



**Launch of Productivity Awareness Week – November 10, 2009**  
**Address by PSOJ President Joseph M. Matalon.**

The Honourable Andrew Gallimore, Minister of State in the Ministry of labour and Social Security; Dr. Charles Douglas, Executive Director of the Jamaica Productivity Centre; Mr. Joseph A. Matalon Chairman of the Jamaica Productivity Centre; Directors of the JPC; members of the media; ladies and gentlemen; good morning.

Having accepted the JPC's kind invitation to speak this morning, I reviewed with great interest the recently published JPC Productivity Summary Report and would first like to heartily congratulate the JPC for compiling this comprehensive data set across several industries and for the economy as a whole. I will say that the document does not make for very uplifting reading, and as a proud Jamaican induced in me a great deal of discomfort; and how could it do otherwise? To paraphrase a number of the presenters at last Thursday's launch of the report:

- At our current rate of growth of less than two per cent per annum, it will take Jamaica 40 years to attain the current level of real per capita GDP enjoyed by Barbados, a country with a small fraction of our natural beauty and resources, physical and human;
- Over the 35-year period covered by the Productivity summary report, the productivity of the average Jamaican worker has declined at a rate of 1.3 per cent each and every year. The decline in recent years has doubled to 3.4 percent per annum.
- Real GDP in Jamaica per capital in 2007 was only 90 per cent of the level that we first attained as long ago as 1972.

While these are indeed very meaningful statistics, in and of themselves they can provide only a historical record of outcomes. They tell us nothing about the underlying causal factors that may explain our lacklustre showing in terms of this all-important measure of economic performance. Therefore, rather than focusing today on the question of productivity at the industry or firm level, or indeed undertaking any close examination of the statistics themselves, I prefer to make some educated guesses as to some of those primary underlying causes. And truth be told I do not believe that we need to look any further than the vast body of economic research and analysis that already exists on our economy, whether from local or international sources, and from which I will borrow liberally in what follows.

As a framework for our thought we should first answer the question “what are the key elements that are likely to spur increases in productivity?” Any economics 101 course will tell you that the main direct sources of productivity are:

- The level of output per unit of labour input; and
- The level of output per unit of capital input.

There are also several other factors not directly related to either the cost of capital or labour that will contribute to overall value added or so-called Total Factor Productivity:

- The level of investment by the private sector in capital assets;
- The level of investment by the private sector in technology and innovation;
- The general development of our Human capital through education and skills training; and
- Public investments in infrastructure that have a powerful enabling effect on productivity in the wider economy.

With this very elementary framework in mind, there are some selected key macro economic issues faced by Jamaica, and which I believe alone have been major contributors to our lacklustre productivity performance, and by extension, low rates of real economic growth.

I am sure it will come as no surprise to anyone here this morning that I should mention the level and sustainability of the national debt, as well as our history of chronic fiscal deficits, as two key macro economic issues facing the country. Although this topic has been the subject of almost daily comment in the media, little effort has been made to highlight the link between the debt burden and productivity growth, a link that has been extensively documented by international researchers in the field of growth economics.

It is beyond debate, in my view, that Jamaica’s burgeoning national debt, through the Government’s demands on the resources of the financial sector, has limited the private sector’s access to credit. When we recognise that the unavailability of credit will logically retard private sector investment in capital assets, which we earlier identified as one of the main contributors to productivity growth, we can begin to see the causal link between high levels of national debt and low levels of productivity and real economic growth.

If access to credit in general is limited, it follows that this limitation will be most acutely felt among Small and Medium Size Enterprises or so-called SMEs, which are considered inherently riskier credits, but which in most economies around the world have been acknowledged to be the primary drivers of new employment creation and innovation, another major potential contributor to productivity improvement.

Add to this the fact that the Government’s demand for more and more credit serves to simultaneously bid up the cost of what little credit remains in the system after satisfying its own requirements, and we are faced with yet another roadblock in the way of productivity growth: The resulting higher costs of financing will further retard rates of productive

investment by increasing the hurdle rates of return necessary to justify those investments. Such private sector Investments as can be so justified are also likely to be skewed towards those with shorter payback periods, irrespective of the implied sacrifice in overall present value and longer-term productivity growth.

What I have so far outlined may be generally described as private sector “incentive effects.” But what of the Government itself? How does the national debt affect its operations and what is the likely impact of those effects on productivity levels in the wider economy? I would suggest we need look no further for these answers than the recently tabled supplementary estimates of expenditure for the current financial year. With debt service (excluding amortisations of principal) representing better than one half of all Government revenues, the Government has been forced to forego investments not only in infrastructure provision but also in the development of human capital through education and skills training, yet two more of the earlier identified sources of potential productivity growth.

Another major macro economic issue that we face, separate but not unrelated to the national debt, is our approach to the establishment of foreign exchange rate and interest rate levels.

Real exchange rate movements are commonly used to measure a given economy’s general level of competitiveness and potential for productivity growth. In this regard it has been observed that Jamaica’s Real Effective Exchange Rate appreciated by more than 35 percent from 1990 to 2001 with a consequent decline in external competitiveness. As an illustration of the impact of this trend, the World Bank in 2003 reported a 50 percent decline in Jamaica’s market share of world merchandise exports between 1994 and 2001. Not surprisingly, the same period marked a rapid increase in the level of merchandise imports.

And how you may ask were we able to achieve an appreciation of the Real Effective Exchange Rate of the Jamaican dollar? This is a very complex question and while there is perhaps no single answer to this question, I would suggest that a primary enabler lay in an interest rate regime that established otherwise unwarranted risk premia in the structure of local interest rates in order to stabilise the currency at non-equilibrium rates of exchange.

But I am sure that at this stage you have now heard quite enough from me on the subject of macroeconomic policy. As the Minister pointed out, we need the unvarnished truth and need to understand the reasons for Jamaica’s economic malaise.

Before concluding I would make only very brief mention of a few more areas of public policy, the examination of which might well provide further clues to other potential sources of productivity growth in the future:

- The significant gains that would be made in economic efficiency and productivity through implementation of comprehensive tax policy and administrative reforms;
- The reform of Jamaica’s complex legal and regulatory systems that are major impediments to private sector led economic growth;

- Apart from those issues raised under the heading of the national debt, much could be done to improve access to credit by reforming the existing legislative collateral framework, including fast-tracking proposed credit bureau legislation and accelerating land titling reform implementation;
- High energy costs that will continue to impact negatively on the competitiveness and productivity of the local economy must be addressed.

In concluding I would again congratulate the JPC on the work they have done and will no doubt continue to augment in the establishment of systems to quantify the critical performance measure that is productivity.

In terms of solutions I have no doubt that we possess both the brain power and the knowledge base to diagnose the problems underlying our unsatisfactory record of productivity growth and advance policy prescriptions that will put us on the growth trajectory to which I think we all aspire.

But despite our capacity to diagnose the issues and advance policy prescriptions, we must acknowledge the truth that our national leaders, of whatever political stripe over the last thirty years, have palpably failed to come to terms with a number of these issues. Perhaps the reason in the final analysis is that politicians tend to give us what they believe we want. It suits them to do so given that to do otherwise may mean their loss of the right to govern at the occasion of the next election, always "just around the corner." The truly enlightened politician, I believe, the statesman if you like, who knows very well what policy prescriptions are most appropriate, must convince the population of the rightness of those policies, not just for their own benefit at the polls, but for the benefit of their own historical legacy and most important of all, for the benefit of future generations of Jamaicans who will reap the rewards of their sacrifices.

But this commitment to leadership, the very appropriate theme of this JPC event, cannot be the responsibility of our elected leaders alone. All of our leaders, in the private sector, the public sector, in academia, the labour movement, the media, indeed all persons in positions of leadership across civil society, must share in that commitment to leadership of thought and most important, leadership in deed.

To the board and staff of the JPC, I would suggest finally that you have a particularly important role to play in this process of leadership. By fulfilling your mandate to effectively raise public awareness and understanding of those issues we have discussed this morning, you can aid the national leadership in convincing the Jamaican people of the rightness of some of the policy directions we have discussed. This I would argue is the greatest service to country that the JPC could provide at this time in our history.

Thank you ladies and gentlemen.