

TERMS OF REFERENCE FOR ECONOMIC RESEARCH PROJECT

“ An Economic Policy Framework for Jamaica”

BACKGROUND

The PSOJ

The PSOJ is an umbrella organisation for the Jamaican private sector and has among its membership the following types of entities.

- Private trade associations and NGO's such as the Chamber of Commerce, the Exporters Associations, the Small Business Associations and the Jamaica Conservation and Development Trust, an environmental NGO.
- Private companies ranging in size from large conglomerates employing thousands of people, to small companies employing only a few. The member companies are involved in all sectors of the economy and include foreign companies that operate in Jamaica.
- Private individuals working in the private sector as sole proprietors, company executives or professionals.

As an umbrella body, the PSOJ focuses its lobbying and research activities on macro-economic policy, which has been a contentious issue in Jamaica for many years. The country's long period of structural adjustment under IMF programmes, has shown up the weakness of macro-economic policy over the years and has highlighted the halting steps that have been taken towards economic reform.

The PSOJ was formed in 1976 with the initial objective of uniting the local private sector to resist the efforts of the then Government to do away with the private enterprise and take the country

down a path of extreme socialism. In the early 1980's the PSOJ adopted a market-oriented economic philosophy and started to lobby the Government to deregulate and liberalize the Jamaican economy. By the mid 1980's the Government had begun a process of liberalization and deregulation of the economy and this process continued into the early 1990's when exchange controls were lifted and tariff reduction was carried further.

Despite the progress of economic reform over the last decade and a half, the economy has failed to show much growth except for a short time in the latter half of the 1980's. The 1990's have been a period of stagnation and decline and we feel that this is primarily due to inappropriate economic policies. It is our desire to change this by putting forward an economic policy framework which will reverse the present decline and put the country onto a path of sustainable economic growth.

In the past, our economic policy advocacy has been most successful when it has been informed by independent research of the highest quality. This was the case when we lobbied for the lifting of exchange controls and this research project is intended to provide the technical support for our policy advocacy in this regard.

The Jamaican Economy

The gross domestic product (GDP) of the Jamaican economy has not grown in real terms since the mid 1970's and per capita income is lower now than it was then. The economy did not always perform this badly for in the 1960's and early 1970's, the economy grew strongly and was one of the best performers in the developing world. However, things went badly off track in the late 1970's and the economy has since then, been through a period of decline, followed by stagnation, then decline, then some growth, then further stagnation and most recently, decline. The end result of this is that GDP today is no higher than it was over 20 years ago.

In the 1970's the economy became highly regulated and the state took control of a substantial number of productive enterprises. The economy contracted considerably during this period. In the 1980's , a gradual programme of privatization, deregulation and liberalisation was put in place. Controls on prices, wages, imports and exports were gradually relaxed and restrictions on foreign exchange transactions were eased somewhat. After a couple years of contraction, the economy began to grow again and the latter years of that decade saw average growth of over 5% per annum.

The 1990's saw an upsurge in inflation, which hit record levels in the 1991/92 period. The economy stagnated for several years and has been in decline since the beginning of the second half of this decade. The position of the Jamaican economy at present is particularly difficult. The fiscal deficit is 10-12% of GDP, money supply is growing at over 20% per annum, the local currency is considerably overvalued and the economy is contracting. A regime of very high real interest rates has been used to support the exchange rate but this has had a devastating effect on the productive sector and has lead to the insolvency of a large part of the locally owned commercial banking sector. The Government has so far committed sums amounting to about 25% of GDP in support to these and other companies in the financial sector.

THE RESEARCH PROJECT

The Opportunity

The failure of the Jamaican economy to grow in the 1990's has clearly been due to a failure of macroeconomic policy rather than to any structural impediments in the economy, which is relatively open. Unfortunately, there has been a consistent policy bias in favor of consumption rather than production and this has once again created the conditions for instability in the domestic economy and balance of payments problem in the external accounts. The country is now poised to undergo another round of difficult economic adjustment.

Jamaica is a parliamentary democracy with a new Government being elected every five years. Political considerations therefore figure highly in decisions that are taken with regard to economic policy. The short-term consequences of policy actions are often given far more weight than the medium to long term benefits. For this reason, policy decisions with long-term gain but short term pain are most likely to be taken, if at all, in the first 12 to 18 months of an administration. After that, the focus of the policy-maker shifts to their prospects of re-election and difficult decisions are put off indefinitely.

General elections were held in Jamaica in mid December 1997. As the new government received a 5-year mandate from the people, they will also confront some very difficult economic problems and for a while also be at their most receptive with regard to economic policy which will yield medium to long term economic growth.

The Action

The PSOJ wishes to take advantage of this short window of opportunity to intensify its lobbying effort to persuade the new administration to move swiftly to implement economic policy measures, which will facilitate a quick transition to growth. In order to inform and strengthen our position, the organisation wishes to undertake a short but intensive economic research project to prepare a policy framework for Jamaica, which will facilitate this transaction. The overall process would, in outline, be as follows:

1. The preparation of an economic policy framework specific to Jamaica, to guide the transition to growth with low inflation, to be undertaken by a small team of economists specializing in international macro-economic issues with a focus on developing countries and countries in transition. Ideally, the economists would be drawn from the U.S., Europe and Asia and would work with economists from the University of the West Indies. They would also be supported by the PSOJ's Economic Research Department. This exercise should be completed by the end of the first half of 1998.

2. The PSOJ would seek to gain a consensus and agreement among its membership and the wider private sector, to support the policy recommendations coming out of the research effort.
3. The PSOJ and its wider membership would then approach the Government with its research findings and lobby intensively to have its recommendations adopted.
4. The policy framework would then be disseminated to the press, opinion makers and the wider public, in an effort to build a broad societal consensus in favor of the economic policies which will promote sustainable economic growth.

The PSOJ realizes that in a poor country such as Jamaica, sustainable poverty alleviation can only come through high rates of economic growth. We also recognize that high inflation transfer resources from the poor to the rich. High growth with low inflation is therefore a fundamental pre-condition of sustainable, long-term poverty alleviation. This is the fundamental objective of our project and will be the main focus of our research and lobbying activities over the next 12 to 18 months.

Objectives

- 1) To perform a diagnostic on the present economic policy framework and how it came about.
- 2) To ascertain the consequences of the present macro-economic policy mix (short and long term).
- 3) To establish the validity or alternatives of an export led growth model for Jamaica.
- 4) To recommend alternative macro-economic policy mix and set out the consequences of the same.
- 5) With regards to (1) and (3) above , set out the consequences for the main economic subsectors, social services, employment and levels of poverty.
- 6) To set out a transition programme (noting sequence of policy reform and time frame of implementation) to move from the present policy mix to an export led policy mix that will achieve sustainable high level of growth.