hard currency, 50 per cent of their potential export earnings.

As regards fiscal adjustment, the government embarked upon an expenditure control programme within the Central government, and subsequently launched a tax reform programme also. Substantial labour retrenchment took place in
fiscal years 1984-85 and 1985-86. Moreover, considerable attention was directed to improving the public enterprise sector. These included large tariff increases, a drastic reduction in staffing levels, and a divestment programme involving the public utilities and public transport system.

Further, a variety of sectoral reforms were introduced and agricultural policies focused primarily on stimulation of export production of both traditional and non-traditional commodities. The main weaknesses in the sector were identified as institutional, in the form of the External Marketing Organizations (EMOs). An EMO reform programme was adopted, with progress made towards managerial reforms and the divestment of a range of non-marketing services. A land reform programme was also initiated with 8,940 acres of government owned land either sold or leased to private farmers in 1983.

Despite the reforms carried out under the structural adjustment programme, overall growth performance from 1981 to mid 1985 remained stagnant with real output at the end of 1984 being below levels recorded in a continued deterioration of the trade balance and the government current account deficit.

31. In contrast to the rapid expansion of public sector employment under Manley government, the public sector employment under Seaga fell from 110,500 in 1980 to 92,600 in 1984.
deficit. The rate of inflation declined from 27 per cent in 1980 to 5 per cent in 1981 and little more in 1982, the effects of the world-wide recession of 1982 was harsh. A fall in the prices of bauxite and alumina in the international market and the subsequent reduction in production caused government revenue from the sector to decline from $206 million in 1980 to $137 million in 1982. No different was the case with sugar and banana exports. Simultaneously, the lowering of import restrictions, resulted in an upsurge of imports.

The positive GDP growth rates in the early years of the programme resulted in increased availability of foreign exchange. Growth within the sectors was, however, erratic with recovery being led by those sectors sensitive to exchange availability, viz. construction, tourism and financial services. Although manufacturing output improved in 1982, recording a rate of growth of 6.4 per cent in that year, it declined in the following two years, while performance of the agricultural and mining sectors was not satisfactory.

The negative trend in real investment expenditure of the late 1970s was referred such that 1980-83 recorded an average increase of 11.7 per cent per annum and an increasing share contributed by the private sector. In spite of
the increase in the levels of investment, export base was not diversified and the chronic problem of unemployment remained above 25 per cent.

Much of the growth during the initial period of the structural adjustment programme was based on a need "to increase imports to stimulate economic activity to be financed by a higher level of borrowing until the economy could be re-oriented towards growth." The availability of foreign exchange, including that of the IMF and World Bank balance of payments support, together with the liberalization of import licensing resulted in a higher level of imports. The greatest increase in imports was registered in food, consumer durable and transport equipment. But export performance during the period was not encouraging with declines in bauxite and alumina exports, and non-traditional exports did not increase as predicted by the World Bank and the Fund. Instead, the combined performance of imports and exports resulted in a sharp deterioration in the current account of the balance of payments in both 1981 and 1982.

As far as public finance was concerned, between 1980 and 1983, the Central government current account deficit declined from 7.7 per cent of GDP to 10 per cent, while the overall deficit as a percentage of GDP did not improve in 1983 when compared to 1981 and fell short of meeting the IMF
targets for 1983.

Thus, the government was not able to meet the IMF reserves targets in both March and September 1983. Consequently, the EFF was abrogated in September. As a precondition to a new Fund arrangement, the government was required to unify the two-tier exchange rate in November 1983, with a single flexible rate to be determined by twice-weekly auctions. These new arrangements resulted in an immediate devaluation, while later, demand and supply forces led to a continuous devaluation through October 1985.

In an effort to soften the impact of devaluation on domestic prices and real wage levels, a range of measures including reintroduction of licensing procedures were adopted. By mid-1984, all key macro-economic indicators showed a downturn with severe foreign exchange shortage and an increasing level of arrears in public debt reserves. The rate of inflation rose to 31.2 per cent in 1984. In June, the government was compelled to reach an agreement with the IMF on a stand by arrangement involving harsher conditions and targets.

Pre-occupied with minimising the costs of devaluation, the government implemented a tight monetary policy mix by a manipulation of interest rates through increases in both the statutory liquid asset ratio and the cash reserve ratio,
which were raised to 48 per cent and 20 per cent respectively. It was conceived that high interest rates would both restrict domestic currency available for bidding at the foreign exchange auction, and attract higher levels of foreign private capital inflows, thereby reducing downward pressure on the exchange rate and easing the balance of payments growth constraint. Given Jamaica's narrow financial market and with many commercial bank assets being held in the form of low-interest treasury bills which provided cheap finance to the public sector, the effect of the monetary policy was an increase in interest rates facing the private sector.

The monetary policy intended to counteract demand pressures which the government was unwilling to control through exchange rate flexibility or through contractionary fiscal policy. The use of contractionary monetary policy, therefore, represented a decision to pass much of the burden of stabilization on to the private sector. Thus a restrictive monetary policy with high interest rates was explained as being a necessary short-term policy in order to reduce pressures on fiscal policy. Such a policy stance could have been influenced largely by the perceived political risks of carrying out a restrictive fiscal policy or a flexible exchange rate policy, or rather sceptical attitude of the
government towards the private sector given its response to earlier incentive measures.

The response of the economy to the government's monetary policy was not very encouraging. Foreign investment did not respond to high rates of interest, and expectations of an impending devaluation gave rise to sustained downward pressure on the exchange rate. By October 1985, the rate had fallen to US $1.00 = J $6.40. Fearing adverse public reaction, the government intervened and the rate rose back to J $5.50.

Besides, being unable to stabilise the exchange rate, the monetary policy instruments had a negative impact on the performance of the private sector. The adverse investment effects reflected in the poor performance of GDP as seen in Table. The rate of growth of GDP declined to -0.9 per cent in 1984 and -4.5 per cent in 1985, with poor performance spread across all sectors of the economy.

To counteract the worsening balance of payments situation, new import tariff and stamp duties were imposed on consumer, capital and raw materials as a means of controlling demand in lieu of quantitative restrictions. The effect of such measures, combined with the impact of devaluation and the sharp rise in the rates of public utilities, was an escalation in the rate of inflation, which reached
31.2 per cent in 1984 and 23.1 per cent in 1985. In conjunction with the required restrictions on wage increases, this had a negative welfare effect on large numbers of the population with the lowest income groups no longer able to obtain basic necessities. A food security programme (FSP) was soon introduced to tackle the problem; it aimed at almost half of the country's population.

In September 1985, the government again failed the IMF tests associated with the stand by arrangement and the latter was abrogated. The only notable achievement, according to the Fund and Bank was in terms of fiscal performance with the Central government overall deficit declining from 15.8 per cent of GDP in 1983 to 5.3 per cent in 1985-86.

Yet another policy prescription SAP included the privatizing of public enterprises. Jamaica being one of the three developing countries was given a SAL by the World Bank in the 1981 with privatization as an explicit condition. It has been argued by the World Bank that privatization is perhaps the best tool for encouraging managerial efficiency in developing countries. With regard to public enterprises in Jamaica, the policy changes demanded by the Bank pertained to the termination of monopoly powers of marketing organizations (EMOs). The intent was to ensure competition in external marketing. The EMOs were, however, retained,
and continue to have a number of non-marketing functions.

The economic downturn which affected the sugar and banana industries in the early 1980s was manipulated by JLP to turn over portions of sugarcane and banana production to private industry, which include Tata and Lyle and others, to own, manage and restructure the country's two main export industries.

Some of the other areas included the airlines, broadcasting and transportation. Despite all these attempts, divestment remained limited until the late 1980s. A limited program of privatization was undertaken as a necessary policy measure to secure the continued inflow of foreign assistance from the international lending agencies, and US.

However, positive rates of growth of GDP, spreading across all sectors of the economy were recorded for the period 1986-88. Between 1986 and 1988, the value of exports increased by 234 per cent while the current account balance improved from US $ 248.1 million to US $ 103.1 million. The positive trend continued in every year from 1990 to 1993 averaging one per cent per annum.

Much of the recent improved economic performance has been attributed to exogenous factors. This includes the fall in the price of oil, in flow of tourists, especially from US, and improvement in bauxite and alumina prices have
all contributed to improved GDP growth rates, ranging between 1.8 and 2.0 per cent per annum.

However, central problems of the economy remained unsolved. Unemployment remained above 20 per cent, with a large population of males engaged in informal economy activities. The foreign debt which in 1980 amounted to 5.7 per cent of GNP, had risen to 139 per cent by 1987, and debt service had risen from 26 per cent of the government budget in 1980 to 40 per cent in 1987. Health and education expenditure fell as a major share of the budget was dedicated to servicing of the debt. With a fall in wages and incomes, a safety net was provided. Nevertheless, mild malnutrition rose from 8 to 39 per cent and the prevalence of stunted growth in infants rose from 6 to 14 per cent from 1978 to 1985. Real expenditure on health fell from J $78 to J $ 54 per head from 1981 to 1985, a 30 per cent decline. By 1989, nearly 9 per cent decline. By 1989, nearly 9 per cent of children were underweight and 7 per cent stunted.

Thus, a cut back in social spending has adversely affected the poor in Jamaica. Given the country, high dependence on food imports, the devaluation of the currency increased food prices by 12 per cent in 1983 and from 20 to 25 per cent in 1984, while unemployment increased and real wages fell. To ameliorate the social crisis, the government
initiated schemes such as a Food Aid Programme in 1984. But such targeted programmes were only partially successful.

In sum, the economic reforms introduced as part of stabilization and structural adjustment programmes did little in bringing about desired results. Trade liberalization reduced employment in import-competing sectors. Devaluation did not boost exports. Social security safety nets were woefully inadequate to protect the affected workers. Further, reduced public spending to cut budget deficits eliminated food subsidies.

It would be appropriate in this context to illustrate the impact of the liberal economic policies on the overall economy of Jamaica in the 1980s, and 1990s.

The prime minister was of the firm belief that only foreign capital could save Jamaica from the economic crisis. With this objective in mind, Seaga went for economic measures which included IMF loans and over US$ 700 million in non-IMF loans in order to lessen the budget deficit and overcome the crisis arising out of the balance of payments. The government encouraged public enterprises to create current account savings equivalent to 2 per cent of GDP in fiscal year 1983-84. The party in power looked for


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maintaining public investment expenditures below 15 per cent of GDP in every year of the structural adjustment programme. The export development fund and the Kingston Free Zone was set up for increasing the development in the industrial sector.

Jamaica National Export Corporation (JNEC) and the Jamaica Export Trading Company (JETC) were made active. The government liberalised import licensing system so that there could be more investment in the country.

After abolishing the monopoly powers of the External Marketing Organizations (CMOs), the sugar cooperatives set up during the PNP period were abolished and divested some of the important government owned factories of the National Sugar Company. After eliminating subsidies to the local condensary, the local price of sugar was increased by 30 per cent. Attempts were made to reduce the staff of the National Sugar Company by the end of 1982. The immediate steps were taken to introduce government rationalization of industrial institutions for the purpose of eliminating the problems faced in the economy as a result of over-regulated and over-bureaucratized system. The government set up the Jamaica National Investment Promotion Limited (JNIPPL) for helping foreign inventors. With the help of IMF loan, all commercial arrears were eliminated.
import licensing policy was an innovative measure taken by the government at this juncture. Another step was issue to licenses to exporters without difficulties when financed by export certificates. The government expanded the Export Development Bank which became an important source of foreign exchange for imports which were very essential for exporters.

It is better have a look at the debts outstanding during the period between 1980 and 1987 before analysing IMF loans and the phase of adjustment.

Table 1 shows the tremendous increase in Jamaica's external debt between 1980 and 1987. By the end of 1985, the total official debt was US $ 3.4 billion, with commercial banks having 12 per cent of total debt, bilateral loans 42 per cent, multilateral loans 3.9 per cent, and other loans 7 per cent. In 1987, the total debt came up to US $ 3.5 billion and the country owed US $ 1.3 billion to multilateral institutions. Jamaica had to pay US $ 1.8 billion to bilateral creditors. It was in this situation that JLP government under the leadership of Seaga went for IMF loans. Let us examine below IMF loans and the phase of adjustment.

As has been mentioned earlier that the economic policy of JLP government was to borrow from foreign economic agencies to stabilize the domestic economy and to promote
development in all sectors of Jamaican economy. The government was convinced that the country was not able to finance its development projects from internal sources. The Prime Minister could manage loans from US, Canada, Western Europe, Japan, World Bank and IMF. As a first step, the government entered into an agreement with IMF under the agreement Extended Fund Facility (EFF) agreement, in April 1981. As a result of this agreement they received a loan of US $ 650 million over three years.

Besides this, the government obtained US $ 48 million from the Compensatory Financing Facility (IFF) to overcome the crisis faced by traditional exports marketing. This financial assistance to Jamaica brought only temporary and superficial economic development which the country witnessed between 1981 and 1982. Economic assistance from US increased from US $ 38 million in 1978-79 to US $ 174 million to US $ 302 million.

Seaga could convince President Reagan about the necessity of US aid to the development of Jamaica. Realizing the importance of helping Jamaica, Reagan began to give maximum aid to the country and furthered US geo-political interests in the region. Such as breaking relations with Cuba and backing the invasion of Grenada. The Reagan administration gave massive amounts of financial assistance to Jamaica to
the extent of projecting Jamaica as a part of the five largest, per capita, US aid recipients. The following table gives an account of US aid to Jamaica during 1981-88.

As seen in Table there has been a continuous increase of US aid to Jamaica in the 1980s. It reached a maximum in 1984-85, before declining in 1987-88. In December 1981, Reagan ordered 1.6 million tonnes of Jamaican bauxite for defence stockpile, which marginalised existing control for competitive purchases. The US insisted on paying for the bauxite in part by the barter scheme of agricultural products. Therefore, this purchase could not make much contribution to the balance of payments. The Seaga government also went for negotiating two barter deals with General Motors and Chrysler, by exchanging bauxite with vehicles.

The government was under the impression that the state's income would increase tremendously by export earnings brought about by the bauxite and agricultural sectors. The government later realized that export income was dependent on conditions prevailing in the international market. The most disappointing one was the bauxite sector. It was expected that in 1981 the production of bauxite would go up from the 1980 figure of 12.1 million tonnes to at least 26 million tonnes in 1983-84. In the same manner production in alumina was expected to expand from 2.4 to 8.6 million
tonnes. It was, however, not possible to expand bauxite production; moreover, there was a decline in the international demand for bauxite. Drastic change in production techniques and the lack of international demand for bauxite led to a situation in which bauxite production had to decline to the extent of 7.7 million tonnes in 1983. Government income from the industry declined simultaneously from US $206 million in 1980 to US $137 million in 1982. Table 11 shows projected and actual production achievements between 1981 and 1984.

The table gives a comparison of the production projections made in the IMF agreement with IMF, and actual achievements. As observed from the table, the production targets as contained in the IMF agreement were not achieved.

During 1981-82, more than 67 per cent of World Bank loans to the Caribbean went to Jamaica. The total loan for 1982 went up to US $133 million. More than half of this amount was spent for a structural adjustment loan for restructuring Jamaica's economy toward export industries. At least at the surface level, the government was in a position to create an atmosphere of prosperity. Import restrictions imposed by Manley government were removed by JLP government and new luxury items and basic consumer goods became available in plenty. The loans were used as part of the gover-
ment's strategy of recovery programme by easing the extern-

al debt and restoring the economy to a position of equilib-

rium.

IMF policies were quickly implemented and the govern-

ment increased prices on all imported items including oil.
The government introduced a liberal import policy and re-
duced subsidies on basic goods. It went to the extent of
increasing the interest rates and restricting credit.
Public sector spending came down because public sector
resources were redistributed to the export sector for export
promotion. These changes were introduced for satisfying IMF
policy for reducing current account deficits. The govern-
ment agreed to maintain an overall central government defi-
cit at the level of 6.8 per cent of GDP in fiscal year 1985-
86 with a further reduction to 4.0 per cent of GDP in 1986-
87.

For increasing domestic resources the IMF asked the
government to reduce its expenditures to US$ 128 million
per fiscal year. The government removed more than 6,000
government employees and abolished critical social services
and relief programmes which had been established by the
previous government.

The poor performance by the sugar and banana sectors
aggravated the balance of payments problems caused by the
decline in bauxite production. Sugar production fell by 46,000 tonnes between 1980 and 1982 and banana production by 11,000 tonnes during the same period. However, the JLP government did not make any policy changes in connection with its dependence on commodities whose prices were decided by changes in the international market. If they had diversified agricultural sector, they would have been in a better position to create more jobs and increase export production. Such policies would have required distributing wealth to the rural middle and lower classes. The import liberalization policies led to a surge of imports of luxurious items. This created a negative impact on the trade balance which led to an increase in the trade deficit from US $ 213 million in 1980 to US $ 500 million in 1981. In spite of the heavy foreign investment, majority of the middle and lower classes were unable to meet their basic necessities of life.

Table 111 reveals the condition in the overall Jamaican economy from 1981 to 1984.

In spite of positive growth rates of GDP, in 1981-83 period unemployment dropped only 0.6 per cent. the government was still under compulsion to continue the Jamaican

33. As Mercedez Benz, Volvos, HMWS, VCKs, videos and satellite disks, which were generally meant for the upper and middle classes.
convention of distributing resources for lower and middle class patronage. Therefore, a large share of the national budget was to be absorbed by the public sector. In 1981, government expenditure went up to 42.8 per cent of GDP in comparison to 43.1 per cent in 1980. The public debt held by the Bank of Jamaica went up to J$100 million in 1982.

The government made all attempts to strengthen the state sector and gave enough backing to its dependent clients. Some attempts were made to create jobs by setting up the Human Employment and Resource Training and solidarity Programme (HEKTS) which was funded by the state to the extent of J$10 million and US $10 million from the United States Agency for International Development (USAID). This led to the increase of public sector expenditure and tremendous increase of the labour force. The government imposed a system of payroll taxation for subsidizing HEKTS programmes. Thereby, private sector employees whose monthly pay exceeded J $ 7222 were supposed to pay a 3 per cent tax. The government's tax collections were invested in the HEKTS fund. This fund was utilized to finance training programmes in the fields of continuing education, cosmetology, business, agriculture, construction, craft and garments. HEKTS tax collections went up to J $ 5.5 million in fiscal year 1982-
83 leading to an increase of J $ 21.9 million in 1984-85.

JLP's economic policies based on export-oriented approach, foreign investment and privatization, mainly gave more benefit to the private sector and the professionals who were already working in this sector. Private sector is dominated by whites of Arab and Jewish origin, with a few Chinese and East Indians. Free market policies supported this private group; at the same time public sector expansion gave patronage resources to the Blacks as well as Brown lower classes. Employment opportunities favoured a White, Black and Brown middle classes who were employed in government agencies. These tactics were meant to consolidate the support base of the party. It did not happen because domestic as well as international factors brought serious economic problems that led to a balance of payments crisis. The government was compelled to dismantle the domestic political coalition. In spite of his free market policies, Seaga could not reduce public expenditure. The causes were mainly political. Political leaders in the country always used populist and clientelist policies to suit their political objectives. Seaga was fully convinced that he had to meet the aspirations of the people. The prime minister imple-

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34. Edie, n.2, p. 126
mented policies that helped to preserve a dominant state.

In 1985, the government launched social welfare services like the Food Aid Programme. JLP introduced education tax in 1983 to further educational interest like increasing teachers' salaries and constructing buildings. In the first eight months of its imposition, total taxes collected came to about J $ 10.8 million and in 1984-85 it reached up to J $ 35.1 million. It is said that the government's overspending on populist programmes created a fiscal crisis in the country in late 1982 and early 1983. Though it was thought that the stabilization and adjustment policies were applied drastically, the government had to face the crisis arising from balance of payments question as early as 1983. The government's overspending definitely created more problems at crisis to the government, but the deterioration in traditional as well as non-traditional export earnings, insufficient domestic savings and more borrowing from abroad aggravated the situation in the economy. Trade account deficit led to a shortage of foreign exchange for the state and this was the main reason for the deterioration in the balance of payments.

36. Food Stamps free of cost, were given to 20,000 indigent poor people and the 2,00,000 indigent poor people and 2,00,000 pregnant women with pre-school children. Besides this 6,00,000 school children were promised free school lunches.
In this situation, the IMF put up conditions to the government ranging from devaluation of the dollar and further public sector reductions which were prerequisite conditions for further loans. The prime minister knew well that the middle and lower classes were getting isolated from the state and any more burden on them would definitely eliminate their confidence in the government. Inflation, increase in the cost of living and the other existing economic conditions made the majority people restless. When the government faced the budget deficits and working class anti-govt. mobilization, Seaga made a quick political move against the business classes and he immediately transferred some private sector resources to the state. While devaluation of the exchange rate was announced Seaga increased taxation on the business classes. The business classes were in a great crisis as a result of a deprived domestic market, high interest rates, tight monetary policies and scarce foreign exchange. The new taxation policy created more burden for them. Seaga government's credibility as a promoter of private investment was damaged because the private sector looked at the tax policies as hindrance to business interests. The government could not further shift any more resources from the private to public sector.
The government had no alternative except to follow IMF conditions and guidelines and in 1983 the Seage govt. imposed a 40 per cent devaluation on the dollar and it reduced the exchange rate for US $1.00 equivalent to J $3.302 to US $1.00 equivalent to J $5.50. The government extended this devaluation further and completed this process. However, devaluation did not bring about any improvement in net exports. The fiscal deficit still continued to prevail as the govt. did not make any efforts to restructure the tax system.

Large scale devaluation adopted by the government had immediate negative impact on the cost of living. The consumer price index (CPI) went up to 31.4 per cent in 1984. The government increased electricity rates by 116 per cent in the course of three months in 1984. As devaluation of the dollar raised expenditure in servicing the Jamaica Public Services Capital Expansion Programs and they were run with the help of external loans. This economic crisis affected the small business sector also in the context of reduction of the credit and interest rates. The purpose, according to the government, was to encourage savings at the domestic level, the local capitalists who dominated the housing construction business underwent a down turn in economic activity because the high cost of financing and mort-
gaging badly affected the consumer's capability to purchase. As a result of this, there was a fall in the housing industry, with total housing completions in 1984 coming down to more than 3000 units in comparison to 6200 in 1982.

Impact of deteriorating export income and import liberalization worsened the trade balance and as a result, by mid-1984 the deficit was more than half the export earnings. In 1985 it became larger than export earnings. In 1986, the deficit became nearly two-thirds of the value of exports. The total value of exports in 1986 reached up to 60 per cent of the value in 1980. The external debt in 1986 increased to US$ 3500 million. These developments created enormous problems for the people of Jamaica.

Seaga's style of functioning antagonised the poor because they had to face a lot of economic burden. The structure of the country's political economy created a dependency of the domestic capitalists on the state. There developed clientelistic relationships between politicians representing middle class interests and the domestic capitalists. Tensions began to increase between the private sector and the government because the latter started imposing purity laws against currency investment. The government increased taxes in 1984-85 in the urban areas. The business community and middle class consumers felt this tax burden.
Private sector began to lose confidence in the government to manage the economic affairs of the country. Seaga's image that developed in the initial stages as a financial expert became a myth because the economy went into further crisis. The Jamaica Manufacturer's Association and other private sector interest groups criticised the government and organized agitations against it.

IMF stabilization policies brought disastrous economic and political consequences. The government was compelled to cut down public spending, tighten fiscal policy and devalue the dollar. These developments came into conflict with the interest of the majority classes who wanted to depend on the public sector for employment and other necessities. Meanwhile Seaga's government collected maximum wealth from the country by way of raising taxes on the business classes. JLP government was of the belief that privatization could boost the economy by bringing more profit and efficiency in the public enterprises. Privatization was an important condition for IMF loans to the government in 1987. Free market economic policies preached by external lenders were supposed to affect the performance of the economy and to weaken the clientelist system indirectly. Under pressure from foreign investors, the government decreased the number of civil servants from 108000 in 1980 to 99800 in October.
1983. Its main purpose was to reduce public expenditure. The government explained to the public that this was done to increase government efficiency and to balance the budget. The government's action further created divisions in the society, and the civil servants who were supporting the PNP accused the government of playing politics. The government made a programme of budgetary reform that would not necessitate transferring resources from the public sector. The policy of reducing public expenditure led to further concentration of power in the elected representatives of the people.

It has been mentioned earlier in the year 1981 that the World Bank gave a structural adjustment loan to Jamaica with privatization as the prime condition. The World Bank said that privatization was the best method for bringing about managerial efficiency in developing nations. The government invited Tate & Lyle, United Brands, Hooker McConnel and Gulf and Western to own and manage or restructure Jamaica's two main export industries. Government's plans to privatize the industry was opposed by the sugar workers, the island's largest work force. The government did not take into consideration the sugar workers' protest and made plans to increase the development of the agricultural sector. For increasing efficiency, the government dismantled the sugar
cooperatives and passed it over to state management by the
government owned NEC. NEC operations were decentralised and
it increased accountability of factory managers. The gov-
ernment froze the factory gate price of sugar at the 1981
level, but it increased the local price by 30 per cent.

The bankrupt government of Seaga dismantled the Jamaica
Omnibus Services and small entrepreneurs running mini buses
profited from this action. They took control of transporta-
tion services in the city area of Kingston, St. Andrew and
in Spanish Town. In spite of high casualty rate created by
these bus services the people paid the increased bus fares
because they had no alternative now. Hotels other commer-
cially viable enterprises went from government management to
private sector.

Seaga’s wish to convert Jamaica into a market economy
had a limited success. There was more commitment to public
sector reforms than an effort to sell many unprofitable
government assets to local and foreign entrepreneurs. A
limited programme of privatization was carried out to main-
tain the existing inflow of foreign assistance from the
international lending agencies and US. Privatization took
place in agriculture, municipal services, transportation,
manufacturing, communications and tourism.

Export led industrialization became an integral part of
the development strategy of the government. Industrial production was mainly for the small national market. When the domestic market became stagnant local manufacturers could not compete in the international market. Between 1980 and 1984, new exports of manufactures of the country increased more than ten-fold. In 1980, the value of export sales became J$ 1.7 million, increasing to J$ 8.3 million in 1981 and J$ 18.0 million in 1981. Traditional manufacture exports became stagnant between 1980 and 1983. Increase of manufactures became -1.8 per cent. Diversification became the only solution to the economic crisis that became a characteristic feature of Jamaica, which heavily depended on a few important exports and the mineral sector to earn foreign exchange. Export production was supposed to encourage private enterprise through market forces. In March 1981 the Seaga government issued no funds licences for the import of raw-materials, spare parts and capital goods. Licences were given to importers who did not need foreign exchange from the Bank of Jamaica to finance the imports for which the licences were essential. The whole import licensing system was drastically changed and simplified by abolishing the trade administrator's department which was replaced by a Trade Board with representatives from the private sector.

Jamaica did not receive as much foreign investment as
expected. According to the government's estimate, there was US $141 million private investment in 1985. Many foreign investors became apprehensive about the unstable economic and political situation which did not drastically change even by 1983. Some people had interest in investing in non-traditional agricultural exports. The government found it very difficult to find new investors after 1983. It could attract only small corporation like Affordable Custom Dental Appliances, which utilized cheap Jamaican labour for manufacturing dentures. However, the government did not succeed in attracting private bank loans which Jamaica wanted to build its foreign exchange reserves.

In January 1983, Seaga government expanded its export promotion strategy to include an Export Development Fund (EDF) which assured foreign exchange to finance imported inputs used by exporters. The government also set up the Kingston Free Zone for enclave type industries and executed a phased elimination of the 364 quantitative restrictions for a period of five years. The purpose was to encourage domestic producers so that they would become more efficient in production and marketing. Jamaican Export Free Zone Act was introduced by the government which extended liberal in-

36. The initiative in this sphere came only from Kaiser Aluminum Company to start Jamaica Floral Exports.
centives like tax exemption, 100 per cent tax holiday, removal of import licensing and normal customs provisions, duty-free import of raw materials and capital goods and repatriation of assets.

The government thought that these steps would become great incentives to exporters. It was expected that they would improve their production and marketing by making use of the foreign exchange. Jamaica's cheap, unskilled and semi-skilled labour was used by the industrialist for the promotion of industries.

As has been mentioned that by the beginning of 1983, the increase in imports, the decline in traditional exports and the slow growth in non-traditional exports led to a foreign exchange crisis. This led to the development of a thriving parallel currency market and a large balance of trade deficit, as shown in Table V. The government responded by formalizing the de facto dual exchange rate. Jamaica failed the IMF tests. Realizing the for a new agreement with IMF involving massive devaluations and harsh austerity measures, Seaga called for a snap election in October 1983, deliberately violating an inter-party agreement concluded in 1980. Thus with no opposition in Parliament it was possible

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This period has been ironically referred to by Caribbean economists as 'import-led, debt-financed growth'.
for the JLP to go ahead with the economic reforms. The exchange rate was unified and devalued as a pre-condition to the new IMF agreement. By October 1985, the exchange had fallen to a law of J $ 6.40 to US $ 1.00. The austerity policies and devaluations and price increases following implementation of IMF policies led to social protests. Instead of making concessions, the government went ahead with the austerity measures which resulted in further curtailment of public sector employment.

During his period in office, though Seaga kept total commitment to free market, private enterprise-based model of economy no major attempts towards divestment were made before 1986. On the contrary government attempted to expand the entrepreneurial role of the state. As part of diversification of exports, the government took steps in

38. A country-wide demonstration began against the increase in gas prices in January 1985. In July the same year, the Jamaican trade unions called their first general strike in the history of the country and the strike continued for a week, leaving the island in water and electricity scarcity.

39. The government suspended 1200 firemen and 200 electrical workers for their participation in the general strike.

40. A few small ventures which were divested included a company catering to airlines and a food canning factory.

41. In the year 1982, the government nationalized the oil refinery which was owned by ESSO, as were Caymanas Estates and the Montego Freeport.
evolving ventures for the export of winter vegetables, especially to US.

The government decided to reopen the alumina plant at Halse Hall which was closed by Alcoa in the year 1985. In 1986, state initiatives went up to 28 per cent of bauxite sales entirely to the USSR and 48 per cent alumina sales. In 1987 Clarendon alumina production was functioning well with high cost-efficiency. Until 1995, a number of overseas markets were obtained to sell the entire production of the plant. Alcoa wanted to revive the old partnership agreement with Jamaica when it found that world aluminum markets were prospering in 1987. In 1988 they reached an agreement after detailed negotiations, under which Jamaica got another 44 per cent of the shares in the plant and it brought total equity up to 60 per cent. These efforts helped the Jamaican state to expand its role as an entrepreneur. For assessing the role government's policies played in the economic development of 1980s, one should look at the economy sector by sector. Table VI brings to light this aspect in detail.

Table VI shows that the total growth during the period was sluggish. The decline in bauxite production was an important factor leading to the crisis of 1980s. While oil in 1980, the country had exported 12 million tonnes of bauxite, exports declined to 6 million tonnes, rebounding to
Tourism began to replace bauxite as the largest foreign exchange earner, accounting for 37 per cent of the total exports of goods and services in 1987. Such a development in the tourism sector, though an instance of the entrepreneurial role, had to do with the political posture of the govt. rather than its economic policies. There was, however, a decline in the growth of export agriculture during the period. The domestic agriculture hardly showed any improvement. The sector was affected by the relaxation in imports of the early 1980s. However, the net growth in the field of manufacturing was better than in agriculture. Liberalization and deregulation brought about a negative impact on import substituting manufacturers, especially the shoe and garment industry. Besides, the close relations with US was an important factor in the increase in export production. This has been exemplified by the CBI and other related programmes. However, the dollar increase in total non-traditional exports could hardly compensate for the decline in traditional exports. The increase in non-traditional export earnings was dwarfed by the massive increase in imports. But with the devaluations, they proved beneficial to export oriented manufacturers.
Underlying the sluggish rates of growth during the period, 1980-88, was an investment level that was below the government's target of 25 per cent of GDP, as shown in Table VI. This was due to the low level of private investment. Moreover, as seen from Table IV, US aid to Jamaica declined in 1986-87 and 1987-88.

As for social development, it could be seen that despite increases in public spending after 1984, when it reached 42 per cent of GDP in 1987-88, it could hardly restore the social services as existed in 1981. This was because servicing of the debt accounted for 5 per cent more of GDP in 1988 than in 1981. Debt remains to be a central feature of the economy since the mid-1980s. Massive borrowing by the government in the initial years pushed debt from 82 per cent of GDP in 1980 to 140 per cent in 1983 as seen in Table VI. Debt servicing increased from 24 per cent of the total export of goods and services in 1980 to 61 per cent in 1985. A feature of Jamaica's debt is that it is owed primarily to multilateral and bilateral official sources: 39 and 42 per cent respectively. This gives Jamaica less flexibility since the multilateral institutions are prevented from their
charters from rolling over outstanding debt.

The employment situation, as observed in Table VI, follows closely that of the economy as a whole.

Having disgusted with economic crisis under JLP, the people again voted PNP to power in 1989 general elections. The political situation in 1989 was different from that of the 1970s. During 1970s the popular forces and the left showed weak tendencies and the business community and conservative forces appeared to be very strong. Prime Minister Seaga's negative approach towards the trade unions, coupled with the reduction of employment in the domestic manufacturing and public sectors led to the weakening of the labour movement in the country. With a weakening of the position of the radical elements within the party, i.e., PNP, and the changed international political situation, the left was no more able to pressurize the PNP this time.

What one notices is a sharp departure of the policies of the new PNP government from that in 1970s. The PNP now adheres to the tenets of neo-liberal ideas; no more espousing democratic socialism. There seems to be a continuity in

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42. US aid to Jamaica declined in Seaga's last years in office because of recessionary tendencies and cooling of warm relationship. In the later years, US was convinced that Seaga would not be able to project Jamaica as the showcase for the free market and private enterprise models success in the Third World.
the policies of the government. Thus, the present PNP government negotiated and implemented a new agreement with the IMF, involving tax increases and budget cuts, removal of food subsidies speeded up divestment and liberalization programme alongside with devaluation of the currency to J $ 7.00.

Such policies have led to a strengthening of self-confidence and assertiveness of the business community. Deregulation proceeded in the petroleum industry as well as in the foreign exchange rate system. The government perceived a vigorous entrepreneurial role in the bauxite and alumina industry. It looked for fresh markets and new partners or joint ventures to make use of the improved situation in international aluminum markets. Bauxite and alumina exports further strengthened from around US $ 300 million per year in the period 1988-89. A land divestment and lease programme were other two measures initiated by the government to promote economic growth. Efforts were made to revitalize regional cooperation that consist of the setting up of a Caribbean Stock Exchange and creating new relations between the Caribbean Community and Common Market (CARICOM) and important free trade zones in the hemisphere. As far as social policy was concerned PNP argued that welfare questions could be tackled directly by the state authority after
solving the problems of production in the economy and deficiency in the public sector. Major initiative taken in the field of health and education by way of increasing the salaries of nurses and teachers.

One of the political policies of the PNP in power was to follow pro-people policies and retain that image, while creating a very favourable environment to attract domestic and foreign investment. Simultaneously they imposed stringent austerity measures on the people.

To sum up, it might be useful to ask whether the neoliberal development strategy of the 1980s, if consistently applied, would have worked under the conditions prevailing in Jamaica. In identifying such conditions or challenges faced by the nation, it is important to consider international economic and political conditions. One of the central features of the 1980s was the debt crisis. This crisis moved the IMF to the centre of economic management and left the nation with little option but to submit to IMF/World Bank prescriptions for structural adjustment. Jamaica becomes one of those few countries which followed the precepts of the Washington Consensus, as mentioned in the

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introductory chapter, in every manner possible and yet could not wriggle itself out of the crisis. The success would depend as has been highlighted in the present chapter, move on exogenous factors over which the administration in power has but little control.
### Table 1

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<td>Outstand</td>
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<td>Official (multilateral loans)</td>
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<td>36</td>
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<td></td>
<td>Others</td>
<td>204</td>
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<td>1648</td>
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<thead>
<tr>
<th>Sector</th>
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<th>Target for Fiscal Year</th>
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<tr>
<td>Bauxite/alumina</td>
<td>12.1 11.7 8.4 7.7 8.9</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>(million tonnes)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sugar</td>
<td>242 198 196 193 190</td>
<td>330</td>
<td></td>
</tr>
<tr>
<td>(thousand long</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>tonnes)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bananas</td>
<td>33 19 22 23 11</td>
<td>120</td>
<td></td>
</tr>
<tr>
<td>(thousand tonnes)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Non-traditional</td>
<td>111 126 144 153 137</td>
<td>220</td>
<td></td>
</tr>
<tr>
<td>(US $ million)</td>
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### Table 111

Socio-economic indicators, 1981-1984

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<td>Unemployment (%)</td>
<td>26.2</td>
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<td>Youth Unemployment</td>
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<td>(a) GDP</td>
<td>2.5</td>
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<td>2.3</td>
<td>-7.9</td>
<td>7.3</td>
<td>10.0</td>
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<td>-29.0</td>
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<td>0.7</td>
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<td>-6.4</td>
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<td>6229</td>
<td>4514</td>
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<td>(Number)</td>
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<td>External Debt</td>
<td>2237</td>
<td>2757</td>
<td>3275</td>
<td>3237</td>
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<tr>
<td>(US $ Millions)</td>
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<tr>
<td>Inflation (%)</td>
<td>4.6</td>
<td>6.6</td>
<td>16.7</td>
<td>32.2</td>
</tr>
<tr>
<td>(Consumer Price Index Dec to Dec.)</td>
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Table IV
US AID TO JAMAICA, 1981-1988 (US $ Millions)

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<th>Year</th>
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<td>1980-81</td>
<td>79</td>
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<td>1981-82</td>
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<tr>
<td>1982-83</td>
<td>117</td>
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<td>1983-84</td>
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Table: V

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<th>Year</th>
<th>Imports</th>
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<th>Foreign Debt</th>
<th>Debt % of GDP</th>
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<td>1061</td>
<td>213</td>
<td>166</td>
<td>1734</td>
<td>82</td>
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<td>1473</td>
<td>503</td>
<td>337</td>
<td>2212</td>
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<td>388</td>
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<td>128</td>
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<td>1281</td>
<td>595</td>
<td>289</td>
<td>2920</td>
<td>140</td>
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<td>1183</td>
<td>481</td>
<td>353</td>
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<td>316</td>
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<td>233</td>
<td>4035</td>
<td>144</td>
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<tr>
<th>Year</th>
<th>Total (per cent)</th>
<th>Domestic Agriculture</th>
<th>Export Agr.</th>
<th>Manufacturing</th>
<th>Gross Investment (% GDP)</th>
<th>Public</th>
<th>Private</th>
<th>Unemployment(%)</th>
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