SOME DISTRIBUTIONAL ASPECTS OF STABILIZATION POLICIES IN JAMAICA

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I. INTRODUCTION

This paper examines some distributional effects of the stabilization programme initiated in Jamaica in 1977. The specific conern is with the long-run consequences of the programme or with the implications of the package as a whole for growth and development. Because the aims of these policies are admittedly established and usually assessed from a short-run perspective, long-run issues tend to be examined in the context of areas of conflict between short-run imperatives and long-run aims. The approach reflects the view that external balance and internal price stability must be achieved before issues of growth can be addressed. Yet, while this approach offers analytical convenience, there is need for explicit recognition of the long-run implications of policies which affect resource re-allocation. Such issues have gained in importance as IMF stabilization programmes have been given longer time horizons and have tended to depart from a simple monetarist approach which excluded the complications of sectoral imbalances and segmented markets [2]. In the case of Jamaica, the aim was not simply to counteract the expansionary excesses of government expenditure, so as to contain inflationary pressures and improve the external payments position. Rather, the effectiveness of the programme depended on the twin aims of shifting the bias of the economy towards export promotion, and away from public sector investment and other economic activity towards a greater reliance on private capital formation.

In regard to the former, it has long been recognised that the "new" manufacturing sector, which was intended to cater to the export market was in fact supported by the protected domestic market [9]. With the formation of CARIFTA, there was some export gain in the regional market, which was nevertheless a protected market vis-a-vis third country trade. The gradual slowing down in economic dynamism and the poor prospects for substantial employment gains, which were associated with those earlier strategies are among the factors which led to the shift in emphasis toward public sector investment. It is clear, however, that the associated mix of policies which aimed at redistributing incomes in favour of wage earners, the poor and the unemployed, based as it was on government recurrent expenditure and supported by a rather complex system of price controls and subsidies would prove inconsistent, especially in the context of the external shocks of the 1970's.

The stabilization measures in Jamaica therefore had the usual short term aims which addressed the symptoms of balance of payments disequilibrium and inflation as well as the aim of reallocative shifts which would maintain the new relationships. We seek to examine the distributional effects of these measures taken together; to explore the influences on them and the possible explanations of these effects as well as their implications for the resumption of growth. The main indicators are changes in the real wage rate, and changes in the ratio of the prices of domestic goods to traded goods.

These changes come about through changes in the exchange rate which affect the balance of payments through their effect on the distribution of income. The change in the real wage rate implies increasing profitability as income shifts towards profit earners, and is conducive to capital inflows, given the appropriate interest rate policies. A fall in the ratio of the prices of domestic goods to traded goods and in particular "exportables", shifts income towards the export sectors, and depending on the degree of capacity utilization and factor substitutability and the internal mobility of resources, will lead to export sector expansion.

Other policy measures which form part of the package also influence the distribution of income and may reinforce or counteract the change brought about by the devaluation. Measures to restrain demand, including a reduction in the government deficit, credit restraint and incomes policies may either reinforce the initial change consequent on devaluation or may be used in a manner which mitigate specific distributional effects, even while being aimed at the level of demand. The required reduction in the government deficit for example, through either reducing expenditure or increasing revenue can discriminate against investors or savers, or particular groups of these. Similarly, the overall required fall in wage rates may be achieved, but the relative change between export sectors and domestic goods producing sectors may not be consistent with export promotion.

It should also be noted that these distributional consequences also depend on the specific context in which they were introduced. It is likely to be the case that real wage cuts are less easily achieved from an immediately prior position of nominal and real wage increases, relative to other income increases. In that regard, Krueger /_12_/ also points out that the perception of the relative price changes and therefore pricing decisions consequent on those changes, will be different than from a position in which there were no quantitative restrictions on imports.

One implication of the above is that analysis of the issues relating to the distributive effects of stabilization policies are more appropriately addressed by means of a dynamic model which explicitly considers lags in the process of adjustment, relative speeds of adjustment of different variables, and their interaction. The many difficulties involved, not the least of which relate to data availability, even if such a model were available, prevent this. The method of comparative statics is used to examine the main distributional changes. Still, there remain difficulties arising from the form of the data available as well as the absence of much of the necessary data. Explanations, at this stage, therefore, rely less on quantitative data, than had been hoped. In that regard, the paper is preliminary and to be regarded as a stage in establishing propositions which might be tested concerning the effects of the policy mix of stabilization programmes in the specific case of Jamaica.

II.

In this section, the main aims of the policy measures are outlined in brief. Indicators of performance are also given.

The main aims of the stabilization programme initiated in 1977 were to achieve external balance and export sector competitiveness while containing inflationary pressures. The restructuring of fiscal policy, including the reduction of the government deficit was of special importance in meeting these objectives, given the view that expansionary fiscal policies were the main cause of the immediate crisis. A reduction in the real wage rate was sought not only to restrain demand, but to improve the competitiveness of the export sector. Table I shows that the trade balance changed from deficit to surplus in 1977. This was however largely a consequence of import reductions as controls on imports were maintained and the use of foreign exchange was restricted. The main export sectors remained sluggish, and such increases in export receipts as occurred reflected price changes rather than volume increases. Changes in the flow of services on external account were also unsatisfactory, as outflows of investment incomes continued to contribute to a worsening of the balance on services.

The rate of growth of output was negative, although the fall of 1.9 per cent in 1977 was less than the fall of 6.1 per cent in 1976. The rate of unemployment increased as the numbers of wage and salary earners declined in nearly every sector. The main exceptions to this decline in the numbers employed were the sectors of transportation and services (excluding public administration).

Total government expenditure fell from 42 per cent of GDP in fiscal 1976/77 to 37.6 per cent in 1977/78, and the government deficit was only slightly increased from J$510.5 million to J$513.2 over the same period.

The real wage rate declined by about 7 per cent in spite of loose wage guidelines, and other attempts to protect real wages. By end 1977, with the shift in income shares towards surplus earners, the relative shares of wage and surplus earners were approximately what these were in 1974, at lower levels of employment, lower real output and lower real wages.

The suspension of the 1977 agreement in December 1977, and the policy measures under the Extended Fund Facility initiated in May 1978, are consistent with the view that export competitiveness had not been achieved. The new agreement, while apparently conceding a longer adjustment period, emphasised measures which would hasten the required wage and price changes. Exchange rate changes would be the means for reducing the real wage rate, and inducing the required change in the ratio of the prices of domestic goods to traded goods. In addition, the crawling peg would be used to support those changes by preventing domestic inflationary impulses from spilling over onto the balance of payments. Other measures to ensure demand restraint, e.g. restrictions on wage increases, credit restraint applicable to both public and private sectors, the reduction in subsidies as well as the reduction in reliance on price controls, were aimed at maintaining the relative price increases. The reduction in government expenditure, as opposed to a reduction in the budget deficit was aimed at reducing the public sector share in the total economy. Table 3 shows IMF ceilings and performance for 1978 and 1979. By early 1979, the view was that export competitiveness was achieved, and the crawling peg was suspended. Emphasis was now on maintaining this new competitiveness and additional incentives were given to the export sector, in an attempt to expand export volume.

Yet, other indicators suggest that performance under this programme was also dubious, although the rate of decline in the real wage rate was more satisfactory. The index of median real weekly income fell by approximately

24 per cent between 1977 and 1979. In addition, the ratio of the prices of domestic to traded goods fell consistently in 1978 and 1979. Output however declined further, and was lower in real terms than in any year since 1970. The earlier improvements in the trade balance showed signs of reversal by 1979. The control of inflation proved difficult, as has been the experience with such programmes in other countries. Between 1975 and 1977, the average annual percentage increase in the consumer price index was 10.5 per cent compared with 21.3 per cent between 1977 and 1979. Similar changes are shown by the GDP deflator. As unemployment increased and the rate of increase of government revenue fell below expectations, it was even more difficult to contain the government deficit.

One explanation is that the distributional changes associated with the shift in the bias of the economy from import substitution to export promotion, and with the shift away from public sector investment exerted downward pressure on the level of economic activity and counteracted the weak expansionary effects of the real wage rate and relative price changes. The need for stabilization, even before this was initiated in 1977 is unquestioned. Also not at issue here, are the relative merits of export substitution versus import substitution policies. It is indeed likely as has been argued, that the method of promoting expansion in the 1960's, which yielded the import substitution bias had promoted industrial inefficiencies and contributed to the present impasse.

Wage rate changes, relative price changes and an increase in the profit share of income were not however associated with increasing output and exports.

III.

Changes in real wage rates and in relative prices are examined below. These wage and price changes alter the distribution of income between wages and profits in the economy as a whole, as well as between export sectors and domestic goods producing sectors. Also of interest is the change in the distribution of activity between public and private sectors, as this affected the purpose of the initial changes in wages and prices.

Indicators of wage rate changes are from a variety of sources and are more or less consistent with each other depending on the coverage of the range of occupations, industries and sectors as well as on the coverage of skills and the definition of the wage. Although all indicate a decline in real earnings per employed person, over the relevant time period, the extent of the change varies with the index used. Table 4 which is derived from the weekly money incomes reported in the labour force survey, shows changes in the median real weekly wage between 1974 and 1976. That index shows an increase from 106.5 to 120.9 between 1974 and 1976, and thereafter a decline to 85.4 in 1979. Similar trends are shown in the index of the average annual real wages and salaries in Table 5, although the rates of change differ. This average which is derived from wages and salaries paid and the numbers of labour income earners reflects changes in the composition of total employment. In addition the wage and salary definition includes aspects of income in kind, cost of living allowances and supplementary labour incomes which are not included in the definitions of Table 4. The differences in the rates of change of real earnings shown by these two tables, may therefore also reflect some indexing of earnings, and changes in this over the period.

Table 6 shows the median straight time weekly rates by industry for all employees and for wage earners between 1977 and 1979. These indices refer to wage rates in industry rather than to weekly wages earned as in Table 4, or to the average compensation paid by employers as in Table 5. They are therefore the most appropriate indicators of wage rate changes. These indicate a decline in real wage rates for all sectors between 1977 and 1979. Table 7 shows such detail as is available for the manufacturing sector for the years 1976-1979.

The implications of these wage changes for the wage profit ratio and for profitability throughout the economy are of interest. Also of interest are the implications for increasing profitability in the export sectors relative to the domestic goods producing sectors.

In that regard, there are no clear indications which can be inferred from the structure of wage rate changes. In the domestic sectors of construction and services (excluding government, business and finance) and the export sector (mining) the fall in the wage rate was consistently below the average for the economy (Table 4). In the manufacturing sector, where non-traditional exports and exportables are concentrated, the decline in the rates for all employees between 1977 and 1979, was below the economy average. For wage earners, however, (hourly and weekly) the rate in 1979 was above the average for the above. Table 7 indicates that the decline in the wage rates of hourly rated wage earners was greatest in the food and miscellaneous manufacturing industries.

The variations in wage rate changes across the industries are however the result of a variety of factors. These include the rate of contraction of the industry, elasticities of substitution, capacity utilization as well as institutional factors including labour organization. The extent of the decline in the wage rate in the construction industry (Table 6) could, for example, be explained in the context of severe contraction and a high degree of capacity underutilization which exerted additional downward pressure on the rates in that industry. While a fall in the wage rate with increasing output can normally be taken to indicate an increase in the rate of profit, this cannot be assumed when output is declining. Although therefore real wages fell, in all sectors and all industries between 1977 and 1979, the implications for profitability and an expansionary impulse for the economy as a whole, or for the various sectors are not straightforward. Measurement of the rate of profit however presents some difficulty.

The available data show domestic factor incomes for the total economy, with a distinction between "employee compensation" and "operating surplus". Operating surplus includes the incomes of both incorporated and unincorporated business (farm and non-farm) as well as all other domestic incomes from property. Property incomes paid abroad, which normally account for the bulk of total property incomes, are however not included in the operating surplus. The use of this total as a proxy for gross profits in domestic producing industries, assumes that the distribution, especially between domestic rents and profits, remained fairly constant over the period. The ratio of the change in this surplus to net investment is used as an indicator of the rate of profitability. This is shown in Table 8. The indicators in columns 2 and 3 suggest that profitability increased in 1977 and 1978, but thereafter declined.

The unavailability of data on investment by sector, limits analysis of changes in profitability between industries. It might be assumed however that with reduced wage earning employment, and at lower real wage rates, increased profitability would be reflected in a shift towards profits and away from wages. For the economy as a whole, the share of profits increased from 30.0 per cent to 34 per cent, while wages and salaries declined from 59.8 per cent to 56 per cent between 1977 and 1979. That change in the profit share is in keeping with the indication of Table 8(b), that at least in 1977 and 1978 profitability increased overall. The main purpose of that change in relative income shares is to induce savings and depress consumption, and is based on assumptions concerning the differing savings propensities of these two groups. It is also assumed that rising profitability will induce new investment. In spite of that increase in the share of profits, the rate of new investment remained low. There was however an increase in savings from $39.9 million in 1976 to J$223.4 million in 1979. This could in itself be contractionary in so far as the rate of savings exceeded the rate of new capital formation. Of some relevance here there is the determination of investment. A usual approach is to assume that new capital formation is determined by the supply price of new capital goods and the demand price for capital. It can be further assumed in this case that the main influence on the supply price of capital are the prices of capital goods imports. The demand price will be influenced not only by current profitability but also by expectations. In particular, if current profitability is high, but not expected to last, the effect would be to depress the demand price for capital. Depressed domestic market conditions and uncertainties concerning export possibilities would also depress the demand price for capital goods. At the same time, the supply price of new capital goods was rising faster than all other categories of imports, and the ratio of the price of capital to the price of current output increased.

An examination of the changes in the profit/wage ratios across the industries, suggest that the expansionary impulse and the incentive to new capital formation would in general be weak. Of particular importance here is the change in the wage/profit ratio in the export industries, as against that in the domestic goods producing sectors. Generally, export sector investment and expansion can increase if the share of profits in income rises in the export sectors, relative to the domestic goods producing sectors. Here too, changes in the wage/profit ratio across the industries did not indicate that there existed a basis for export expansion in so far as this is assumed to be indicated by the income shifts. The concentration of the relative increase in profits in a few industries, given the characteristics of the segmented capital and financial markets which typify the economy, is one such indicator.

The sectoral distribution indicates that of the possible export sectors, only in export agriculture and in mining did the share of profits increase relative to wages. The only other sector with a similar change was the Wholesale and Retail Distribution sector. That concentration would in itself indicate a weak expansionary response, although Mining and Export Agriculture are in fact the main export sectors. First, it can be assumed that a change in the real wage rate in bauxite and alumina would not be significant for output expansion in those industries, at least not in the short-run. This might be explained by the low proportion of costs accounted for by wages, in addition to the long-run planning horizons in that industry. In any event, the mining sector showed the largest decline in the real wage rate over the period (Table 6), and the most significant shift towards surplus earners. At the same time, indications are that the long-run slowing down of new investment in bauxite has continued and is expected to accelerate.

In the case of export agriculture, while it can be assumed that wage and relative price changes will influence profitability and output, the reliability of this is, in the short-run at least, doubtful. Of perhaps even greater significance for the expansionary response of export agriculture is the possibility, often suggested, that productivity, profitability and output in those activities are as much a matter of institutional and organizational factors as of wage rates.

In respect of the question of profitability in the export sectors versus the domestic goods producing and the associated aim of altering the bias of the economy from import substitution to export promotion, as part of the stabilization attempts, the manufacturing sector is of special interest. Here we find, that on balance for the sector as a whole, the share of profits fell from 24 per cent to 11.7 per cent between 1977 and 1979.

The increased competitiveness of the economy, or the switch in the bias from import competing activities to export promotion can be examined on the basis of the ratio of the prices of non-traded goods to the prices of exports. This ratio is also used in addition to wage rate changes as an indicator of the effectiveness of IMF stabilization programmes, or of the movement towards external balance and domestic price stability [11]. In the absence of the ideal data set, domestic output prices are approximated by an index derived from the GDP deflator from which exports are omitted. Price indices of exports and of imports are as given in the official statistics [5(a)]. These ratios are shown in Table 10, which shows that between 1977 and 1980 there has been a consistent decline in the ratio of the prices of domestic goods to traded goods. The ratios in column 1, indicate that there was after 1977 an increasing bias towards exports. Column 2 shows comparable data when bauxite and alumina are excluded from the export price index, suggesting the increased competitiveness of non-mining sector exports.

The direction of change in these ratios would suggest that relative price changes were consistent with the aims of exchange rate changes. Given the appropriate elasticities, this relative price change is consistent with expansion and a shift towards profits in these industries. Table 9, however, showed that in the manufacturing sector, as a whole, while the absolute level of the surplus increased, there was a relative shift away from profits. This was not the case in all industries, as the price, wage and relative income share changes showed considerable variation. There was also little consistency between relative price changes, wage rate changes, and income share and output changes, again indicative of the variety of factors affecting the initial price and wage changes, and the extent to which these counteracted or reinforced the initial changes. The effectiveness of the general changes in wages and prices on the manufacturing sector, and the variations in profitability were affected by several factors. Included here is the variation in the dependence of the manufacturing process on non-competing imports and the relative changes in the import prices of raw materials and exports. The fall in the ratio of the prices of domestic goods to imports between 1977 and 1979 would be consistent with a relatively greater increase in the prices of imported raw materials than in domestic output. Since relative price changes and real wage reductions favoured exports, such domestic producing firms which could not switch to export markets, would be likely to experience declining output. In this way, a fall in the profit share relative to wages, even at lower employment as the industry adjusts to declining output outweighs the effect on the profit share of a lower wage rate. Rising costs of working capital could also have similar effects on output and profits. Segmented capital markets also exacerbate the impact on marginal firms of the higher cost of loans. Further since banks were rationing credit, there would be within the allocations allowed, a bias towards the more profitable firms which would also impinge on firms with lower profitability. The bias towards larger and more rapidly growing firms in the allocation of foreign exchange which was introduced to promote exports, may also have had a greater effect on the contraction of import competing firms than on exporting firms.

Among the manufacturing industries only in the beverage and leather (excluding footwear) industries were wage rate reductions, and relative increases in export prices associated with increased output and an increase in the profit-wage ratio. The paper and tobacco industries also experienced output expansion but at lower relative profit shares. In general, the industries which already had exports as opposed to exportables, showed a lower rate of decline in output or had some increases in output, although not necessarily sustained, between 1977 and 1979.

Such factors contributed to the concentration of the relative share of profits in a few industries, only some of which had even small output increases. Further, that relative increase in the share in those industries was outweighed by a more widespread shift towards wages.

The net effect was therefore the opposite of the indications of general price and wage changes, and the opposite of the requirements for external balance and price stability. This occurs even with the appropriate elasticities in the expanding export industries. In the process of changing the bias, there is expansion of exportables as the price structure becomes more favourable. There is also contraction of inefficient industries which a successful switch requires, but which may outweigh expansionary effects. This may well be a short-run effect, however, but if this is reinforced by contractionary impulses in the rest of the economy, the effect is a tendency towards stagnation. Such contractionary impulses did exist, as the domestic goods producing sections faced depressed market conditions. One exception here is the domestic agriculture sector which expanded output, while the food manufacturing sector contracted. The increased share of wages in the domestic agriculture sector reflected the upward pressure on wages as is likely under conditions of increasing demand for relatively labour-intensive non-traded goods.

There are two effects which are of relevance here. One concerns lags, as the rate of contraction of activities or industries exceeds the rate of expansion of exportables. Since output was already declining, indicating a depressing effect on investment, such lags in the adjustment process would exacerbate that downward pull, even if there are strong expansionary impulses from appropriate elasticities.

The other concerns profitability and the profit/wage ratio. Although there was a shift towards the profit share of income for the economy as a whole, this does not imply any strong indications towards output expansion either for domestic goods or for exports. It was argued above that although among the non-manufacturing sectors there was a shift in the mining and export agriculture sectors towards the profit share of income, the impulse to expansion arising from the associated wage and price changes would be weak, at least in the short-run. For the manufacturing sector, on the other hand, the shift towards wages, at lower employment, and in the context of declining output, suggests declining profitability.

In sum, although the relative shares of profit and wages shifted in the direction appropriate to increased profitability for the economy as a whole, the expansionary effects of wage/price measures were in fact weak. There is the possibility already mentioned that the shift towards profits itself had a contractionary effect, which exacerbated declining output and employment, on the assumption of higher savings propensities for profit earners than for wage earners. An examination of the internal changes in income shares across the industries nevertheless allows additional insights on this aspect of the apparently negative overall output effects associated with wage and price changes. First, changes in prices and wages were not uniform across all industries, and the gains were concentrated in a few industries. Even among those industries, the expansionary forces were weak, and outweighed by the effects of other influences, some of which are associated with the stabilization policies. For the manufacturing sector as whole, there was contraction rather than expansion. The lags in the adjustment in manufacturing were intensified by an inability to maintain domestic markets, by export market uncertainties.

The failure to effect recovery involved unnecessary costs in terms of wage and employment reduction and the associated distributional shifts. The difficulty was that the trade balance achievements through export promotion was limited.

Since export gains limited the extent to which controls on imports could be relaxed, given the balance of payments target, the suppression of domestic demand, especially through wage reduction was emphasised. Yet, increasing the flow of imports is preferable to increasing the dependence on demand suppression. One reason is that increased import flows can reduce inflationary pressures. Another is that given the dependence on imported raw materials, maintaining the flow of imports was essential to output expansion. This suggests that the recovery of output, required a relaxation of the constraint on the current account of the balance of payments. From that perspective, the achievements of the programme are to be considered, not only in terms of changes in relative prices and incomes, but also in terms of whether such changes were accompanied by the liberalization of imports.

The fact is that imports were not much liberalized. Strict foreign exchange budgeting was maintained, as was the restriction of imports through a system of licences. Some ease was provided through lines of credit, with the now usual emphasis on the export sectors. These lines of credit, were not used to the extent to which they were available, so that they were not actually an important means of freeing imports. One reason is that on balance the availability of goods through these facilities did not necessarily match the structure of demands. Another is that they often involve, for would be importers, a switch in supply sources, often to little known markets and commodities. By 1979, the use of foreign exchange accounted for by lines of credit was only about 10 per cent of non-oil imports and per cent of total imports.

The improvement in the current account balance reflected continuing import restraint and such gains as were recorded reflected unit price changes as well as the consequence of the revaluation of bauxite and alumina, rather than substantial gains in volume increases. More generally the effect on the balance of payments were not what was expected. In respect of the service items, however, not much else could have been expected from the policy mix. Investment income outflows are related to technology transfers and other fees, in addition to interest on government direct and government guaranteed debt. These are not reduced by demand restraint, although the domestic currency equivalent increases with the increasing cost of foreign exchange. These outflows also reflect increasing profits in foreign owned firms, and in particular the assumed profits of the bauxite and alumina industries. Investment income paid to the rest of the world by the private sector in fact more than doubled between 1977 and 1979. One question which arises in this context is whether the export promotion strategy and the associated redistribution towards export sectors facilitated such outflows, in the face of continuing demand restraint.

The shift towards exports was also not associated with increasing capital inflows. Export sector profitability can induce capital flows, although the concentration of that profitability in bauxite and alumina in export agriculture, and in only a few manufacturing activities which are relatively small, did not indicate that such inflows would be considerable. Traditionally, and until the mid 1960's capital inflows were in fact associated with direct investment in mining and in tourism, and accounted for a substantial portion of the capacity to import. The business activity which these generated in addition to the protection of domestic import competing industries induced additional inflows. The relative shift in profitability against import competing industries, and the expectation that demand restraint would continue, indicate a slowing down of investment in these industries. New inflows would therefore depend on profitability in the expanding export sectors.

While the general condition of the external account is no doubt an influence on the capital account, for a country such as Jamaica with limited financial and capital markets, a limited range of investment possibilities, as well as limited export market possibilities, these inflows are determined by the actual returns and realized investments. This suggests that interest rates and exchange rates will have little effect on such inflows except to the extent that these rates reflect a real rate of return on capital invested.

The newly profitable export activities were in fact expanding mainly in the CARICOM market. As is well known, third country markets for the range of commodities domestically produced were not flourishing and less so for new entrants to those markets. Further, the structure of the newer non-traditional manufacturing sector was developed within the possibilities available in the Caribbean Free Trade Area. It is not clear why foreign capital should now flow in, to supply these markets, given the straitened domestic circumstances in Jamaica, when the regional market can be supplied from elsewhere in the region. Rather an outflow of capital to the rest of the region might be expected, unless the gain from exporting from Jamaica outweighed that from basing production to supply the regional market, elsewhere in the region. There is some evidence that the activities with flexibility simply hedged by diversifying investment into the regional market.

One implication of this is that the success of the export promotion strategy in so far as this means associated private sector capital inflows, also means a shift towards third country markets.

These constraints suggest that a more gradual approach to stabilization was required in so far as this depended on switching these biases in the domestic economy and on private capital inflows, which are now to be associated not with protected import-competing industries, but with export activities. Gradualism is also implied by the lags in the process of bringing into being an export sector, which is viable in third country markets, and large enough in terms of either export receipts or capital inflows to allow liberalization of imports.

These contraints also require more flexibility in the stabilization programme than existed. If the slow response of exports reflected not only political circumstances, but also lags in the adjustment process, which were intensified by the extent of the required shift in resource allocation, then further demand suppression in an attempt to hasten adjustment is wasteful in terms of the reduction in output and the disincentive to invest.

There are also implications for the government budget and the role of government, given that the response to wage price and other policies was slow, ant that the relative size of the existing capacity for export expansion in manufacturing is small. The need to stimulate investment suggested a counter-cyclical role for the government budget. There was however also need to control the public sector deficit. By 1977 there was little question that a reorganisation of the government budget and control of government expenditure were indicated. Between 1972/73 and 1976/77, the government budget deficit had expanded from per cent of GDP to per cent. Recurrent expenditure, in particular, had increased at an average annual rate of approximately 33 per cent while revenues had not kept pace.

A reduction in the government deficit was accordingly part of the programme which was announced in 1977. The main aim was to reduce the deficit by reducing local banking system financing by about 44 per cent, and by increased taxation. By 1978, however, after the cessation of the Stand-By Agreement, and with the negotiation of the Extended Fund Facility, there was a change in emphasis from a reduction of the deficit to a reduction of government activity, including investment, and in 1979 there were specific constraints on government capital expenditure. Budget allocations for capital expenditure were limited to onoging programmes and programmes already committed. New investment was to be allowed only to the extent that external funds on concessionary terms and covering also local costs were available. This amounted to a freeze on new investment by government, and was unrelated to any reduction in the recurrent deficit. Budget flexibility which was already limited by the low level of economic activity, in addition to rising interest rates, was even more constrained. The structure of recurrent expenditure was such that although a reduction in real expenditure was achieved, it was difficult to reduce nominal expenditure without massive employment cuts. The reduction in capital expenditure which no doubt meant less reduction in existing recurrent expenditure, nevertheless meant a falling off in total investment. Government capital expenditures were reduced by 7 per cent in 1978/79 and by 10.2 per cent in 1979/80.

The reduction in investment was inconsistent with the aim of stabilization, although it was consistent with the aim of shifting resources from the public to the private sector. The issue was what was perceived as the appropriate role for government. The new strategy assumed private sector dynamism. The further assumption was that public sector activity had displaced private activity, and that a reduction of government activity would induce private investment without further reducing confidence in economic recovery. The reduction in government investment, which by 1977 was per cent of total investment was effected before any substantial gains in export volume had occurred, and while private sector investment was still lagging. Although, for example, the relative decline in the growth of credit to the public sector was accompanied by an increase in 1978 in credit to the private sector, with further reductions in the growth of public sector credit in 1979, the growth rate of credit to the private sector showed little change and by 1980 declined. The limited gains in exports were overtaken by the failure of investment. The need was for a reduction in the recurrent deficit. A reduction in investment is an unnecessarily costly way of aiming at external balance. Maintaining government investment need not have been inconsistent with the longer run aim of containing public sector economic activity.

SUMMARY

The preliminary investigation of reallocative shifts associated with stabilization allow some tentative conclusions. Most important is that while by early 1979, performance was judged to be satisfactory in respect of IMF targets and wage-price relations, other indications suggested otherwise. The issue of what are appropriate and/or adequate indicators of whether the consequences of stabilization represent a basis for economic recovery and growth is now receiving more attention, as the content of IMF stabilization programmes increasingly recognise the structural conditions of growth.

There are also implications for the strategy of export promotion and the policies which are appropriate to an effective switch from import-substitution. In the case of Jamaica, the basis for export-led recovery in the short-run was more apparent than real, although there was a relative shift toward the profit share of income. That shift was concentrated in mining, in export agriculture and in the distributive sector. That concentration and the nature of the industries which gained could account for lagging exports and investment.

For the manufacturing sector as a whole there was a shift towards wages. One explanation which conforms with the data is that the decline in domestic demand for manufactures outweighed such export gains as were achieved. Further, those export gains were concentrated in very few industries which exported to the CARICOM market, and represented a switch from domestic to CARICOM supplies since output in those industries was stagnant.

The decline in domestic production did not mean that resources were hid away from production for the domestic market as that export expanded. Rather, output fell as domestic demand was curtailed. Less imbalance between production for export and production for domestic consumption, would have meant measures to stimulate the domestic market.

The stabilization policies were associated with changes not only in the relative significance of the productive sectors of the economy, but also in the structure of employment. The overall impact on employment is reflected in the absolute decline in the wage earning labour force. Increases in employment were small and accounted for mainly by changes in the number of self employed. Although the increase in the rate of unemployment was widespread and affected nearly all sectors and all occupational classes, there was a shift in employment towards the skilled and professional and technical classes.

While changes in wage-price relations were among the factors which induced changes in production structure and in employment size and structure, declining output was also a factor. The attempted shift in the allocation of resources between public and private sectors could not in fact be maintained, given the constraints, while the reduction in investment and in the level of economic activity which this involved, contributed to countering the weak expansionary effects of wage and price changes.

TABLE 3(A)

IMF TARGETS & PERFORMANCE

Indicators:	Base Mar.31 1978	June 30 1978	Sept.30 1978	Dec.31 1978
1. Net Foreign Assets of BOJ* (US$MN.)				
Ceiling	-	- 335.0	- 300.0	- 300.0
Actual	-317.0	- 318.3	- 279.0	- 289.5
2. Outstanding Arrears (US$MN.)				
Ceiling	-	80.0	60.0	40.0
Actual	82.0	79.2	48.8	30.4
3. Net Domestic Assets of BOJ (J$MN)				
Ceiling	-	440.0	445.0	480.0
Actual	403.0	405.2	393.6	424.6
4. Net Bank Credit to Public Sector (J$MN.)				
Ceiling	-	930.0	1,010.0	1,110.0
Actual	841.0	856.8	887.0	1,021.5

*Including Outstanding Arrears

SOURCE: Bank of Jamaica.

TABLE 3(B)

IMF TARGETS & PERFORMANCE

Indicators	Base March 31	June 30	Sept.30	Dec. 31
1. Net Foreign Assets of BOJ* (US$m.)				
Ceiling	-	-425.0	-425.0	-370.0
Actual	-319.1	-381.6	-419.6	-496.7
	Base March 31	1.4.79 15.7.79	16.7.79 31.10.79	1.11.79 31.1.80
2. Net Domestic Assets of BOJ (J$m.)				
Ceiling	-	-900.0	925.0	940.0
Actual	708.2	866.9	924.5	1,064.1
3. Net Banking System Credit to the Public Sector (J$m.)				
Ceiling	-	1,070.0	1,105.0	1,125.0
Actual	992.4	1,059.1	1,072.2	1,265.0
4. Foreign Borrowing Authorization (US$m)				
1-5 Years ceiling	-	60.0	60.0	60.0
Actual	-	0.9	4.5	12.9
1-12 Years Ceiling	-	110.0	110.0	110.0
Actual	-	0.9	21.2	41.1

SOURCE: Bank of Jamaica.

TABLE 4

Index of Median Weekly Income 1974 - 1980
(April 1974 = 100.0)

	A) CURRENT INDEX				B) INDEX OF REAL WEEKLY INCOME		
	Male	Female	Average[1]	Consumer Price Index Mean Annual 1974 = 100	Male	Female	Average[1]
1974	103.6	111.3		100.0	103.6	111.3	106.5
1975	136.4	130.7		117.4	116.2	111.3	114.3
1976	146.7	166.5		127.7	114.9	130.4	120.9
1977	149.8	170.5		140.8	106.4	121.1	112.1
1978	174.1	181.1		189.8	91.7	95.4	92.9
1979	206.8	213.4		245.0	84.4	87.1	85.4
1980	249.3	250.7		303.8	82.1	82.5	83.3

[1] The average median weekly income is weighted by the composition of the labour force by sex.

Sources: Department of Statistics, Labour Force
__________, Consumer Prices.

TABLE 5(A)

Average Annual Wages and Salaries[1] 1974-1980
Current Index 1974 = 100

	1974	1975	1976	1977	1978	1979	1980
TOTAL	100.0	118.5	127.6	139.4	163.9	189.7	192.0
A	100.0	162.4	143.6	166.6	217.9	279.3	165.8
Manufacturing	100.0	130.8	147.5	159.8	187.6	216.2	232.[illegible]
Construction	100.0	110.5	115.1	108.9	152.7	213.0	227.6
Transportation	100.0	102.8	140.8	175.9	197.7	231.0	236.2
Commerce	100.0	106.2	95.8	98.7	97.4	122.0	122.8
Public Administration	100.0	100.1	108.9	118.5	141.6	158.3	192.6
Other Services	100.0	109.9	141.3	168.4	184.8	187.6	206.0

SOURCE: Calculated from Department of Statistics, Labour Force and Department of Statistics National Income and Product.

1 Numbers employed exclude the self employed

TABLE 5(B)

Average Annual Wages and Salaries[1] 1974-1980
Constant Index 1974 = 100

	1974	1975	1976	1977	1978	1979	1980
TOTAL	100.0	100.9	99.9	99.0	86.4	77.4	63.2
A	100.0	138.3	112.4	118.3	114.8	114.0	54.6
Manufacturing	100.0	111.4	115.5	113.5	98.8	88.2	76.4
Construction	100.0	94.1	90.1	77.3	80.4	86.9	74.9
Transportation	100.0	87.6	110.2	124.9	104.2	94.3	77.7
Commerce	100.0	90.4	75.0	70.1	51.3	49.8	40.4
Public Administration	100.0	85.3	85.3	84.2	74.6	64.6	63.4
Other Services	100.0	93.6	110.6	119.6	97.4	76.6	67.8

SOURCE: Calculated from Department of Statistics Labour Force and Department of Statistics, National Income and Product.

1 Numbers employed include the self employed.

TABLE 6

Index of Average Weekly Earnings 1977-1980 (1977 = 100.0)

CURRENT

	A) ALL EMPLOYEES			B) WAGE EARNERS		
	1978	1979	1980	1978	1979	1980
Mining	105.6	113.9		114.7	129.5	
Manufacturing	113.9	127.9		110.8	138.8	
Electricity	111.5	133.8		117.2	140.8	
Private Construction	101.7	111.2		96.9	111.3	
Distribution	109.6	139.0		120.0	126.0	
Transportation and Communication	116.7	142.5		108.6	136.4	
Finance & Business	116.5	139.5		107.2	151.0	
Other Non-Govt. Services	112.2	119.6		103.7	132.9	
TOTAL	113.7	137.8		116.2	136.6	

CONSTANT 1977 = 100

	A) ALL EMPLOYEES			B) WAGE EARNERS		
	1978	1979	1980	1978	1979	1980
Mining	78.3	65.4		85.1	74.4	
Manufacturing	84.5	73.5		82.2	79.8	
Electricity	82.7	76.9		86.9	80.9	
Private Construction	75.4	63.9		71.9	64.0	
Distribution	81.3	79.9		89.0	72.4	
Transportation and Communication	86.6	81.9		80.6	78.4	
Finance & Business	86.4	80.2		79.5	86.8	
Other Non-Govt. Services	83.2	68.7		76.9	76.4	
TOTAL	84.3	79.2		86.2	78.3	

SOURCES: Department of Statistics, _Employment Earnings and Hours in Large Establishments._

____________________, Consumer Prices.

TABLE 7

Indices of Average Basic Wage Rates For Hourly Rated Employees 1976-1979

A). CURRENT (1976 = 100)

	1976	1977	1978	1979
Mining	100.0	103.7	120.9	126.9
Manufacturing	100.0	113.2	123.2	138.0
Food	100.0	106.1	119.6	127.3
Textiles	100.0	108.4	138.5	160.2
Wood & Wood Products	100.0	119.1	130.0	153.6
Paper & Paper Products	100.0	111.6	118.0	138.9
Chemicals	100.0	119.7	119.7	159.9
Non-Metallic Mineral Products	100.0	141.9	150.0	170.3
Base Metals	100.0	115.1	113,7	137.0
Miscellaneous Manufacturing	100.0	126.6	120.0	121.9

B) CONSTANT (1976 = 100)

	1976	1977	1978	1979
Mining	100.0	94.1	81.3	66.2
Manufacturing	100.0	102.7	82.9	71.9
Food	100.0	96.3	80.5	66.4
Textiles	100.0	98.4	93.2	83.5
Wood & Wood Products	100.0	108.1	87.5	80.1
Paper & Paper Products	100.0	101.3	79.4	72.4
Chemicals	100.0	108.6	80.5	83.4
Non-Metallic Mineral Products	100.0	128.7	100.9	88.8
Base Metals	100.0	104.4	76.5	71.4
Miscellaneous Manufacturing	100.0	114.8	80.7	63.5

SOURCE: Department of Statistics Employment Earnings and Hours in Large Establishments.

TABLE 8

Capital Formation & Operating Surplus 1974-1980

A) J$ Million

	Gross Fixed Capital Formation	Inventory	Gross Accumulation	Depreciation	Net Investment
1974	478.2	63.4	541.6	205.0	336.6
1975	610.0	73.0	683.0	231.2	451.8
1976	450.8	57.3	508.1	248.4	259.7
1977	349.4	24.0	373.4	284.1	89.3
1978	502.1	52.2	554.3	342.8	211.5
1979	724.6	50.5	775.1	393.4	381.7
1980	698.9	45.5	744.1	417.9	326.5

B)

	(1) Operating Surplus	(2) Ratio of Yearly Change In Surplus To Net Investment (1 Year lag)	Ratio of Change In Surplus to Net Investment (unlagged)
	J$ Million		
1974	613.5		
1975	688.1	.222	.165
1976	696.8	.018	.033
1977	831.7	.519	1.511
1978	1190.0	4.012	1.694
1979	1344.1	0.729	.404
1980	1466.0	0.319	.373

SOURCE: Department of Statistics, National Income and Product.

TABLE 9

OPERATING SURPLUS AS PERCENTAGE OF GROSS DOMESTIC OUTPUT IN EACH INDUSTRY[1]

	1974	1976	1977	1978	1979
Agriculture, Forestry, Fishing	58.5	54.7	56.2	54.1	54.0
Mining	48.5	57.2	66.2	70.8	73.6
Manufacturing	34.9	17.0	24.2	22.0	11.7
Electricity & Water	31.9	47.4	19.3	34.3	18.7
Construction	9.9	7.5	9.5	8.4	7.4
Distribution	46.1	44.2	43.8	64.6	66.3
Transport & Communications	22.3	12.0	1.6	7.6	6.7
Finance & Insurance	35.5	25.5	57.0	27.4	26.2
Real Estate & Business	51.3	42.4	49.4	48.4	47.9
Miscellaneous Services	29.0	19.9	20.0	11.0	5.2
Economy Average	30.8	28.1	30.0	34.2	33.9
Wages & Salaries (%)					
(1) Excluding Government	44.5		42.1		40.2
(2) Including Government	58.9	61.9	59.8	56.0	56.1

(1) GDP at Purchasers Values were used since National Income and Product Date are not available by Industry.

SOURCE: Department of Economics National Income & Product.

TABLE 10(A)

Ratios of Indices of Prices of Traded Goods To Domestic Goods 1974 1980 (1974 = 100)

	1	2	3	4
1974	1.00	1.00	1.00	1.00
1975	0.78	0.77	0.81	1.05
1976	0.87	1.17	0.73	1.08
1977	0.91	1.13	0.74	0.96
1978	0.67	0.90	0.59	0.85
1979	0.62	0.84	0.55	0.77
1980	0.61	0.77	0.64	0.70

NOTES:

Column 1: Ratio of Price Index of domestically produced goods to Price Index of all exports.

Column 2: Ratio of Price Index of domestically produced goods to Price Index of exports excluding exports of bauxite and alumina.

Column 3: Ratio of Price Index of domestically produced goods to Price Index of main exports - Bauxite and Alumina, Sugar, Rum, Molasses and Export Agriculture.

Column 4: Ratio of Price Index of domestically produced goods to Price Index of all imports.

(a) In all columns, the prices of domestically produced goods exclude the main exports - Bauxite and Alumina, Sugar, Rum, Molasses and Export Agriculture.

SOURCES: Department of Statistics Indices of External Trade 1969-1979.

Department of Statistics, National Income and Product.

TABLE 10(B)

Ratios of Domestic Prices of Selected Groups of Domestic Manufactures to Export Prices 1974-1980

	I Food	II Beverages & Tobacco	III Chemicals	IV Manufactured Goods	V Machinery & Transport	VI Miscellaneous Manufactures
1974						
1975	0.67	0.99	1.03	1.01	0.92	1.31
1976	1.23	1.00	1.05	1.06	1.06	1.13
1977	1.15	1.00	0.95	1.55	1.01	1.04
1978	0.88	0.93	0.78	1.05	0.84	0.92
1979	0.82	0.93	0.68	1.18	0.70	0.96
1980	0.77	0.88	0.74	0.98	0.62	1.05

SOURCES: Department of Statistics, Indices of External Trade
Department of Statistics, National Income and Product

NOTES: (a) Categories in Columns I - VI correspond to the SITC as used as the basis for the External Trade Indices.

(b) The Indices of Domestic Prices are derived from output prices as indicated by national income and accounts data, and relate to average price movements for the product group as a whole.

TABLE 11

SOURCES AND USES OF FOREIGN EXCHANGE 1977 - 1980

	1977	1978	1979	1980
		US$million		
SOURCES OF FOREIGN EXCHANGE				
Liquid Reserves at Dec. 31st.	4.2	6.6	21.0	18.8
Bauxite and Alumina	374.1	242.7	278.0	367.8
Sugar and Other Exports	205.3	167.9	196.2	164.8
Tourism	72.0	98.3	145.1	160.1
Loan Receipts	183.5	387.2	292.2	225.2
Encashment of SDR's	-	11.8	7.8	-
All Other	64.4	82.8	115.7	124.3
of which Crude Oil Facility	-	-	(17.2)	(7.3)
TOTAL:	903.5	997.3	1055.8	1061.0
USES OF FOREIGN EXCHANGE				
Public Debt	191.9	267.0	273.9	263.3
(1) Government (including Govt. Guaranteed)	159.3	199.9	196.3	173.7
(2) Other (including Bank of Ja.)	32.6	67.1	77.6	89.6
Lines of Credit	-	11.5	21.4	36.1
Private Debts	25.6	14.8	39.9	18.7
Imports (including Arrears)	567.3	579.9	577.5	612.2
(1) Oil	n.a.	127.6	176.1	255.0
(2) Non-Oil	n.a.	452.3	401.4	357.2
All Other				
TOTAL CASH OUTFLOWS	896.0	976.3	1037.0	1046.3
Transfers to Non-Liquid Reserves (net)	-	-	-	8.5
Liquid Reserves as at Dec. 31	6.6	21.0	18.8	6.2

TABLE 12

Percentage Distribution of Imports

	1974	1977	1978	1979
Consumer Goods	25.1	13.0	15.0	12.0
Food	14.0	7.0	9.0	6.5
Other Non-durable	6.4	3.0	3.0	2.6
Durable	4.7	3.0	3.0	2.9
Raw Materials	50.3	65.0	62.0	66.7
Fuels	20.8	28.0	23.0	33.1
Other	24.3	37.0	39.0	33.6
Capital Goods	24.3	22.0	23.0	21.3

TABLE 13

Wage Earning Employment 1974, 1977 - 1980
(Numbers '000)

	1974	1977	1978	1979	1980
Primary Sectors	90.2	77.3	74.9	62.3	120.0
Manufacturing	68.6	65.2	65.5	60.7	64.1
Construction	36.7	29.3	29.3	26.2	21.2
Transportation / Communication / Public Utilities	22.9	23.3	23.5	24.1	27.0
Commerce	36.9	42.1	45.1	40.3	41.7
Public Administration	75.8	111.1	108.4	109.6	108.5
Services	91.8	80.7	82.3	95.7	93.9

SOURCE: Department of Statistics, Labour Force.

TABLE 14

Employment, Unemployment 1974 - 1980
(Numbers '000)

	Total Labour Force	Total Employed	Wage Earning Employed	Unem-ployed	Unemploy-ment Rate
1974	820.0	646.3	423.1	173.7	21.2
1975	857.7	682.3	443.6	175.4	20.5
1976	883.6	685.8	433.7	197.8	22.4
1977	910.0	689.8	429.2	220.2	24.2
1978	939.0	708.5	429.2	230.5	24.5
1979	953.6	689.0	420.0	264.7	27.8
1980	991.2	720.4	476.5	270.8	

SOURCE: Department of Statistics, Labour Force.

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