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DEFINITION OF GROWTH AND REVIEW OF JAMAICA'S PAST PERFORMANCE

Definition

Economic growth, defined in terms of the rate of increase of Gross Domestic Product (GDP) per capita, has been one of the main objectives pursued by most countries throughout recent history. Economic growth can improve the well-being of a country's poor and bring an increase in the welfare of all members of a society.

However, as an objective of economic policy, consistently high levels of economic growth have not been a major priority in Jamaica since the 1960's, and have not been achieved since then.

According to the 1996 Human Development Report, Jamaica is ranked 86 on the Human Development Index and 92 on its per capita income index. Jamaica's GDP per capita as reported by that document, was US$1,440 in 1993. From all indications our per capita income has not increased in almost 25 years and if Jamaica is to achieve Barbados' 1993 per capita income of US$6,230 we would have to achieve a growth rate of 10.5% per annum for the next 15 years or 7.5% for 20 years.

But why is a sustained high level of economic growth necessary? The Industrial Revolution in Europe brought the expectation of an improved standard of living but the level of growth achieved in that era was only 1-2% per annum, not enough to provide a large majority of people a sufficiently high standard of living and hence there were numerous instances of social unrest and revolution. In contrast, the newly industrialized countries of South Eastern Asia are presently growing at rates of 8-10% per annum which are sufficient to provide most of its people with a better standard of living within a satisfactory time frame. Therefore, unlike the situation in Europe many years ago, these newly industrialized countries are not faced with as much social and political unrest. The Jamaican people are no exception, the majority of the Jamaican people have come to expect a certain standard of living which they have not been able to achieve for the past two and half decades. To a great extent the recent up-surge in violence and the break down of social institutions can be attributed to the lack of growth in the economy. Without growth and hence increased and improved employment opportunities for the majority of the labour force there will be continued social and political unrest in our socety.

Historical Review of Jamaica's Growth Performance

From 1966 to 1972 the economy grew at over 6% per year, while from 1973-1980 it suffered an un-interrupted decline, which over the period totalled 18%. Meanwhile, inflation soared from 7.5% per annum in 1966-73 to an average of 21.6% per year from 1973 through 1980. At the same time Jamaica's budget deficit rose from 2.5% of GDP in 1966 to 19% of GDP in 1976 and was still at 13.5% of GDP in 1981. From 1980 - 1988 the economy grew by 0.92% per year while from 1988 - 1996 it grew by 2% per annum.

From 1980 - 1988 inflation averaged 15.44% per year while from 1988 - 1996 inflation averaged 33.1%. From the above summary of Jamaica's growth performance it is clear that since the late 1960's/early 70's.our record with regard to the achievement of high rates of economic growth, has been very poor.

A PRAGMATIC STRATEGIC PLAN TO RESTORE GROWTH IN JAMAICA

Underlying any plan to restore growth in Jamaica are three (3) essential requirements for the successful implementation of the country's economic policy framework. These are an appropriate mix of monetary and fiscal policies consistently applied, popular acceptance of the policy objectives and methods; and the support of the private sector. In terms of consistency, the country will have to develop a framework and then follow that framework without deviation. Any deviation from that stated framework should be fully justified to the Nation and plans openly and quickly put in place to return the country to it stated path as quickly as possible.

Presently, the stated and accepted policy framework for the Jamaican economy is a free market system with the private sector being the main engine of growth. Hence, the strategic plan proposed here is in keeping with that stated framework.

This plan can essentially be divided into three (3) stages. The first can be called the "Macroeconomic Stablization Stage", the seconde can be called "the domestic incentives correction stage" and the final stage can be called "the International competitiveness enhancement stage". This paper which I hope will be first in a series of papers dealing with this issue will concentrate mainly on the first stage which is a requisite for the other two (2) stages and will only outline what the other stages will entail.

Stage one: Macroeconomic stabilization

In this stage monetary expansion should be controlled and domestic costs and the international price of money (i.e. interest and exchange rates) brought to a realistic level while the burden of stabilization should be equally shared by monetary and fiscal policies.

The Role of Monetary Policy

Most economists and policymakers now agree that the objective of Monetary Policy is the maintenance of price stability. I would like to explain why this particular economic policy objective, among others, is assigned to Monetary Policy under a flexible exchange rate system.

Price Stability, in this context, is not necessarily the stability of prices of individual goods and services - in other words, the stability of relative prices of individual items. In fact, fluctuation of relative prices in response to changes in the supply and demand conditions reflects the most basic principle of the market mechanism. Central Banks aim at achieving the stability of prices in general by taking the prices of individual items in their totality. If prices in general increase - that is, if inflation occurs - the amount of goods that can be purchased for $100,000.00 will decrease, which means that the value of $100,000 will decline. It can thus be said that 'prices in general' is another way of expressing 'currency value'. The maintenance of price stability naturally becomes one of the most important missions of the central bank as the issuer of the currency, together with the mission of maintaining the stability of the financial system.

Moreover, in the long run, it is the monetary policy of the Central Bank that is able to most effectively achieve stability of prices in general. It is true that prices, in the short term, fluctuate due to various factors: Overseas market prices, such as crude oil prices or the supply and demand conditions of particular goods. However, from a long-term perspective prices in general are determined by the amount of money relative to the amount of traded goods and services. For this reason; inflation is often said to be a monetary phenomenon, and the task of achieving price stability is necessarily assigned to monetary policy. Look that the Jamaican situation over the past three (3) decades inflation has always be accompanied by excessive growth in the money supply. So my choice of money supply as the preferred nominal anchor for other macroeconomic variables and policies is supported by the success of the BoJ in bringing down inflation in 1996 by controlling the growth rate of Money Supply.

The Significance of Price Stability

The primary aim of Monetary Policy is the control of inflation through the control of the growth rate of money supply. The selection of the control of inflation as the main role of monetary policy is based on the presumption that price stability is important. It seems self-evident that inflation and deflation are not desirable. As large fluctuations in prices are usually accompanied by economic overheating or recession, the stabilization of prices will lead to a stable economy. Futhermore, price fluctuation lead to an uneven distribution of income and assets, thereby threatening the stability of people's everyday lives.

In addition, to the above, it should be emphasized that the stability of prices in general is the most important precondition for the smooth functioning of the market mechanism. The market mechanism adjusts production and demand according to signals sent by the changes in relative prices. Once inflation or deflation occurs, it becomes extremely difficult to read the signals received from the changes in individual prices, and as a result, the price mechanism ceases to function properly. This is because it becomes impossible to distinguish whether changes in individual prices reflect shifts in relative prices or dharges in prices in general. It is as if there is no reliable yardstick for economic activity. Under such circumstances, firms trying to formulate future business plans based on their estimation of the profitability of investments, and households making plans for savings and consumption, face growing uncertainties, and this impedes economic development.

In the past, some argued that a little inflation is desirable to a certain extent in order to further stimulate economic growth, or that firm's activities would become more vigorous under inflation. The post war years experience and the evolution of economic theories, however, have forced serious reconsideration of this argument. There is every likelihood that a mild inflation will eventually lead to full scale inflation. In addition, once inflation takes root, the achievements of business activity are masked by nominal increases in profits, and accordingly, technological innovation and improvement in productivity are likely to be discouraged. Actual examples demonstrate that, from a longer term perspective, countries with stable prices tend to enjoy higher economic growth while those with unstable prices tend to stagnate.

For these reasons, the current emphasis with regard to appropriate economic policy is on the significance of price stability, which is in line with global trends in economic policy management placing stronger emphasis on the utilization of the market mechanism.

Fiscal Policy

The principal objective of fiscal policy and fiscal adjustment programmes is to foster sustained economic growth. Because most countries are called on to make fiscal adjustment because of suffering from a combination of a balance of payments crisis and domestic financial instability, the question can be asked what is the role that fiscal policy plays in eliminating these disequilibria?

The role of fiscal policy in achieving growth, is a principal result of the neo-classical theory of macroeconomic management. The first principle of the theory which support fiscal consolidation is the "balance budget" premise.

If the government is spending more than its earning then this deficit (the short) most either be financed by borrowing from he central banking or from the general public. Since the Central Bank is not inherently rich, then the only way it can financial government's fiscal deficit is by Money creation (inflation tax). By creating money the central banking in essence is placing a tax on the holders of local currency. This is manifested in the form of inflation which erodes the value of the local currency. The evil of inflation (or the cost of inflation) can be seen in the lack of investment and growth an the break down of the social safety net. As stated in the section on monetary policy, inflation is bad for the economy, this is the major interdependence of monetary and fiscal policies.

The other way that the government can financed its deficit is by borrowing from the public. This has the effect of increasing the national debt and debt servicing. This create a spiral - (increase debt reduce spending on social sectors and increase deficit which inturn increase the debt servicing further) - which can not be sustained. Apart from the above-mentioned disadvantage, consistent borrowing from the public will crowd - out private investment by completing for the available loanable funds and rushing up long-term interest rates.

The second theoretical reason for fiscal consolidated is the general admission that private investment by its very nature is more efficient that public investment. Private investment by nature demands a return in term of profit while the main objectives of public investment are to enhance the social good of its people and for re-distributive reasons. The reduction of fiscal expenditure will free up more resources for private investment which will create over employment and in turn create more revenue for the government so it can increase spending on other much needed social sectors. Fiscal consolidation should include a combination of tax and expenditures reforms that best promotes growth. As a general rule, public sector activities will best achieve that end when they compliment, rather than complete with, what the private sector does. These include:

* Primary education, basic health care, and basic infrastructure, which are activities with a high social rate of return that are typically not supplied in

adequate quantity by the private sector.

* Basic administrative and regulatory services to protect private property and promote a stable, predicable climate for entrepreneurial activity. This requires a well-functioning and adequately remunerated Civil Service;

* A cost-effective basic social safety net to foster acceptance of adjustment programmes when these are necessary and increase the human capital of the poor; and

* Efficient and effective public expenditure management without which even the best-designed expenditure policy will not be well executed. This entails the use of a consistent macroeconomic framework in preparing the budget; an effective ceiling and control mechanism on overall expenditure; a budget reporting system that produces reliable, comprehensible, transparent, and timely data; and the use of project appraisal techniques where appropriate.

The primary aim of fiscal policy is to facilitate the growth of the economy and hence the main emphasis must be placed on the supply side of the economy. Although the conventional approach to economic policy which emphasizes the control of aggregate demand through monetary and fiscal policies is still useful when seeking short term adjustments of the economy, under the Mundel-Flemming framework it can be shown that in the medium to long run, fiscal policy does not have an impact on increasing or decreasing aggregate demand under a flexible exchange rate regime.

In Fiscal Policy management, greater importance is being attached to the details of fiscal expenditures from the viewpoint of evaluating the contribution of each portion to the improvement of economic infrastructure, rather than to their effects in generating additional demand. There is also a stronger awareness that, in the medium to long term, it is more desirable to curtail inefficient fiscal expenditures, thereby reducing the budget deficits, and utilize economic resources more efficiently in the private sector. All this reflects the growing emphasis on the supply side of the economy.

Fiscal Policy and policymakers must start to utilize the market mechanism. This calls for them to fully utilize the inherent forces of the market mechanism for promoting greater economic efficiency and for inducing technological innovation, in order to achieve higher productivity.

Policymakers must recognised the importance of the public's expectations regarding future developments and its confidence in economic policies. The effectiveness of fiscal policy depends significantly on the public's views on the controllability of the fiscal deficits in the future. It is generally accepted that doubts about a government's ability to control budget deficits in the future could bring about an unfavourable rise in long-term interest rates. This is one of the major reason why fiscal consolidation is one of the pre-requisites if Jamaica hopes to transform this current situation into growth, the government must seek to achieve stability in expectation. The only way that the government can hope to achieve stability in expectation is by constantly meeting all of its macroeconomic targets on the fiscal account. One way that the government can seek to speed up the process is by setting shorter-time span fiscal targets like quarterly deficits, spending and revenue levels. The targets must be known to the public and the achievement of these targets must be publicly announced.

Policy Issues

Since the government is not involved in any productive endeavour, hence it should not be consuming 60% of GDP. It should be noted that while the private sector invests in productive capacity, public sector invests in social or physical infrastructure. The return on the former is more immediate and higher, and that is why more resources need to be consumed by the private sector than the public sector. This means that government's expenditure needs to be reduced to about 30% of GDP over a three (3) year period while immediately eliminating the central government's fiscal deficit.

In order to achieve rapid economic growth high levels of investment a re needed. Investment has two sources local investment or foreign direct investment. With reguard to local investment, this must equal savngs, hence in order to increase national investment levels and in-turn growth levels, Jamaica needs to increase national savings and increasing government (public) savings by generating a fiscal surplus is the quickest way of doing this.

After doing a present value constrain test for the sustainability of the government's current fiscal stance (growth rate of expenditure and debt), it was discovered the the current fiscal stance was unsustainable. Since it is obvious that tax rates can not be increased any further then cutting back on expenditure now is the only way that the debt can be restrained.

A large and growing body of literature searching for the determinants of economic growth have found that the structure of fiscal policy can affect the long run growth performance of a country. The main implications of these researches are that fiscal policy should aim at improving the neutrality of taxation, promote human capital accumulation and lessen income inequality. As a result , Jamaica should seek to develop a progressive tax system while increasing expenditure on education, science and technology.

WHERE WE ARE NOW

The 1996/97 fiscal year saw the fiscal deficit reaching 15.4% of GDP the high deficit since 1980/81. In 1995/96 revenue was 34.22% of GDP this is coming from about 26.79% of GDP in 1984/85. Total Domestic borrowing in 1995/96 was 20% of GDP coming from 4.6% in 1984/85. From the above synapse it is clear that the fiscal account is totally out of line with the macroeconomic fundamentals. But a closer look will show that there has been considerable tax reform. This is evident by the large portion of total tax revenue that comes form GCT (VAT).

The problem now is with the expenditure side , between 1984/85 total expenditure as a percentage of GDP has moved from 36.89% of GDP to 56.35% GDP in 1996/97. This is totally out of line with a market oriented economy. Looking further on the available data it is clear that debt servicing is one of the major contributors to this high expenditure therefore we are presently paying for the sins of the past. But be that as it may, something will have to be done to control and cut back furtherr the other fiscal expenditures. Total expenditure will have to take a large cut and to be frank, the government will have to be downsized.

Looking at Monetary policy it is little more hopeful, but only a little. The good news is that 1996/97 experienced single digit inflation in many years this was achieved by keeping the growth of money supply under control. However, the bulk of the stabilization effort has been beared by monetary policy to the detriment of the economy, because of the high interest rates policy. The cash reserve ratio remains very high at 25% and the liquid asset ratio at 22% this has caused lending rates to be very high in the financial section. This will have to be removed as soon as possible but not before the fiscal adjustments begins.

NET INTERNATIONAL RESERVES

It is noted with great interest that in the national debate on the budget one of the parameter of the government's macro-economic policy was a growth rate of the Net International Reserves (NIR). As an aim of macro-economic policy the accumulation of Reserves is of little significant to the stabilization process. One argument advanced is that the Net International Reserves is needed to defend the stability of the local currency and also to smooth out seasonal variation in the supply of foreign currency. Even with the acceptance of the above premise this does not justify the continued accumulation of the NIR at such a enormous cost to the taxpayer, the national budget and the economy. While one accepts the premise mentioned above, seasonal variation would mean that at some seasons of the year one would be stock pilling and selling at some other seasons, which would mean that the overall impact would be close to zero. This would also stabilized the local currency. If we are constantly buying or selling foreign currency into the market this could be a sign that the exchange rate is not supported by the underlying macroeconomic fundamentals and hence the policymakers would be faced with atleast two alternatives, either to let the exchange rate find its correct parity, given the current fundamentals or change the fundamentals via a policy response to support the current parity. For example in May-July 1996 with the supply of foreign currency high and the dollar revaluing, the policy response of the government should hve been to lower interest rate to support the desired parity. Instead, the BOJ intervened by buying the foreign currency which has cost the country billions of dollars.

Another reason given for the massive accumulation of NIR is that it helps to enhance the foreign debt rating of the country. The problem here is that this is not the only thing that investors look at. They also look at other macroeconomic data such as budget deficit and current account balance. I would have a problem if the aim of government's policy is only to increase the country's credit rating and not to enhance the well-being of the majority of its people which, is enhanced by economic growth. Hence the policy of accumulating massive stock of NIR at the expense of the fiscal deficit, increasing debt servicing and reduce spending on social services does not seems to be welfare enhancing and should be discontinued.

NIR, INTEREST RATES, DEBT SERVICING AND BUDGET DEFICIT

In the above section constant reference was made to the link between NIR and the cost of debt servicing, but what is the process from which this link derives? The NIR is the major part of the Net Foreign Assets of the Bank of Jamaica and is a major component of Base Money which in turn can have a expansionary/contractionary impact on the Money Supply. When the BOJ buys foreign currency from the public, it pays in J$. This increases the amount of local currency in circulation which forms part of the liabilities of the Central Bank. It is therefore clear that an increase in the NIR will definitely increase Base Money which will in turn have a multiple increasing effect on Money Supply. It is also generally understood and accepted that an increase in the Money Supply will increase inflation if there is not an accompanying increase in output. To prevent this from happening the BOJ then mops up this liquidity created by its buying of foreign currency, by issuing/selling government's securities to the public at very high interest rates. This activity increases the internal debt.

Empirical statistical analysis shows that there is a positive relationship between increases in Net International Reserves (NIR) and the internal debt. The regression analysis suggests that for every J$ million increase in NIR the Internal debt increases by between J$1.72 and J$1.82 million. The greater increase of J$1.82 million was experienced in the period 1994 to the present when the accumulation of NIR was most pronounced.

With a higher level of debt and the high interest rate regime the debt servicing cost has increased significantly over the period 1994 to the present. In 1994 the stock of domestic debt stood at J$49.12 billion at the end of July 1997 it stood at J$93.08 billion an increase of over 90%. Over this same period the interest payment on the national debt increased from J$15.53 billion to J$27.93 billion, an increase of over 80%. Although it may be argued that the government can always inflate away the value of the internal debt it is not a feasible alternative given that inflation does more harm than good.

A FRAMEWORK FOR THE REDUCTION FISCAL DEFICIT AND GOVERNMENT EXPENDITURE

The main objective of this framework is to reduce government expenditure to somewhere in the region of 30% of GDP, while in the same breath of eliminating overall government deficit.

Main Strategy

1. Keep nominal government spending at 1997/98 level for 1998/99 by:

   (I) Suspending capital expenditure on new highways and roads and other sectors that have nothing to do with;

      a. education
      b. health
      c. water and sanitation

   (II) Reducing the size of the Public Sector by;

      a. divesting remain state assets that can be effectively and efficiently handed by private owership, for example JRC, JAMALCO, and JPS;

      b. reducing the size (workforce) of the Civil Service by keeping the overall salary (wage) bill constant in real terms while reducing the number of Ministries and laying off inefficient staff, replacing them with more educated and productive staff at more competitive wage.

c. generating savings by pursuing more aggressive debt management and reducing interest rates.

2. Thereafter (after fiscal year 1998/99) increasing fiscal expenditure by the rate of the previous fiscal year's inflation rate (indexation).

Fiscal Summary (Projection)

The following fiscal summary is based on the following assumptions.

A. GDP in the fiscal year 1997/98 will have approximately the same proformance as in 1996/97 in terms of growth and deflator inflation.

B. 1998/99 fiscal GDP will grow 2% in real terms if the adjustments to fiscal and monetary policies are implemented by the last quarter of 1997/98 or in the planning and implementation of the 1998/99 budget. While fiscal GDP should grow by about 4% in 1999/2000.

C. In 1998/99 fiscal year the GDP deflator inflation will be about 15% and 1999 fiscal year the GDP deflator inflation should be approximately 19% on average.

Table 1

JS$ Billion				
	1996/97	1997/98	1998/99	1999/2000
Government Total Expenditure (1)	114	107	117	130
Gross Domestic Product (2)	202	257	302	345
G TE/GDP (1)/(2) (%) (3)	56.4	41.6	38.7	37.7

Stage Two: the Domestic Incentives Correction

In this stage, the government should begin to get domestic incentives right, by means of a greater reliance on indirect taxes, hence, bringing about the much needed tax reform to remove the bias from that which favours consumption over investment to a structure which favours investment. The country will need to reduce or eliminate quantitative controls, and further reduce duties on imports in order to increase competition and force domestic producers to become more competitive. There is no realistic reason to expect domestic producers to become efficient if they are not forced to do so through competition. In this stage the Government should take the opportunity to amend the legislations governing the economy in order to bring them in line with those which are needed to regulate and oversee a free market economic structure. This period should be used to restructure the financial system and bring the regulations in line with international standards. Ways of developing the domestic capital and equity markets should be reviewed and creative ways of reducing the debt burden on the national budget should be implemented.

INSTITUTIONAL REFORMS

In order for and meaningful transition to take place in the Jamaican economy some institutional reforms will have to take place, the following are some that we think are necessary.

Central Bank Independence

The need for an independent Central Bank is an international recognised one because of the demonstrated advantage of independent Central Banks when it comes to the maintenance of low inflation and economic stability.

Th following changes are therefore recommended:

1. **Name**

   The name "Bank of Jamaica" should be changed to "The Jamaican Reserve Board" so that the cultural attachment of "access to money" with the work "Bank" would be eliminated and the Central Bank would no longer be regarded as a credit facilitator but as a monitoring and regulatory body.

2. **Function**

   a. The Central Bank should establish and maintain its function as:

      (I) sole note issuing and redeeming institution;

      (ii) a banker to banks (excluding Government and Statutory bodies);

      (iii) a supervisor, or the financial sector to ensure compliance and adherence to relevant regulations;

      (iv) fostering the development of money and capital markets.

   However, the core objectives should be:

   (I) The maintenance of price stability and the protection of the value of the local currency.

   This objective is to be effected through the use of monetary tools such as, interest rates, cash reserve and liquidity ratios, open market operations, and moral suasion. In addition the Central Bank should constantly monitor, for purposes of control, aggregate demand, credit levels as well as money creation and supply so as to enhance its use of monetary policy in achieving this objective.

(ii) To monitor the financial system so that it functions in accordance with international standards.

b. The monitoring agents should adopt and utilize the recommendations of the Basle Committee as guidelines to direct the start up and closing down of institutions, and for regulating institutions in the Sector especially as it relates to capital adequacy; assets - quality and risks; overall management operations; equities and liquidity.

3. **Auditors**

The use of Independent Auditors to examine the Central Bank should be maintained to ensure transparency of its operations.

4. Appointment of Governor and Board Members

a. The Governor's appointment should be through the Parliamentary process. The Finance Minister should present a slate of candidates from which the Governor General will make the appointment on the advice of the Parliamentary sub-committee. Due regard should be paid to qualifications and experience and transparency should be ensured throughout the whole process.

b. Senior Deputy Governors should be appointed by the Board and at least three (3) should be Board members.

© The Financial Secretary should be **excluded** from Board membership; thus formalizing the separation of the Central Bank from the Ministry of Finance. Monetary Policy cannot act as a check on fiscal policy if the executive head of the Ministry of Finance sits on the Board of the Bank of

Jamaica. This would defeat any notion of the independence of the Bank of Jamaica and would make a mockery of the whole reform process.

5. TENURE

The Governor should be appointed for a seven (7) year term (with an option to renew) thereby providing for continuity of his administration spanning changes in elected Governments.

Members of the Board of Directors to be appointed for at least three (3) years, with a third retiring and rotating after that. Directors should be eligible for re-appointment.

6. THE BOJ/GOJ Relationship - Section 36 of the Bank of Jamaica's Act

Section 36 of the BOJ's law should be amended so that

(a) The Bank of Jamaica may not lend money to the Government at all and its over draft facility at Bank of Jamaica should be removed.

This would remove one of the major sources of money creation and would thereby eliminate the major cause of instability in the economy. The present level of temporary advances i.e. (30% of estimated revenue and up to 40% of expected expenditure), currently allowed to the government is excessive and worst of all, successive governments have disregarded the law concerning the repayment of these advances. In the act within the law, it is better to eliminate this provision altogether. These funds, pushed annually into the economy as high powered money, not generated through any production of goods and services and not being repaid as required by law - increase the money supply and support inflation and economic instability. It also encourages both an imprudent management of Government's expenditure and a less than diligent attitude towards increasing the efficiency of government's revenue earning and collection mechanisms.

(b) Penalties for failure to comply with the Act should be legislated and implemented

The Government's continuous disregard for compliance with the requirements of the law in relation to its BOJ borrowing and BOJ's inability to apply sanctions to Government for non-compliance, are major factors to be reconciled in arriving at solutions to the enabling provisions of the BOJ, and these must be addressed for the reasons outlined above.

© The BOJ shall not be bound to take up or underwrite new issues of government paper, Treasury Bills, Local Registered Stock and other securities.

Bank of Jamaica is being relieved of this obligation because this is one of the processes which facilitates the creation of money with all the negative repercussions which flow from that. However, the elimination of this facility could be phased over a 12 month transition period when the limit on these purchases could be reduced to 10 - 15% of the previous year's tax revenue.

(d) The BOJ shall have no authority to issue financial paper on its own account or for the government's account.

While placing a temporary halt on the expansion of liquidity in the financial system, over the short to medium term the issuing of Certificates of Deposit or similar instruments, actually increases the money supply through the payment of interest by the Bank of Jamaica. These interest payments are new high powered money which are literally created by the Bank of Jamaica and feed the growth of the money supply, thus increasing inflation and putting pressure on the value of the local currency.

Another point to consider is the fact that government now owes the Bank of Jamaica some J$5,345 million in interest on government securities which the bank has purchased. Such action (that is the non-payment) of interest by government) also fuels the growth of money supply and frustrates the Bank's attempts to control the money supply.

(e) The Bank of Jamaica should cease to undertake the Treasury Function of the Government and this should revert to Ministry of Finance. The Ministry of Finance should therefore assume the management of both the government's internal and external debt and the cash flow management associated with both these functions and the day to day operations of government.

Such a move is necessary if the government is to cease accumulating further receivables due to the Bank of Jamaica. At present 31% of the total receivables and advances or J$8,300 million are due to the Bank of Jamaica from government to cover exchange losses and interest on the servicing of foreign liabilities. These advances and receivables now total approximately J$26,500 million and the accumulation of them represents the larger single factor behind the huge growth in money supply which has occurred over the last few years.

Consolidation of the Ministries

In order effectively reduced fiscal expenditure, a rationalization of the Civil Service and Ministries will have to take place.

Stage Three: the International Competitiveness Enhancement

In this final stage, the government should be in a better position, (after reducing the debt burden, eliminating inefficient government expenditure and reducing the size of the budget to about 30% of GDP) to generate the revenues needed to expand expenditure on such critical sectors as education, science and technology and infrastructure which will also help to enhance Jamaica's international competitiveness. Note that throughout all stages of the transition to growth the expenditure on primary education should be significant. All of the elements of this final stage have to do with achieving international competitiveness. The four key elements that a technology policy and technological support infrastructure requires for competitiveness are:

1. Acquisition of foreign technology
2. Use and diffusion of technology
3. Improvement and development of technology, and;
4. Investment in human capital.

Hence these areas should be dealt with in a structured manner in this stage and beyond.

APPENDIX ONE(1)

Fiscal Policy

1. Balance Budget
   - overall balance in the long-run
   - Fiscal balance in the short-run
2. Increase spending on education, primary health care and basic infrastructure
3. Cuting expenditure in other areas In real term and reduce fiscal spending to about 30% of BOP

Monetary Policy

1 Main aim price stability
   - target the growth of money suply
2. Reduce Cash Reserve Ratio
3. Tighter supervision of financial sector
4. Stop acquiring reserve on behaviour of the Government

Exchange Rate Policy

1. Floating Exchange Rate
2. Competitive and Stable Exchange Rate